

# ANNUAL GENERAL MEETING 2017

**SPEECH OF**

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*Courtesy translation. The spoken word prevails.*

Good morning ladies and gentlemen!

Dear shareholders, on behalf of SGL Group's Board of Management, I bid you a warm welcome to our 2017 Annual General Meeting.

A year ago, I informed you about our strategic realignment and described our "path forward": our road toward profitable and sustainable growth.

At the time, I said that SGL "will constantly continue to develop because there is no such thing as standing still!" Standing still would mean losing competitive ground with regard to customers and technology. I also said that I "am firmly convinced that the restructuring of our Group will bear fruit".

Today – twelve months later – I can report that we have made significant progress during the past fiscal year.

Before I go over the figures for 2016 and give you an overview of the current fiscal year, I would first like to begin by presenting some of the important developments of 2016.

At the end of the fiscal year, Dr. Gerd Wingefeld left the Board of Management.

I would like to thank Gerd for his excellent, collaborative, and inspiring work at SGL during our 15 years together. Many developments and innovations have taken place at SGL thanks to him.

As a result, the Board of Management now consists of two members as from the beginning of this year. The reduction in size is a consequence of SGL's strategic realignment, which we pushed forward substantially during the past year.

The core of this strategic realignment is that the new SGL will focus entirely on the business units Composites – Fibers & Materials (CFM) and Graphite Materials & Systems (GMS).

In both of these business units we can and will grow with our customers by using our know-how and innovative strength. The driving force behind our growth will be the overarching themes mobility, energy supply, and digitization.

The prerequisite for this new focus was and is that we divest our third business unit, Performance Products (PP), which includes our business with graphite electrodes, as well as cathodes for the aluminum industry, furnace linings and carbon electrodes.

The precondition to spinning off PP was first to make it legally and organizationally independent within SGL.

We successfully completed the carve out of PP earlier than planned in the summer of 2016 – which was record time according to our external consultants.

After carefully considering all options, we decided to dispose of our graphite electrode business as a first step.

In October 2016, we signed an agreement to sell that business to the Japanese company Showa Denko, for a negotiated enterprise value of €350 million.

After deducting the liabilities transferred to Showa Denko, we anticipate cash inflow of at least €200 million. We expect this deal to be completed by mid-2017. We are currently waiting for anti-trust approvals from the US. All other approvals have already been obtained.

Due to the global steel market crisis and the associated historic drop in prices – also for our graphite electrodes – the business had been recording a loss for a number of quarters. In light of this, I think that the price obtained is a respectable result.

For the remaining business within the business unit Performance Products – i.e. with cathode furnace linings and carbon electrodes – we have meanwhile begun a separate sales process.

We estimate that the prospect of finding a suitable solution during the current year is also very good. The business is profitable, we are technology leaders, and outside of China we are also market leaders. There is widespread interest from strategic and financial investors.

We expect the sale to result in significant book gain and also to have a positive influence on our net profit for the year. We are confident that we will sign a corresponding sale agreement during the second half of this year.

Economically and strategically, the sale of our former business unit Performance Products was likely the most important step on the road to our strategic realignment, because the sale is finally paving the way for the new SGL.

In doing so, we have laid a solid financial foundation for our future and are now devoting our full attention to our growth areas.

Another important prerequisite for a return to profitable and sustainable growth was the successful capital increase completed in December 2016, which allowed us to significantly reduce our net debt.

At this point I would especially like to thank all of our former and new shareholders for their trust in SGL.

In addition, we also began our CORE project during the past fiscal year. The name CORE stands for COrporate REstructuring, to reflect our organizational realignment. We have identified savings of €25 million by the end of 2018, which will further enhance our profitability.

However, the CORE project is more than just a program designed to adjust management structures and administrative costs reflecting the future, smaller SGL.

One of its main aims is to develop and align the organization even more closely with our strategic targets.

Our business units will focus on product development, production and distribution. Administrative activities – such as HR, accounting and legal – are being pooled together and will be the exclusive responsibility of our Corporate Functions division.

Ladies and gentlemen:

I would now like to turn your attention to the key figures for the 2016 fiscal year.

During the year under review, the SGL Group recorded slightly lower sales revenues of €770 million and higher EBIT year on year. Group EBIT before non-recurring charges

from continuing operations, i.e. from the business units Composites – Fibers and Materials (CFM) and Graphite Materials & Systems (GMS), increased to €21 million, up from €14 million in the previous year.

Our business with the automotive industry in our reporting segment CFM was the primary contributor to this development, while the weakness of the North American oil and gas industry was felt in GMS.

One positive point in GMS is that growth areas have developed very well, particularly graphite anode materials for lithium-ion batteries, and the solar and semiconductor market segments. As a result, GMS made a positive contribution to Group EBIT:

The return on capital employed, based on EBITDA before non-recurring charges, increased from 7.9 percent in 2015 to 8.4 percent in 2016.

The consolidated net result was – as in the previous year – burdened by the result from discontinued operations. That result stemmed on the one hand from the results in the business unit Performance Products, which is currently in the process of being sold, as well as from HITCO, which was already partially sold off at the end of 2015, as we relinquished our unprofitable business with components for the aerospace industry.

The price drop for graphite electrodes is once again being felt in PP, despite the fact that shipped quantities were slightly higher than in the previous year. Our business with cathodes, furnace linings and carbon electrodes was good as expected, however.

Altogether, the loss from discontinued operations after taxes adds up to €76 million.

Despite that negative result and higher interest expenses, we reduced our consolidated net loss from €295 million to €112 million in the past fiscal year.

Our free cash flow improved to minus €81 million, of which €33 million came from discontinued operations.

At around €1.9 billion, total assets at the end of 2016 were slightly higher than in the previous year. As a result of the capital increase, the equity ratio increased to 17.5 percent. Net financial debt decreased to €449 million.

Dear shareholders,

We expect to continue to improve our key balance sheet figures significantly by the beginning of 2018.

We want to use the proceeds from the sale of Performance Products and the capital increase for the early repayment of our corporate bond due in 2021, as well as to repay our convertible bond due in 2018.

As you can see, we intend to repay a significant portion of our debt, which will greatly reduce SGL's interest expenses in the future.

We are also working diligently to make our Company – the new SGL – sustainably profitable again. However, due to the accumulated loss recognized in the past fiscal year, we are unable to distribute any dividends.

And now to the current fiscal year.

We expect all material KPIs to improve in 2017. We are optimistic that both our sales revenue and earnings will grow.

For Group sales revenue, we anticipate an increase in the high single-digit percentage range.

We expect Group EBITDA and Group EBIT – before non-recurring charges – to increase more than sales revenue, which will be attributable to volume growth and savings generated through our CORE project.

The consolidated net result from continuing operations is not yet expected to reflect our anticipated operational improvements this year, however.

One reason for this is that we already saw a positive one-time effect from the sale of our carbon fiber plant in the US in 2016. We will also have to pay an early repayment penalty for the intended redemption of our corporate bond this year.

As a result, we anticipate a consolidated net loss from continuing operations in the mid-double-digit million range, roughly on the level of the previous year.

And as I already mentioned, we expect our net debt to decrease significantly, as a result of the proceeds generated by the sale of our graphite electrode business, and possibly also our cathode business, the latter depending on the date the transaction is completed.

Our Q1 results support our projections that our sales revenue and earnings will increase in the 2017 fiscal year. We already announced our Q1 results last week.

In both of our business units, sales revenue grew significantly year on year. At €216 million, overall Group sales revenue in Q1 is fifteen percent higher than in the prior-year quarter.

The drivers behind this development are primarily our business in the digitization, industrial applications, textile fibers and energy supply market segments.

Compared to Q1 2016, EBIT before non-recurring charges increased from €6.4 million to €9.6 million.

In light of our good first quarter, we can confirm our guidance for the year. This development also demonstrates how much substance there is behind the new SGL and our growth markets.

We now have to continue pursuing our objective of growing sustainably as the new SGL.

Ladies and gentlemen,

With the sale of our business unit Performance Products, we are finally no longer “a supplier to the steel industry”.

We are a company that is active in about 100 countries, with around 4000 employees and 33 sites worldwide.

The new SGL is an innovative, technology-based company. Using the extremely versatile, and for us very reliable element carbon – which is in a manner of speaking part of SGL’s DNA – we develop smart solutions for future-oriented growth markets.

Solutions requiring mobility: both on the ground and in the air.

Solutions concerning energy supply: both energy production and energy storage.

Solutions incorporating digitization: the most important applications concern semiconductors, computer chips and LEDs.

By doing so, we are creating a new company that is focused on the key topics of the future. And in the process we are also reducing the volatility in our business.

Our continuing objective is to increase SGL's sales revenue to around €1.1 billion by the year 2020 – both profitably and sustainably.

Here you see the annual growth rates for the three key growth areas I mentioned before: mobility, energy supply and digitization. To some extent, they are clearly higher than average global growth.

With both of our business units, Composites – Fibers & Materials and Graphite Materials & Systems, we can serve these three future markets. For some of our business, we even expect growth to be above the market average.

The new SGL is equally at home in both established markets and in rapidly growing future markets. Established markets include the chemical industry, textile fibers, and industrial applications. However, nearly 50 percent of our sales revenue already comes from the growth markets mobility, energy supply and digitization. The importance of these markets and thus their share in total sales will only continue to increase.

I will give you a couple of examples of applications and products concerning this a little later.

As a company, we benefit from the fact that we cover the entire value chain with regard to the manufacture of our products in both of our business units.

This means that our customers can receive needs-based solutions at every stage of production – whether it be for intermediate products, semi-finished materials, or complete components – our customers always get exactly what they need.

For example, we can supply carbon fibers on spools, as chopped fibers, in the form of textiles, or we can even make complete components using carbon fiber materials such as the carbon-ceramic break discs we produce in our joint venture with Brembo.



We sell graphite as simple blocks, refined to the highest purity, coated with ceramic, or as complete systems.

This forward integration in what we call “finishing technologies” in the graphite sector as well as the production of finished, carbon fiber-reinforced components, are a crucial part of what sets us apart from the competition. They are the key to our growth.

More technology, more innovation, and more proximity to our customers – that is our strategy.

As I mentioned at the beginning, there is no such thing as standing still. We are constantly continuing to develop. And this is also a necessity, because the markets in which we operate require exactly that level of dynamics and agility.

The new SGL will continue to develop in all areas – from customer focus, technology and organization, to operating processes and staff development. We must adapt to the ever-increasing demands of the markets and our clients making sure that we are always one step ahead of our competitors.

Let one thing be crystal clear: the new SGL is far more than just the existing SGL without Performance Products.

Ladies and gentlemen,

In numerous projects with our many clients, we have set the course for our future growth.

I would now like to draw your attention to three topics, which you have perhaps already seen on the large screen in the entrance area, as well as in our annual report.

These topics are closely linked to our three growth drivers: mobility, energy supply and digitization.

During the past year, we put our new Lightweight and Application Center into operation in Meitingen, Germany.

Our Lightweight and Application Center is a key component to our strategy for the composite materials sector.

It is important to note that, more and more, customers today do not only want to buy carbon fibers. They expect solutions...solutions to their problems and challenges.

Because of this, our Lightweight Center supports our clients in making optimal use of composite materials. This entails:

- calculating and designing the desired components
- combining them with other materials
- producing parts with the best manufacturing processes
- guaranteeing competitive pricing

The initial focus here is applications for the automotive sector, but can also be extended to include aerospace, wind energy and several other industries.

As a result, design engineers, materials experts, manufacturing process experts, and automation technology experts have been working together closely in Meitingen since last year, with the objective of developing lightweight concepts for serial production.

The interest in our expertise center is great. There is already a wide variety of development projects underway with customers from our market segments.

In the automotive sector, we are now working with numerous companies. In addition to BMW and the Volkswagen Group, these include Daimler, Jaguar Land Rover and two Asian manufacturers.

Specifically, this entails developing new constructions for composite materials, and prototypes for the production of structural components for new vehicle models.

The objective is, of course, to reduce weight, as lighter cars use less energy, are more efficient and thus conserve the resources of our planet.

For serial production in the area of mobility, we already supply tailor-made lightweight construction solutions to a wide variety of manufacturers.

In addition to the well-known products and solutions for BMW, Audi, Porsche and Lamborghini, we also produce composite material-based leaf springs for numerous Volvo models via our joint venture with Benteler-SGL.

These fiber-reinforced plastic leaf springs are up to two-thirds lighter than conventional steel leaf springs.

By the year 2020, we will be producing 550,000 leaf springs annually for Volvo. As far as we know, that is currently the project with the highest production volume of a composite component in the industry.

Reducing weight and saving energy are also important for large commercial aircraft. Our projects for that sector currently include developing components for aircraft cabin equipment together with a supplier.

In this sector as well, we are contributing to weight reduction with our carbon fiber reinforced components. We are also currently working with the largest aircraft manufacturers to find other uses for our efficient, competitive industrial carbon fibers in aircraft construction.

Sustainable mobility is closely connected to electric mobility. This is the second topic to which I would now like to draw your attention.

As energy storage units, lithium-ion batteries are the key technology today. You can already find these batteries in your mobile/cell phones, cameras, garden equipment, and many other appliances. The fastest growing market today, however, is lithium-ion batteries for vehicles with electric engines.

This is where our specialty graphite is used as an anode material. There is no other technology: wherever there is lithium-ion, there is a lot of graphite inside of it!

With our graphite anode material being qualified by several battery manufacturers, we were able to strengthen our collaboration with our long-standing partner Hitachi. As a result, we are still the only Western graphite supplier in that market.

The demand for efficient lithium-ion batteries for electric vehicles is increasing and with it, the demand for our graphite anode material is also increasing. Consequently, we are expanding production capacities at our American site in Morganton, North Carolina.

In addition to mobility and energy supply, digitization is the third major growth area for the new SGL.

Digitization includes the market for light-emitting diodes, called LEDs for short.

Compared to conventional light sources such as electric bulbs, LEDs convert electricity into light up to ten times more efficiently and provide a lifespan that is 25 times longer.

As a result, LEDs are increasingly permeating all areas of life today – in our homes, our cars, external lighting, offices and industrial facilities. Even the large screen in the foyer of the conference hall – where our videos are being shown – is based on LED technology.

The global LED market is growing at a breathtaking pace. According to one study, the annual growth rate is currently at 17 percent.

Our special graphite is used in the manufacture of high-grade LEDs. For example, we supply graphite-based wafers to the leading manufacturer of LED production equipment, and also directly to renowned LED manufacturers such as Osram.

In order to meet the increasing demand for LEDs, we are currently building another state-of-the-art production line for that type of wafers at our American site in St. Marys, Pennsylvania.

Altogether, we are investing €7.5 million there. The production line will be completed later this year.

Dear ladies and gentlemen,

As you have seen and heard from me today, we have not been standing still during the past years and months.

We have taken significant steps toward implementing SGL's realignment. In the process, we have consistently pursued our growth projects, and have systematically invested in this growth in line with our possibilities.

We do not react; we act and do so in specialized, fast-growing future markets.

Dear ladies and gentlemen,

SGL has turned 25 years old this year, and we are now starting a new chapter. We have many people to thank for this opportunity for a new beginning.

Very special thanks go to our employees. It is only through their tireless dedication that this new beginning has been made possible in the first place.

Our thanks also go to our loyal customers, suppliers, business partners, and of course, to you – our shareholders.

I am convinced that our realignment to the new SGL will bear fruit.

It is with great confidence that we look to the future.

With that in mind, thank you for coming today, and for your continued interest in SGL.