2020

Annual General Meeting

Speech (Courtesy Translation)

Dr. Michael Majerus

Chief Financial Officer

(and Spokesman of the Board of Management of SGL Carbon SE from September 1, 2019 to May 31, 2020)

Wiesbaden, June 16, 2020

The spoken word prevails.

Good morning ladies and gentlemen,

I would like to warmly welcome you all to our Annual General Meeting.

This is no ordinary Annual General Meeting. Instead of being with you in the Kurhaus in Wiesbaden and speaking to you in person, this year I only have a couple of cameras to look at.

But unusual times call for unusual measures. That is why I am speaking to you today from the large conference room at our offices in Wiesbaden.

Ladies and gentlemen,

before I report on the 2019 financial year, I would like to say a few words about the current situation.

As a result of the coronavirus pandemic, we find ourselves in unprecedented times.

We have two clear priorities at SGL Carbon:

- To ensure maximum protection for our employees, their families, and our business partners;
- And to protect the financial stability of our company during this crisis.

We therefore acted decisively over the past few weeks, announcing and implementing proactive safety and hygiene measures early on.

We are encouraged by the fact that the official number of colleagues who have contracted coronavirus is still very low, at fourteen cases. And we are pleased to report that most of them have recovered by now and have also returned to work.

Rigorous compliance with our pandemic and contingency planning has ensured that our workers are protected and that the entire company remains operational.

Thanks to our swift action, we were able to increase our liquidity from €137 million to €150 million in the first quarter – in contrast to the usual seasonal pattern.

This is also a strong indication that we are successfully dealing with the effects of the pandemic. And it also sends a strong signal to our customers that SGL Carbon is a reliable partner, even in these times.

Ladies and gentlemen,

As members of the Board of Management, we will continue to do everything we can to ensure the safety of our employees and to lead SGL Carbon through this crisis in the best possible manner.

I will speak more about the economic effects of the coronavirus pandemic on SGL Carbon later.

First, I would like to tell you about the key developments in the 2019 financial year.

Our two business units developed very differently

But first allow me to look a little further back in time.

With the completion of the strategic realignment in 2018, SGL Carbon's revenue and earnings grew significantly, especially in the areas of energy, mobility and digitization.

Our expectation at the start of 2019 was that this growth trend would continue in the 2019 financial year, albeit at different rates in our two business units.

This assessment was correct for the specialty graphite business, which actually performed better than expected in terms of both revenue and earnings, and reached a record level. The strong growth was driven by the semiconductors and automotive segments in particular.

However, the fibers and composites business suffered a substantial downturn, performing considerably below our expectations. Despite a slight increase in revenue, recurring Group EBIT was significantly below the prior year's figure.

Ultimately, this was caused by cyclical and structural declines in the textile fibers, wind energy, and industrial applications market segments, leading to a profit warning in August 2019.

These significant deviations from our expectations triggered an impairment test.

The impairment test was carried out on the basis of a new five-year plan and identified an impairment loss of around €75 million in the fibers and composites business.

This impairment – and I would like to stress this – did not affect the acquired assets of the former joint ventures with BMW and BENTELER.

As disappointing as the performance of the Composites – Fibers & Materials business unit in 2019 was, it was primarily caused by market segments that are of less significance for our medium-term strategy and growth.

Because the main growth drivers – and I will return to these later – are e-mobility and aerospace.

The results of the Corporate segment improved due to lower expenses for management incentive plans.

Overall for 2019, this means that the record result in the Graphite Materials & Systems business unit and the improved result in the Corporate reporting segment were unable to fully make up for the weak performance of the carbon fiber business.

I would now like to turn to the key financial indicators for the 2019 financial year.

Group sales revenue rose by 4% to around €1.1 billion.

In contrast, recurring Group EBIT declined by a quarter to €48 million.

Return on capital employed based on recurring EBIT decreased from 5.4% in 2018 to 3.9% in 2019.

The Consolidated Group results in 2019 of minus €90 million were substantially below the strong results of plus €41 million in 2018, largely due to the impairment loss of around €75 million in the Composites – Fibers & Materials business unit.

In contrast, there was a considerable improvement in free cash flow from continuing operations, moving from minus €58.5 million in 2018 to minus €17.3 million in 2019.

The equity ratio, on the other hand, declined to 27.8% and is thus slightly below our target of at least 30%. The decline was largely due to the impairment loss in the Composites – Fibers & Materials business unit and to adjustments made to the parameters for calculating the provision of pensions in Germany and the USA due to the low-interest environment.

Our net financial debt stood at €288.5 million, which is within the forecast range of less than €300 million.

Furthermore, our maturity profile improved considerably due to two things:

- The issue of a new corporate bond in the amount of €250 million with a maturity date of September 2024;
- And the early repayment of the 2015 convertible bond, which was originally due to mature in 2020.

The next scheduled maturity date is now in September 2023 for our 2018/2023 convertible bond.

I believe that this is a very important aspect, especially in view of the uncertainty caused by the coronavirus pandemic.

Due to the overall business situation, we do not have the capacity for distributing dividends.

Ladies and gentlemen,

The business performance of 2019 was significantly below everyone's expectations, yours and ours.

And the business results – exacerbated by the resignation of CEO Dr. Jürgen Köhler – led not only to a significant drop in our share price, but also to a substantial loss of confidence from the capital market from last August onward.

There is no whitewashing this: Despite the excellent performance by the Graphite Materials & Systems business unit, the 2019 business performance was disappointing and a setback on our road to becoming a sustainably profitable company.

Ladies and gentlemen,

Last year's results do not even come close to reflecting the potential that lies within SGL Carbon.

I have no doubt that we can unlock this growth potential in the medium term.

Why do I believe this?

Because the figures of the last financial year conceal the fact that we have made important progress in terms of our strategy.

For example, we achieved strong, above-average growth in our specialty graphite business in 2019, especially in the automotive & transport and semiconductors market segments.

Because of this, the Graphite Materials & Systems business unit again outperformed our Group ROCE target. In 2019, the ROCE, at 16.3%, was significantly above the target. You may recall that our minimum target for Group ROCE is 9%.

Last year, a new growth driver was added to this business unit:

Our components for fuel cell technology**.**

Whether used as a drivetrain system in vehicles or as a stationary power supply, the fuel cell is one of the greenest energy technologies around and thus offers immense potential.

Market studies suggest that the global revenue from the entire fuel cell market will double by 2025, to more than $7 billion US dollars.

In 1874, the French author Jules Verne wrote that water would be the coal of the future: what sounded like science fiction in the nineteenth century has now become reality.

Unlike coal, fuel cells do not emit harmful greenhouse gases – just water. They need only hydrogen and oxygen to produce electrical energy.

The pivotal elements that determine the power and the efficiency of a fuel cell are the gas diffusion layers.

The gas diffusion layers regulate the flow of gas within the fuel cell and discharge water and heat.

We make these high-quality components on an industrial scale at our factory in Meitingen and supply some 200 customers around the world.

We expect the market for gas diffusion layers to be worth €500 million by 2025. In the long term, it could even exceed €1 billion.

Last year, we expanded our long-standing partnership with the Hyundai Motor Group with a substantial, long-term supply agreement.

Hyundai – together with Toyota – is the global market leader in fuel-cell vehicles and is currently increasing its production significantly.

We are particularly proud of being named “Supplier of the Year 2019” by Hyundai at the beginning of this year for excellent quality management.

In the medium-term, we plan to quintuple our revenue from fuel cell components to around €100 million a year – just with our existing customers.

We see the trend toward zero-emission vehicles and the switch to renewable energies as growth drivers. The most important applications within the transport sector are cars and trucks, although buses and forklift trucks are also of interest.

Ladies and gentlemen,

The business with fibers and composites underperformed last year.

But let me assure you, the structural growth drivers in the markets of strategic relevance for us remain intact in this business, too. And they offer enormous growth potential for SGL Carbon.

In the automotive sector, the dynamic in the project business with composite materials has increased in the past year. And we also have won more projects.

The main driver here is electromobility. And there are two reasons for this.

The first is the weight-savings that enables greater range.

The batteries used in electric cars are very heavy. Electric vehicles therefore have a very heavy base weight – far higher than that of a comparable model with a combustion engine.

By way of illustration: The electric version of a car can be up to one third heavier than the identical model fitted with a combustion engine. Or a specific example: An electric SUV weighs up to 600kg more than its petrol or diesel equivalent.

This reduces the range, as more energy is needed to get the much heavier car moving.

Lightweight construction, i.e. components and materials made from composites, can significantly reduce weight.

Lower weight means lower energy requirements and thus a greater range.

The second reason why composites are far more important for electric cars is their advantageous material properties.

Composites have many benefits, in addition to the widely known advantages of low weight and high stiffness.

Additional benefits are excellent fire protection and low thermal conductivity, which – coupled with low weight and high stiffness – are especially important for battery enclosures.

The far lower thermal conductivity of our composite material – compared to metal – improves battery temperature management. Consequently, the weight and the electricity consumption of the electric car can be reduced.

At last year's Annual General Meeting, we unveiled the prototype that we developed in collaboration with the Chinese vehicle manufacturer NIO for its electric SUV.

Today – 13 months later – I can report that the prototype has developed into a successful business.

Last year, we won two new orders, including a major contract with a North American automobile manufacturer.

And in April this year we secured a volume production order from the BMW Group to make covers for battery enclosures.

Based on customer orders, it means we plan to increase the number of composite battery enclosures to around 120,000 a year by 2024.

And we see additional revenue potential in this business.

While the global production of vehicles with combustion engines is stagnating, market studies suggest the proportion of electric cars will triple by 2025.

The growing business in battery enclosures illustrates another positive development:

We have succeeded in further internationalizing our composites business.

In addition to the initial German manufacturers, our customers now also include other European, North American, and Asian automobile manufacturers.

Ladies and gentlemen,

Aerospace is another core segment that will drive growth and increase profits for our composite materials business.

As you can see from the slide, the aerospace sector is by far the largest market for carbon fiber composites, with a value of $14.2 billion US dollars. It is three times as big as the automotive sector.

But that’s not all. The aerospace sector is also the most profitable market for composite solutions. And we do not expect that even the coronavirus will change this in the long term.

Our competitors are already generating EBITDA margins of up to 30% in this segment.

Within the aerospace market, commercial aircraft are the largest segment. This primarily means airliners made by Airbus and Boeing.

And SGL Carbon is seeking to bring its materials and expertise into precisely this segment.

Why is this business so important to us?

As you know, our Composites – Fibers & Materials business unit covers the entire carbon fiber value chain.

This means that we are a single-source supplier for everything from the raw material (the precursor), to the carbon fiber, to the finished component.

This has many benefits, both for our customers and for us.

However, operating this value chain is very capital intensive.

In order to run this business in a sustainably profitable way, we also need direct access to the highly attractive market for primary aircraft structures.

Primary aircraft structures are the large parts of the aircraft that are essential for the plane to fly, including the wings, the empennage, and the fuselage.

To enter this market, we need two key things:

Firstly – and this is the fundamental prerequisite – a carbon fiber that is specifically developed for use in primary aircraft structures, and, secondly, building on the first point: the necessary expertise and experience in the subsequent production stages for aircraft materials.

We have now achieved the first criterion with the successful development of our 50k-IM-fiber.

Compared to fibers currently used in the aerospace industry, our new carbon fiber for primary aircraft structures enables far more efficient processes.

Therefore, our carbon fiber clearly has the potential to become successfully established within the airline industry.

Last year, we joined forces with the Solvay Group to work on a joint development project. Their expertise in the manufacture of prepregs and resin systems, and their many years of experience in the qualification processes within the aerospace industry, fits well with our unique fiber solution.

Together with Solvay, we aim to develop and provide highly competitive and advanced carbon fiber composites for primary aircraft structures.

We firmly believe that the additional cost pressures placed on the current and future aerospace programs of the major aircraft manufacturers due to the coronavirus crisis will increase demand for our jointly developed product.

Ladies and gentlemen**,**

Electric mobility and aerospace are the core segments for growth and increased profitability in the Composites – Fibers & Materials business unit. We have already laid the foundations.

To improve earnings, we also implemented a comprehensive package of measures in the last fiscal year. These measures are already showing positive effects.

In the first quarter of this financial year, the EBIT margin in the fibers and composites business increased from 0.3% in the previous year's period to 3.5%. For 2019 as a whole, the figure was minus 1.9%.

Allow me now to turn to the results for the first quarter.

The results for the first quarter were in line with our initial expectations, which we published in March.

At €247 million, Group sales revenues were, as expected, down by around 15% as compared with last year's quarter, although slightly above the guidance corridor published in March.

The main reasons for the decline in revenue were the changes in the supply chain for lithium-ion batteries and the lower sales from Textile Fibers as driven by restructuring.

Recurring Group EBIT more or less halved in the first quarter, to €9 million. This put it at the upper end of our guidance corridor.

As previously mentioned, liquidity developed favorably in the first three months of 2020.

Overall, we have yet to see any significant impact from the Covid-19 pandemic in the first quarter of 2020.

However, as the global measures taken to contain the pandemic resulted in significant restrictions to manufacturing processes and supply chains in April and May, we are now expecting a significant decrease in sales revenue and profits for the second quarter.

As published in the quarterly report on March 31, 2020, we currently expect a substantial, double-digit decline in sales revenues as compared to the prior year's levels. Consequently, we anticipate a negative recurring EBIT in the second quarter of 2020.

Ladies and gentlemen,

In light of the uncertainties surrounding the further development and impact of the Covid-19 pandemic, we decided to suspend the guidance for the fiscal year 2020 at the beginning of April.

We will present a reliable outlook for the entire fiscal year 2020 after the overall economic situation has largely stabilized.

We are currently looking at a variety of scenarios concerning the impacts of the corona crisis on the further course of our business.

Much will depend on whether or not there is a second major wave of infections.

As of today, however, we do see an initial light at the end of the tunnel.

Production in China is returning to normal.

Our customers – especially those in automotive – are gradually ramping up production.

And our factories are all up and running again, albeit not all at full capacity.

Ladies and gentlemen,

I am confident that SGL Carbon will grow profitable once the coronavirus pandemic is over.

It is already becoming clear that the crisis is acting as an accelerator of change, particularly with regard to the major themes of digitization and sustainability.

This will strengthen our business model.

We already offer a large portfolio of products and solutions in the areas of digitization and sustainability that offer substantial customer value, including greater efficiency, lower costs, reduced consumption of resources, and minimized carbon emissions.

These are also important aspects of the economic stimulus packages that are planned or have already been implemented in various countries.

Our corporate vision applies now more than ever:

We, SGL Carbon, aim to contribute to making the world a little bit smarter every day.

Finally, ladies and gentlemen, I would like to thank you – our shareholders – for your loyalty in these difficult times.

With combined efforts and appropriate results, we will restore your faith in SGL Carbon.

I would also like to thank our business partners and customers. The past few weeks have shown what good partnership means and what it is worth.

And our very special thanks go to our employees around the world.

Thanks for their dedication, thanks for their loyalty and thanks for their discipline in these unprecedented times.

Ladies and gentlemen,

We hope to welcome you in person again at our 2021 Annual General Meeting next year. This will take place for the first time in the new RheinMain CongressCenter in Wiesbaden.

Finally, I would like to echo Mr. Derr's closing words:

Thank you for your continued loyalty to us and please stay safe.

Thank you.