



# 2017

Annual Report

# Key Figures 2017

## 10.5% Return on capital employed (ROCE<sub>EBITDA</sub>)

€m	Footnote	2017	2016	Change
<b>Financial performance</b>				
Sales revenue		860.1	769.8	11.7%
<i>thereof outside Germany</i>		74%	73%	-
<i>thereof in Germany</i>		26%	27%	-
EBITDA before non-recurring charges	1)	90.7	69.9	29.8%
Operating profit (EBIT) before non-recurring charges	1)	40.1	20.7	93.7%
Result from continuing operations before income taxes		-7.8	-27.2	71.3%
Consolidated net result (attributable to the shareholders of the parent company)		138.9	-111.7	>100%
Return on sales (EBIT-margin)	2)	4.7%	2.7%	-
Return on capital employed (ROCE <sub>EBITDA</sub> )	3)	10.5%	8.4%	-
Earnings per share, basic (in €)		1.14	-1.19	>100%
<b>Net assets</b>				
Equity attributable to the shareholders of the parent company		457.0	331.8	37.7%
Total assets		1,541.7	1,899.2	-18.8%
Net financial debt		139.0	449.4	-69.1%
Equity ratio	4)	29.6%	17.5%	-
Gearing	5)	0.30	1.35	-77.5%
Headcount	6)	4,193	5,384	-22.1%
<b>Financial position</b>				
Payments to purchase intangible assets and property, plant and equipment		52.9	34.6	-52.9%
Depreciation/amortization expense		50.6	49.2	2.8%
Working capital		318.5	254.2	25.3%
Free cash flow	7)	-144.7	-48.1	>-100%

<sup>1)</sup> Before non-recurring items of €8.9 million in 2017 and €3.0 million in 2016

<sup>2)</sup> EBIT before non-recurring charges to sales revenue

<sup>3)</sup> EBITDA before non-recurring charges to average capital employed - continuing operations (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

<sup>4)</sup> Equity attributable to the shareholders of the parent company to total assets

<sup>5)</sup> Net financial debt to equity attributable to the shareholders of the parent company

<sup>6)</sup> As of Dec. 31, 2016 including discontinued operations

<sup>7)</sup> Cash flow from operating activities (continued operations) minus cash flow from investing activities (continued operations)

# Table of contents

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Key Figures 2017	2
Table of contents	3
<b>MANAGEMENT</b>	
Letter from the Board of Management	4
Report of the Supervisory Board	6
Corporate Governance and Compliance Report	11
Corporate Social Responsibility	17
SGL Group in the Capital Markets	32
<b>GROUP MANAGEMENT REPORT</b>	<b>38</b>
SGL Group	39
Economic Report	47
Opportunity and Risk Report	72
Outlook	81
Remuneration Report	86
Disclosures pursuant to Sections 289a (1), 315a (1) HGB as well as Sections 289f, 315d of the German Commercial Code (HGB)	93
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>95</b>
Consolidated Income Statement	96
Consolidated Statement of Comprehensive Income	97
Consolidated Balance Sheet	98
Consolidated Cash Flow Statement	100
Consolidated Statement of Changes in Equity	102
Notes to the Consolidated Financial Statements	104
<b>ADDITIONAL INFORMATION</b>	<b>162</b>
Independent Auditor's Report	163
Responsibility Statement	174
Corporate Bodies	175
Glossary	178
List of Acronyms	181
Financial Calendar	182
Five-year Financial Summary	183

# Letter from the Board of Management

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## Dear Shareholders, dear Employees and Friends of SGL Group,

Having largely completed our strategic realignment, we finally launched the new SGL in 2017. We successfully divested our Performance Products business unit and placed it in good hands. With the proceeds from the sale and the capital increase carried out in December 2016, we strengthened the Company's capital structure, reduced the level of debt, and increased our financial flexibility. With the acquisition of all the remaining shares in our joint venture Benteler SGL and the stepwise acquisition of the remaining shares in the joint venture SGL Automotive Carbon Fibers (SGL ACF) we have made investments in our growth strategy and in our future. At the same time these steps enabled us to place the Composites – Fibers & Materials business unit in an excellent position. In the future, the new SGL will serve the entire value chain in both business units from a single source – from the raw material to the finished component.

We also implemented the CORE project in the past financial year, adapting our administrative structures and costs to the size of the new SGL, and consistently aligning the organization to the strategic goals. Furthermore, we decided to introduce a uniform and standardized management system for the production across all sites and businesses. With the SGL Operations Management System (OMS) we aim to streamline processes, increase efficiency, and ensure highest product quality. By 2020, we will have implemented uniform standards and KPIs at all our sites.

We achieved our financial targets in the 2017 fiscal year. Sales revenue from continuing operations rose significantly by 12%, which was better than expected. Within the GMS business unit, this positive trend was primarily attributable to growing demand in the battery and other energy, LED, and industrial applications market segments. The increase in sales revenue in the CFM business unit was driven by the industrial applications, automotive, and textile fibers market segments. EBIT and EBITDA were also significantly above the prior year levels. The GMS business unit in particular reported a substantially higher

earnings contribution. In the CFM business unit, earnings were also above the level for 2016.

We expect consolidated sales revenue to rise by approximately 10% in 2018. Consolidated EBIT (before non-recurring charges and purchase price allocation) is likely to grow at a slightly faster rate than sales revenue. The drivers here are the positive effects from the significantly increasing volume demand, the additional contribution to earnings from full consolidation of the former joint venture SGL ACF, and cost savings. However, personnel expenses and raw material costs will be higher than in the previous year, and the exchange rates less favorable. The net result from continuing operations should improve again in 2018 to reach breakeven. This is due to the higher EBIT and also, in particular, to the lower interest expense as a result of the early redemption of the corporate bond on October 30, 2017 and the repayment of a convertible bond at maturity on January 25, 2018.

With the completion of the strategic realignment and the focus on the major issues that determine the future – mobility, energy, and digitization – SGL is entering a new era. A new beginning is the right time to review and to sharpen one's profile. We have been working hard in recent months on the evolution and redesign of our SGL-brand. We will be unveiling this to you and to the general public at our Annual General Meeting on May 29, 2018. With this timing in mind, we have decided not to include an image section in our 2017 annual report and to publish a new, high quality magazine instead.

The foundation for the relaunch of SGL has been laid by our employees. We thank them all particularly. We would also like to thank our customers, suppliers, business partners, and shareholders, who have loyally stayed with us and supported us on our difficult path during the past years.

Sincerely,

**The Board of Management of SGL Group**



# Report of the Supervisory Board

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## Dear Shareholders,

We can look back on an eventful and successful 2017. We put in place key components for the strategic realignment of SGL Carbon: The agreement to sell the graphite electrode (GE) business to the Japanese company Showa Denko K.K. and the sale of the business with cathodes, furnace linings, and carbon electrodes (CFL/CE) to private-equity investor Triton were implemented and completed. With the completion of these deals the “new” SGL is a lot leaner and more focused. We parted with a number of sites – and with the employees at those sites – at locations around the world. At the same time, however, we realigned the Composites – Fibers & Materials (CFM) and Graphite Materials & Systems (GMS) business units, first and foremost with the restructuring of the joint ventures with Kumpers GmbH, Benteler Group and BMW Group in 2017 and early 2018. The aim was to consolidate all key activities in the value chain – from carbon fibers and materials to components – within SGL Group, giving it overall responsibility.

At the same time we successfully continued with the cost-saving program decided upon in 2016 (CORE) and made substantial cost savings. As a result, and using the proceeds from the divestments of GE and CFL/CE, our Company is in a position to significantly reduce its financial liabilities and interest expenses. Our balance sheet will thereby be placed on a more stable footing.

## Cooperation Between the Board of Management and Supervisory Board

In the reporting period, the Supervisory Board fulfilled the obligations placed on it by law, the Articles of Incorporation, and its rules of procedure in accordance with its responsibilities. At five meetings during the reporting period in March, May, July, September, and November and at meetings of the various committees, the Supervisory Board provided the Board of Management with advice and closely monitored the management of the business on a continual basis. The Board of Management kept us informed in a regular, timely, and comprehensive manner, both in writing and verbally, about the Company's situation and the major business transactions and projects. Where legislation and the Articles of Incorporation required the Supervisory Board to make decisions concerning individual transactions or projects by the Board of Management, we were consulted at an early stage and adopted the necessary resolutions.

Prior to these meetings of the Supervisory Board, the Board of Management held discussions with the shareholder representatives and employee representatives on the

Supervisory Board. The chairpersons of the Supervisory Board committees also talked with their Supervisory Board colleagues and with members of the Board of Management in preparation for the relevant committee meetings. When the Supervisory Board meetings were held, the Board of Management provided us with timely and comprehensive information – both verbally and in documented form – on the agenda items being discussed. Any cases where operating performance had deviated from budgets and targets were explained in detail, and the reasons for the variances were discussed, together with the appropriate action to take. In addition, the Board of Management provided regular reports on material transactions, the quarterly figures, and how SGL Group was perceived in the financial markets.

As Chairwoman of the Supervisory Board, I myself maintained a regular and close dialog with the CEO to discuss business performance, planning, and specific business-related issues. The Chairman of the Audit Committee also remained in regular, close contact with the Board of Management between committee meetings to share information and ideas.

## Topics Covered at Full Meetings of the Supervisory Board

The Company's economic situation and the outlook for both the following quarter and the rest of the year were discussed at all five ordinary meetings of the Supervisory Board, whereby the July meeting focused on strategic matters. The regular topics covered at the meetings included, in particular, trends in the Company's operational and financial KPIs, the opportunities and risks facing the Company, and its risk management methods, including those relating to compliance risks.

The strategic positioning of SGL Group following the divestment of the GE and CFL/CE business units, the cost-saving measures (CORE project), and the growth plans for the CFM and GMS business units presented by the Board of Management constituted key issues for deliberation and were the subject of regular, in-depth discussions at all Supervisory Board meetings. Another important issue that we addressed was the short- and medium-term financial planning.

At the meeting in March 2017, the Supervisory Board discussed the 2016 annual financial statements with the independent auditors and approved them and the annual report. The Supervisory Board approved the agenda for the Annual General Meeting. Of particular note in this context was the decision made back in December 2016 to recommend to the Annual General Meeting the appointment of new independent auditors (KPMG). The targets for the Board of Management (both



achievement of the 2016 targets and the new targets for 2017) were also discussed.

At the Supervisory Board meeting in May, the Supervisory Board and the Board of Management jointly discussed in particular detail the project to sell CFL/CE and the schedule for the next steps in this divestment process. The Board of Management also held a general discussion with the Supervisory Board about possible strategic development opportunities for the joint ventures in the CFM business unit.

The July 2017 meeting of the Supervisory Board was devoted to the Group's strategic focus and development. The Supervisory Board scrutinized the implementation of the growth initiative that had been decided upon for the 'new' SGL once the sale of the GE and CFL/CE activities was completed. Growth areas, products and markets, the various sites, and the further optimization of production costs were thoroughly analyzed on the basis of documents provided by the Board of Management. The CFM joint ventures with Benteler, Kumpers, and BMW were discussed and the strategic options were assessed.

At this meeting, a new skills profile for the Supervisory Board was drawn up and the declaration of compliance for the reporting period was approved. Finally, the progress of the GE and CFL/CE divestments was examined, including the impact of conditions potentially to be imposed by the US antitrust authorities in respect of the GE sale and the status of the auction process in the case of the CFL/CE sale. The Supervisory Board set up a special committee to ensure that it was sufficiently informed and that the CFL/CE deal was subjected to careful final scrutiny. This committee subsequently discussed the terms of the divestment at length on the basis of the various offers and draft contracts, which had been explained to the committee in detail by the Board of Management, and then approved the deal in August 2017.

At its meeting in September, the Supervisory Board focused on strategic issues concerning the GMS and CFM business units and on the financial position of the Company. It deliberated at length on developments in the three CFM joint venture projects and formed a special committee to closely monitor the joint venture with BMW on behalf of the full Supervisory Board and make a final decision on the possible strategic options.

At this meeting, we also discussed making changes to the remuneration of the Board of Management. The remuneration of our two Board of Management members had initially not been adjusted in the past, even though the reduction in the

number of members on the Board of Management had resulted in a significant additional burden for Mr. Köhler and Mr. Majerus and an increase in their responsibilities. The outcome of the discussion was that we decided to bring the salaries of the two Board of Management members more closely into line with each other. Further details can be found in the Remuneration Report. We also decided to reward the two Board of Management members for the successful restructuring and realignment of the Company by paying a one-off bonus reflecting their individual contributions.

The November meeting focused on the Company's operational planning and budget for 2018, together with its medium-term planning. At this meeting, the Supervisory Board was also given an overview of the status of individual strategic projects. The changes to the Board of Management's remuneration were finally signed off at this meeting, too.

Also at this meeting, the Supervisory Board also discussed the possibility of reducing its number from twelve to eight members. Most of the Supervisory Board posts expire in 2018. The Supervisory Board believed therefore that the time was right and appropriate for such reduction within the scope permitted by law, particularly in light of the smaller Board of Management and the considerable downsizing of the SGL Group.

### Activities of the Committees

The Supervisory Board has set up a total of five permanent committees in order to ensure that its duties are discharged efficiently. The members of these committees are listed in the Corporate Governance and Compliance Report (see pages 11 to 16). In the reporting period, two special committees were also formed to closely examine the divestment of CFL/CE and the acquisition of shares from BMW in the joint venture (ACF) with BMW. The committee chairpersons reported in detail on the work of the committees at the meetings of the Supervisory Board.

At its only meeting, which was held in September 2017, the **Strategy and Technology Committee** mainly addressed the strategic projects in the CFM business unit. It also discussed selected growth initiatives in CFM and GMS.

The **Audit Committee** held face-to-face meetings in March, September, and November of the year under review and was also kept regularly informed prior to publication of the quarterly reports. When reviewing the quarterly financial statements, the Audit Committee also discussed ongoing issues relating to reporting and any other special topics of current interest. All the face-to-face meetings were also attended by the independent

auditors to enable the Company's audit procedures, key audit issues, and material findings arising from audits of the annual financial statements to be discussed.

Current business performance and any business risks identified by the Risk Management System were discussed at all of the face-to-face meetings of the Audit Committee.

A core agenda item at the March meeting was an in-depth discussion of the annual financial statements of SGL Carbon SE and the consolidated financial statements for the Group for the year 2016. The committee also examined the internal control system and the establishment and structure of the Risk Management System. It also scrutinized the audits conducted by Internal Audit and the latest audit plan. The September and November meetings particularly focused on the transition to the new independent auditors to be appointed by the Annual General Meeting (KPMG). The independence of the auditors in respect of non-audit services was also examined and a process was defined for the approval of non-audit services. This ensured that the requirements of the EU's auditing reforms, which came into force for the 2017 financial year, were implemented. The impact of changes to accounting standards (IFRS 9, IFRS 15, IFRS 16) was also discussed at the November meeting. In addition, the Audit Committee examined the Compliance Report.

The **Personnel Committee** held a total of four meetings at which it discussed overarching personnel issues. The March meeting discussed the attainment of targets by the members of the Board of Management, target agreements with the Board of Management, and the appropriateness of Board of Management remuneration. At its other meetings, the committee mainly deliberated on the changes to the remuneration of our two Board of Management members. Following a general discussion of this matter at the July meeting, the Audit Committee put forward proposals to the full Supervisory Board at the meetings in September and November regarding the changes to be made to the remuneration.

The **Governance and Ethics Committee** held a total of two meetings in the reporting period, in March and November respectively. In addition to the ongoing analysis of potential conflicts of interest in the Supervisory Board, the committee addressed – as it had in the previous year – issues arising in relation to the joint venture with BMW Group as well as internal compliance procedures. The committee received regular reports from the Board of Management to enable it to assess whether there were any conflicts of interest among members of the Supervisory Board or whether any major shareholders were

exercising undue influence over business decisions. In the reporting period, the committee did not identify any matters that would have necessitated further action. Prior to this and in order to avoid a potential conflict of interest, the decision on whether the Supervisory Board should approve the acquisition of BMW's shares in the joint venture with BMW was delegated to a special committee. Ms. Klatten was not a member of that committee.

No meetings of the **Nominating Committee** were held during the reporting period. To prepare for the changes in the supervisory board planned for 2018, the shareholder representatives held many discussions during the year under review.

At a meeting in August 2017, the Board of Management provided the Supervisory Board's **Special Committee** for monitoring the CFL/CE transaction with a detailed explanation of the terms of the deal. The transaction was approved following in-depth discussions.

At the end of November, the Special Committee set up to consider the acquisition of BMW's shares in the joint venture with BMW held a meeting at which it unanimously approved the deal.

Attendance at the five Supervisory Board meetings was 95%. Every committee meeting was attended by all the respective members, except in a single instance where one member was not able to attend. Every member of the Supervisory Board therefore participated in significantly more than half of the meetings of the Supervisory Board and of committees of which they were members. In the reporting period, there were no indications of conflicts of interest among the members of the Supervisory Board that would have required immediate disclosure to the Supervisory Board. In order to avoid a potential conflict of interest, the decision on whether the Supervisory Board should approve the acquisition of BMW's shares in the joint venture with BMW was delegated to a committee. Ms. Klatten was not a member of that committee.





Susanne Klatten, Chairwoman of the Supervisory Board

### **Annual Financial Statements and Consolidated Financial Statements 2017**

Both at the Audit Committee meeting and at the Supervisory Board meeting held in March 2018, the Supervisory Board verified that the books and records, the single-entity financial statements of the parent company SGL Carbon SE prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for the period ended December 31, 2017, and the management reports of SGL Carbon SE and of SGL Group had been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and had been issued with an unqualified auditors' opinion. The Supervisory Board satisfied itself as to the independence of the auditors as well as the persons acting on behalf of the auditors and issued the audit engagement in accordance with the resolution adopted by the Annual General Meeting on May 17, 2017. We received the audit

reports for the consolidated and parent company financial statements promptly. The Audit Committee carefully scrutinized these documents, which were also examined by the entire Supervisory Board. The independent auditors attended both the Audit Committee meeting and the Supervisory Board meeting that discussed the annual financial statements, reported on their audit, and were available to answer any additional questions and provide further information. There were no objections raised either by the Audit Committee or by our own examination. The Supervisory Board has approved the financial statements prepared by the Board of Management, and the annual financial statements have thus been adopted. No recommendation by the Board of Management for the appropriation of profits had to be examined because SGL Carbon SE reported an accumulated loss as at December 31, 2017.

At its meeting in March 2018, the Supervisory Board also discussed the Report of the Supervisory Board, the Corporate

Governance and Compliance Report, the Remuneration Report, and the disclosures pursuant to sections 289a (1) and 315a (1) HGB. Please refer to the corresponding disclosures in the management report (see pages 38 to 94). The Supervisory Board has examined these disclosures and determined that they were complete.

With regards to the separate non-financial report, KPMG issued an unqualified opinion.

This means, that based on the executed audit activities and the acquired audit analysis, no information was obtained which would lead to the assessment that the separate non-financial report was not in compliance with disclosures pursuant to sections 315b, 315c in combination with 289c to 289e HGB.

Based on its own assessment, the report of the audit committee regarding its preparatory assessment, as well as the audit opinion of KPMG, the supervisory board also did not have any objections on the report.

#### **Corporate Governance and Declaration of Compliance**

At its meeting on July 12/13, 2017, the Supervisory Board discussed the corporate governance principles of SGL Carbon SE and made minor adjustments to the rules of procedure for the Supervisory Board. At this meeting, the Supervisory Board also approved a declaration of compliance without qualification in accordance with section 161 of the German Stock Corporation Act (AktG). The declaration of compliance was posted on the Company's website, where it is permanently available to shareholders. The latest declaration of compliance is also included in the Corporate Governance and Compliance Report within this annual report.

Further details regarding the principles of corporate governance applied in the Company can be found in the Corporate Governance and Compliance Report on pages 11 to 16 of this annual report and in the corporate governance declaration on the Company's website at [www.sglgroup.com](http://www.sglgroup.com) under 'Investor Relations/Corporate Governance'.

#### **Personnel and Functional Changes on the Board of Management and Supervisory Board**

There were no changes to the Board of Management of the Company in the reporting period. The Board of Management has consisted of two people since January 1, 2017.

#### **Thanks from the Supervisory Board**

The Supervisory Board wishes to thank the Board of Management, the staff, and the employee representatives of all SGL Group companies for their work, without which it would not have been possible to meet the challenges once again facing SGL Group's business in 2017.

The Supervisory Board would also like to wish every success and all the best for the future to the employees who were transferred from SGL Group when the GE and CFL/CE business units and the Kumpers shareholding were sold. Moreover, the Supervisory Board would specifically like to welcome the new employees who have joined SGL as a result of the acquisition of the shares in the former joint ventures with Benteler and BMW.

Wiesbaden, March 13, 2018

#### **The Supervisory Board**



**Susanne Klatten**  
**Chairwoman of the Supervisory Board**

# Corporate Governance and Compliance Report

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## Responsible Corporate Governance

Excellent corporate governance refers to a responsible and transparent corporate management and control focused on sustainably creating value. SGL Carbon SE's Board of Management and Supervisory Board uphold the principles of responsible and sustainable corporate governance. SGL Carbon SE follows recognized standards of good corporate governance and attaches great value to upholding the recommendations of the German Corporate Governance Code.

## Shareholders and Annual General Meeting

SGL Carbon SE's shareholders exercise their rights during the Company's Annual General Meeting. The Annual General Meeting is held once per year. Each share grants the holder one vote. The shareholders can either exercise their voting rights at the Annual General Meeting themselves or have them exercised by a proxy of their choice or by one of the Company's proxies who is bound to follow their instructions. Instructions can be issued to the Company's proxies both before and during the Annual General Meeting through to the end of the general debate. In addition, the shareholders can issue their votes in writing via a postal vote without issuing a power of attorney to a representative.

## Close cooperation between the Board of Management and the Supervisory Board

The Board of Management and the Supervisory Board of SGL Carbon SE work closely together in the interest of the Company and pursue the common goal of sustainably increasing the Company's enterprise value. Above all, our goal is to sustainably increase SGL Group's enterprise value. SGL Carbon SE and SGL Group are managed by the Board of Management. The Board of Management comprised two members in fiscal year 2017. Its tasks include, in particular, defining the Company's objectives and its strategic orientation, managing and monitoring operating activities and setting up and monitoring an efficient risk management system. The Board of Management comprehensively informs the Supervisory Board in good time and on a regular basis on all of the relevant developments in the Company. Such developments primarily include current business trends, planning and strategy as well as risk and compliance management. In particular, it is the Supervisory Board's responsibility to monitor the fundamental business decisions made by the Board of Management and advise it on business matters. The Supervisory Board is directly involved in decisions of fundamental importance to the Company. Such

decisions may include, for example, the commencement of new operations, discontinuation of existing units, or issuance of bonds. The Supervisory Board of SGL Carbon SE consists of twelve members, including shareholder and employee representatives. The six shareholder representatives on the Supervisory Board are appointed in the Annual General Meeting, the six employee representatives are appointed by the SE Works Council according to the Company's agreement with its employees regarding co-determination in the Company. In accordance with the Articles of Incorporation of SGL Carbon SE, in the case of a split resolution, the Chairman of the Supervisory Board or, if the Chairman is unable to participate in a resolution vote, the Deputy Chairman representing the shareholders, has the casting vote. If necessary, the Supervisory Board can also meet without the Board of Management.

## Composition of the Supervisory Board

In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board defined the objectives for its composition and profiled the competences of the entire board. According to its objectives, the Supervisory Board is to be composed of members who, as a group, possess the required knowledge, skills and professional experience to duly perform the Supervisory Board's responsibilities. The age limit for Supervisory Board members is generally 72. As a rule, members of the Supervisory Board should no longer be proposed as candidates for the Supervisory Board after the end of their third period of office. Periods of office resulting from appointment by the courts to the Supervisory Board are not considered. If a member of the Supervisory Board holds a material equity interest in the company as defined in clause 5.4.1 of the German Corporate Governance Code, controls any such material shareholder of the company, or acts as a representative for a material shareholder, there is a fundamental exception to the above rule, and there is thus no restriction on this member's candidacy. Each member shall ensure that he or she has sufficient time to fulfil his or her mandate. Supervisory Board members who also sit on the management board of a publicly traded company shall not accept more than three memberships in supervisory boards in publicly traded companies outside the group and in supervisory bodies of companies with comparable requirements.

All members of the Supervisory Board have to be in a position to duly perform the duties of their office. At least one member shall be a financial expert with experience in the fields of financial accounting and/or financial auditing to ensure that all responsibilities associated with the Company's financial

accounting are carried out properly. In addition, at least one member of the Supervisory Board should have relevant professional experience and industrial expertise in the SGL Group's fields of business and its key customer industries. What is more, at least one member in each case should have in-depth experience in corporate management and strategy, compliance and risk management, innovation competence (including digitalization) and well-honed professional experience in developing executives and human resources. In total, the number of members with experience in technical fields (in particular the fields of chemistry and engineering) and the number of members with commercial backgrounds shall be well balanced. In addition, the composition of the Supervisory Board should reflect the Company's international activities; at least one member of the Supervisory Board should have specific international knowledge and experience as a result of their origins, education or professional activities. Furthermore, the Supervisory Board shall always have a sufficient number of independent members. Consequently, at least half of the shareholder representatives in the Supervisory Board shall be independent; this requirement is currently met with Dr. Bortenlänger, Dr. Camus, Mr. Denoke and Mr. Eichler. With regard to a reasonable level of female participation in the Company's Supervisory Board, the "Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst" (Act on equal opportunities for women and men for executive positions in the private sector and the public service) dated April 24, 2015, which applies for the Company, even demands that the Company's Supervisory Board has at least 30% of both female and male members (subject to transitional rules for existing mandates).

The Supervisory Board's objectives for its composition and competence profile for the entire board as set out above have been and will continue to be taken into account in the proposals for appointing new members to the Supervisory Board. The current composition of this body covers all necessary fields of expertise and is also in line with issues such as diversity and independence in accordance with the objectives and the competence profile; the only item not fully met is the proportion of female participation in the Supervisory Board as a result of legacy mandates.

### **Rules for possible conflicts of interest**

Members of the Supervisory Board shall disclose any conflicts of interest to the Chairman and/or Deputy Chairmen of the Supervisory Board. This includes both concrete conflicts of

interest, as well as sufficiently probable potential conflicts of interest. Any significant conflicts of interest of a Supervisory Board member that are not only temporary in nature shall lead to that member's resignation from the Board. In order to be able to deal suitably with any issues concerning (potential) conflicts of interest and as suggested by shareholders, a new committee in the Supervisory Board was formed in September 2013: the Governance and Ethics Committee (see below in the section on Supervisory Board Committees). In the reporting period, there were no indications of conflicts of interest among the members of the Supervisory Board or Board of Management that would have required immediate disclosure to the Supervisory Board. In order to avoid a potential conflict of interests, the decision on the Supervisory Board's approval to acquire BMW's interests in the joint venture ACF was delegated to a committee in which Ms. Klatten was not a member. During the period under review there were also no contracts for advisory or other services between Supervisory Board members and the Company. Relationships with related parties are presented in the notes to the consolidated financial statements Note 28.

### **Deductible for D&O insurance**

The Company has taken out liability insurance for the members of the Board of Management and the Supervisory Board (D&O insurance) with the deductible stated in Item 3.8 of the German Corporate Governance Code.

### **Committees support the work of the Supervisory Board**

The Supervisory Board has established a total of five permanent committees, all of which operate in compliance with the requirements of the German Corporate Governance Code and the German Stock Corporation Act (AktG). These committees are as follows:

#### **Personnel Committee**

The Personnel Committee, chaired by Ms. Klatten, advises the Supervisory Board principally on matters relating to the legal relationship between the Company and current and former members of the Board of Management. It reviews the remuneration of the members of the Board of Management and submits proposals to the plenary sessions of the Supervisory Board for their final decisions. In addition, the committee submits proposals for the appointment of new members and the dismissal of members of the Board of Management to help prepare the respective Supervisory Board decisions. The committee's other members are Dr. Lienhard and Mr. Jodl.

### Nomination Committee

The task of the Nomination Committee is to draw up a list of proposed candidates for election to the Supervisory Board as shareholder representatives at the Annual General Meeting. All shareholder representatives on the Supervisory Board are members of this committee, which is chaired by Ms. Klatten.

### Audit Committee

The Audit Committee consists of four members. The Audit Committee is chaired by Mr. Denoke. Its other members are Dr. Bortenlänger, Mr. Leppek and Mr. Stettberger. The responsibilities of the committee include monitoring the Company's financial accounting process, risk management, compliance, and consequently its internal control and auditing system. In addition, it is in charge of carrying out its own review of the consolidated financial statements of SGL Group and the annual financial statements of SGL Carbon SE.

Furthermore, the committee is in charge of the relationship between the Company and its independent auditors. In this context, its main responsibility is to prepare the Supervisory Board's proposal to the Annual General Meeting for the appointment of the auditor. In doing so, it must ensure that the auditor is both qualified and independent. The committee also defines key audit issues, agrees on audit fees, and performs the preparatory work related to appointing the auditor and it performs an advance review of commissioning non-audit services by the auditor.

### Strategy Committee

The Strategy Committee discusses fundamental corporate strategy and important technological issues such as the Company's research and development portfolio. Chaired by Mr. Eichler, the Strategy Committee also includes Ms. Klatten, Dr. Camus, Mr. Rzeźniński and Mr. Stettberger.

### Governance and Ethics Committee

The Governance and Ethics Committee reviews, in particular, if transactions between SGL Group companies and members of the Supervisory Board, their related parties and shareholders with an interest of more than 5% of voting rights in SGL Carbon SE are in line with industry standards, and that these transactions do not contradict SGL Group's interests. The committee's members are Dr. Camus (Chairman), Dr. Bortenlänger and Mr. Züllighofen.

In addition to these permanent committees, the Supervisory Board can also form temporary, project-related committees as required.

### Systematic Risk Management

Since a responsible approach to risk is an integral part of all good corporate governance practices, SGL Group developed an appropriate risk management system early on. The system ensures that the Company's risk management and control procedures are adequate and effective. The concept is to identify any business or financial risks as early as possible so that appropriate countermeasures can be taken. The system is enhanced on an ongoing basis and continuously adapted to reflect changing circumstances. The Board of Management reports at regular intervals to the Supervisory Board and in particular to the Audit Committee on existing risks and their development. Further information on the risk management system (RMS) can be found in the report on opportunities and risks on pages 72 to 80.

### Updated Declaration of Compliance

During the year under review, SGL Carbon SE's Board of Management and Supervisory Board dealt with constantly improving corporate governance in line with the recommendations in the German Corporate Governance Code. The Board of Management and Supervisory Board issued the current declaration of compliance according to Section 161 of the Aktiengesetz (AktG - German Stock Corporation Act) on July 13, 2017. SGL Carbon SE meets the recommendations of the German Corporate Governance Code, as amended:

#### Statement of the Board of Management and Supervisory Board of SGL Carbon SE pursuant to Section 161 of the German Stock Corporation Act on the German Corporate Governance Code dated July 13, 2017

"The Board of Management and Supervisory Board declare:

1. The last declaration of compliance was issued on September 7, 2016. Since then, SGL Carbon SE has fully complied with the recommendations of the "Government Commission on the German Corporate Governance Code" ("Regierungskommission Deutscher Corporate Governance Kodex") in the version dated May 5, 2015 (publication as of June 12, 2015).
2. The "Government Commission on the German Corporate Governance Code" ("Regierungskommission Deutscher Corporate Governance Kodex") issued a new version of the German Corporate Governance Code on February 7, 2017 (announcement dated April 24, 2017). SGL Carbon SE also complied with the new version of the Code as set out under Item 1 above, with the exception of the new recommendations in the revised Code Item 5.4.1 (2) and (4). According to these

new recommendations, the Supervisory Board shall define a competence profile for the entire Supervisory Board; proposals by the Supervisory Board to the Annual General Meeting for the appointment of members of the Supervisory Board should aim to comply with the competence profile. In today's meeting of the Supervisory Board, after an in-depth discussion, the Supervisory Board passed a competence profile, and this is also to be considered for proposals for the appointment of members of the Supervisory Board as intended. As of today, SGL Carbon SE thus fully meets the recommendations in the "Government Commission on the German Corporate Governance Code" ("Regierungskommission Deutscher Corporate Governance Kodex") in the Code version dated February 7, 2017.

The Corporate Governance Principles of SGL Carbon SE furthermore satisfy almost without exception the non-obligatory suggestions of the German Corporate Governance Code."

### **Active and transparent shareholder communication**

One of the primary objectives of the Board of Management is to report comprehensively to all target groups, in particular to our shareholders, and to communicate the same information at the same time. A diary of regular events (such as the Annual General Meeting and conferences – including conference calls – with analysts and investors) and reports or notices (for example the annual report, interim reports, presentations for the General Meeting, press releases and ad hoc notifications) are published on the Company's website.

### **Directors' Dealings**

Pursuant to the relevant provisions of capital markets law, the members of the Board of Management and the Supervisory Board and persons closely related to them are obliged to disclose their own dealings with equities or debt instruments of SGL Carbon SE or certain other financial instruments linked to these if the total value of these transactions exceeds €5,000 within a calendar year. During the year under review no corresponding transactions were reported to the Company.

### **Remuneration of the Board of Management and the Supervisory Board**

As part of the reorganization of the Company's Board of Management, the remuneration system for the members of the

Board of Management was revised as of January 1, 2014. The following objectives were considered in particular when restructuring the system in order to fulfill the regulatory requirements:

- Harmonization of the remuneration systems for Board members and reduction in complexity
- Focus on sustained effectiveness of remuneration systems

The Annual General Meeting of SGL Carbon SE approved the new remuneration system for the Board of Management on April 30, 2014 with a majority of 99.64% of votes.

Remuneration for the Supervisory Board is regulated in Item 12 of the Articles of Incorporation and was also most recently adjusted in the Annual General Meeting on April 30, 2014.

The key elements of the remuneration system for the Board of Management and the individual remuneration for the members of the Board of Management and the Supervisory Board have been published in the remuneration report as part of the management report in this annual report (see pages 86 to 92).

### **Share-based incentive systems for SGL Group employees**

The share-based incentive systems which were in place at SGL Group during the period under review are presented in the notes to the consolidated financial statements (**Note 31**).

### **Compliance as part of our management and corporate culture**

SGL Group introduced its Code of Conduct in 2005 and updated this in 2017. The Code underscores the obligation of SGL Group and its employees to comply with the law and internal policies and sets standards for ethical and lawful conduct. The Code reflects the common values that define SGL Group's corporate culture and business conduct. At SGL Group, compliance represents a fundamental responsibility of the Board of Management. The Board of Management does not tolerate any violation of the Code of Conduct and promotes a corporate culture in which issues relating to integrity can be openly discussed with superiors, the compliance representatives, and the Group Compliance department. All employees are personally responsible for ensuring that their actions and conduct are in line with the Code of Conduct of SGL Group and in compliance with the regulations of their respective work areas. Compliance must be ever-present in the minds of our executives and



employees, and they must live this in their day-to-day business. This allows compliance to sustainably support the success of our business.

SGL Group introduced and implemented specific compliance programs many years ago. The Board of Management has entrusted the Group Compliance department with the global management of these programs. Its task is to manage the required comprehensive organizational, communications, and control structures for SGL Group worldwide, to review these regularly and adjust them if required. This aims for effective compliance which goes beyond merely ensuring the adherence to legal and formal requirements and structures: Compliance must become an integral part of value-oriented corporate management.

Management serves as an important role model when it comes to personnel and leadership responsibility. As a result, compliance is a fixed agenda item in the annual Group Communication Forum (GCF). This is used to constantly sensitize top executives for compliance and to train them.

Part of SGL Group's compliance organization is a network of regional and local compliance representatives. In order to ensure the transfer of knowledge between the Compliance network and Group Compliance, telephone conferences were held regularly in 2017. During these conferences, the further development of our compliance program was discussed with the local compliance representatives, while considering site-specific requirements. The local compliance representatives are the point of contact for employees at the respective sites for all matters pertaining to compliance, and they also support the compliance department when introducing compliance initiatives at the various sites. A key feature in 2017 were the "Compliance Days" which aimed to constantly sensitize employees regarding compliance and their personal responsibility in this connection. Four compliance suitcases travelled to the SGL sites in Europe, the USA and Asia under the flag of the SGL Code of Conduct. The compliance suitcases contained the updated Code of Conduct, as well as messages on the subjects of Anti-trust, Anti-Corruption, EHSA, Export Control, Information Security, Business Secrets and Whistleblowing. The respective local compliance representatives received the compliance suitcase and, at the same time, hosted the Compliance Days. As part of these Compliance Days on-site training sessions were held on the Code of Conduct and the other topics set out above. In addition, all of our employees received a compliance information package, also including Do's and Don'ts cards. In total 32 of SGL's 33 locations participated. Compliance Days will be held at the remaining site in the first

quarter of 2018 (also refer to the CSR Report page 17). Furthermore the two new sites added as a result of the integration of the Benteler SGL Joint Venture will also participate in the initiative as part of the implementation of the SGL Compliance program.

The SGL Group Code of Conduct and the Whistleblower Policy are available in a total of nine local languages, and are issued to all new employees as part of their introductory documents. A signed copy of the confirmation that they will uphold SGL Group's Code of Conduct is filed in their respective employee file. SGL Group's employees participate in mandatory training on the Code of Conduct. This is held as both face-to-face training and also e-Learning. The SGL Group introduced a Supplier Code of Conduct in 2015. Under this code, all SGL suppliers and their sub-contractors must also undertake to comply with legal, ethical and sustainable behaviour. Since its introduction, the Global Purchasing department has handed out the Supplier Code of Conduct step by step to existing suppliers and sub-contractors, and this is to become a component of newly concluded or amended agreements.

As part of the SGL Anti-Corruption Program, on-site training sessions were conducted in particular at internal global BU meetings, sales conferences and at select sites. In addition, employees were trained on this topic as part of the Compliance Days using case studies and Do's and Don'ts cards. The Gifts and Entertainment Policy is also available in several local languages and is part of new employees' introductory documents. As part of the SGL Group Anti-Corruption Program, a Business Partner Compliance Process was introduced in 2013 to review the intermediaries used. This process includes having the intermediaries go through a multi-stage check prior to signing the agreement. In addition to all of the new intermediaries, existing intermediaries are also reviewed regularly according to their risk category.

All of the compliance-relevant group-wide policies and training documents as well as information on the Compliance Network are available for employees to download in several languages from the SGL Group intranet. It provides all of SGL Group's employees with extensive information on all aspects of compliance. A confidential internal e-mailbox is available if an employee wants to raise a confidential notice of a potential compliance violation (whistleblowing). This e-mailbox can also be reached by third parties via the SGL Group's website (also refer to the CSR Report on page 17).



A comprehensive, global Antitrust Compliance Program was introduced at SGL Group already in 2001. Regular mandatory training sessions form a material part of this program. These are offered as both face-to-face and eLearning training sessions. These mandatory training sessions are aimed at all of managers in the top three levels of management in the group, as well as all purchasing, sales and marketing employees. All new employees in this target group receive the SGL Group Antitrust Compliance Guideline with their introductory documents, and have to sign this. This is followed by participation in the mandatory online training session. Employees undergo regular refresher training sessions, as both face-to-face and eLearning sessions. These sessions were also performed as part of the Compliance Days in 2017.

Other compliance measures relate to, for example, capital market regulations and compliance with the respective Group policy, which regulates issues including trading in SGL Carbon SE securities for members of the Board of Management, the Supervisory Board and the Company's employees. The Group policy also governs the proper handling of potential insider information. An Ad-hoc Committee has been in place for years now. The committee consists of representatives of a number of corporate functions who examine potential ad-hoc issues and ensure that potential insider information is handled in accordance with legal provisions.

Our compliance program for export control has been working with an IT-based compliance module since 2009. This supports the efficient monitoring of relevant export transactions. Furthermore, on-site training sessions and workshops on export control compliance are held regularly. In addition, Web-based online training is also offered. It is mandatory for the target group to participate in training. In 2017 all of the employees in North America who are included in the target group participated in online training.

In addition, in 2017 the Group Internal Audit Department also reviewed anti-corruption and anti-fraud management as part of their regular audits as requested by Group Compliance. The focus here was on obtaining audit security on actual compliance with the defined compliance rules, and to recognize and identify individual violations of the rules. If the compliance audits show

that it is necessary to optimize work flows or reinforce control activities, these will be modified immediately.

Regular risk assessments form part of an effective compliance management system. The compliance risk assessment completed in the first quarter of 2017 for the core compliance risks (antitrust law, anti-corruption, export control and customs, protecting business secrets and anti-fraud) included reviewing the suitability of the existing compliance program. Together with the management of the business units, the topics were reevaluated and the compliance risk landscape was updated. In addition, the compliance risk assessment was also performed with selected corporate functions.

The Supervisory Board's Audit Committee addressed the Company's compliance report in detail at its meeting in November 2017. In addition, the Governance and Ethics Committee was also informed of the compliance activities.

### **Information on the auditors**

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, Eschborn office, has been the statutory auditor of SGL Carbon SE and the SGL Carbon SE Group since the 2017 financial year (January 1, 2017 - December 31, 2017). Mr. Janz has signed as the responsible Public Auditor since the 2017 financial year. This appointment followed a tender and selection process for the audit in line with Article 16 (3) of the Directive (EU) no. 537/2014 from the European Parliament and Council dated April 16, 2014 (Audit Directive).

For details on the statutory auditor's fees, please refer to page 157 of the 2017 annual report.

At the 2018 General Meeting, the Supervisory Board will make a proposal, based on the recommendations of its Audit Committee, that KPMG AG Wirtschaftsprüfungsgesellschaft Berlin, should be appointed as the auditor for the Company and Group for fiscal year 2018 (and with respect to any audit reviews of financial information during the year also for these audit services).

# Corporate Social Responsibility

## About this report

This chapter presents our corporate social responsibility activities. Socially responsible, environmentally conscious and resource- friendly behavior, promotion of responsible product solutions, commitment to human rights and our society as well as compliance and anti-corruption standards, and the advancement of sustainable product solutions are integral parts of SGL Group's corporate culture and objectives. They are key requirements to the long-term success of our business. The information in this chapter relates to continuing operations in these areas, including proportionately consolidated entities.

## Fundamentals

This report presents the non-financial declaration by the SGL Group according to the CSR-Richtlinie-Umsetzungsgesetz (CSR Policy Implementation Act) which came into effect on January 1, 2017. We comply with the content-related requirements according to Sections 315c in connection with 289c of the HGB, in that we present our key non-financial activities with regard to the five aspects environment, employees, social requirements, upholding human rights and combating corruption and bribery in detail and transparently in a separate, non-financial group report. We present our business model in detail in the chapter "SGL Group" (page 39) of the group management report. In preparing this separate, non-financial group report, we use the guidelines in the Global Reporting Initiative as a basis, in particular for the non-financial performance indicators presented.

The content of the separate, non-financial group report was reviewed as part of an external assurance engagement with limited security by KMPG Wirtschaftsprüfungsgesellschaft (see information on page 71).

## Key issues

In 2016 and 2017 SGL Group performed a materiality analysis based on the criteria in the Global Reporting Initiative. The aim was to identify key sustainability topics for the company, and thus to create the foundations for the non-financial report. In line with the double materiality claim, this analysis considered the economic impact that an issue has on the company, and how SGL's business activities impact third parties.

At the start of the process, SGL questioned representatives in various corporate functions on sustainability topics. In addition, the company has set up a project group comprising officers from all central group departments. In a second step, SGL identified

which topics are particularly relevant from a stakeholder perspective. In this regard the results of an analysis of competitors and the requirements of customers, employees and CSR initiatives were evaluated. The two business units went on to evaluate sustainability topics in view of the associated economic opportunities and risks for the SGL Group. In a subsequent meeting the project group discussed the issues identified to date in view of the criteria of the double materiality requirement and agreed these topics. A total of 23 material topics were derived and prioritized in line with their importance for the understanding of the course of business, earnings, the company's position as well as the impact its activities have on the aspects set out above (in line with Section 289c (3) of the HGB).

The key issues thus identified for SGL are broken down into "Compliance", "Products (social affairs)", "Environment, Health and Safety Affairs", "Employee affairs" and "Corporate citizenship". The following table shows the allocation of key issues to these various areas:

Area	Key issues for SGL
Compliance	<ul style="list-style-type: none"> <li>• Compliance Management</li> <li>• Anti-corruption and bribery</li> <li>• Compliance &amp; Anti-corruption in the supply chain</li> <li>• Human Rights</li> <li>• Social standards (incl. human rights) in the supply chain</li> <li>• Lobbying / participation in political processes</li> </ul>
Products (social affairs)	<ul style="list-style-type: none"> <li>• Product quality</li> <li>• Sustainable product innovation</li> </ul>
Environment, Health and Safety Affairs	<ul style="list-style-type: none"> <li>• Product compliance</li> <li>• Environmental impact of products</li> <li>• Energy consumption</li> <li>• Greenhouse gas emissions</li> <li>• Health and safety at work and health protection</li> <li>• Process safety</li> <li>• Waste management</li> <li>• Water consumption</li> </ul>
Employee affairs	<ul style="list-style-type: none"> <li>• Diversity and equal opportunities</li> <li>• Employability and development</li> <li>• Employer attractiveness</li> <li>• Leadership</li> </ul>
Corporate citizenship	<ul style="list-style-type: none"> <li>• Local communities</li> </ul>

The different chapters described the concepts that we are pursuing, and present the results of the activities put in place to date.

### **Key risks according to Sections 315c in conjunction with 289c of the HGB**

In this separate, non-financial group report, we consider the key risks for our business activities and also risks which have a material negative impact on the affairs set out as part of the non-financial report (Sections 315c in conjunction with 289c (3) Nos. 3 and 4 of the HGB).

In this regard, key risks have been identified for the individual affairs and evaluated in view of the management activities and controls. The group's risk management department has assessed the risk estimates made for the individual affairs with regard to risks that could very probably have a major negative impact. In summary, no material risks were ascertained which could very probably have a major negative impact on the affairs.

## **Compliance**

### **Compliance Management**

As a global group, SGL Group has particular responsibility for dealing with its employees, customers, business partners, shareholders and the public. The SGL Group's Code of Conduct is an integral component of our management and corporate culture, and given this background it sets standards for responsible, legally compliant behavior. This includes our compliance with internal and external regulations and that ethical and sustainable principles govern our activities. We also attach great importance to observing human rights at our sites. As a result, we have undertaken to comply with the principles of the UN Global Compact.

SGL Group's compliance program includes the Code of Conduct as well as additional internal requirements and policies for various target groups and specific topics such as the Antitrust Compliance Policy, the Program for Export Controls, the Whistleblower Policy, the Code of Conduct for Suppliers and Sub-contractors, and the Anti-corruption Program (see "Combating corruption").

Our top-level objective for compliance is that all of our employees know and respect the requisite regulations, in order to reduce the risk of breaking the law, thus avoiding possible damage for the SGL Group. As a result our compliance policies are a fixed part of our documents for new hires, and are issued

to all of our new employees. In regular twice-yearly reporting by our Local Compliance Representatives (LCRs), we have them confirm that this process is operating correctly. In addition, the confirmation of receipt which provides written documentation that the employee is aware of the regulations in the Code of Conduct, is filed in the employee's file.

The Chief Compliance Officer is responsible for the SGL Group's compliance strategy and monitoring the structures and processes in the Compliance Management System (CMS). He reports directly to the CEO. He is supported in his work by the Group Compliance department. The organization also includes the SGL Group's Compliance Network, which comprises Regional and Local Compliance representatives.

The effectiveness and efficiency of the CMS is constantly reviewed, and this enables the SGL Group to react in a reasonable manner to new statutory requirements and changes in its business environment. In this regard and in agreement with the Compliance Committee, the Group Compliance department identifies and defines any action that may be required and measurable objectives approved by the Board of Management. The results and the resulting downstream activities are summarized as part of an annual review.

Regular risk assessments form part of an effective compliance management system. The topics that Group Compliance defined as being core compliance risks (antitrust law, anticorruption, export control and customs and protecting business secrets) are regularly reassessed together with the business units' management, and the suitability of the existing compliance program is reviewed. The compliance risk assessment for core risks performed in the second half of 2016 together with the Business Units was completed in 2017 together with selected Corporate Functions. For further information on the compliance risk assessment and the material risks for the SGL Group please refer to the Corporate Governance and Compliance Report and the Opportunity and Risk Report.

Compliance topics are regularly documented by the Local (LCR) and business unit (BU) Compliance Representatives as part of our compliance reporting process. Semi-annual and annual LCR/BU questionnaires allow us to confirm that the compliance program is being implemented at our local sites and within the business units. The results from the evaluation of the questionnaires are discussed with the Board of Management, as well as the Supervisory Board's Audit Committee and Governance and Ethics Committee, and also form the basis for the reorientation of compliance activities.

The SGL Group aims to create an environment in which all compliance matters can be discussed in an open manner. As a result, our employees are encouraged to discuss all issues concerning integrity with their superior, the Compliance department or a member of the Compliance Network. In addition, over and above the existing communication and reporting channels, we also have a whistleblower system in the form of the Compliance Helpdesk. This allows employees to transfer information on potential compliance infringements confidentially according to our Whistleblowing policy; the Whistleblowing policy also regulates binding protection for the whistleblower.

Group Compliance reviews reported compliance-relevant issues as part of the internal compliance review. In doing so it ensures that non-compliant actions and violations are prevented and recognized in good time, that our company's activities comply with the applicable laws and statutory provisions, and that potential for improving our internal business activities is identified.

During the period under review SGL Group dealt with all of the notifications of potential violations with regard to anti-trust law, anticorruption, export controls and customers, protecting trade secrets, and anti-fraud which could result in financial damage or damage to the Group's reputation. These were all processed without exception in order to be able to derive and implement concrete activities if required. We are convinced that the components of compliance management presented as well as our monitoring processes are also suitable for ensuring behavior in line with the law in all of the SGL Group's areas in future.

Our transparent compliance culture is an integral part of our corporate culture. We promote this using target-oriented compliance training sessions. Our employees participate regularly in mandatory training sessions on the Code of Conduct which are offered by Group Legal & Compliance as face-to-face and e-learning sessions. Our employees also have access to all of the group-wide policies and training documents relevant for compliance, the Code of Conduct which was revised in 2017 and which is available in 9 languages, information on the Compliance Network as well as additional materials in the intranet.

As part of the Compliance Days, it was possible to further strengthen compliance awareness with the motto "Do it right - do it compliant" last year, reinforcing the compliance culture as part of our corporate culture. The training activities offered at all of SGL's sites are geared to all of our employees and included both information on the updated Code of Conduct and also on central compliance-related topics. During the reporting period so far 31 of 32 sites successfully participated in the initiative. In the offered trainings with our Code of Conduct as a core topic 1,347 out of 1,746 white collar employees participated on a voluntary basis. In addition team meetings were conducted where supervisors trained their employees to the respective topic. Furthermore training sessions were offered for blue collar employees and so far 81% of the employees participated<sup>1)</sup>.

In addition to the activities described above, we have been performing a voluntary, group-wide employee survey on compliance topics since 2016. The survey is initially geared to employees around the world who have a company e-mail address.

This allows us to gain valuable feedback on the structure of our compliance program and compliance activities. The next survey is scheduled for 2018 and will include employees from all over the world.

### Anti-corruption and bribery

SGL attaches great importance to its excellent relationships with customers and suppliers. We demand and promote transparent, legal processing of all of our company's transactions. We do this to create trust and secure business relationships over the long term.

Our principles for fighting bribery and corruption are defined in our Code of Conduct, which applies throughout the entire group, in our Anti-corruption training concept and in our Policy for Gifts and Entertainment (G&E Policy). Our G&E Policy stipulates, for example, that tangible and intangible benefits which are made to a person or which are received by a person, must be in line with our policy and respect our business partners' rules and regulations. As already presented above in the Compliance section, our top-level objective also applies here - that all

<sup>1)</sup> At 4 sites, the compliance days in the production area had not been completed at the time of reporting. The location numbers were not included in the survey.

employees must be informed about all key policies and also uphold these.

SGL Group has a group-wide Business Partner Compliance Process (BPC) to monitor the risks and control of the work flows when dealing with intermediaries. This process includes having the new intermediaries go through a multi-stage check prior to signing the agreement. In addition to new intermediaries, existing intermediaries are also subject to regular reviews depending on risk category. This allows the BPC to ensure and increase transparency when working with intermediaries. Our BPC process and its implementation were subject to a regular audit last year.

In view of the constantly further developing underlying statutory conditions, SGL Group continuously optimizes its training content and constantly identifies training requirements. Anti-corruption was also a focus topic, which was addressed and communicated as part of the compliance days (see Compliance, page 14). In the subject-specific brief training sessions 1,318 out of 1,594 employees participated representing 83% of the target group. Especially employees from sales, purchasing and marketing functions are part of the target group. As part of the regular training plan for 2017 further trainings were conducted at selected sites as well as during regional meetings of business units and Corporate Functions. During these trainings 192 employees were trained.

The introduction of the eLearning Anti-corruption program will be completed in 2018. All employees in defined areas of the SGL Group have to participate in this training. In addition, we also plan to expand our Business Partner Compliance program and to implement additional compliance controls as part of our internal control system (ICS).

### **Responsibility for the supply chain**

As one of the leading companies on the market, the SGL Group produces and sells its products all over the world and has a wide variety of business relationships. We expect that our business partners also undertake to behave legally, ethically and sustainably to the same extent as is the case for the SGL Group for the duration of the cooperation. In order to guarantee this, we have introduced a Code of Conduct for Suppliers and Sub-contractors (Supplier Code of Conduct). In addition to conduct rules which must be upheld with regard to integrity, combating corruption among suppliers as well as social and environmental standards, it also includes requirements for dealing with so-called conflict materials and a binding acceptance of the UN Global Compact principles.

Global Purchasing is responsible for implementing and applying the Supplier Code of Conduct which was introduced in 2015 and is anchored in SGL Group's general purchasing conditions. As part of the successive roll-out, the code was issued to risk-relevant target groups which had been defined in advance based on their proportion of the annual purchasing volume. We also request new suppliers who are stored in the SGL Group's system, to sign the code and our purchasing policy as part of the contractual documents, or to present equivalent compliance standards. In future, as part of the supplier selection process, compliance with ecological and social standards will play a more important role. The supplier assessments we have performed to date focused on process quality, risk, delivery stoppages and availability, economic stability, protection of expertise, as well as the management systems in place, and these criteria will be expanded in 2018 to cover corresponding social and environmental standards as part of our revision of our supplier management. During the period under review two subsidiaries and thus both business units in the SGL Group participated in a Together for Sustainability audit (TFS), an initiative by leading chemicals companies and which also reviews the activities implemented within the SGL supply chain.

The SGL Group has production facilities in a large number of countries, and delivers products to customers all over the world, which is why avoiding risks connected with trade activities and customs regulations is of major importance. These risks comprise potential limitations regarding deliverability, tax evasion, customs and other duties as well as fines and delinquencies. We aim for our compliance processes to ensure that the exchange of goods and technology and the use of services correspond to the respective internal and external requirements. This principle is reflected in the Global Trade Policy, which applies throughout the group, and also in the SGL Group's process instructions for the preparation, optimization and execution of all trade activities, for control mechanisms and also for the management and monitoring of risks and responsibilities.

Our export executives and export control delegates are responsible for export controls in our companies and units. Our compliance program for export control has been working with an IT-based compliance module since 2009. This supports the efficient monitoring of export transactions. Our export control processes are also a key component of the Compliance Risk Assessment (see Compliance, page 14). We aim to thus ensure that international treaties and national laws are always upheld for international transactions and inter-company transfers. In addition, our employees must make themselves aware of the

local laws and regulations on export controls and customs before embarking on any business travel.

What is more, we ensure that our employees are aware of all of the relevant export compliance regulations and that they regularly undergo additional training. Binding face-to-face training sessions and workshops are held in this regard every year. In addition, in 2017 the SGL Group updated its existing eLearning program for export controls and added additional global and regional aspects.

Please refer to the section on Compliance on page 14 for information on the SGL Group's anticorruption activities and on doing business in line with regulations.

## Products (social affairs)

The SGL Group places very high demands on its products. This relates to both quality and also innovation. We believe that both of these aspects form the foundations for our current and, in particular, also the long-term success of our company.

### Product quality

The SGL Group aims to achieve a high level of customer satisfaction by delivering constant good product and service quality as basis for long-term business relationships. We try to completely avoid customer complaints as far as possible. In order to achieve this, we strive to recognize and remove deviations from the defined product quality in an early stage with appropriate inspections as well as constantly improving our production processes.

Our claim to product quality is anchored in our corporate mission statement. The BU GMS quality philosophy offers additional orientation for the business unit GMS. Our definition of quality goes beyond pure product quality and also includes the quality of processes, information, communication and the organization. The focus is on customers and internal customer/supplier relationships. We foster an open and constructive handling of mistakes to counter in the future in the best possible way.

In order to measure our product quality performance, based on our different businesses and products we have set up individual product and site-specific KPIs. In addition, the global KPI Costs of Poor Quality (COPQ)/manufacturing costs is recorded in the BU GMS. This comprises the internal costs for scrap, rework and devaluation as well as complaint costs from all sites in relation to the manufacturing costs. The BU GMS aims to keep the entire

COPQ as low as possible and thus to have a positive impact on customer satisfaction by consistently improving product quality.

There are business processes in place for all sites to ensure high product quality. Some of these processes are global, some have been locally defined. They form the basis for a well-functioning quality management system according to ISO 9001. This comprises consistent incoming inspection of raw materials and purchased parts, complete planning of production processes as well as the machines and equipment used including their maintenance, ongoing inspections during production up to final inspection of products, consistent monitoring and control of relevant process parameters.

If there are still complaints in spite of this, however, the SGL Group aims to ensure direct, open and constructive dialogue with customers. This means consistently working through customer complaints and internal quality deviations, and then implementing corrective and preventive actions. We have put monthly reporting in place based on the local and global quality indicators. The management of BU GMS monitors the COPQ introduced in this business unit on a monthly basis, and reports major differences even to the Board of Management.

In 2017 the SGL Group performed various need-oriented and site-based individual activities in order to improve the quality of its products. In addition, in GMS we initiated a global Quality Initiative in the second half of 2017, which will run through 2018 and 2019. This initiative strives, in particular, to stronger sensitize employees and thus to sustainably increase quality awareness. Over the medium to long term this also aims to substantially reduce the COPQ.

In 2017, we introduced in the business unit CFM a comprehensive Operations Management System to standardize processes and work out a common understanding in the production. This will be rolled out in the sites in 2018 and 2019. In the business unit GMS the introduction did also start in the second half of 2017. It will also be implemented in the GMS sites in 2018 and 2019.

Almost all of the sites in the SGL Group are certified according to the ISO 9001 Quality Management standard. In addition, in line with site-specific and overall requirements, there are also certifications according to ISO 14001 (Environmental Management), ISO 50001 (Energy Management), OHSAS 18001 (Occupational Health and Safety Assessment Series), AS 9100 (Quality Management for aerospace industry) and IATF 16949 (Quality Management in the automotive industry).

The customer satisfaction analysis performed in 2016/17 confirms that we were able to achieve a high level of customer satisfaction in both our business units CFM and GMS in 2017. We were able to reduce the global indicator COPQ in the BU GMS to 2.20% based on manufacturing costs.

### **Sustainable product innovation**

The majority of product developments in the SGL Group are in the fields of mobility, energy and digitization. For example, in the mobility sector our light-weight construction products based on carbon fibers allow energy consumption in the automotive and aviation industries to be cut still further, and thus contributes to cutting CO<sub>2</sub> emissions. In the energy sector, our newly developed materials, such as graphites for Li-Ion batteries or components for fuel cells help to accelerate the transition from combustion engines to electromobility.

It only makes sense to evaluate our products with regard to their energy balance and consumption of resources across the entire value chain through to the full end product such as the car. As a result, instead of evaluating individual components or materials, the SGL Group participates in analyses which cover the entire value chain. This is performed together with partners in projects such as MAIEnviro: In this publicly subsidized project as part of the leading-edge cluster MAI Carbon, the entire value chain is analyzed - from production of the carbon fibers and their pre-product through to the automotive and its operation. In so doing, the advantages of using carbon fiber-based materials is worked out, and additional potential for improving the total energy balance is evaluated.

In addition to product innovations we also work constantly to improve the energy efficiency and environmental impact of our production processes. For example, last year we introduced battery graphite, which consumes a significantly lower amount of energy in production, to series production. We are developing studies and projects on new types of technology with reduced energy consumption when producing carbon fibers. Increasing material efficiency and thus minimizing the consumption of resources plays a key role in our future-proof 3D printing area. As part of the OEKOBAT project we are investigating the replacement of binder materials, which are required when graphite is used in lithium-ion batteries, with next-generation water-based and thus environmentally-friendly systems.

All of our innovation projects are phase-controlled. In so doing, our projects are checked for security and environmental requirements in each phase, if necessary activities are already put in place during the development process.

## **Environment, Health & Safety Affairs**

Responsibility for the environment as well as our employees' health and safety is a key component of the SGL Group's corporate culture. High standards in these areas are prerequisites for our company's sustainable economic success. SGL undertakes to create secure and healthy working conditions for its employees, and to minimize the impact its business activities have on the environment. The company has set this out in binding terms in its internal Code of Conduct and the EHSA policy (Environment, Health & Safety Affairs). A Code of Conduct for Suppliers and Sub-contractors has also been in place since 2015. According to this Code they are obliged to behave legally, ethically and sustainably.

The central corporate EHSA organization coordinates all group-wide activities for environmental protection and health and safety at work, sets uniform standards and audits the progress in cooperation with local EHSA representatives. It reports to the SGL Group's Board of Management once per quarter, informing it of the current developments.

In view of the EU directive to register, evaluate, authorize and restrict chemical substances (REACH), exchanging information on the use of substances is an integral part of SGL Group's collaboration with suppliers and customers. As a result, in line with statutory requirements, information on minimizing risk is exchanged with customers and suppliers. In this regard, we provide our customers with relevant product information such as safety data sheets for all substances and products produced by SGL Group in an internal standardized global web-based system.

We have further developed the company's set of values with the fundamental reorientation of the SGL Group, which will be published at the end of May 2018. Particular highlights are the environmental impact of our products, which we have identified as being a key issue as part of our materiality analysis. We plan to increasingly focus on this issue in future.

### **Energy consumption and CO<sub>2</sub> emissions**

The manufacture of carbon fibers and specialty graphites requires a large amount of energy. This is due, in particular to the use of special high-temperature technologies, which give the products their special material characteristics. In some process stages temperatures of up to 3,000 degrees Celsius are required. The bulk of the SGL Group's energy consumption is thus due to creating heat and also includes the thermal cleaning of emissions. As a company using a high amount of energy SGL has



special responsibilities with regard to climate change and the environment. Consuming energy is directly linked to emissions of greenhouse gases, in particular CO<sub>2</sub>. The SGL Group's CO<sub>2</sub> emissions are primarily scope-1 emissions which are created during combustion processes, and scope-2 emissions which are due to the company's electricity consumption. SGL pays attention to ensure that its processes are becoming increasingly energy efficient for economic reasons. Energy costs account for a large proportion of production costs. Fluctuations in the price of energy can have both a positive or a negative impact on earnings.

The top-level target for energy management is to use energy efficiently and to thus ensure constant improvements. The objective spans all types of energy and focuses on energy-efficient equipment and processes. It is set out in the EHSA guideline for energy management. This underscores the company's particular undertaking to take responsibility for protecting the environment and implement sustainability activities. The policy was passed in 2015 and applies for all locations worldwide. SGL also undertakes to constantly improve its energy efficiency in its Code of Conduct.

Since December 2015 all of the relevant European locations in the SGL Group have had an Energy Management System according to ISO 50001. Certification was performed by DQS GmbH and DEKRA. The non-European location in Moses Lake has also been certified to ISO 50001. Introduction is planned in 2019 for the locations in Gardena and Arkadelphia. Each location plans projects to save energy and improve energy-related performance, and implements these. The projects are evaluated in regular internal and external audits and also in the annual management review. Local energy management policies and activities also consider country-specific laws.

The EHSA Steering Committee is responsible for controlling and monitoring energy management at all locations. The individual production locations and business units are responsible for concrete implementation of the activities and controlling their success. For this purpose, each location has an energy officer, who reports to the location's managers or management at least once per year. Quarterly reports are performed at the location in Meitingen. Progress in reducing energy consumption is controlled once per year as part of inter-company tests. These tasks are performed by correspondingly trained internal auditors from other SGL locations. External audits are performed at least once every three years by an accredited certification institution.

As a result of the wide variety and complexity of the product range, SGL has only defined specific quantity-based targets for its energy management at select locations. In future, SGL also wants to form product families at additional sites, and add annual energy targets. Furthermore, SGL will also derive targets for reducing CO<sub>2</sub> emissions.

In order to constantly reduce energy consumption, SGL implements various measures, and over the past few years it has constantly invested in equipment with BAT technology (Best Available Technology). These maximum standards were created together with the ECGA (European Carbon and Graphite Association). Investments focus on regenerative thermal oxidization. As part of this technology, exhaust gases are thermally cleansed of hazardous substances and the energy required in this regard is regained from the exhaust gas to a certain extent. An additional activity is purchasing green electricity. At the Wackersdorf site, we procured our energy from renewable sources in 2017.

SGL also works together with external partners as part of its energy management. One example of this is the energy efficiency networks at our locations in Meitingen and Bonn. These are based on an initiative by the federal government, and serve the voluntary, systematic, and target-oriented exchange of experience among companies from one region or industry. For example, in Meitingen in 2017, SGL brought an energy project to life with the local municipality and additional partners. In so doing, the company undertook to provide a local new housing area with low-temperature waste heat for their home heating free of charge for 20 years. This heat is created in the plant when equipment and high-temperature furnaces are cooled. Thanks to this project, the local community can avoid emissions, and thus saves using primary energy by using the waste heat instead.

SGL would like its employees to become aware of energy as an issue, and to develop competences that they can actively use to reduce energy consumption. The company offered training activities for this purpose in 2017, and implemented internal communication campaigns. For example, all the parties in Bonn were trained on energy management as part of their annual security instructions. In addition, four so-called EnMS meetings are held there each year. At these meetings, employees from various departments meet, and discuss current issues for energy management. Employees at our Meitingen location received information on heating offices to save energy as part of a poster campaign in 2017. In addition, at our locations in Bonn and Meitingen, SGL distributed flyers from the Deutsche Energie Agentur (German Energy Agency). These flyers included tips for

efficient office lighting, and using devices such as computers and printers in a manner that saves energy.

Environmental data <sup>1)</sup>	2017	2016	Change
<b>Energy consumption</b>			
in gigawatt hours (GWh)	1,310	1,193	10%
thereof oil and gas	466	423	10%
thereof electricity	546	466	17%
thereof steam <sup>4)</sup>	298	304	-2%
in relation to economic output (MWh per €1,000 in sales revenue) <sup>2)</sup>	1.45	1.50	-3%
<b>CO<sub>2</sub>-emissions <sup>3) 4)</sup></b>			
in thousands of tons (kt)	368	338	9%
thereof direct	86	78	10%
thereof indirect	282	260	8%
in relation to economic output (t per €1,000 in sales revenue) <sup>2)</sup>	0.41	0.43	-5%

<sup>1)</sup> Data include pro-rata consolidated entities

<sup>2)</sup> Adjusted sales revenue (excluding price and currency effects); base year 2016

<sup>3)</sup> The calculation of CO<sub>2</sub>-emissions is based on "Greenhouse gas reporting - conversion factors 2017" of the Department for Business, Energy & Industrial Strategy, Gov. UK for direct emissions (Scope 1) and steam (Scope 2) as well as on "2017 CO<sub>2</sub> Emissions from Fuel Combustion online data service" of the International Energy Agency (IEA) for indirect emissions (electricity Scope 2).

<sup>4)</sup> Data collection was expanded by the category steam

### Health and safety at work and health protection

The SGL Group relies on having a highly performing workforce for its entrepreneurial success. As a result, our employees' health and safety is a central issue for our company. This is set out in the Code of Business Conduct and Ethics as well as the EHSA policy which applies worldwide.

SGL has set itself the target of consistently preventing work-related injuries and illnesses. Laws and internal guidelines are to be upheld without exception in all production processes and for all products. It is the responsibility of the company's management and each individual employee to ensure safe working conditions. The aim is also to permanently improve the existing safety precautions. In 2017 the target frequency for accidents was 2.25 accidents per million working hours. This target was slightly exceeded with an actual result of 2.5. However, the frequency of accidents was once again very low. Global activities are to be put in place in 2018, such as the Safety Pledge Program, in order to keep accidents at a low level or to reduce this rate still further. The focus is to be placed on the two locations taken over from the joint-venture Benteler SGL, Ried and Ort in Austria. The accident frequency at these locations is currently higher than in the SGL Group.

The EHSA unit supports the business units in setting up management systems and process security, and further developing these. Concrete implementation is carried out by the respective business unit and management at that location. The EHSA Steering Committee meets four times per year, and is responsible for managing and supervising the health and safety at work activities. The committee comprises the Operations heads of the business units. It is managed by SGL's CEO Jürgen Köhler personally. In addition, SGL has a global EHSA network comprising the EHSA organization and the local EHS managers. It exchanges information on top-level issues and aims to ensure that all of the statutory regulations are upheld and that corresponding systems are put in place at the respective locations. All of the executives also must ensure that the employees in their area of responsibility receive training and support for safety issues.

SGL also uses various incentive systems to actively include its employees in preventing accidents, and considers their ideas for combating the risk of accidents. The issue of health and safety at work is anchored in the annual targets at the Meitingen facility. This location runs a campaign once per year. In 2017 this was a campaign on work and transport safety.

If an accident at work does happen, this is recorded in the group-wide Incident Management System. The cause of the incident is identified in a systematic process, and proposals for improvement are derived. In so doing, we take into account which methods have already worked in preventing accidents. In addition, the EHSA organization issues a safety report and relevant statistics to the Board of Management, managers of the business units, and the locations as well as the EHS managers once per month. In so doing, it reviews compliance with the EHSA policy, and in the case of negative developments it implements counter-measures immediately.

A key activity in attaining the objectives is the Safety Pledge Program. As part of this initiative, SGL asks its employees to make their own suggestions, irrespective of their hierarchy level, as to how their personal safety at their place of work could be improved. Participation is voluntary. The respective team's superior collect all of the proposals from his employees and reviews these. If required, he supports his employees in implementing these. One year later they both meet again. Then they exchange information on the extent to which the employee has been able to realize his own suggestion, and what has improved. This initiative was initially introduced in the USA in 2015, and has now taken place for the second time there. It has been in place in China since 2016, and in Europe since 2017. During

the period under review, 75% of production employees in China participated in this initiative.

SGL also holds regular employee training sessions as an additional activity. The company aims to increase its employees' awareness of safety relevant issues, and actively prevent accidents. At present, no information is collected on the number of training sessions and the number of participants.

During the period under review various activities were implemented at the facility in Meitingen on the subject of transport safety. In so doing, SGL aims to sensitize its employees for risks on the way to work. The training offered by the company also included a one-day driving safety training session for employees.

Health and safety at work and health protection are of great importance, not only at SGL itself. The company attaches great value to the corresponding standards at its business partners, and considers health and safety at work aspects when selecting suppliers. The code of content for suppliers and subcontractors stipulates that these must ensure their employees' health and safety at all of their workstations, and set up a management system for constant improvement.

### Process safety

Safe production processes are a material factor in preventing events such as accidents, fires or explosions. People and the environment can be substantially damaged as a result of such events. At SGL this could result in possible extended periods of production downtime and lower quality. In addition, the company would be responsible for the resulting damage, and have to rectify this. As a result SGL pursues the target of establishing safe production processes and constantly improving its safety culture.

As part of its entrepreneurial duty of care, the SGL Group has a global Process Safety Management Policy in place since 2017. As part of the policy, SGL aims to introduce a management system for process safety at all of its locations. The system includes various elements such as process safety analyses, a training program for operators and contracted employees, investigating accidents and the control of counter-measures. The EHSA unit supports the business units in setting up management systems for process security, and further developing these. Its task is also to monitor compliance with the policy and implementing corresponding counter-measures in the event of violations. Process safety is also an issue at the quarterly meetings of the

EHSA Steering Committee (see Health and safety at work and health protection).

In addition, SGL uses an Incident Management System for workplace and process safety (see Health and safety at work and health protection). As a result, each accident is precisely categorized. This ensures that the company can identify whether the incident was due to problems with workplace safety or process safety.

Since 2002 SGL has been using a group-wide uniform Risk Management System in order to minimize risks in its production processes. In so doing, the company analyzes the extent and risk potential of crisis incidents. In addition it calculates the economic consequences of these incidents such as the costs of rectifying environmental damage or lost sales as a result of production downtime. SGL implemented a total of 30 activities from 2016 to 2017 in order to improve process safety. These were mostly technical activities for repairs and maintenance, and also organizational improvements.

SGL Group performs annual audits in cooperation with the insurance company FM Global, which include a safety analysis of all processes and systems and simulation of stress scenarios. The results are evaluated and documented. If required, concrete activity plans are put in place. In 2017, as a result of the analysis, SGL introduced weekly tours at the Verdello facility in order to prevent damage. The company has installed a shut-off system in the main gas line in Gardena. A total of 14 facilities were audited in 2017. 11 of these facilities were awarded the Highly Protected Risk status - the highest possible safety level. In 2017 a total of nine accidents and serious near misses connected with process safety were registered at all of the facilities around the world. There were 11 in the previous year.

### Resource management (waste and water)

As part of SGL's business activities, waste products from carbon and residual materials are produced. Both carbon and also the residual materials produced in most of the production processes are highly recyclable. The company primarily uses water to cool production equipment.

SGL complies with all of the relevant statutory requirements when using resources and disposing of waste. In addition, company pursues the objective of using resources efficiently, and avoiding impacting the environment as far as possible. In this way, water consumption and the production of waste should be constantly reduced. Regarding waste, the SGL Group's principle is: avoidance is better than recycling and recycling is

better than disposal. Waste that cannot be prevented can often be reused in other products or at other locations. For example, recycled carbon fibers can be used as fleece textiles for automotive production. SGL uses water carefully, and uses secondary circuits and cooling equipment wherever this makes economic sense. As water generally does not come directly into contact with production, it is not contaminated, and can be discharged into rivers after use in some cases.

SGL has set out how it deals with resources in the EHSA policy and the policy on EHSA training. The Code of Conduct for suppliers and subcontractors also includes information on this issue. It obliges its recipients to obtain the requisite licenses, to recycle, and to avoid waste and emissions of hazardous substances into the environment. Once per month, together with the local EHS officer, the EHSA organization collects data at all of the facilities which shows the use of resources and generation of waste. Water consumption is stated for each water source, and a distinction is made between hazardous and nonhazardous waste.

Environmental data <sup>1)</sup>	2017	2016	Change
<b>Water requirement</b>			
Total (millions m <sup>3</sup> )	9.08	8.72	4%
thereof from Company wells	49%	57%	-14%
thereof from rivers	31%	25%	24%
thereof from public water supply	20%	18%	11%
in relation to economic output (m <sup>3</sup> per €1,000 in sales revenue) <sup>2)</sup>	10.0	11.0	-9%
<b>Waste volume</b>			
in thousands of tons (kt)	19.2	19.3	-1%
thereof hazardous waste	3.2	4.2	-24%
in relation to economic output (kg per €1,000 in sales revenue) <sup>2)</sup>	21.2	24.3	-13%

<sup>1)</sup> Data include pro-rata consolidated entities

<sup>2)</sup> Adjusted sales revenue (excluding price and currency effects); base year 2016

SGL performed local activities and initiatives at various locations in 2017 in order to sensitize its employees for dealing with resources and waste responsibly. For example, in Meitingen SGL used posters to provide information on paper waste, and urged its employees to actively contribute to reducing this waste.

## Employee affairs

SGL Group has a total of 4,193<sup>1)</sup> employees at more than 30 facilities in Europe, Asia and America. Their dedication, competence and performance are critical factors for the company's success. As a result, SGL aims to acquire the best talent for the company, and to specifically further develop its employees and enhance their loyalty to the company. In addition to the large number of opportunities for training and continuing professional development, SGL also employs a varied, fair and respectful working and management culture. The company offers all its employees the possibility to develop their full potential. This is set out in the Code of Conduct as well as the SGL Competency Model.

At SGL, the role of Human Resources is understood according to the so-called HR-Business Partner Model, that is to say as a strategic partner for the business units and an advisor for executives. HR activities span inclusion in strategic entrepreneurial decisions through to operational HR processes, which is reflected, in organizational terms, in the fact that there are HR Business Partners at various levels - globally for the business units, the central R&D department, and the Corporate Functions, and locally for the individual plants.

HR management with this structure is responsible for a large number of different tasks:

- Managing IT-assisted HR processes such as hiring and personnel administration, including questions concerning labor law
- Qualifying, coaching and training management and employees
- Defining remuneration programs for senior management based on market standards and performance
- Coordinating international employee assignments
- HR-related reporting to the company's management
- Contact for the company's management for questions of personnel planning and covering these requirements
- Positioning the SGL Group as an attractive employer on the market
- Efficiently managing the HR impact of change processes

<sup>1)</sup> This figure shows the number of employees with non-limited term employment contracts. The number of employees for 2017 including limited-term employees is 4,734.

HR reports regularly to the Board of Management. The Head of HR meets personally with the CEO once every two weeks. As a result, top management is very aware of HR issues.

SGL keeps a keen eye on potential HR risks. This also includes the strategic importance of recruiting resulting from the increasing dearth of specialists. This also applies to the Group's efforts to increase employee loyalty serving to combat high employee fluctuation. The Group's forward looking competency management also plays a key role. This identifies the competencies which will be required in future and promotes these. In addition, unforeseeable risks can also result from employees' changing requirements and wishes. SGL uses an external advisor to record these for Germany. There is also a risk from adjustments to the remuneration system for middle and upper management, which is now geared more to performance.

### Diversity and equal opportunities

The variety of its workforce constitutes a strategic advantage for SGL: The employees' different competencies and perspectives reinforce the company's ability to innovate, and enhance its position as an attractive employer. This variety helps SGL Group to beat the competition for highly qualified specialists. It also allows it to combat the challenges resulting from demographic change. SGL also allows a valuable knowledge transfer by exchanging its employees internationally. This can bring about new potential solutions and allow synergy potential.

SGL aims to establish a non-discriminatory work and management culture in which all employees contribute their personal and specialist expertise, and make sure they have equal opportunities for career success and fair pay - irrespective of their sex, age, origins, religion, sexual orientation or health issues. SGL's Code of Conduct is a key pillar in its commitment to diversity and equal opportunities. In its Code of Conduct, the company backs a diverse and integrated working environment, characterized by trust, openness and respect. Disadvantages as a result of age, religion or origins will not be tolerated. "Valuing diversity" is also anchored in the SGL Competency Model as one of six components. The model includes vital, globally valid behavior requirements for middle and upper management. SGL always uses local collective agreement systems or similar systems for remuneration, which is why non-discriminatory remuneration can be assumed. In areas not covered by collective agreements, the recognized analytical job evaluation method according to Hay applied. SGL will take the new statutory requirements from the Entgelttransparenzgesetz (German Remuneration Transparency Act) into account in 2018.

In order to promote international exchange and knowledge transfer within the company, SGL deploys single employees to different locations worldwide. These international assignments are generally from one to five years. In 2017 the Group employed expatriates in China, Malaysia and Portugal.

Percentage of women	2017	2016
Total workforce	18%	16%
thereof Europe	18%	16%
thereof North America	16%	18%
thereof Asia	18%	19%
Senior management	14%	14%
Middle management	16%	15%
Talent pool	23%	15%

Age structure	2017	2016
< 30 years	15%	11%
30 to 50 years	54%	58%
> 50 years	31%	31%

Internationality	2017	2016
Total workforce	4,193	3,942
thereof Germany	1,817	1,789
thereof rest of Europe	1,243	1,014
thereof North America	704	711
thereof Asia	429	428
Number of expatriates	8	14

### Employability and development

In competition for the best talent top-quality for training and continuing professional development is of key importance. This type of offering not only helps to acquire junior staff and specifically further developing them. It is also the key to enhancing loyalty to the company for experienced employees and to keeping their knowledge in the company for its long-term success.

The SGL Group aims to maintain its employees employability and to promote their professional and private development. Consistent personnel development is a fixed part of the company's philosophy. It reinforces the company's competitive ability, taking over responsibility for its employees.

Vocational training has always played an important role at SGL Group. The company's vocational training offering spans 13 technical, commercial and IT professions in Germany as well as six dual study programs. SGL takes current developments such as increasing digitalization into account. For example, today, technical apprentices learn how to use 3-D printers. In both Meitingen and Bonn in 2017 one apprentice in each case received an award as the best in his profession from the responsible chamber. In Meitingen a student was honored as being the best in her dual study program. The Bonn plant (SGL Carbon GmbH) received a certificate for the best training performance for the respective chamber.

In order to enthuse school pupils for technical professions, SGL has been a member of the Initiative Junge Forscherinnen und Forscher e.V. since 2010 as one of its founding members. The company supported this association to the tune of EUR 10,000 in 2017 and also provided a great deal of personnel support. For example, the Head of HR at the Meitingen site is in the advisory council of the association's board.

SGL offers its employees opportunities for their personal and professional development throughout their entire career. This includes training and continued professional development, expanding tasks and responsibilities within a specific position, as well as changes of position. The SGL Competency Model forms the basis for HR work in this regard. It is used in particular in the SGL Dialog. This is a uniform, global, IT-assisted performance management instrument for middle and upper management. The manager agrees objectives with the employee in regular talks, and provides feedback on their performance. In addition, as part of this framework, they both agree on concrete individual development activities such as training sessions, coaching or special tasks.

The company links in to the results of the SGL Dialog to allow specialists and managers to participate in the Corporate Training Framework. The training offering passes on knowledge for communication, employee management, project management, sales proficiency and self-management.

In its Leadership@Work program SGL specifically prepares leaders and experts for further-reaching management tasks. The program is the key element in SGL's internal management development activities. It is characterized by the systematic use of self-reflection and feedback - for example from the use of 360° feedback, based on the SGL Competency Model. In addition, this series is very close to the real challenges faced in management work. This is achieved using so-called action-learning elements,

however in particular also by using mentors. These are select top managers at SGL which support the groups as co-trainers and coaches. More than 1000 employees have already participated since Leadership@Work was introduced in 2001.

The activities are supplemented with regular potential analyses. As part of the annual talent management process, SGL identifies and promotes talented staff. In so doing, the employees' management potential is assessed. In the second instance, SGL also evaluates potential for a specialist career. If necessary, the HR managers also discuss concrete target positions with the respective managers and employees, and plan corresponding development purposes.

A framework concept for expert careers was developed in 2017, in particular for the target group of experts who do not aim for a traditional management career. The Board of Management has approved this and it will be implemented from 2018.

<b>Apprenticeships and dual degree programs</b>	<b>2017</b>	2016
Total apprentices	102	108
- Site Meitingen	64%	61%
- Site Bonn	30%	33%
- Site Limburg	4%	4%
- Site Willich	2%	2%
Number of professions for apprentices	13	15
Number of apprentices hired as employees in Meitingen	19	14
Number of dual degree programs	6	4

<b>Personnel development and talent management (Key talents)</b>	<b>2017</b>	2016
Number of participants in the qualification portfolio "Corporate Training Framework"	175	84
Number of participants in the management development program "Leadership@Work"	20	66
Ghost rate in the talent pool (percentage of talent with no job change for six years)	7%	5%
Talents who left the company	6%	11%

### Attractiveness as an employer

It is becoming increasingly important for companies to be perceived as an attractive employer. This is due to factors including the lack of specialist staff. This is making it increasingly difficult to hire suitable employees. A wide variety of factors play a role in making an employer attractive. These include interesting opportunities for entering the company and careers, financial incentives, family-friendly working hours, as well as an appreciative leadership and corporate culture.

SGL has been using its own employer brand successfully since 2008. The company aims to retain its attractiveness as an employer, and to further expand on this. SGL plans to thus acquire experts and talent and to ensure long-term employee loyalty. This is one of the reasons why the Board of Management decided to perform a group-wide employee survey in 2017. This will be implemented for the first time in 2018 and is expected to be repeated every few years. It will show the progress that has been made in further developing the SGL culture.

A large number of additional activities and instruments also play a role in making SGL an attractive employer: from end to end personnel recruitment, reasonable remuneration, through to a personnel policy which allows employees to reconcile job and family.

SGL uses the slogan "Passion for Carbon" to position itself when looking for new employees - in job adverts, on its own careers page, at trade fairs and in brochures. As part of its university marketing, SGL specifically addresses universities and colleges and offers students various opportunities for entering the company - including internships, working as a student, and theses. The central Research & Development department "SGL Innovation" plays a key role in this regard. During the period under review, this department employed a total of 46 students from eight different countries, and around 28% of this figure were female. In addition, this department supported 16 bachelor and master's theses in 2017.

In its recruiting work, since 2017 SGL has also been approaching potential applicants in social networks. The recruiting process is already mostly standardized in Germany, the USA and China thanks to IT support. The medium-term target is to standardize the process all over the world as far as this is possible considering the legal and cultural framework conditions in the individual countries.

In addition to recruitment a further key issue is that the remuneration system is structured so that this is performance-

oriented and in line with the market, and consistently geared to the corporate strategy. In a top-down approach, over the past few years SGL initially adjusted the remuneration of its Board of Management, followed by its executives, and finally middle-tier specialists and managers. Local pension regulations were also changed. SGL Group offers its employees in Germany a company pension scheme as a voluntary component. This offers additional financial protection for the duration of their pension. These changes have been accompanied by various communication activities, which made them transparent.

In order to allow employees to better combine their careers and private lives, the overall works agreement "Alternating Teleworking" was passed for Germany in 2017. In future, this agreement will allow employees to work from home for up to 40% of their working hours. SGL tested flexible teleworking in Meitingen, Bonn and Wiesbaden in 2015 and 2016 with positive results. This is an additional activity to remain competitive in an international environment, reinforcing its attractiveness as an employer.

In particularly challenging professional or private situations, SGL employees in Germany can also benefit from external advice. The "Employee Assistance Program" (EAP) offers free, and if requested anonymous help with issues such as caring for dependents, childcare, finances, careers and health, 24/7. Employees can use this service in person, by phone or online. This offering was relaunched in 2017. It also includes newly designed information leaflets and posters at all of the German locations. A works meeting was held at the largest plant in Meitingen with a talk on EAP.

With regard to company healthcare management, employees in Germany can use a large number of offerings decentrally, i.e., at an individual plant level. In Meitingen there were, for example, training sessions for managers on how to reduce periods of absence, or preventing addictions in 2017. Employees were able to benefit from sports offerings such as spinal fitness or fasciae training, and attend training on stopping smoking. Employees can eat healthily in the canteen. In addition this facility hosted a blood donation during the period under review.



Number of staff	2017	2016
Number of employees	4,193	5,384
Number of new hires (worldwide) <sup>1)</sup>	303	204
- thereof men	82%	81%
- thereof women	18%	19%
Fluctuation rate (worldwide) <sup>2)</sup>	8.5%	11.4%
- Europe	6.7%	8.3%
- North America	14.8%	22.8%
- Asia	10.8%	15.1%

<sup>1)</sup> Exclusively includes "real" new hires for employees with non-limited term contracts, i.e., not taking over temporary employees or removing limited terms on employment contracts.

<sup>2)</sup> Based on the average headcount, includes employees leaving the company voluntarily and involuntarily. The figures for 2016 include discontinued operations.

Part-time employment and reconciliation of work and family	2017	2016
Percentage of part-time employees in Germany <sup>1)</sup>	4.6%	5.0%
Male part-time employees (Germany)	1.4%	1.6%
Female part-time employees (Germany)	19.1%	20.4%
Number of employees who used the advice service (EAP) <sup>2)</sup>	2.4%	1.3%

<sup>1)</sup> The percentages of part-time employees for 2016 include discontinued operations

<sup>2)</sup> The usage rates for both fiscal years include discontinued operations.

## Corporate citizenship

Sponsoring and donations as well as active involvement of our employees are the components of corporate citizenship at SGL Group. As a so-called corporate citizen and a company acting responsibly, we aim to ensure that our charitable activities pursue transparent and uniform principles. We have set a standard which applies throughout the group in this regard with our policy for sponsoring and donations. This prohibits, for example, supporting any political activities by individuals or groups, and also any form of lobbying. It applies to all employees of the SGL Group, its subsidiaries, business partners and shareholders, as well as the members of its Board of Management.

The policy was revised in 2017 and forms the basis for the SGL Group's local involvement. In line with our management approach, we pursue the target of promoting, in particular, projects which are linked to the SGL Group in terms of their location or issues, in order to present the company as a corporate citizen in the regions surrounding our facilities. The policy

stipulates that charitable institutions, initiatives and projects that are dedicated to improving the quality of life should primarily be supported. The respective management teams at our various locations can decide to promote specific projects, initiatives, institutions or associations for up to EUR 5,000. Sponsoring and donations for larger amounts must be approved by the Board of Management and the Corporate Communications and Marketing department must be made aware of these. The policy also includes concrete award criteria as well as instructions for the operational implementation of donation projects which regulate the approach to be taken by employees at the locations. Proper implementation of the policy is reviewed with the help of an annual survey of CSR activities. There were no violations of the policy in the year under review.

The Corporate Communications and Marketing department is responsible for performing and monitoring the sponsoring/donation activities. As part of the annual survey, expenses for CSR activities at all of the SGL Group's locations are systematically recorded, reviewed and summarized in an internal report.

The SGL Group has production facilities on three different continents: Europa, North America and Asia. This results in different circumstances, which are clear to see simply in the languages and cultures. The community activities we are involved in are equally diverse and often characterized by a strong personal commitment from our local employees. The activities range from community involvement, such as in the area of education, to supporting the local economy to fostering sports and cultural institutions.

In 2017 a little less than EUR 90,000 was donated to more than 80 projects. The primary focus at more than 60% was on social activities, followed by education (19%) and sports (14%).

A further key issue last year was once again promoting scientific research. Activities in this area are controlled by our global group research. We award a number of prizes to provide scientists with incentives and to promote the discovery of new applications for carbon. During the period under review, the SGL Group Award was issued for the best thesis at the faculty of engineering at the Technical University of Munich, the Swabian Scientific Prize in Augsburg and the bi-annual Utz-Hellmuth-Felcht-Award for excellent scientific and technical developments for carbon and ceramic materials.

As a co-founder of the "Initiative Junge Forscherinnen und Forscher e.V." (IJF – Initiative for young researchers), SGL Group also

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offers comprehensive support for scientific education – from nursery schools through to universities. In 2017, SGL employees again supported the initiative with donations and active participation in the form of excursions. Promoting university education is also a key issue for SGL. For example, last year we once again supported different universities, for example the Technical University in Munich, the Technical University Nanyang in Singapore and the Scientific-Technical University in Krakow.

# SGL Group in the Capital Markets

***The shares of SGL Carbon SE increased significantly during the past year, even in comparison to the favorable development of the stock market as a whole. At the end of the year, our stock was up over 36% compared to year-end 2016, closing at €11.39.***

In 2017, the upward trend seen in the stock markets during the past few years continued. In Europe, all signals continued to point toward growth during 2017. The extremely relaxed interest rate policy of the European Central Bank continued to be a supporting factor in this. During the first half of the year, there was occasional uncertainty regarding the upcoming presidential elections in France and the parliamentary elections in the Netherlands. After the pro-Europe candidates won the elections, investors abandoned their restraint. Conversely, however, the parliamentary elections in Germany in September did not have any influence on the markets.

The DAX, Germany's leading index, performed well in 2017. It continued to rise, driven by both the buoyant economy and low interest rates. Beginning the year at 11,426 points, the DAX reached its annual and all-time record high of 13,479 points in November. The DAX closed the year at 12,918 points, achieving an annual performance of 12.5%. This rally was fueled by the ECB, which continued to leave the base rate at 0.0% in 2017. In the meantime, the market corrected between the middle of June and the end of August, which can be explained by the escalating nuclear conflict with North Korea and some profit taking. In October 2017, the ECB announced that monthly bond purchases would be halved beginning in January 2018, but extended until at least the end of September 2018. This statement boosted the DAX and slowed the upward trend of the euro to the dollar. In contrast, national political developments such as the German parliamentary elections and the complicated formation of a new government had little effect on the stock markets.

The MDAX mid-cap index saw a rise of 18%, while the SDAX small-cap index – which includes the shares of SGL Group – showed a more substantial increase of 25%.

The situation was similar in the US. The Dow Jones started 2017 with 19,873 points, continuing the upward trend of the previous years. Already in January the index managed to pass the 20,000

point mark for the first time. During the rest of the year, it increased without any significant fluctuations to over 24,000 points, reaching a new all-time high of 24,838 points. On December 29, 2017, the Dow Jones closed at 24,719 points, achieving an impressive increase of 25.1% during the year. The US stock markets were largely influenced by the initial decisions of Donald Trump after he took office. The subsequent rise in the markets was also underpinned by the economy. The US economy grew by 2.3% during the past year, according to the International Monetary Fund, and economic growth should accelerate in 2018 as a result of the newly adopted tax reform bill. As expected, the US central bank (FED) increased base rates three times in 2017, which now range between 1.25% and 1.50%. The FED signals to raise interest rates three times in 2018 as well.

## Key figures of SGL Carbon SE shares

	2017	2016
Number of shares at year-end	122,341,478	122,341,478
High (€) <sup>1)</sup>	14.42	12.14
Low (€) <sup>1)</sup>	7.89	7.64
Closing price at year-end (€)	11.39	8.36
Market capitalization at year-end (€m)	1,393.5	1,022.8
Average daily turnover in Xetra trading (number of shares)	425,342	208,306
Free float at year end (%)	approx. 46	approx. 46
Earnings per share (€) (basic)	1.14	-1.19

<sup>1)</sup> Historical prices adjusted to reflect the capital increase

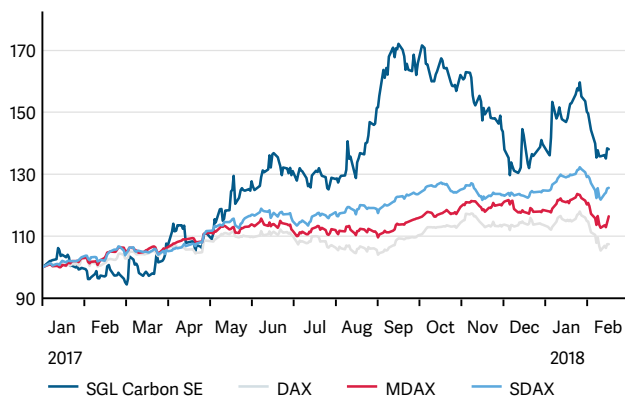
Growth in China proved to be more robust than expected, amounting to 6.8% in the estimation of the IMF. This was mainly driven by high exports and a state-supported construction boom. The IMF warned, however, that the strong growth came at the expense of increased debt. In fact, the Chinese government has meanwhile been attempting to rein in the lending of credit, which could mean that growth in 2018 may turn out to be lower than in 2017.

After the USD/EUR rate fell to a new low of 1.0412 at the beginning of 2017, the euro gained in strength again during the remainder of the year, driven by uncertainty concerning the implementation of the infrastructure program announced in the US, and the intended tax reform. In September, the USD/EUR rate reached 1.2022. Subsequently, favorable economic data and base rate increases in the US caused a sideways shift beneath the 1.20 USD/EUR mark. The tax reform that was finally decided upon in December 2017 did not have any lasting effect on the USD/EUR cross pair. At the end of the year, the euro stood at 1.2005 to the US dollar, corresponding to a euro appreciation of 14.5% against the US dollar for the full year.

During the first half of 2017, the price of oil came under pressure due to the expansion of production in the fracking industry in the US. After both the North Sea Brent and its American counterpart WTI recorded their annual lows in June, the trend was reversed by consistent production cutbacks by the OPEC, combined with the weakening of the US dollar and expected increases in demand. During the second half of 2017, both raw materials increased noticeably, ending the year at USD 66.87 (Brent) and USD 60.42 (WTI), equating to an annual performance of 17.7% and 12.5%, respectively.

The price of gold was volatile, ranging from about USD 1,150 to just under USD 1,350, before decreasing again somewhat during the fourth quarter. Gold finished the year at USD 1,302.80 (+14.2%).

#### Relative share price performance



#### SGL Group shares benefit from successful implementation of strategic realignment

The recovery of our operating business in nearly all end markets, combined with the noticeable improvement to our balance sheet ratios, boosted the development of our share price. As a result, SGL shares outperformed the SDAX by 11%. In fact, SGL shares have outperformed the SDAX since the beginning of May.

Our shares responded positively to the upgrade they received from analysts, such as on March 27, 2017. Our quarterly results for Q1 2017, issued on May 11, 2017, also enjoyed a positive market response.

The announcement concerning the impending sale of our CFL/CE business to financial investor Triton on August 8, 2017, and our mid-year results published on August 10, 2017, both led to

an impressive increase in our share price to its annual high of €14.42 on September 13, 2017.

However, our share price reacted very little either to the announcement issued on October 2, 2017, concerning the conclusion of the sale of our graphite electrode business to our Japanese competitor Showa Denko, or to the announcement concerning the conclusion of the sale of our CFL/CE activities to Triton on November 2, 2017. That period also included the early redemption of our €250 million corporate bond, which was settled on October 30.

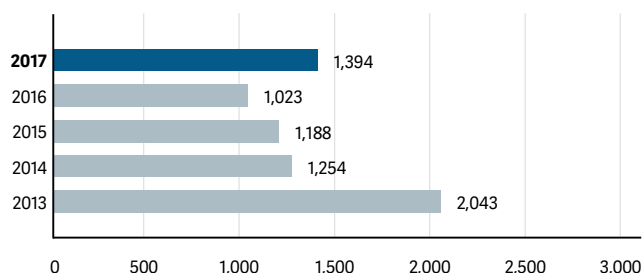
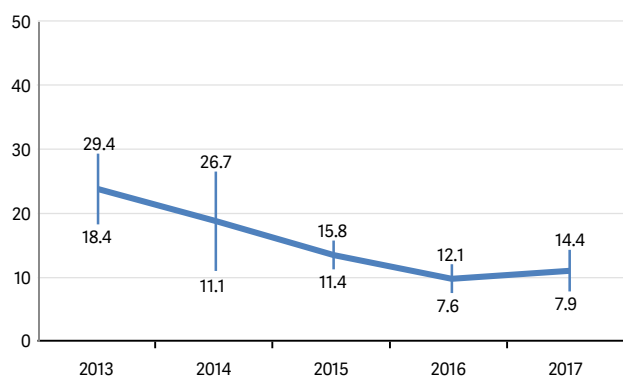
On November 8, 2017, we announced the acquisition of the remaining 50% in our joint venture Benteler SGL from our partner Benteler. One day later, we reported our results for the first nine months of 2017, which included a qualitative outlook for the 2018 fiscal year, stating that positive market trends could also be offset by negative currency developments and cost trends. A short time later, on November 24, 2017, we reported the acquisition of the remaining 49% interest in the joint venture SGL ACF from our partner BMW Group. These announcements were followed by a slight decline in our share price.

SGL Group shares recorded an annual low of €7.89 on February 27, 2017, while the annual high of €14.42 was reached on September 13, 2017. As a result of the factors described above, our stock gained nearly 36% in value over the course of 2017 and ended the year at €11.39.

During the first weeks of 2018, our stock continued to outperform the stable development in the stock market. Since the beginning of the year, SGL shares have gained just under 13%, while the DAX has only increased by about 3%.

#### Share price performance in €



**Market capitalization in €m****Highest and lowest price of the share<sup>1)</sup> in €**

<sup>1)</sup> Historical prices adjusted to reflect the capital increase

**Increased market capitalization due to higher share price, trading volumes remain high**

Due to the positive development in our share price, market capitalization increased noticeably during the course of 2017. After reaching €1,022.8 million in the previous year, market capitalization was up to €1,393.5 million at the end of the reporting period. As of December 29, 2017, the free float market capitalization of SGL Carbon SE was €634.80 million, which put the company in 79<sup>th</sup> place in the index rankings as calculated by Deutsche Börse AG, up from 81<sup>st</sup> place in the previous year (source: Deutsche Börse). Deutsche Börse calculates the index rankings using the average volume-weighted share price over the 20 days preceding the respective reference date. The number of shares in circulation remained unchanged during the past year, at 122,341,478 shares.

**Stable shareholder base**

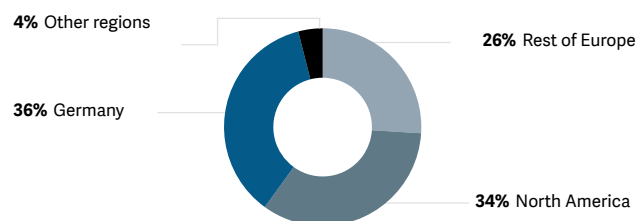
SKion GmbH, the investment company held by Susanne Klatten, remains the largest shareholder in our company with a stake of approximately 28.5%.

In addition, BMW AG and Volkswagen AG hold the following shareholdings subject to disclosure requirements based on the respective voting rights announcements:

BMW AG	October 15, 2014 <sup>1)</sup>	18.44%
Volkswagen AG	February 6, 2018 <sup>2)</sup>	7.41%

<sup>1)</sup> Date of the most recent voting announcement

<sup>2)</sup> Other notification

**Geographical distribution of institutional investors**

According to a shareholder identification exercise carried out in March 2017, the geographical distribution of institutional investors was as follows: about 36% of our shares are held by investors in Germany, 26% in the rest of Europe, and 34% in North America. Other regions, such as Asia, the Middle East and South America, are also represented in our shareholder base with 4%.

**Business situation necessitates continued dividend suspension**

The net income of our parent company SGL Carbon SE for 2017, which can be exclusively attributed to the successful sale of our former business with cathodes, furnace linings and carbon electrodes (CFL/CE), will be brought forward to fiscal year 2018 to reduce the accumulated losses carried forward from previous years by the corresponding amount.

The transformation of SGL Group will allow our company to operate profitably again on a sustainable basis. Only then will the payment of earnings-related dividends be possible. At the same time, however, it must also be carefully considered whether priority should be given to capital expenditures in order to

participate in the strong growth in many of our markets segments.

## 2017 Annual General Meeting

A total of 62.72% of the voting capital was represented at the Annual General Meeting of SGL Carbon SE on May 17, 2017 (2016: 67.62%). This equates to 76,732,605 shares and the same number of votes. A total of approximately 680 interested shareholders, shareholder representatives, and guests participated in our Annual General Meeting. All items on the agenda were approved by a large majority. The speech held by CEO Dr. Jürgen Köhler was again broadcast via the Internet. His speech and the results of all votes are available to our shareholders and other interested parties in the Investor Relations section of our website under the "Annual General Meeting" menu item. SGL Carbon SE's next Annual General Meeting will be held on May 29, 2018.

## Intensive communication with the capital markets

As of the middle of February 2018, SGL Group was being covered by a total of 11 German and international financial analysts (previous year: 11). Dialog with analysts focused on the Group's strategic realignment, the divestment process for the PP segment, the earnings situation in the current economic environment, and SGL Group's medium-term performance. In mid-February 2017, the analysts rated our shares as follows: five analysts issued a buy or outperform recommendation, three analysts issued a sell, underperform, or underweight recommendation, and three analysts issued a hold or neutral recommendation. The analysts' investment recommendations reflected a broad spectrum of price targets. On February 15, 2018, our shares closed at €11.56; the analysts' price targets ranged from €7.00 to €15.00.

We have provided a summary of the analysts who regularly rate SGL Group on our investor relations website under the "Share" menu item.

## Analysten coverage <sup>1)</sup>

Baader Bank
Bank of America Merrill Lynch
Bankhaus Lampe
Berenberg
Commerzbank
Deutsche Bank
J.P. Morgan Cazenove
Kepler Cheuvreux
Landesbank Baden-Württemberg
MM Warburg
Oddo Seydler (Bond research)
Solventis

<sup>1)</sup> As of February 15, 2018.

We aim to provide all capital market participants with transparent, timely, and comprehensive information on SGL Group's current business position and its future prospects. With this objective in mind, we significantly expanded our investor relations activities in 2017. In more than 350 one-on-one meetings with analysts and investors in Germany and abroad, we gave a general overview of the SGL Group and provided information on our strategic realignment, the divestment process for the PP segment, the optimization of our joint venture structures, and on our growth prospects for the medium- to long-term future.

Capital market conferences and roadshows were our main forums for intensive, face-to-face dialog with institutional investors. All in all, we participated in 22 investor conferences and 11 roadshows in Germany and abroad in 2017.

One of the other primary ways in which we provide capital markets participants with timely and comprehensive information is by holding conference calls in which SGL Group's Board of Management presents the interim or annual reports that were published that morning. These conference calls are broadcast live through our Investor Relations website and are available as recordings afterwards.

The Investor Relations section of our website offers a wealth of information aimed above all at retail investors and interested third parties. In addition to the annual and interim reports, further materials such as presentations, press releases, and ad hoc announcements can be found here. All notifications relating to directors' dealings and voting rights are also available online. Anyone who wishes to receive electronic versions of our

financial reports and investor relations press releases may sign up for our e-mail distribution list.

#### Key data for SGL Carbon SE shares

Trading venues	Xetra; Berlin, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Securities Identification Number (WKN)	723 530
International Securities Identification Number (ISIN)	DE 000 723 5301
Stock index	SDAX
Market segment	Prime Standard
Reuters symbol:	
Xetra	SGCG.DE
Frankfurt	SGCG.F
Bloomberg symbol:	
Xetra	SGL GY
Germany	SGL GR

#### Overview of SGL Carbon SE bonds

After the successful conclusion of the sale of our graphite electrode business to Showa Denko on October 2, 2017, we made use of the early redemption option stipulated in the terms and conditions of our €250 million corporate bond, and repaid the bond ahead of maturity on October 30, 2017.

The prices of our 2013/2021 corporate bond and our convertible bond 2012/2018 changed very little during the past year. After SGL Group already advised investors in 2016 of its intention to repay ahead of maturity its corporate bond following the successful conclusion of the sale of its graphite electrode business, the price of the corporate bond fluctuated between 100.50% at the beginning of the year and the redemption price of 102.438%.

The price of the convertible bond 2012/2018 also remained close to its nominal value, owing to its imminent maturity on January 25, 2018.

The convertible bond 2015/2020 benefited most, with its price increasing by a good 10% year on year. During the course of 2017, the price of the convertible bond increased from 95.1% at the beginning of the year, to 105.6% at the end of the year, thus trading above its nominal value. Our improved balance sheet ratios and the not-so-distant conversion price of €17.07 both played a positive role in this development.

During the first weeks of 2018, the price of our convertible bond 2015/2020 increased slightly by 0.4 percentage points to 106.0%, while the price of our convertible bond 2012/2018 remained in the vicinity of its nominal value. The latter bond was repaid on January 25, 2018.

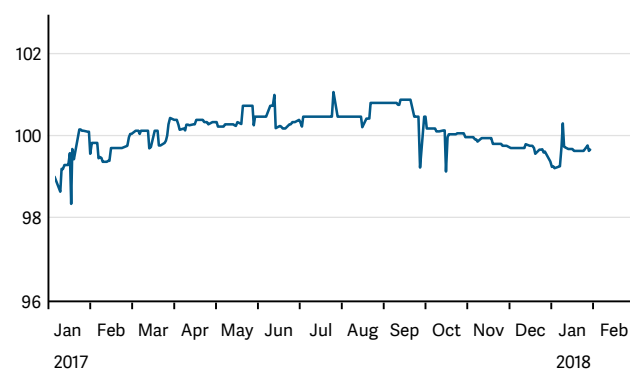
#### Corporate bond

WKN	ISIN	Coupon	Maturity date
A1X3PA	XS1002933403	4.875%	January 15, 2021 (early redeemed on October 30, 2017)

#### Convertible bonds

WKN	ISIN	Coupon	Maturity date
A1ML4A	DE000A1ML4A7	2.75%	January 25, 2018 (repaid on maturity date)
A168YY	DE000A168YY5	3.5%	September 30, 2020

#### Performance of convertible bond in € (matures January 25, 2018 – repaid at maturity date)



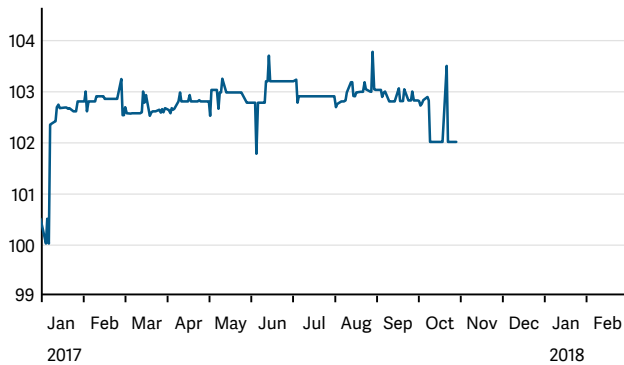
#### Performance of convertible bond in € (matures September 30, 2020)





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**Performance of corporate bond in €**  
(matures January 15, 2021 – redeemed early on October 30, 2017)



**Further information on SGL Group, our shares and bonds**

Contact our Investor Relations department:

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E-Mail: [Investor-Relations@sglgroup.com](mailto:Investor-Relations@sglgroup.com)

You may also visit the investor relations section of our website ([www.sglgroup.com](http://www.sglgroup.com)).

We look forward to hearing from you!

# Group Management Report

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*During the past fiscal year, we launched the new SGL Group and successfully completed our strategic realignment. We sold our former business unit Performance Products and placed it in good hands. With the cash proceeds, we have significantly reduced our debt and put our company back on a financially solid foundation. Now we can dedicate our entire attention to the two growth areas CFM and GMS and the enormous potential they offer. This Group Management Report provides detailed information on the business development and its underlying conditions in 2017 and also provides in-depth explanations of our results of operations, financial position, and net assets. In addition, we also provide an outlook on the anticipated development with its material opportunities and risks.*

<b>SGL Group</b>	<b>39</b>	Financial position	62
Business model of the Group	39	Net assets	66
Organizational structure and business activities	39	General statement on the current financial situation	70
Management, objectives and strategy	42	Non-financial performance indicators	71
SGL Innovation	45	<b>Opportunity and Risk Report</b>	<b>72</b>
<b>Economic Report</b>	<b>47</b>	<b>Outlook</b>	<b>81</b>
Overall economic and industry-specific underlying conditions	47	<b>Remuneration Report</b>	<b>86</b>
Business overview	50	Remuneration for the Board of Management in fiscal year 2017	86
Key events impacting business performance	52	<b>Disclosures pursuant to Sections 289a (1), 315a (1) HGB as well as</b>	
Financial performance of the Group	53	<b>Sections 289f, 315d of the German Commercial Code (HGB)</b>	<b>93</b>
Financial performance of the reporting segments	59		

# SGL Group

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## Business model of the Group Organizational structure and business activities

### Legal structure of the Company

SGL Carbon SE (the “Company”), headquartered in Wiesbaden (Germany), is quoted on the Frankfurt stock exchange. The shares are currently included in Deutsche Börse’s SDAX index. SGL Group is made up of SGL Carbon SE, the operational holding company, together with its subsidiaries (a detailed overview of shareholdings of SGL Carbon SE can be found in Note 33).

### Business units and organizational structure

SGL Group is a globally active company with a workforce of 4,193 permanent employees at the end of December 2017. In our continuing operations, we operated a total of 34 production facilities either independently or in cooperation with our joint venture partners as of the balance sheet date, of which 18 are located in Europe, nine in North America and seven in Asia. With the sale of SGL Kumpers in January 2018, we also sold two sites in Germany. With a service network in more than 100 countries, we can flexibly accommodate the regional and industry-specific requirements of our customers. In addition, we are consistently driving the optimization of our production structures.

Fiscal year 2017 was characterized by the strategic realignment of the SGL Group resolved in 2014. The sale of the former business unit Performance Products was fully concluded in October and November 2017. The business with graphite electrodes was sold to Showa Denko, and the business with cathodes, furnace linings and carbon electrodes to Triton. In addition, in November 2017 we completed our value chain in the business unit Composites - Fibers & Materials with the announced acquisition of the remaining minority interests in the former joint ventures Benteler SGL and SGL ACF. We further streamlined our joint venture structures in the business unit CFM by signing an agreement to sell our 51% interest in the joint venture SGL Kumpers to the co-shareholder on December 19, 2017. The transaction was completed in January 2018.

After implementing the strategic realignment, SGL Group’s business activities focus on the development, production and distribution of customer-specific solutions and applications based on our material competence with carbon fibers and specialty graphites. SGL Group operates globally as one of the leading and most innovative companies on the market. The Group’s core expertise, developed over decades, includes a broad

understanding of raw materials, application and engineering knowhow and a command of high-temperature manufacturing processes. The range of technologies and products focuses on five types of materials: carbon fibers (including its textile fiber precursor), carbon fiber based composite materials, fine grain graphite, medium grain graphite, as well as expanded natural graphite.

As a manufacturer of carbon fiber and specialty graphite solutions and applications, SGL Group supplies a broad range of industries. Our materials are characterized by excellent electrical and thermal conductivity, resistance to heat and corrosion, self-lubricating qualities and light weight combined with strength.

Due to these unique material properties, SGL Group sells to a wide spectrum of industries after its strategic realignment, ranging from the more traditional industrial sectors, such as the chemical and automotive industries, to newly developed future high-growth areas, such as the solar, lithium-ion battery and LED industries, as well as multi-industry applications for lightweight construction.

With the implementation of the strategic realignment SGL Group’s organizational structure comprises the two business units Composites – Fibers & Materials (CFM) and Graphite Materials & Systems (GMS), which also represent our reporting segments. Central and service functions, central research and our Business Process Excellence activities will continue to be included in the separate reporting segment Corporate. Until the sale had been finally concluded, the former reporting segment Performance Products (PP) was disclosed under discontinued operations.

Resource allocation is decided at a business unit level and reviewed and approved by the Board of Management at its annual objectives meetings. Future responsibilities were clearer defined as part of the CORE project. Our two global business units are responsible for the development, production and marketing of their products and solutions, while all service and administrative activities are concentrated in the corporate functions. In this context, the business units are now also directly responsible for research and development activities that are directly related to customers. The research and development expenses disclosed under Corporate thus tend to relate to longer-term projects.

### Reporting structure

This annual report presents our business activities for the past fiscal years as well as the outlook based on the two business units set out above, which correspond to a total of three reporting segments together with the corporate functions: Composites – Fibers & Materials (CFM), Graphite Materials & Systems (GMS) as well as Corporate.

### Reporting on joint ventures

For strategic reasons, SGL Group holds interests in companies together with other shareholders. Some of these companies (e. g., SGL Quanghai Carbon) are fully consolidated and included in the results of their respective segments. Up to and including fiscal year 2017, our 51% share in SGL Automotive Carbon Fibers (Germany) and SGL Automotive Carbon Fibers (USA), our joint ventures with the BMW Group for the production of carbon fibers and carbon fiber based fabrics for the automotive industry (SGL ACF), have been accounted for as joint operations and proportionally consolidated in SGL Group's financial statements based on its respective ownership interests, and in line with accounting standard IFRS 11 Joint Arrangements. These

activities are reported in the reporting segment CFM. On November 24, 2017 we signed an agreement for the acquisition of a 49% interest in SGL ACF from BMW Group. After execution, the SGL Group will be the sole owner of SGL ACF. For SGL Group, the acquisition is the consistent consolidation of all key activities in the value chain, from carbon fibers and materials through to components, under the sole responsibility of SGL Group.

The agreement between SGL Group and BMW Group includes a step-by-step acquisition of the two SGL ACF companies. In the first step, SGL Automotive Carbon Fibers GmbH & Co. KG is to be transferred to SGL Group. The first closing took place on January 11, 2018. In a second step, SGL Automotive Carbon Fibers LLC will be transferred to SGL Group. Closing for this transaction is expected at the latest at the end of 2020.

In addition, in fiscal year 2017 SGL Group also held the following material interests in companies that are accounted for using the equity method and also reported in our reporting segment CFM.

### Material investments accounted for At-Equity (as of December 31, 2017)

	Share	Customer industry	Operational allocation to
Brembo SGL Carbon Ceramic Brakes S.p.a., Italy	50.0%	Automotive	CFM

You can find additional information on material investments accounted for at equity under **Note 7** of the notes to the consolidated financial statements.

We signed an agreement to acquire the 50% interest held by BENTELER Carbon Composites Beteiligungs-GmbH in the former joint venture Benteler SGL GmbH & Co. KG, Paderborn, on November 8, 2017. This transaction was closed on December 19, 2017, making SGL Carbon SE the company's sole owner.

After the acquisition the two production locations in Ried and Ort (both in Innkreis, Austria) will form part of the business unit Composites - Fibers & Materials (CFM) under the name of SGL Composites.

### Management and control

Our **Guiding Principles** regulate responsibilities and structure the obligations of our Board of Management, the management of our business units and our central functions. The Board of

Management determines the Group's strategic orientation. Fundamental business decisions are taken at only two management levels: the Board of Management and business unit. In fiscal year 2017 two business units with global operations drove our operating business - Composites - Fibers & Materials (CFM) and Graphite Materials & Systems (GMS). The business units obtain the infrastructure and services they require from the respective companies and plants. In addition, corporate functions support the Board of Management and service functions (shared services) provide services for all business units and legal entities.

Beyond the Guiding Principles, we have also defined **Common Values** to establish our corporate culture and business conduct. These values are reflected in SGL Group's Code of Business Conduct and Ethics. The Code underscores SGL Group's obligation to comply with the law and sets standards for ethical and legal conduct. Every employee is aware of the Code and it can be accessed on the intranet at any time. Taken together, the

Guiding Principles and Common Values shape our management culture, which is based on the principles of leadership and management by objectives. The Board of Management, the business units and the centralized functions agree on objectives for the Group, the business units and individual executives, based on a defined set of key performance indicators. Remuneration models and performance related bonus programs for the Board of Management and all executive levels are derived from this process.

By way of a resolution of the Supervisory Board on December 19, 2013, a new remuneration system for the Board of Management was introduced on January 1, 2014. Details of the remuneration system and the remuneration received by the individual members of the Board of Management can be found in the remuneration report.

### **Products, services and business processes**

The **Composites – Fibers & Materials (CFM)** reporting segment bundles all of the materials business based on carbon fibers and covers the entire, integrated value chain, from raw materials to carbon fibers and composite materials, as well as components made of these materials. Carbon fibers and carbon fiber composite materials will benefit from the substitution process for base materials. They are increasingly in demand as substitute materials for traditional materials because of their unique properties, such as the combination of lower weight and higher stiffness. We focus, in particular, on customers from the automotive, wind, aviation and other industries. As industrial applications for composite materials are still in their infancy, we started to establish a Lightweight and Applications Center (LAC) at our Meitingen (Germany) facility in 2016. The business unit will use the LAC to support its customers in the optimum use of fibers and materials for composite materials. In future, the LAC will allow processes and products to be developed, as well as prototypes and small series.

In our two joint ventures with the BMW Group formed in 2009, the so-called SGL ACF companies (SGL Group's participating interest in the year under review in each company: 51%) we produce carbon fibers at the facility in Moses Lake, Washington (USA) which are then further processed to become carbon fiber based fabrics at a second location in Wackersdorf (Germany). BMW Group uses this to produce components, for example for the passenger cell in the BMW i3 and i8, and also individual components for the 7-series. On November 24, 2017 we signed an agreement with BMW with which we become the sole owner of

SGL ACF via the acquisition of a 49% interest in SGL ACF from BMW Group. For SGL Group, the acquisition is the consistent consolidation of key activities in the value chain, from carbon fibers and materials through to components, under the sole responsibility of SGL Group.

The value chain is supplemented by our joint ventures Brembo SGL (ceramic brake discs) and Benteler SGL (which became SGL Composites after its full acquisition in December 2017), accounted for at equity, which develop and produce fiber-based components for the automotive industry.

The joint venture with Brembo S.p.A. (Italy) develops and produces carbon ceramic brake discs, particularly in the market for luxury class vehicles and sports cars (<http://www.carbonceramicbrakes.com>).

In our former joint venture with Benteler, we primarily develop and produce fiber-reinforced components for the automotive industry with the aim of promoting the use of fiber composite components in the automotive industry (<http://www.benteler-sgl.com>). We signed an agreement to acquire the 50% interest held by Benteler Carbon Composites Beteiligungs-GmbH in the joint venture Benteler SGL GmbH & Co. KG, Paderborn, on November 8, 2017. This transaction was closed on December 19, 2017, making SGL Carbon SE the company's sole owner. It was then renamed to SGL Composites.

The full acquisition of SGL Composites has allowed us to expand our abilities in the serial production of carbon fiber composite components. In future we can offer our customers one-stop shopping for solutions along the entire value chain from carbon fibers and materials through to components. We will also make our expertise in serial production available to other industries.

The main raw material in the reporting segment CFM is acrylonitrile (ACN) for the production of acrylic fibers, which, as a so called PAN precursor, can then be further processed to carbon fibers. We secured our future supply of the raw material PAN precursor in 2012 with the acquisition of the Portuguese acrylic fiber manufacturer Fisipe. By converting textile lines to PAN precursor as required, the development of the entire carbon fiber value chain is being driven forward. In addition, we supply our former joint venture with the BMW Group with PAN precursor raw material from our joint venture with Mitsubishi Rayon Corporation, Japan.

The business unit **Graphite Materials & Systems (GMS)** comprises a broad range of customized graphite-based solutions and applications. Graphite components are manufactured, purified and, in some cases, refined by adding a special coating – all according to customer requirements. At present, product developments that support efficient power generation and energy storage, such as anode materials for lithium-ion batteries, are enjoying strong growth. In addition, sales revenue in the business unit GMS is generated primarily from customers in the solar, semiconductor and LED industries, the chemical and automotive industries and in the areas of metallurgy and high temperature applications. The emphasis is on finished products with a high value-added content. These components are used, for example, in heating elements for monocrystalline production of silicon in the semiconductor and solar industries. In addition, solutions are being offered for the automotive and other manufacturing industries in the form of bearing and pump components, as well as graphite based seals. So-called expanded graphites based on natural graphite are utilized in a large number of industries such as for heating and air-conditioning equipment, as well as in chemical and automotive applications. In addition, it also offers high quality products and solutions for the chemical and pharmaceutical industries and the environmental sector, particularly with graphite heat exchangers, distillation devices, pumps and systems.

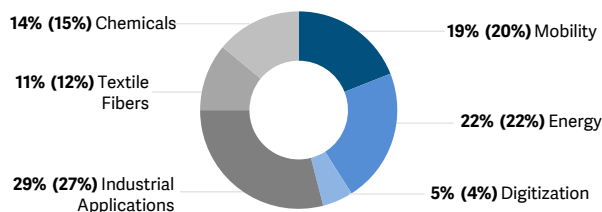
The principle raw materials used by the business unit GMS are petroleum coke and pitch. We purchase these raw materials primarily from suppliers with whom the Company has maintained long-term business relationships based on annual framework agreements. We use both international and local energy suppliers to cover our energy requirements (natural gas and electricity) for the manufacturing processes, some of which are very energy intensive.

### Major sales markets

In our continued operations, industrial applications continue to be SGL Group's largest customer group, still accounting for 29% (previous year: 27%). This is followed by sales with customers from the energy sector (includes, in particular, the market segments lithium-ion batteries, wind and solar), accounting for an unchanged 22%. There was a slight downturn in the mobility share (automotive, transport and aviation industries) to 19% from 20%. During the year under review the proportion of sales revenue with the chemicals industry fell to 14% (previous year: 15%). The same applies to the sales share to customers for textile fibers which declined from 12% to 11%. In contrast, the proportion

of sales revenues from digitization (includes the semiconductor and LED industries) increased to 5% compared to 4% in the previous year. When assessing the development of each market segment's share in sales, the Group's strong overall sales growth of 12% should be taken into account.

### Sales revenue by customer industry, 2017 (2016) (Group)



## Management, objectives and strategy

### Internal management system

SGL Group's management structures and principles are based on our Guiding Principles, which set out the rules for cooperation and the responsibility levels for both strategic and day-to-day operations. Above all, our goal is to sustainably increase SGL Group's enterprise value. SGL Group's internal management system seeks to fulfill this goal. The system comprises regular meetings of appointed committees, a monthly management information system, rolling 12-month planning and reports, as well as actual-to-budget comparisons with gap analyses. Furthermore, steering groups are appointed to work with management to direct and monitor special investment projects, potential acquisitions and defined tasks concerning topics such as personnel issues, safety, compliance and environmental protection.

Medium to long-term market and demand indicators for the business unit **Composites – Fibers & Materials** are available only to a limited extent, as developments are still highly project driven. As a result, the business development of these activities can be affected by project delays. In spite of this, however, we believe that there is an increasing trend in substituting traditional materials with carbon fibers and carbon fiber based composite materials in a range of applications, such as in the aviation, automotive and wind industries.

Key leading indicators for the anticipated development of operations in the business unit **Graphite Materials & Systems** include the actual or forecasted growth in important customer markets, incoming orders and corresponding capacity utilization in the Company.

### Project CORE

In September 2016, project CORE (COrporate REstructuring) was launched. The project CORE is intended to focus the “new” SGL Group on growth. This transformation process primarily has the objective that the business units CFM and GMS concentrate on the development, production and marketing of their products and solutions, while all service and administrative tasks are bundled in the corporate functions. Simultaneously, our company’s organizational structures are being aligned to the new SGL Group following the sale of the former business unit Performance Products. By the end of 2018, sustainable savings of around €25 million (compared to 2015) should result from this project, of which more than 75% were recorded by the end of 2017.

In order to further optimize our business processes, we launched an additional group-wide program called “Business Process Excellence (BPX)” in the beginning of 2015. This program aims to further simplify and standardize central processes, and thus realize additional sustained improvements. In the first stage, this program focuses on purchasing, supply chain management and sales. This program was merged with our proven SGL Excellence Initiative during the course of fiscal year 2017.

### Financial targets

Our key performance and management indicators, uniformly defined internally and externally, were revised in the second half of 2014. As a result, the key performance and management indicator is:

ROCE <sup>1)</sup>	min. 15%
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<sup>1)</sup> Based on EBITDA before non-recurring charges to average capital employed - continuing operations (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

Derived from the above EBITDA based target return on capital employed, we also consider the return on capital employed based

on the operating result (EBIT) as part of the ongoing internal management of the Group and business units. The reconciliation is based on relatively consistent levels of depreciation and amortization.

Additional significant financial targets in the medium term are:

Gearing <sup>1)</sup>	~0.5
Equity ratio	≥30%
Consolidated net result - continuing operations	Positive
Leverage ratio <sup>2)</sup>	≤2.5
Return on capital employed (ROCE) <sup>3)</sup>	9-10%
Free cash flow	Positive

<sup>1)</sup> Net financial debt to equity attributable to the shareholders of the parent company

<sup>2)</sup> Net financial debt to EBITDA before non-recurring charges

<sup>3)</sup> Based on EBIT before non-recurring charges to average capital employed - continuing operations (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

### Implementation of strategic realignment

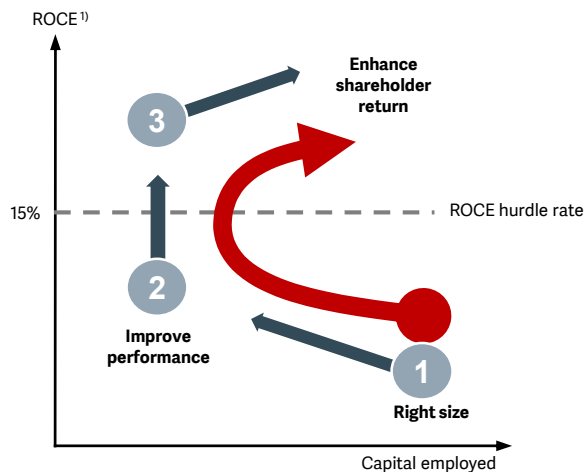
We already defined the cornerstones of our strategic realignment in the fall of 2014. The core element was transitioning the central KPI from return on sales (ROS)<sup>1)</sup> to return on capital employed (ROCE)<sup>2)</sup>, as this KPI more accurately reflects the profitability of our capital-intensive business and is to result in substantially more return oriented capital expenditure. In addition, the ongoing review of our portfolio is based on achieving the ROCE target over the medium term. In order to consistently implement this objective, the long-term incentive systems for both the Board of Management and also all of the top and middle-level executives have been geared to Group ROCE.

<sup>1)</sup> Based on EBIT.

<sup>2)</sup> Based on EBITDA. Capital employed (CE) is defined as the sum total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity, and working capital.



### Strategic realignment. Right size – Improve performance – Enhance shareholder return



<sup>1)</sup> Measured by EBITDA divided by capital employed.

The strategic process comprised three elements which partially overlapped. The first stage was to review the portfolio regarding which production equipments, products or businesses can reach the minimum profitability target in a certain period. The sale of the rotor blade production in 2013, the sale of the aerostructures production of HITCO Carbon Composites in 2015 and the termination of the joint venture with Lindner for marketing graphite radiant ceilings at the end of 2014/beginning of 2015 as well as the sale of the small carbon fiber facility in Evanston (USA) in December 2016 were decisions taken in this context. In addition, we also analyzed for which activities we are no longer the best owner given the changed market conditions. As a result we resolved to sell the former business unit PP, and completed this in two transactions in October and November 2017. This was the last stage in this transformation.

The second stage comprises activities to improve earnings, initially summarized in the Group-wide SGL2015 cost savings program and completed in 2016. Project CORE was initiated in September 2016 to refocus the new SGL Group on growth and to align our company's administrative processes and structures to the leaner group structures following the sale of the former business unit Performance Products. Of the planned savings of €25 million through to the end of 2018 (compared to 2015), more than 75% were already achieved by 2017. The remaining amount will be recorded in 2018.

In a third stage we will grow again organically, which will lead to higher capacity utilization and an improved product mix towards applications and solutions with higher returns, thus also leading to a more than proportional improvement in earnings. There is sufficient available capacity for most of our businesses due to the high level of investment in the previous years. As a result, over the medium term, we are planning a level of capital expenditure which is close to the level of amortization and depreciation. At the same time it must be taken into consideration that the level of amortization/depreciation has increased to around €65 million p.a. as a result of the full consolidation of the former joint ventures with BMW and Benteler. In addition, the capital expenditure budget in the first few years of the medium-term period is expected to be higher than in the following years as we aim to execute several growth projects in the near term.

We defined additional strategic milestones for long-term profitable growth in July 2015. A comprehensive growth initiative was resolved for the business units GMS and CFM, which targets organic revenue growth of approx. 50% until 2020 compared to 2014. In addition, selective external growth activities are planned to supplement our portfolio in terms of our technology and market positions. In addition, in 2015 we decided to make the business unit Performance Products (PP) legally independent within the SGL Group, and thus to create the conditions for the sale process we started at the beginning of 2016.

An agreement was reached with the Japanese company Showa Denko in October 2016 for the sale of the graphite electrode business based on an enterprise value of €350 million. After deducting liabilities (in particular provisions for pensions and restructuring) we are expecting cash proceeds of €285 million based on the closing balance sheet. Of this amount, an instalment payment of €230 million was made at the closing date in October 2017. The remaining amount will be transferred after the mutual agreement on the final price. This is expected to be in the first half of 2018.

The remaining business with cathodes, furnace linings and carbon electrodes was sold in August 2017 to Triton in a separate transaction with an enterprise value of €250 million. After deducting liabilities (in particular provisions for pensions and restructuring) we are expecting cash proceeds of €238 million based on the closing balance sheet. Of this amount, an instalment payment of €231 million was made at the closing date

in November 2017. The remaining amount will be transferred after the mutual agreement on the final price. This is expected to be in the first half of 2018. We have substantially reduced our net debt as a result of the proceeds from these two transactions.

In addition, in December 2016 we successfully performed a capital increase against cash contributions with indirect subscription rights for shareholders of the company. The company's share capital was increased by using the existing authorized capital by issuing 30 million new no-par value bearer shares, each with a proportionate interest in the share capital of €2.56.

The net proceeds from the rights issue of around €173 million – together with the proceeds from the sale of the discontinued business unit PP – were used for the full repayment of the convertible bond which matured in January of 2018 and the early redemption of our corporate bond on October 30, 2017. This strengthened our capital structure, improved our leverage ratio and increased the Group's financial flexibility.

### **Growth initiatives for CFM and GMS: Dynamic revenue growth planned through to 2020**

The business units CFM and GMS are already experiencing dynamic market and product developments with growth potential that is considerably above average. SGL Group is an enabler for its customers' production processes and products with its innovative carbon fiber and specialty graphite products, helping them to serve global megatrends such as mobility, digitization and energy efficiency. We offer our customers tailored applications along the entire material value chain.

Taken together, these two business units recorded revenues of €842 million in 2017 and EBIT before non-recurring charges of €71 million. Historically, GMS has already achieved the Group's target returns, and CFM was able to slightly improve its earnings in the year under review. As part of the accelerated organic growth, the market position for both business units is to be developed along the value chain, and processes and cost structures in the units further optimized. Combined revenues are estimated to increase to approx. €1.1 billion by 2020, while meeting the targeted minimum return on capital employed ( $ROCE_{EBITDA}$ ) of 15%.

In addition, we also plan to selectively use external growth opportunities. These will primarily serve to supplement the portfolio with regard to our technical competences and regional

market positions. We became the sole owner of the former joint venture with Benteler Automotive (SGL Composites) in December 2017, and in January 2018 this was then followed by our acquisition of the minority interests in the former joint venture with BMW Group (SGL ACF). For SGL Group, the acquisitions constitute the consistent consolidation of all key activities in the value chain, from carbon fibers and materials through to components, under the sole responsibility of SGL Group. In future we can offer our customers one-stop shopping for solutions along the entire value chain from carbon fibers and materials through to components. We will also make our expertise in serial production available to other industries.

### **Share price performance in 2017**

You can find a description of our share price performance as well as key indicators and other information on all aspects of our shares under the section titled "SGL Group in the Capital Markets".

## **SGL Innovation**

### **Our centralized research and development**

Our state-of-the-art research infrastructure at the Group's largest site in Meitingen offers optimal conditions for our global research and development activities "SGL Innovation". New technologies are developed and tested in our laboratories and pilot plants, as well as in alliances with external partners. This work serves to increase revenues with new and improved products over the medium to long term, and improve our cost situation. The development portfolio comprises both products and methods which are used in established business units over the medium to long term, as well as projects which open up new business opportunities for SGL.

Our research expenditure totaled €30.7 million in the past fiscal year (2016: €30.3 million), accounting for a nearly unchanged 3.6% of consolidated sales revenues (2016: 3.9%). We had a total of 82 employees at the end of 2017 (2016: 96) in SGL Innovation.

### **Highlights from our development areas**

In the Mobility sector we continued our long-standing programs in 2017. The "Air Carbon II" and MAICafee programs, in which we develop next generation carbon fibers together with German and European partners for use in, for example, aviation, were successfully completed and follow-on projects for the development of carbon fibers offering even higher performance were initiated.

The development program for thermoplastic carbon fiber composites was concluded positively in 2017 in SGL Innovation, and it was handed over to the business unit CFM for further commercialization. Various components of the tool kit developed have already been presented and marketed at trade fairs. The materials group for thermoplastic composites offers advantages compared to duroplastic systems, such as short cycle times, high tolerance to damage, and improved recycling properties. This makes them interesting for use in particular in applications in the automotive industry.

In the energy sector work was reinforced for the next generation of anode materials for lithium-ion batteries. These materials will increase the storage capacity of lithium-ion batteries and thus, for example, significantly increase the range of electric cars.

Our start-up for the production of fuel cell components has once again increased its sales revenues by a double-digit percentage. At the same time we succeeded in concluding contracts which secure long-term growth in this area.

In 2017 we strengthened our research and development work in the future growth areas defined in 2015, and we were increasingly able to acquire customers in development projects. In the additive manufacturing area ("3D printing") with carbon materials we developed a tool-kit system with several material systems. In this area, in several development projects with customers, for example from the environmental technology sector, we worked to bring initial products through to series production and thus to develop additional areas of business.

In addition to continuing our work on the use of carbon fibers in the construction industry, we also launched a major project with partners from industries including the aviation sector and universities in the area of future composite materials. This aims to integrate carbon fiber-based composite materials with other materials such as aluminum and steel to form a single laminate material. This allows us to integrate new functions for future hybrid constructions or to significantly simplify production chains, thus cutting costs.

In fiscal year 2017 we continued to further drive the protection of our developments and expertise using new patent registrations, in particular for future growth areas.

### **Strategic industry alliances and research networks are the key to success**

SGL Group continues to be an active member of the management bodies of international scientific carbon societies.

As a co-founder of the competence network for lithium-ion batteries (KLiB), we work together with companies including BASF, Bosch, Daimler, BMW and other companies on the development of lithium-ion batteries for e-mobility and stationary energy storage, and also chair the board of that network.

SGL Group is an active member of Carbon Composites e.V. (CCeV) and is represented on its board. This association of companies and research institutions spans the entire value chain for high-performance composite materials in Germany, Austria and Switzerland. Since 2013 CCeV has formed the new umbrella organization for the German composites industry "Composites Germany" together with three other associations and organizations.

SGL Group is a member of the Working Group for Carbon (Arbeitskreis Kohlenstoff - AKK) and is a member of its Board. This group is an independent association to support industry interests in both the German Ceramics Company (Deutsche Keramische Gesellschaft) as well as in the European Carbon Association, and aims to promote the exchange of experience and information as well as carbon research. The "Utz-Helmuth-Felcht-Preis" for excellent work in the field of carbon research, sponsored by SGL, was awarded by AKK and its international sister companies for the fourth time in 2017.

The professorship of Carbon Composites (LCC) endowed by SGL Group at the Technical University of Munich (TUM) was extended for a further six years in 2017.

### **SGL Innovation is SGL Group's talent pool**

Last year, SGL Innovation also fulfilled its task of winning new talents for the company. SGL Innovation supported a total of 46 diploma students, interns and student trainees in 2017. We are thus developing junior talents, in particular for technical management functions.

Also in the past fiscal year, excellently trained SGL Innovation employees transitioned to our business units to take over new positions and to reinforce networking within the company.

# Economic Report

## Overall economic and industry-specific underlying conditions

### Economic conditions

In 2017 industrialized nations enjoyed an upswing, in synchrony with key emerging nations. According to the IMF (International Monetary Fund), the global economy's growth accelerated to 3.7%, surpassing the original forecast of 3.4%. Political insecurities (e.g. the course taken by the new US government, Brexit negotiations) and trouble spots (including the Middle East, North Korea, Iran) moved into the economic background. Production in industrialized nations increased significantly in the six summer months, and capital expenditure revived. According to the IMF, growth for industrialized nations accelerated to 2.3%, faster than the expected +1.9%. Developing and emerging nations also enjoyed more dynamic growth at 4.7% (IMF forecast: 4.5%).

### Strong upswing in the Eurozone, China more robust than anticipated

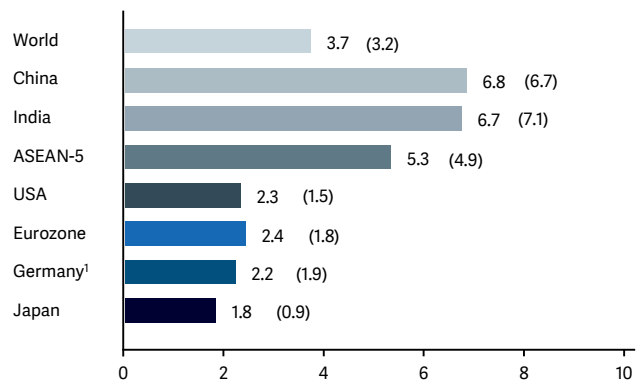
The economy in the USA gained strength and breadth after the slow start to the year. According to the IMF, GDP grew by 2.3% in 2017. Private consumption and investments were lively, industrial production recovered, and even the energy sector grew from its previous weakness. In line with expectations, the US FED increased interest rates again in 2017 in moderate steps.

In the Eurozone, the upswing became more resilient in 2017 despite political uncertainties. This was driven by wider private and industrial domestic demand and higher exports. The ECB's continued expansive monetary policy contributed to the growth in all Eurozone countries. The IMF puts growth in the Eurozone at 2.4%. Germany's economy accelerated and enjoyed particularly strong growth, driven by private consumption, construction activities and capital expenditure. In addition, exports also provided a positive impetus.

Despite the structural change, the pace of expansion in the Chinese economy in 2017 was more robust than had been forecast as a result of government-backed impetus. India's economy was faltering temporarily due to reforms being implemented (cash, value added tax). In South-East Asia (ASEAN-5), the upswing gained pace perceptibly as a result of infrastructure investments and higher exports. Russia and Brazil were able to overcome their recessions.

### Gross domestic product in 2017 (2016) at a glance

Real year-on-year change in %



Source: IMF, World Economic Outlook (Update) from January 2018

<sup>1)</sup> German Federal Statistical Office (2017: after calendar adjustment +2.5%)

## Development of key customer industries in continuing operations

### Market segment mobility

#### Automotive industry with growth in the technology revolution - lightweight construction is a necessity

According to market researchers from IHS Markit, the global automotive industry also grew in 2017 (sales of light vehicles +2.4% to 94.5 million units). The German automobile association VDA (Verband der Automobilindustrie) puts growth at 2.0% with 84.6 million units in its stricter definition of the car market. Growth in China increased by 2.0% and even by 2.5% in Western Europe despite a slump in the United Kingdom. The US market recorded lower sales figures (-1.9%). Sales increased substantially in Eastern Europe, Japan and India. Sales in Russia and Brazil enjoyed particularly strong growth after recovering from recession. Our business unit GMS is benefiting from the growth in the global automotive industry. This business unit holds a leading position for graphite products for the automotive industry. In addition to this data, the parameters for the automotive industry are undergoing massive change at a rapid pace, which is also being driven by the debate concerning diesel vehicles. Sales of cars with alternative engines surged in 2017 (see lithium-ion batteries). For both electric cars (optimizing reach) and cars and commercial vehicles with combustion engines (reducing exhaust gases) reducing weight and thus light construction is unavoidable. As a result, composite materials play a key role. Our business unit CFM is benefiting from this

trend with its unique market position as a fully integrated composites specialist for industrial applications.

#### **Aerospace: High-potential niche applications for new builds and fleet modernization**

Carbon fibers have become a standard material in lightweight aerospace construction and are indispensable for new developments and aircraft models. The civil aerospace industry is the main customer in this area with the Boeing 787 (Dreamliner), Boeing 777 and Airbus A350. In addition, lightweight construction is becoming more prevalent in the military sector (F-35). In 2017 a total of 136 (previous year: 137) Dreamliners, 74 (previous year: 99) Boeing 777s and 78 Airbus A350 XWB (previous year: 49) were shipped. Large volumes of specially certified fiber composites were used in these projects, which are not part of SGL Group's focus. Our carbon fiber business with the aerospace industry is rather geared to non-structure relevant niche applications such as components and elements for interior cabin fittings and brake systems. Irrespective of the development of new types of lightweight aircraft models, over the medium term our business will benefit from the modernization and conversion of existing models and fleets. This offers us attractive opportunities in the business unit CFM, as we are one of the few carbon fiber manufacturers specializing in interior aircraft fittings.

#### **Market segment energy**

##### **Lithium-ion batteries: Automotive end market is the largest sub-market for the first time**

The two large end markets for lithium-ion batteries (Li-Ion) developed differently in 2017. In consumer and business electronics (IT) sales fell by 2.3% (PC market -3.6%, mobile telephones -2.0%). However, the market research institute Gartner estimates that the market for wearable small devices (smart watches, headsets, etc.) grew by around 17% in 2017. According to industry observers, the end market for high-performance large batteries for electric mobility, which is enjoying dynamic growth, overtook IT as the main market for Li-Ion batteries for the first time in 2017. Sales of electric cars (including hybrids) grew by around 40% or more in the high-volume automotive markets in China, the USA and Western Europe in 2017. In addition to pioneers such as Tesla and BYD, the automotive and supply industries are playing a significant role in driving the establishment and expansion of Li-Ion battery production. Our business unit GMS is benefiting from this as one of the leading providers of graphite anode material.

##### **Wind industry: Growth focused on a few countries - pace of growth slowing**

The wind energy sector continued to grow in 2017. Through to the middle of the year (December 1 to June 1) the increase in capacity installed worldwide totaled 24.7 GW according to the WWEA (World Wind Energy Association). This was substantially more than in the same period of the previous year (20.6 GW). However, during the course of 2017, the market clouded perceptibly as a result of lower subsidies. Total capacity installed worldwide increased to 539.6 GW in 2017 as a whole (+10.6%). New projects are increasingly being awarded via auctions. The Global Wind Energy Council puts total new installations in 2017 at 52.6 GW (-3.7%). The original forecast was for 59.4 GW. In the previous year, new installations totaled 54.6 GW, and even 63.6 GW in the record-breaking year 2015. This development is reflected in our business unit CFM, which is one of the leading providers of carbon fiber products for the wind energy industry.

##### **Solar/polysilicon: Tailwind for polysilicon manufacturer from booming solar installations**

The photovoltaic industry (PV) is by far the most important user of polysilicon, accounting for more than 90% of this market. The PV market continued its strong upswing in 2017, driven by high global growth, in particular the massive expansion of PV systems in the largest single market China. New installations worldwide are expected to have increased to significantly in excess of 90 GW in 2017. This increase means that the previous year's record-breaking figure of 76.6 GW has been left far behind. Based on the very positive perspectives for solar energy, in particular for the long-term, PV producers and the upstream, high-capital production of polysilicon regularly operate in cycles with free capacity, into which the market's structures grow. According to BNEF (Bloomberg New Energy Finance), in 2017 445,600t of polysilicon were produced worldwide (+13%). Prices have increased greatly. As a result of the strong demand for PV systems in 2017 and the supply bottlenecks in China, capacity uptake for polysilicon producers outside China has recently increased perceptibly. Given this background, the polysilicon capacity has been expanded substantially. The business unit GMS has been able to benefit from this as a result of its strong position on the market as one of the leading providers of graphite products for the solar industry.

## Market segment digitization

### **Semiconductors/polysilicon: Strong revenue growth, in particular in the memory segment**

After the solar industry, the semiconductor industry is the main customer for polysilicon manufacturers, accounting for less than 10% of the quantity produced. After weak previous years in which revenues stagnated (2015) or with only very low growth (2016), the semiconductor industry enjoyed very strong growth in all regions in 2017. The growing demand for smartphones and high requirements for mainframe computers/servers have played a key role in this regard. The industry association World Semiconductor Trade Statistics (WSTS) believes that revenues for semiconductor manufacturers increased by 20.6%. Market researchers at Gartner put the growth for 2017 at 22.2%. This was driven by high increases in the price of memory (e.g. DRAM +44%) as a result of scarce supply. According to Gartner, this segment accounted for around 31% of all semiconductor revenues in 2017 and revenues in this segment grew by 64%, driven by prices. Without the memory segment, the semiconductor market grew by 9.4% in 2017 (Gartner). Our business unit GMS has been able to benefit from this upswing on the semiconductor market as a result of its strong position on the market as one of the leading providers of graphite products for the semiconductor industry.

### **LED: Unrelenting market growth - China's LED chip manufacturer expand market share**

As a result of the wide variety of possibilities for their use, technical advantages (including being environmentally friendly as a result of their low electricity consumption and longer lifetimes, declining costs) and the strong demand growth, LEDs have become a promising high-growth market. In the lighting segment (private, commercial, industrial, public), LEDs are not only replacing traditional forms of lighting but are also increasingly replacing energy-saving bulbs. According to estimates by industry experts, the market for LED lighting grew by 10% to around USD30 billion in 2017 (TrendForce/LEDinside). In addition, demand in other areas is also increasing. In the automotive sector, LEDs are continuing to gain ground in headlights, taillights and interior lighting. Consumer electronics (including TVs and mobile devices) is another key user of LEDs. In addition, the use of LEDs in infrared technology has recorded double-digit growth. Asia dominates the manufacture of LED chips with low market shares held by manufacturers in the USA and Europe. In addition to China (a good 50% of global capacity), Taiwan, Japan and South Korea are highly relevant manufacturing countries. It was hardly possible to meet the

strong growth in demand for LED chips in 2017, causing prices to soar for brief periods. According to TrendForce/LEDinside, Chinese manufacturers substantially further expanded their capacity in 2017. In the rest of the world, capital expenditure fell, in some cases. We were able to benefit from the strong growth on the LED market in our business unit GMS as one of the leading providers of specialty graphites.

## Market segment chemicals

### **Once again only moderate global growth - still no true recovery in capital expenditure**

The German chemical industry association VCI (Verband der Chemischen Industrie) estimates that global growth in chemicals and pharmaceuticals production weakened in 2017 to 3.0% (2015: +4.1%, 2016: +3.5%). The increase was robust, however it was lower than had been forecast (VCI: +3.5%) and was very heterogeneous across the regions. The output in China (+6.0%), India (+11.0%) and Japan (+5.5%) is believed to have been greatly expanded. A weak positive growth figure of 0.5% is expected to have been reached in the USA, however without pharmaceuticals this figure was negative at -1.5%. EU chemicals production (without pharmaceuticals) revitalized substantially, up 3.0% (previous year: +0.7%). The segments for inorganic basic chemicals and consumer chemicals enjoyed strong growth (each up +4.5%). Polymers are expected to have grown by 2.5%, with petrochemicals production down 0.5%. The German chemical industry enjoyed growth of a good 2.0% without pharmaceuticals (previous year: -0.2%). However, the production of chemical fibers stagnated. Capacity utilization at German chemicals companies lifted from 84.0% to 86.7%. However, political uncertainties slowed the pace of investments in this industry in Germany and Europe. Capacity utilization for chemicals in the USA was at around 76% at the end of 2017, which was still slightly lower than the long-term average. In accordance with these developments, the process technology business in the business unit GMS as one of the market leaders in its segment was able to record increases in order intake again since the middle of the year.

### **Development of key customer industries in discontinued operations**

#### **Steel industry: Capacity uptake in 2017 again low - electric steel continues to be under pressure.**

According to the World Steel Association global demand for steel, adjusted for statistical effects, is believed to have increased by



2.8%. Without China (+3%) global requirements grew by 2.6%. China decommissioned the bulk of its outdated induction furnaces in 2017. In exchange, steel production in blast furnaces surged there, however on the whole China has downscaled its steel exports and thus had less of a negative impact on the global market. Correspondingly, steel production was ramped up substantially by 5.3% in 2017 to 1.69 billion tons (previous year: +0.8%). With the exception of Japan, output in Asia enjoyed very strong growth (China, India). High growth was also recorded in Brazil, Turkey and Iran. Moderate growth was recorded in the EU, the USA and Russia. The situation for electric steel production improved in this environment, after having been very tense for an extended period. This also holds true for the business with graphite electrodes in the former business unit PP as one of the two market leaders.

#### Aluminum industry: Production in Asia up substantially - price surge

According to IAI (International Aluminium Institute), primary aluminum production increased by 5.8% in 2017 to 63.4 million tons (previous year: -4.5%), and was thus mostly in line with demand. China accounts for more than half of global production and recorded growth of 10.0%. In the rest of Asia production was even up by 14.8%. In Europe, the primary aluminum output remained stable (west: -0.1%, east: +0.4%), with North America and the Gulf countries recording lower production figures. The price of aluminum increased significantly in 2017. As a result, the environment for manufacturers also brightened somewhat, also in terms of investment activities. The CFL/CE business in the former business unit PP also benefited from this as one of the market leaders in its segment.

#### Business overview

Disclosures concerning the financial performance of SGL Group are made in part on the basis of the following key financial indicators, which, although they are not derived directly from the consolidated financial statements, are used to control SGL Group. The following overview shows how those financial indicators are calculated.

	2017	2016
Operating profit/loss (EBIT)	49.0	23.7
Minus / plus: restructuring expenses	-4.9	9.8
Minus: reversal of impairment losses	-4.0	-12.8
<b>Operating profit/loss (EBIT) before non-recurring charges</b>	<b>40.1</b>	<b>20.7</b>
Plus: amortization/depreciation expense on other intangible assets and property, plant and equipment	50.6	49.2
<b>EBITDA before non-recurring charges</b>	<b>90.7</b>	<b>69.9</b>
<b>Capital employed<sup>3)</sup></b>		
Capital employed as of 31.12. of the prior year	829.9	1,320.4
Minus: capital employed of PP	0.0	-479.7
<b>Adjusted capital employed as of 31.12. of the prior year</b>	<b>829.9</b>	<b>840.7</b>
<b>Adjusted capital employed as of 31.12. of the financial year</b>	<b>896.0</b>	<b>829.9</b>
<b>Average capital employed<sup>4)</sup></b>	<b>863.0</b>	<b>835.3</b>
<b>ROCE EBIT<sup>1)</sup></b>	<b>4.6%</b>	<b>2.5%</b>
<b>ROCE EBITDA<sup>2)</sup></b>	<b>10.5%</b>	<b>8.4%</b>

<sup>1)</sup> EBIT before non-recurring charges to average capital employed

<sup>2)</sup> EBITDA before non-recurring charges to average capital employed

<sup>3)</sup> Defined as the sum of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity, inventories, trade receivables less trade payables

<sup>4)</sup> Adjusted capital employed as of 31.12. of the prior year plus adjusted capital employed as of 31.12. of the financial year divided by 2.

#### Strategic realignment successfully completed in fiscal year 2017

As the former business unit Performance Products (PP) was reclassified under discontinued operations as of June 30, 2016, it is no longer included in our segment reporting. Presenting PP under discontinued operations in 2016 and 2017 mainly impacts our reported sales revenue, EBIT and EBITDA before non-recurring charges, and both ROCE figures (relating to EBIT and EBITDA).

What follows is a comparison of the targets for fiscal 2017, as originally published in the 2016 annual report, with the actual results for the year under review.



<b>Outlook for 2017 as published in the 2016 Annual Report</b>	<b>Actual for fiscal year 2017</b>
Sales revenue to slightly increase compared with prior year	Sales revenue 12% over prior year
EBIT before non-recurring charges to increase more than proportional to sales revenue	EBIT continuing operations before non-recurring charges: €40 million (2016: €21 million)
ROCE <sub>(EBIT)</sub> before non-recurring charges to increase slightly compared with 2016	ROCE <sub>(EBIT)</sub> continuing operations at 4.6% (2016: 2.5%)
EBITDA will increase more than proportional to sales revenue	EBITDA continuing operations increased by 30% to € 91 million (2016: € 70 million)
ROCE <sub>(EBITDA)</sub> before non-recurring charges to increase slightly compared with 2016	ROCE <sub>(EBITDA)</sub> continuing operations at 10.5% (2016: 8.4%)
Consolidated net result will be on level of 2016	Result from continuing operations of minus €14 million (2016: minus €34 million)
High positive free cash flow from continuing operations and discontinued operations and significant decrease in net financial debt	Free Cashflow at € 314.0 million (2016: minus € 81 million) and net debt at € 139 million (2016: € 449 million);
Capital expenditure in 2017 approximate to level of depreciation	Capital expenditure of €53 million (2016: € 35 million) Depreciation of €51 million (2016: €49 million)

### **Sales revenue increases significantly by 12% over prior-year level**

Sales revenue for continuing operations increased significantly by 12% (currency adjusted: 14%) to €860.1 million (2016: €769.8 million), and thus more than had been anticipated in the previous year. The favorable sales trend in our reporting segment GMS mainly reflects the significantly higher demand for our graphite anode materials in the battery and other energy market segment, and considerably higher sales with the LED industry and in industrial applications. The increase in sales revenue in CFM was driven by the industrial applications, automotive, and textile fibers market segments.

### **EBIT and EBITDA before non-recurring charges, ROCE<sub>EBIT</sub>, and ROCE<sub>EBITDA</sub> increase significantly**

EBIT before non-recurring charges improved to €40.1 million in the reporting period, compared with €20.7 million in 2016, thus overachieving our target of a more than proportional increase to sales revenue by doubling the previous year's result. This was particularly driven by the favorable trend seen in our reporting segment GMS, which increased its EBIT before non-recurring charges from €27.8 million to €47.8 million. Accordingly, the EBITDA development in SGL Group's continuing operations was also positive, increasing noticeably from €69.9 million to €90.7 million, with the corresponding improvement in the EBITDA margin.

### **Restructuring payments lower than expected**

Adjusting our Bonn2020 and CORE restructuring projects to reflect the increased business volume in GMS allowed us to avoid corresponding restructuring payments. In addition to the

adjustments of the restructuring provisions for GMS of €2.3 million and for Corporate of €0.9 million, this item relates to the sale of fixed assets totaling €1.7 million, which had already been impaired. This resulted in overall income of €4.9 million in fiscal year 2017 (2016: expenses of €9.8 million).

### **Result from continuing operations improves significantly**

The significant improvement to SGL Group's operating result led to a better than expected result from continuing operations of minus €13.6 million (2016: minus €34.0 million), despite the fact that our net financing result was burdened by the early repayment of our corporate bond.

### **Capital expenditure on target in 2017**

At approximately €53 million, capital expenditure for intangible assets and property, plant and equipment was as projected, on the level of depreciation and amortization, and higher than in the previous year (2016: €35 million).

### **Net financial debt considerably reduced by sale of PP business**

The free cash flow from continuing operations deteriorated noticeably to minus €144.7 million compared to the prior-year figure of minus €48.1 million. The main causes of the negative free cash flow were payments for the acquisition of SGL Composites, capital expenditures, increases in working capital and interest payments. The improvement in our operating result only partly compensated for these effects in fiscal year 2017. The positive free cash flow from discontinued operations of €458 million, which resulted from the sale of our PP business, led

to free cash flow of €314.0 million (2016: €81.0 million), and the anticipated reduction in our net financial debt.

## **Key events impacting business performance**

### **Sale of graphite electrode business to Showa Denko completed**

The sale of our business with graphite electrodes (GE) to Showa Denko was completed on October 2, 2017. The final purchase price payment will be calculated based on the closing balance sheet as of September 30, 2017. Accordingly, in addition to the €230 million that was transferred on October 2, a further payment in the mid double-digit million euro range is expected during the first half of 2018.

The disposal of assets had further negative impact on earnings, resulting from the corresponding disposal of accumulated currency translation differences of €30.6 million during the fourth quarter of 2017. This negative impact on earnings was more than offset by the reversal of the adjustment to the fair value of GE less disposal costs, due to the significant decrease in GE's debt as of the disposal date. Based on the purchase price calculation – the enterprise value of €350 million less liabilities – the reduction in GE's debt will lead to a higher than anticipated cash inflow for SGL Group of approximately €285 million.

### **Sale of business with cathodes, furnace linings and carbon electrodes (CFL/CE) to Triton completed**

The sale of our CFL/CE business to Triton was completed on November 2, 2017, resulting in a provisional purchase price payment of €231 million, as well as a profit after disposal costs of approximately €125 million in fiscal year 2017. In this case as well, the disposal of assets was negatively impacted by accumulated currency translation differences of €5 million. The remaining purchase price payment in the mid single-digit million euro range is expected during the first half of 2018.

### **Takeover of remaining shares in Benteler SGL**

As announced on November 8, 2017, we took over the remaining 50% shareholding in our former joint venture Benteler SGL on December 19, 2017. As of December 31, this business activity has been fully consolidated. Due to the short period of time it has been included in our scope of consolidation, its impact on the sales revenue and operating result of our business unit CFM for fiscal year 2017 was marginal. Our net debt as of December 31, 2017, increased by a mid double-digit million euro figure as a result of the acquisition. The acquisition also led to a reversal of

impairment of €4.1 million in the transition from At-Equity accounting to full consolidation, as the previous shareholding had to be recorded at their higher market value as of the transition date.

### **Corporate bond redeemed early**

Using the proceeds from the capital increase carried out in December 2016, as well as the first purchase price installment from the sale of GE, on October 30, 2017, we redeemed our corporate bond in the amount of €250 million early. The bond was originally due to mature in 2021. As a result, the capitalized transactions costs relating to the corporate bond were fully amortized in fiscal year 2017. Prepayment penalties of €6.1 million were also incurred, which had a negative impact on our net financing result.

### **Sale of Evanston carbon fiber site completed**

The sale of our carbon fiber production plant in Evanston (USA) to Mitsubishi Rayon Corporation was completed on April 3, 2017. As announced during the second quarter of 2017, the associated disposal of assets had a negative impact on earnings of €6.0 million, resulting from allocated accumulated currency translation differences. Further details can be found under segment reporting.

## Financial performance of the Group

### Income Statement

€m	2017	2016	Change
Sales revenue	860.1	769.8	11.7%
Gross profit	176.1	136.9	28.6%
Operating profit/loss (EBIT) before non-recurring charges	40.1	20.7	93.7%
<b>Operating profit/loss (EBIT)</b>	<b>49.0</b>	<b>23.7</b>	<b>&gt; 100%</b>
Financial result	-56.8	-50.9	-11.6%
<b>Result from continuing operations before income taxes</b>	<b>-7.8</b>	<b>-27.2</b>	<b>71.3%</b>
Income tax expense	-5.8	-6.8	14.7%
Non-controlling interests	-2.6	-2.0	-30.0%
<b>Consolidated net result - continuing operations</b>	<b>-16.2</b>	<b>-36.0</b>	<b>55.0%</b>
Result from discontinued operations, net of income taxes	155.1	-75.7	> 100%
<b>Consolidated net result (attributable to the shareholders of the parent company)</b>	<b>138.9</b>	<b>-111.7</b>	<b>&gt; 100%</b>
Earnings per share, basic (in €)	1.14	-1.19	> 100%
Earnings per share continuing operations, basic and diluted (in €)	-0.13	-0.38	65.8%

### Sales development of the reporting segments

GMS' share in total Group sales increased marginally to about 59% (2016: about 58%). CFM's share in total Group sales decreased to 39%, down from 41% in the previous year. The following table presents the development of sales revenue by segment.

### Sales revenue by segment

€m	2017	Share	2016	Share	Change
CFM	331.9	38.6%	317.4	41.2%	+ 4.6%
GMS	510.2	59.3%	444.1	57.7%	+ 14.9%
Corporate	18.0	2.1%	8.3	1.1%	> 100%
<b>Total continuing operations</b>	<b>860.1</b>	<b>100.0%</b>	<b>769.8</b>	<b>100.0%</b>	<b>+ 11.7%</b>
Discontinued operations (PP) <sup>1)</sup>	365.6		419.7		-12.9%
<b>Total</b>	<b>1,225.7</b>		<b>1,189.5</b>		<b>+ 3.0%</b>

<sup>1)</sup> Discontinued operations were sold in the fourth quarter of 2017.

Volume increases had a markedly positive impact of €111.2 million on SGL Group's sales revenue trend in fiscal year 2017. The average US dollar rate in 2017 changed very little in comparison to the previous year, leading to minor currency-related sales deviations. In contrast, the exchange rate of the Japanese yen in particular dropped significantly year on year during the second half of 2017, having an overall negative currency impact of

€15 million on sales revenue. Price decreases only slightly impacted Group sales.

For further details, please see the information regarding the financial performance of our reporting segments.

**Sales revenue by destination**

€m	2017	Share	2016	Share	Change
Germany	226.2	26.3%	206.1	26.8%	+ 9.8%
Europe excluding Germany	188.3	21.9%	170.5	22.1%	+ 10.4%
North America	153.2	17.8%	146.2	19.0%	+ 4.8%
Asia	243.3	28.3%	205.4	26.7%	+ 18.5%
Rest of world <sup>1)</sup>	49.1	5.7%	41.6	5.4%	+ 18.0%
<b>Total</b>	<b>860.1</b>	<b>100.0%</b>	<b>769.8</b>	<b>100.0%</b>	<b>+ 11.7%</b>

<sup>1)</sup> Latin America, Africa, Australia

**Sales revenue by region: Europe remains largest sales market**

SGL Group's business activities continued to focus on Europe (€414.5 million; share in sales: 48%), in which Germany was the largest individual market with revenue of €226.2 million, equating to a 26% share in sales. Asia continues to be the Group's second-most important sales region, with the region's share in sales increasing further to 28% (2016: 27%). Sales in the North American region increased slightly year on year, although its share in Group sales decreased to 18% (2016: 19%).

The decrease in the North American region's share in sales was the result of weaker business in energy-related fields in GMS. The very favorable sales trend seen in Asia was due to increased sales revenue generated by lithium-ion batteries and the solar industry in our reporting segment GMS.

**Sales revenue by origin**

€m	2017	Share	2016	Share	Change
Germany	355.4	41.3%	319.0	41.4%	+ 11.4%
Europe excluding Germany	275.1	32.0%	252.9	32.9%	+ 8.8%
North America	178.2	20.7%	161.5	21.0%	+ 10.3%
Asia	51.4	6.0%	36.4	4.7%	+ 41.2%
<b>Total</b>	<b>860.1</b>	<b>100.0%</b>	<b>769.8</b>	<b>100.0%</b>	<b>+ 11.7%</b>

**New order development**

The order intake situation developed positively in our business units at the end of 2017. All in all, the combined order level in both business units at the end of 2017 was above that of the prior year.

The order intake trend seen in our reporting segment CFM continued to be positive for all market segments in general. The sales level for acrylic fibers continued to be high, as a result of high prices for raw materials and the development of the oil price. In our reporting segment GMS, the order intake volume rebounded noticeably during the first half of 2017, which was confirmed during the subsequent quarters. The primary causes of this were the battery segment, driven by electric mobility, as well as the automotive, LED, and semiconductor segments.

The chemicals market segment has shown signs of a recovery since the third quarter of 2017, in particular as a result of increased demand for systems in Asia. Positive development was also seen in the demand for graphite production in the solar and industrial applications industries.

### Operating profit (EBIT) before non-recurring charges nearly doubles to €40 million

€m	2017	2016	Change
Sales revenue	860.1	769.8	11.7%
Cost of sales	-684.0	-632.9	-8.1%
<b>Gross profit</b>	<b>176.1</b>	<b>136.9</b>	<b>28.6%</b>
Selling expenses	-91.6	-78.9	-16.1%
Research and development costs	-30.7	-30.3	-1.3%
General and administrative expenses	-46.5	-47.4	1.9%
Other operating income/expense	20.0	33.3	-39.9%
Result from investments accounted for At-Equity	12.8	7.1	80.3%
<b>Operating profit/loss (EBIT) before non-recurring charges</b>	<b>40.1</b>	<b>20.7</b>	<b>93.7%</b>
Restructuring expenses	4.9	-9.8	> 100%
Reversal of impairment losses	4.0	12.8	-68.8%
<b>Operating profit/loss (EBIT)</b>	<b>49.0</b>	<b>23.7</b>	<b>&gt; 100%</b>

Sales revenue from SGL Group's continuing operations increased noticeably by €90.3 million, or 11.7%, year on year. The increase in the cost of sales was limited to 8.1% year on year. Despite tariff increases included in salary and wage costs, the personnel expenses included in the cost of sales were kept constant overall due to the further decline in the headcount. During the year under review, the gross margin improved to 20.5% (2016: 17.8%), due to the overall higher capacity utilization and the resulting better absorption of fixed costs. Accordingly, gross profit during the year under review improved considerably to €176.1 million, up from €136.9 million during the previous year.

Other functional costs (selling expenses, research and development expenses, and general and administrative expenses) increased by 7.8% to €168.8 million in comparison to the previous year (2016: €156.6 million). Consequently, functional costs increased less than sales revenues.

### Volume-driven increase in selling expenses

Selling expenses increased by 16.1%, or €12.7 million, to €91.6 million in 2017 (2016: €78.9 million), increasing more than sales revenue. The main reason for the increase was higher freight costs, owing to the considerable increase in delivery volumes in Asia in our reporting segment GMS.

### R&D costs increase due to expansion of LAC

Our R&D activities are focused on developing new types of carbon fibers for the aviation industry, thermoplastic carbon fiber composites, and components for future energy systems. The slight increase in research and development costs was the result of the continued expansion of the new Lightweight and Application Center (LAC) in our reporting segment CFM, as well as lower subsidies for research projects, and amounted to €30.7 million (2016: €30.3 million). Due to the only slight increase in absolute terms, these costs fell to 3.6% of sales (2016: 3.9%).

### General and administrative expenses reduced through savings

General and administrative expenses were reduced by €0.9 million to €46.5 million, down from €47.4 million in the previous year. The higher expenses for management incentive plans and wage increases were both more than offset by savings realized through our CORE project, as anticipated, leading to a reduction in expenses of 1.9%. In addition to personnel costs, the savings realized through CORE primarily consisted of lower costs for business travel, rent, external consultants, company cars and other general expenses.

### Other operating income and expenses

The net amount of other operating income and expenses that cannot be attributed to functional costs equated to an income of €20.0 million in 2017 (2016: income of €33.3 million). Other income in 2017 included compensation of €10.0 million from customers with minimum purchasing requirements (2016: €14.5 million). The hedging of foreign currency positions resulted in net income of €2.6 million in fiscal year 2017 (2016: net expense of €2.3 million). The figure for the year under review also comprised cost allocations to joint ventures of €5.7 million (2016: €7.5 million), income from the sale of fixed assets of €0.7 million (2016: €4.2 million), income from government grants for projects of €1.5 million (2016: €3.7 million), and insurance compensations of €0.4 million (2016: €0.3 million).

### Income from investments accounted for At-Equity increases significantly again

The income from investments accounted for At-Equity increased significantly again during 2017 to €12.8 million from €7.1 million in 2016. This is the fifth year in a row that the result has improved, a development to which all investments accounted for At-Equity contributed in 2017. The increase can especially be attributed to the considerable reduction in losses at Automotive Composites (Benteler SGL), and also to the near 20% improvement in the

result at Ceramic Brake Discs (Brembo SGL). Not only did the business performance of Ceramic Brake Discs continue to be positive, however, but the remaining investments accounted for At-Equity also contributed to Group EBIT with their positive results.

€m	2017	2016	Change
Sales revenue of investments accounted for At-Equity <sup>1)</sup>	275.6	261.4	5.4%

<sup>1)</sup> Aggregated, unconsolidated 100% values for all investments accounted for At-Equity

The aggregated, unconsolidated sales revenue from our investments accounted for At-Equity relate exclusively to our reporting segment CFM, amounting to €275.6 million in 2017 (2016: €261.4 million; 100% aggregated values of each of the companies). Those revenues are not included in the consolidated sales revenue of SGL Group.

### Restructuring projects modified

In view of the positive business development seen within the SGL Group, a fine-tuning to our Bonn2020 and CORE restructuring projects was necessary, allowing some payments for restructuring measures to be avoided. In addition to the adjustments to restructuring provisions in GMS (€2.3 million; 2016: expense of €1.7 million) and Corporate (€0.9 million; 2016: expense of €7.0 million), this item relates to the sale of non-current assets totaling €1.7 million. All in all, the above changes resulted in net income of €4.9 million in fiscal year 2017 (2016: net expense of €9.8 million). In fiscal year 2016, restructuring expenses were primarily incurred in connection with our CORE project, in order to realize cost savings and to implement an additional reduction in headcount.

### Reversal of impairment losses

In December 2017, SGL Group signed an agreement to sell its 51% shareholding in the fully consolidated SGL Kumpers GmbH & Co. KG. The related assets and liabilities were reclassified as held for sale as of December 31, 2017. The sale was completed in mid-January 2018, and led to a value adjustment of €2.2 million already in fiscal year 2017.

The complete takeover of our former joint venture Benteler SGL required an adjustment to the fair value of the shareholding accounted for At-Equity as of the date of acquisition. This resulted in a positive contribution to earnings of €4.1 million in fiscal year 2017.

For the time being, we have decided not to sell our site in Gardena due to the currently favorable order intake trend in the US. Consequently, the related assets have been reclassified as fixed assets instead of being held for sale. The reclassification into non-current assets resulted in a positive contribution to earnings of €3.6 million.

In fiscal year 2017, the items "impairment losses" and "reversal of impairment losses" comprise the negative impact on earnings recognized during the second quarter of 2017, resulting from cumulative currency translation differences of €6.0 million in connection with the sale of the carbon fiber production plant in Evanston (USA) to Mitsubishi Rayon Carbon Fibers & Composites Inc.

The reversal of impairment losses in fiscal 2016 solely comprised reversal of impairments to non-current assets in the amount of €12.8 million in our reporting segment CFM, relating to the carbon fiber plant in Evanston (USA) that was presented as held for sale. For more details, please refer to **Note 9** of the notes to the consolidated financial statements.

### Operating profit (EBIT) before non-recurring charges almost doubles to €40 million

EBIT before non-recurring charges improved significantly to €40.1 million in the year under review, up from €20.7 in the previous year. The corresponding EBIT margin increased to 4.7% in the reporting year, up from 2.7% in 2016. After taking into account non-recurring income of €8.9 million in 2017, and non-recurring income of €3.0 million in 2016, operating profit for fiscal year 2017 amounted to €49.0 million, up from €23.7 million in 2016.

€m	2017	2016	Change
<b>Operating profit/loss (EBIT)</b>	<b>49.0</b>	<b>23.7</b>	<b>&gt; 100%</b>
Financial result	-56.8	-50.9	-11.6%
<b>Result from continuing operations before income taxes</b>	<b>-7.8</b>	<b>-27.2</b>	<b>71.3%</b>
Income tax expense	-5.8	-6.8	14.7%
Non-controlling interests	-2.6	-2.0	-30.0%
<b>Result from continuing operations</b>	<b>-16.2</b>	<b>-36.0</b>	<b>55.0%</b>
Result from discontinued operations, net of income taxes	155.1	-75.7	> 100%
<b>Consolidated net result (attributable to the shareholders of the parent company)</b>	<b>138.9</b>	<b>-111.7</b>	<b>&gt; 100%</b>
Earnings per share, basic (in €)	1.14	-1.19	> 100%
Earnings per share continuing operations, basic and diluted (in €)	-0.13	-0.38	65.8%

**Net financing costs impacted by negative non-recurring effect attributable to the repayment of the corporate bond**

€m	2017	2016	Change
Interest income	1.3	1.1	18.2%
Interest expense	-29.8	-32.2	7.5%
Imputed interest convertible bonds (non-cash)	-8.5	-8.1	-4.9%
Imputed interest financing lease (non-cash)	-1.5	0.0	> -100%
Interest expense on pensions	-6.5	-8.0	18.8%
<b>Interest expense, net</b>	<b>-45.0</b>	<b>-47.2</b>	<b>4.7%</b>
Amortization of refinancing costs (non-cash)	-6.3	-4.4	-43.2%
Foreign currency valuation of Group loans (non-cash)	0.4	1.7	-76.5%
Other financial income/expense	-5.9	-1.0	> -100%
<b>Other financing result</b>	<b>-11.8</b>	<b>-3.7</b>	<b>&gt; -100%</b>
<b>Financial result</b>	<b>-56.8</b>	<b>-50.9</b>	<b>-11.6%</b>

Interest income increased slightly to €1.3 million in 2017 (2016: €1.1 million), in particular due to an interest credit on a tax refund.

Interest expense particularly reflects the cash interest component (coupon) of the corporate bond (interest rate: 4.875%) and the two convertible bonds (2015/2020: interest rate of 3.5%; 2012/2018: interest rate of 2.75%). As a result of the early repayment of the corporate bond that was carried out at the end of October, interest expense for the corporate bond decreased by €2.0 million year on year. The interest on investment projects capitalized in accordance with IFRS only decreased interest expense by €0.3 million (2016: €0.1 million). All in all, cash interest expense decreased to €29.8 million year on year (2016: €32.2 million). The average cash interest rate was 3.7% p.a. in 2017 (2016: 3.7% p.a.).

The non-cash imputed interest on the convertible bonds is established by approximating the below-market coupon with the comparable market interest rate at the time the convertible bonds are issued. Non-cash interest expense of €1.5 million also resulted from the imputed interest of a financial liability related to a capitalized heritable building right, which is shown separately in the net financing result. Due to the decrease in discount rates, interest expense on pensions of €6.5 million was lower than the previous year (2016: interest expense of €8.0 million). All in all, net interest expense declined by 4.7% to €45.0 million as a result of the effects mentioned above, compared with the prior-year expense of €47.2 million.

In addition to the non-cash expense for the amortization of refinancing costs, the other financing result includes currency translation income and expenses arising from intercompany and external loans, as well as other financing income and expenses. Overall, the other financing result amounted to a net expense of €11.8 million in fiscal 2017 (2016: net expense of €3.7 million). The amortization of accrued refinancing costs resulted in an expense of €6.3 million during the year under review (2016: €4.4 million). In fiscal year 2017, this item includes the expense for the remaining transaction costs of €4.2 million that were incurred in connection with the early repayment of our corporate bond in October 2017. Foreign exchange gains and losses from financing our subsidiaries resulted in income of €0.4 million, compared with income of €1.7 million in 2016. Other financial expense amounted to €5.9 million in fiscal year 2017 (2016: expense of €1.0 million). This item primarily consists of the penalty costs of €6.1 million associated with the early repayment of our corporate bond.

The financing result thus decreased by 11.6% during the period under review to a net expense of €56.8 million (2016: net expense of €50.9 million).



### Group tax expense at €5.8 million

The income tax expense amounted to €5.8 million in the reporting period, down from €6.8 million during the previous year. The tax expense in fiscal 2017 was partly the result of a change in the estimation of deferred tax assets of €11.6 million, which mainly relate to the former PP site in Frankfurt-Griesheim. In addition, as a result of the positive earnings trend in our carbon fiber business, it was possible to capitalize deferred taxes on loss carryforwards to a limited extent of €8.2 million, due to the improved earnings outlook in the relevant forecast horizon. In the year under review, tax payments amounted €3.5 million (2016: €5.2 million).

For more information, please refer to **Note 11** of the notes to the consolidated financial statements.

### Slight increase in non-controlling interests

Non-controlling interests (minority interests) comprise our minority partners' share in the consolidated net result (including impairment losses). Within our Group, minority shareholders relate in particular to SGL Kämpers, and SGL A&R Immobiliengesellschaft in Lemwerder (Germany). Altogether, our minority interests amounted to €2.6 million (2016: €2.0 million).

### Discontinued operations contain profit from the disposal of CFL/CE

The result from the discontinued operations of business unit Performance Products (PP) consisted of a profit of €125 million from the sale of our business with cathodes, furnace linings, and carbon electrodes, as well as profit of €3 million resulting from the disposal of our graphite electrodes business. The operating result (before taxes) from discontinued operations of the business unit PP amounted to a net income of €34.1 million (2016: net expense of €31.3 million). In particular, the CFL/CE business with cathodes, furnace linings and carbon electrodes performed as well as expected.

In fiscal year 2016, the result from the discontinued business unit PP was also affected by impairment charges of €18.0 million, which resulted from the valuations of GE business assets at fair value less cost to sell, as well as a tax expense of €25.2 million primarily resulting from deferred tax effects that arose from the legal separation of the activities of business unit PP.

### Consolidated net income

Including non-controlling interests, the consolidated net income for the year attributable to shareholders of the parent company amounted to €138.9 million, compared with a consolidated net loss €111.7 million in 2016. Based on the average number of shares of 122.3 million (2016: 93.7 million shares), basic earnings per share improved to €1.14 (2016: minus €1.19). The diluted earnings per share for the year under review were €1.12 (2016: minus €1.19). No diluted earnings per share were calculated in 2016 due to the loss situation in that fiscal year.

### Overview of financial performance

€m	2017	2016
Sales revenue	860.1	769.8
EBITDA before non-recurring charges	90.7	69.9
Operating profit/loss (EBIT) before non-recurring charges	40.1	20.7
<i>in % of sales revenue</i>	<i>4.7%</i>	<i>2.7%</i>
Consolidated net result (attributable to the shareholders of the parent company)	138.9	-111.7
<i>in % of sales revenue</i>	<i>16.1%</i>	<i>-14.5%</i>
Earnings per share, basic (in €)	1.14	-1.19

### Net result of SGL Carbon SE

SGL Carbon SE, the parent company of SGL Group, reported net profit for the year of €169.3 million in fiscal 2017 (2016: net loss of €309.1 million) in accordance with the German Commercial Code (HGB). The high profit was mainly the result of income transferred from subsidiaries that had disposed of their shares in PP business activities. The net profit for the year, together with the accumulated loss of €1,056.8 million from 2016, resulted in a total accumulated loss of €887.5 million in fiscal 2017.

## Financial performance of the reporting segments

### Composites - Fibers & Materials (CFM): Further improvement in EBIT before non-recurring charges

€m	2017	2016	Change
Sales revenue	331.9	317.4	4.6%
EBITDA before non-recurring charges <sup>1)</sup>	44.2	41.3	7.0%
Operating profit/loss (EBIT) before non-recurring charges <sup>1)</sup>	22.7	20.1	12.9%
Operating profit/loss (EBIT)	23.1	31.8	-27.4%
Return on sales (EBIT-margin) <sup>2)</sup>	6.8%	6.3%	
Payments to purchase intangible assets and property, plant and equipment	11.7	10.8	8.3%
Cash Generation <sup>1) 3)</sup>	0.7	13.3	-94.7%
Depreciation/amortization expense	21.5	21.2	1.4%
Return on capital employed (ROCE EBITDA) <sup>1) 4)</sup>	11.3%	10.9%	+0.4% points
Headcount (Year end)	1,404	1,183	18.7%

<sup>1)</sup> Non-recurring charges include reversal of impairment of €0.4 million and €12.8 million in 2017 and 2016, respectively as well as restructuring expenses of €1.1 million in 2016

<sup>2)</sup> EBIT before non-recurring charges to sales revenue

<sup>3)</sup> EBITDA less payments to purchase intangible assets and property, plant and equipment as well as changes in working capital

<sup>4)</sup> EBITDA before non-recurring charges to average capital employed (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

Sales revenue in our reporting segment CFM increased by 5% (currency adjusted: 6%) in the past year to €331.9 million (2016: €317.4 million), mainly driven by the market segment industrial applications, followed by the automotive and textile fiber market segments. In the market segment industrial applications, sales revenues with carbon fibers for injection molding applications in particular enjoyed excellent growth. In the wind energy market segment, sales revenues were lower than in the previous year due to the significantly lower volume of business at our customers, and this was also the case in the aerospace market, which was characterized in the previous year by one-off order settlements in the materials business for the US aviation industry.

Revenues for our companies accounted for at equity increased by 5% in the year under review to €275.6 million (previous year: €261.4 million; each 100% of the values of the companies) and are not included in the consolidated group revenues. The

primary reason for this development was the increased demand for composite components for the automotive industry and our carbon ceramic brake discs.

Our joint venture with Brembo for the production of carbon ceramic brake discs continued to increase its deliveries in fiscal 2017, leading to slight sales growth in 2017 compared with the prior year period. We were able to improve our earnings substantially as a result of the increase in sales revenues and the efficiency improvements at our production facilities in Meitingen (Germany) and Stezzano (Italy). Capital expenditure in 2017 was a low double amount and served, in particular, to expand capacity, thus securing the intended volume growth for the coming years.

We acquired the interests in our joint venture Benteler SGL (now SGL Composites) for the production of components made of composite materials in mid-December 2017. We were able to increase sales revenues very significantly in 2017. This was due to the consistent upscaling of the production of leaf springs made of fiber-reinforced plastics. In addition, the production of structural components was substantially expended via a larger customer order. Due to the weak first six months, earnings for the year as a whole were still slightly negative.

EBIT before non-recurring charges in the reporting segment CFM improved to €22.7 million in the reporting period, up from €20.1 million in the previous year. Return on sales therefore totaled 6.8% after 6.3% in the previous year. The market segment for industrial applications was also able to lift its earnings thanks to the substantial improvement in capacity utilization at our carbon fiber plant in Muir of Ord (Scotland). Earnings in the automotive market segment increased as a result of the operating improvements at SGL Composites. In addition, an improvement in earnings was also booked for the aerospace market segment. In contrast, lower earnings were recorded in the textile fibers and wind energy market segments. Textile fibers were impacted by higher costs for raw materials and energy, while the more difficult conditions among customers on the wind energy market were reflected in our earnings. The deteriorating currency translation rates towards the end of the year only had a minor impact on earnings, as this business unit still benefited from favorable exchange rate hedging.

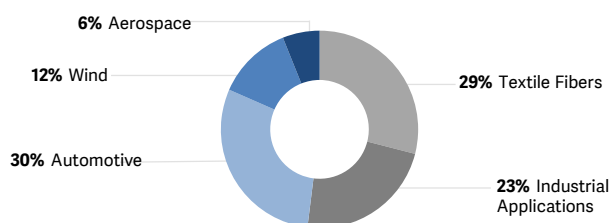
There were slightly positive non-recurring effects of €0.4 million in the year under review (previous year: €11.7 million) resulting from various transactions. We announced the sale of the smaller

carbon fiber production facility in Evanston (USA) to Mitsubishi Rayon Corporation (Japan) on January 10, 2017. This transaction led to a recovery in the value of CFM's assets in the amount of € 12.8 million, which was already disclosed as a positive non-recurring factor in the 2016 annual financial statements. The transaction was closed on April 3, 2017 and, as announced, led to a negative impact on earnings due to the disposal of assets. This was mostly due to allocable accumulated exchange rate differences in the amount of €6.0 million.

In contrast, the sale of our interest in SGL Kumpers and the acquisition of the remaining interest in SGL Composites led to positive non-recurring factors, which more than compensated for the effect described above. SGL Kumpers' assets and liabilities were disclosed as assets and liabilities held for sale as of December 31, 2017. The sale was completed in mid-January 2018 and in fiscal year 2017 this already led to a write-up of €2.3 million on the sale price. The acquisition of SGL Composites led to a write-up of €4.1 million in 2017 due to the change from consolidation at equity to full consolidation, as the interests had to be carried at the higher fair value on the transfer date. Overall, EBIT after non-recurring charges thus amounted to €23.1 million in the CFM reporting segment in fiscal 2017 compared to €31.8 million in the previous year.

Capital expenditure increased slightly in the year under review to €11.7 million compared to €10.8 million. Investments focused, in particular, on the further expansion of the Lightweight and Application Center (LAC) in Meitingen, which is being set up to develop future business with the automotive and aerospace industries.

#### Sales revenue by customer industry, 2017 (CFM)



#### Graphite Materials & Systems (GMS): Battery business enjoying excellent growth

€m	2017	2016	Change
Sales revenue	510.2	444.1	14.9%
EBITDA before non-recurring charges <sup>1)</sup>	70.8	49.8	42.2%
Operating profit/loss (EBIT) before non-recurring charges <sup>1)</sup>	47.8	27.8	71.9%
Operating profit/loss (EBIT)	50.1	26.2	91.2%
Return on sales (EBIT-margin) <sup>2)</sup>	9.4%	6.3%	-
Payments to purchase intangible assets and property, plant and equipment	29.1	15.0	94.0%
Cash Generation <sup>1) 3)</sup>	26.1	39.0	-33.1%
Depreciation/amortization expense	23.0	22.0	4.5%
Return on capital employed (ROCE EBITDA) <sup>1) 4)</sup>	18.0%	12.7%	-
Headcount (Year end)	2,558	2,496	2.5%

<sup>1)</sup> Non-recurring effects of €2.3 million in 2017 and minus €1.6 million in 2016

<sup>2)</sup> EBIT before non-recurring charges to sales revenue

<sup>3)</sup> EBITDA less payments to purchase intangible assets and property, plant and equipment as well as changes in working capital

<sup>4)</sup> EBITDA before non-recurring charges to average capital employed (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

During the period under review sales revenue in the GMS reporting segment increased substantially by 15% to €510.2 million compared to €444.1 million in the prior year (currency adjusted 17%). Almost all market segments exhibited double-digit growth rates with the exception of solar and chemicals, where sales revenues increased by a single-digit percentage. The highest absolute sales revenue increases were recorded by the market segments for batteries and other energy as well as industrial applications. Business with anode materials for lithium-ion batteries (batteries and other energy market segment) grew by a favorable 35%. The chemical market segment, which fell in the first half of 2017, recorded a slight increase over the year as a whole.

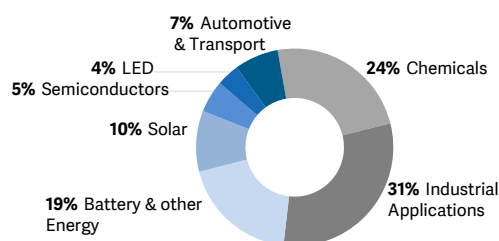
EBIT before non-recurring charges improved by a disproportionate 72% to €47.8 million (previous year: €27.8 million). As a result, the EBIT margin (before non-recurring charges) increased to 9.4%, a substantial improvement compared to the prior-year period (6.3%). This pleasing growth was primarily driven by the market segments industrial applications as well as batteries and other energy. All of the other

market segments also showed slightly higher or stable contributions to earnings. The unfavorable currency translation rates towards the end of the year only had a minor impact on earnings, as the business unit GMS still benefited from favorable exchange rate hedging.

In fiscal year 2017 positive non-recurring charges in the amount of €2.3 million (previous year: minus €1.6 million) were recorded in the business unit GMS from the reversal of provisions no longer required, in particular in connection with the Bonn2020 project. Consequently, EBIT after non-recurring charges amounted to €50.1 million in fiscal 2017 (previous year: €26.2 million).

Capital expenditure in the year under review almost doubled to €29.1 million from €15.0 million in the previous year and focused on replacement and maintenance activities as well as projects to increase capacity for the automotive & transport, LED, industrial applications and battery & other energy market segments (anode material for lithium-ion batteries). The business unit GMS started earlier than planned to increase its capacity for the production of graphite anode materials for the lithium-ion battery industry. These investments were performed at the existing facility in Poland and also in particular at our US facility in Morganton.

#### Sales revenue by customer industry, 2017 (GMS)



#### Corporate: Slight deterioration as the prior year benefited from a positive one-time effect

€m	2017	2016	Change
Sales revenue	18.0	8.3	>100%
EBITDA before non-recurring charges <sup>1)</sup>	-24.3	-21.2	-14.6%
Operating profit/loss (EBIT) before non-recurring charges <sup>1)</sup>	-30.4	-27.2	-11.8%
Operating profit/loss (EBIT)	-24.2	-34.3	29.4%
Headcount (Year end)	231	263	-12.2%

<sup>1)</sup> Non-recurring effects of €6.2 million and minus €7.1 million in 2017 and 2016, respectively

Sales revenue in the Corporate reporting segment more than doubled to €18.0 million (previous year: €8.3 million). The primary reason for this was the sale of the former performance products (PP) activities. Services from PP were booked as internal revenues prior to the sale, and after the sale as revenues with external customers. EBIT before non-recurring charges was as expected at minus €30.4 million (previous year: minus €27.2 million) in the reporting segment Corporate. This was primarily due to a one-off positive effect from the sale of land in Malaysia in 2016. After adjustment for this factor, EBIT in the fiscal year would have remained practically constant.

The positive non-recurring effects in the period under review totaled €6.2 million (2016: minus €7.1 million). We have resolved not to sell the facility in Gardena due to the excellent order book in the USA. The assets previously held for sale were thus reclassified to non-current assets. The reversal of impairment of the reclassified assets had a positive impact on earnings of €3.6 million. In addition, the non-recurring items related to the adjustment of provisions for the CORE project in the amount of €0.9 million and also the sale of non-current assets that had previously been impaired with proceeds of €1.7 million. EBIT after non-recurring charges thus improved to minus €24.2 million compared to minus €34.3 million in the previous year.

## Financial position

### Financial management

SGL Group's financial management is conducted centrally in order to manage liquidity, interest rate and currency risk in the best possible way, to ensure compliance with lending provisions, to optimize financing costs, and to utilize economies of scale. Financial management activities primarily cover cash and liquidity management, Group financing via bank and capital market products, financing activities to supply funds to Group companies, customer credit management, and the management of interest rate and currency risk.

The primary objective of financial management at SGL Group is to maintain the Group's financial strength and to ensure solvency at all times. Group Treasury, a centralized function at SGL Carbon SE, the Group holding company, governs worldwide financial management activities and is supported in its activities by employees at our local subsidiaries.

### Liquidity management

Operational liquidity management is centrally coordinated and managed in close cooperation with our subsidiaries on a global basis. Insofar as permitted by legal and economic frameworks, the major portion of cash in readily convertible currencies is concentrated at SGL Carbon SE, the Group holding company, by means of global cash pooling structures, and is used to balance intercompany liquidity needs. The majority of internal trading and clearing transactions is automated and settled via a central in-house cash center without the need for external bank accounts. The Group holding company acts as a clearing center for the Group companies participating in the process. Following the sale of our business unit PP, the number of Group companies that participate in the centralized in-house cash center decreased to 26 as of December 31, 2017, down from 43 at the end of fiscal year 2016. Weekly settlement of supplier invoices is also handled through the global in-house cash center insofar as permissible, thus allowing central management of a large portion of the Group's global cash outflows. In fiscal year 2017, an average of approximately 90% of global supplier payments were handled centrally (2016: 77%). SGL Group constantly endeavors to increase the efficiency and transparency of payment transactions by maintaining a high degree of standardization and implementing continuous improvement processes. In order to safeguard the standards we have attained, we work with monthly KPIs (key performance indicators), which allow us to constantly measure the degree of payment transaction standardization we have

achieved and the related average costs, as well as to continuously improve our system.

In addition to annual finance planning, which generally covers a period of five years, current liquidity planning is undertaken for short intervals of one day to one year. By combining finance and liquidity planning as well as by using the available liquidity, unused credit lines, and other financing options, we ensure that SGL Group has adequate liquidity reserves at all times. Those reserves allow SGL Group to respond flexibly to cash flow fluctuations during the year and to meet all payment obligations on time at all times.

Our financing agreements include stipulations regarding the investment of available cash funds. The stipulations form the basis for all cash investments. Another area we focus on with regard to the investment of cash funds is ensuring sufficient liquidity to cover cash flow fluctuations during the fiscal year and ensuring the financial stability and systemic relevance of our business partners. When investing funds, we also take the performance and success of collaboration with business partners in recent years into account (core bank concept).

### Group financing

Group financing is geared to the strategic business plans of our operating business units as well as to central Group planning. Various sources of financing and financing options are examined on a regular basis to ensure that the Group's financing requirements are covered at all times with due consideration to the Group's financing objectives. As a result of the successful sale of our business unit PP, we were able to considerably strengthen our liquidity position, which increased our total cash and cash equivalents to €382.9 million by year-end 2017, and gives us a more than sufficient liquidity reserve for fiscal year 2018.

In past years, selected properties, IT equipment, and vehicles were financed in part via operating leases. Further details can be found in **Note 27** of the notes to the consolidated financial statements.

### Market price risks

In order to limit financial market price risks, particularly currency and interest rate risk, SGL Group utilizes both primary and derivative financial instruments. Derivative financial instruments are used exclusively to mitigate and manage financial risk. In the context of foreign currency management, SGL Group concentrates on hedging transaction risks from

future expected operating cash flows. In doing so, we consider the following major risk exposures:

- US dollar – euro
- US dollar – Japanese yen
- US dollar – British pound
- Japanese yen – euro
- Euro – Polish zloty

Currency forward and, on a case-by-case basis, standardized (plain vanilla) options are the instruments used by the Group to hedge currency risk. Interest rate hedging is not necessary at present given our use of mostly fixed-interest financing instruments, for which reason no interest rate hedges were entered into in fiscal year 2017. The anticipated risk from currency fluctuations has been adequately hedged for fiscal year 2018. Internal guidelines specify the conditions, responsibilities, and controls required for the use of derivatives. Further details on hedging instruments and the effects of hedging can be found in **Note 29** of the notes to the consolidated financial statements.

### Debt financing analysis

Following the early repayment of our corporate bond, SGL Group's financing is primarily composed of the convertible bond 2012/2018 in the amount of €239.2 million (coupon: 2.75%, maturing in 2018), and the convertible bond issued in fiscal year 2015 in the amount of €167 million (coupon: 3.50%, maturing in 2020). In addition, the Group has a credit facility in the amount of €50 million, which remains undrawn as of the reporting date. The facility runs until the end of 2019. The convertible bond maturing in 2018 was fully repaid at maturity in January 2018. The pro-rata financing of the ACF joint venture with BMW in the amount of €98.1 million as of December 31, 2017, was undertaken entirely by BMW Group.

All in all, undrawn credit facilities amounting to €51.4 million (2016: €56.1 million) were available to SGL Group at year-end 2017 to cover working capital and capital expenditure. Cash and cash equivalents totaled €382.9 million as of December 31, 2017 (2016: €333.0 million).

Since 2004, SGL Group has commissioned rating agencies Moody's and Standard & Poor's (S&P) to prepare issuer ratings, which support both private and institutional investors in evaluating the Group's credit quality. At present, SGL Group has ratings of CAA1 (Moody's) and B- (Standard & Poor's), both with a positive outlook.

The rating agencies have published the following corporate ratings for SGL Group:

Rating agency	Rating	Date of rating
Moody's	CAA1 (Outlook: positive)	September 2017
Standard & Poor's	B- (Outlook: positive)	October 2017

With the credit ratings issued by the rating agencies, SGL Group continues to have access to the capital markets should it decide to issue any further capital market instruments.

### One time payments result in high positive free cash flow

The cash flow statement shows the change in cash and cash equivalents of SGL Group in the reporting period and is composed of cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. Free cash flow is defined as cash flow from operating activities less cash flow from investing activities. The cash and cash equivalents shown on the cash flow statement correspond to "cash and cash equivalents" as reported on the balance sheet. Cash funds further include short-term time deposits with original terms of up to twelve months (2017: €0.0 million; 2016: €5.0 million). The cash flow statements for the reporting period and the previous year have been adjusted to reflect the reclassification of the Performance Products (PP) and Aerostructures (AS) businesses as discontinued operations.

Free cash flow from continuing operations deteriorated to minus €144.7 million, compared with minus €48.1 million in the previous year. Together with the net cash provided by the operating activities of discontinued operations in the amount of €34.2 million (2016: €1.8 million) and the net cash provided by the investing activities of discontinued operations of €424.5 million (2016: €34.7 million), the total free cash flow amounted to €314.0 million, compared with minus €81.0 million in 2016 (for more details, please see the consolidated cash flow statement in the consolidated financial statements).

**Liquidity and capital resources**

€m	2017	2016	Change
<b>Cash flow from operating activities</b>			
Result from continuing operations before income taxes	-7.8	-27.2	71.3%
Non-recurring charges	-8.9	-3.0	> -100%
Depreciation/amortization expense	50.6	49.2	2.8%
Changes in working capital	-89.2	-17.3	> -100%
Income taxes paid	-3.5	-5.2	32.7%
Miscellaneous items	-23.5	-12.7	-85.0%
<b>Cash flow from operating activities - continuing operations</b>	<b>-82.3</b>	<b>-16.2</b>	<b>&gt; -100%</b>
<b>Cash flow from investing activities</b>			
Payments to purchase intangible assets and property, plant and equipment	-52.9	-34.6	-52.9%
Dividend payments and capital repayments from investments accounted for At-Equity	6.0	9.0	-33.3%
Payments for capital contributions concerning investments accounted for At-Equity and investments in other financial assets	-5.0	-7.0	28.6%
Payments for the acquisition of subsidiaries, net of cash acquired	-33.4	0.0	--
Proceeds from the sale of intangible assets and property, plant & equipment	22.9	0.7	> 100%
<b>Cash flow from investing activities - continuing operations</b>	<b>-62.4</b>	<b>-31.9</b>	<b>-95.6%</b>
<b>Free Cash flow<sup>1)</sup></b>	<b>-144.7</b>	<b>-48.1</b>	<b>&gt; -100%</b>
Changes in time deposits	5.0	9.0	-44.4%
Cash flow from financing activities - continuing operations	-263.1	163.2	> -100%
Free cash flow from discontinued operations <sup>2)</sup>	458.7	-32.9	> 100%
Effect of foreign exchange rate changes and other changes	-1.0	0.0	--
Cash and cash equivalents at beginning of year	328.0	236.8	38.5%
<b>Cash and cash equivalents at end of year - continuing and discontinued operations</b>	<b>382.9</b>	<b>328.0</b>	<b>16.7%</b>
Time deposits at end of year	0.0	5.0	-100.0%
Total liquidity	<b>382.9</b>	<b>333.0</b>	<b>15.0%</b>
<b>Net change in total liquidity - continuing and discontinued operations</b>	<b>49.9</b>	<b>82.2</b>	<b>-39.3%</b>

<sup>1)</sup> Cash flow from operating activities - continuing operations, minus cash flow from investing activities - continuing operations

<sup>2)</sup> Cash flow from operating activities - discontinued operations, minus cash flow from investing activities - discontinued operations

### Net cash used in continuing operating activities amounted to €82.3 million

In fiscal 2017, net cash used in operating activities (continuing operations) increased significantly to €82.3 million, up from €16.2 million in the prior-year period. The increase was mainly due to the significantly higher cash outflow resulting from changes to working capital.

After adjusting for the changes in working capital resulting from the consolidation of assets for the first time and from the reclassification of assets as held for sale, working capital increased to €318.5 million as of December 31, 2017, (December 31, 2016: €254.2 million). The changes were also impacted by exchange rate effects relating to the drop in the US dollar as of the balance sheet date. After adjustment for currency effects, the operational increase in working capital totaled €89.2 million



(2016: increase of €17.3 million). In contrast, tax payments decreased slightly by €1.7 million to €3.5 million (2016: €5.2 million).

The cash flow shown under “Miscellaneous items” primarily reflects the payments made in the reporting period relating to restructuring, totaling €12.4 million (2016: €6.5 million). Higher interest payments in the amount of €35.6 million (2016: €31.3 million) also contributed to the cash outflow for continuing operations. Free cash flow from continuing operations amounted to minus €144.7 million in fiscal 2017 (2016: minus €48.1 million).

#### **Net cash used in continuing investing activities includes purchase price for the acquisition of SGL Composites**

This item reflects payments for intangible assets and property, plant and equipment, equity-accounted investments, payments for company acquisitions, and proceeds from the disposal of non-current assets. Capital expenditure amounted to €52.9 million in fiscal 2017, which was significantly above the prior-year level (€34.6 million). This can primarily be attributed to the expansion of production capacities at GMS for the market segments Mobility and Energy (anode material for lithium ion batteries). The figures for fiscal year 2017 include cash inflows of €1.0 million relating to investments accounted for At-Equity (2016: cash inflows of €2.0 million). Payments received from joint ventures totaling €6.0 million (2016: €9.0 million) were offset by payments for capital increases at Benteler SGL of €5.0 million (2016: €7.0 million).

The payments for acquisitions of subsidiaries include the purchase price of €33.4 million for the acquisition of 50% of the shares in SGL Composites (formerly Benteler SGL), located in Ried, Austria and Paderborn (Germany). Payments received from the disposal of non-current assets and property, plant and equipment primarily include cash inflows from the sale of the carbon fiber plant in Evanston, as well as payment received for the sale of land in Banting, Malaysia, which took place in fiscal 2016. Consequently, the cash outflow from investing activities increased considerably by €30.5 million to €62.4 million in the reporting year, up from €31.9 million in the previous year.

#### **Capital expenditure, depreciation and amortization<sup>1)</sup>**

€m	2017	2016
Payments to purchase intangible assets and property, plant and equipment	53	35
Depreciation/amortization expense	51	49

<sup>1)</sup> Including proportional consolidation of SGL ACF, excluding discontinued operations

Capital expenditure for intangible assets and property, plant and equipment was distributed as follows in fiscal year 2017: 22% for CFM (€11.7 million; 2016: €10.8 million), 55% for GMS (€29.1 million; 2016: €15.0 million), and 23% for central projects (€12.1 million; 2016: €8.8 million). The comparative figures for the previous year were 31% for CFM, 44% for GMS, and 25% for central projects. €13.7 million was invested in discontinued operations of PP (2016: €13.6 million).

All in all, other intangible assets and property, plant and equipment increased by €39.1 million to €549.4 million in fiscal year 2017 (2016: €510.3 million). Due to the first-time consolidation of SGL Composites, fixed assets increased by €53.4 million. In contrast, fixed assets decreased by a total of €32.7 million as a result of currency effects, particularly due to the drop in the US dollar as of the balance sheet date, as well as by €11.0 million due to the disposal of SGL Kumpers. Proceeds from the disposal of non-current assets amounted to €0.7 million in fiscal 2016 and related mainly to the sale of properties in Malaysia not required for operations, for which the main payment was not received until January 2017. Proceeds from other non-current financial assets in 2016 include €0.9 million from the sale of an 11% shareholding in the stadium company of FC Augsburg.

#### **Net cash provided by/used in continuing financing activities**

In the year under review, net cash used in financing activities (continuing operations) amounted to €263.1 million, after net cash inflow of €163.2 million in 2016. The cash outflow in fiscal year 2017 was primarily due to the early repayment of our corporate bond in October 2017 in the amount of €250.0 million, which resulted in an early redemption penalty of €6.1 million. A net cash inflow of €0.5 million also occurred during the year under review as a result of the borrowing and repayment of financial liabilities (2016: outflow of €5.9 million). This item also includes share purchase payments for subsidiaries that are already consolidated. For that purpose, a total payment of €1.9 million was made during the year under review for the acquisition of an additional 49% of the shares in SGL Tokai

Process Technology (Singapore) during fiscal year 2017. Furthermore, this item also includes the final installment of €2.4 million on the purchase price for the acquisition of shares in Fisipe. During the previous year, there was a net cash inflow of €173.3 million from the capital increase carried out in December 2016, resulting from gross proceeds of €180.4 million less costs incurred of €7.1 million.

### Free cash flow from discontinued operations

The free cash flow from discontinued operations primarily relates to our former PP business, and consists of the cash inflow from operating activities and the cash inflow from investing activities, which includes purchase price payments and other payments made in connection with the disposal of PP. The cash inflow from operating activities for discontinued operations increased to €34.2 million in fiscal year 2017, up from €1.8 million in the previous year. The increase was due to improvements to operations in Graphite Electrodes (GE), as well as to the discontinuation of restructuring payments for PP in particular. The cash inflow from investing activities for discontinued operations was €424.5 million in fiscal year 2017 (2016: cash outflow of €34.7 million). Provisional purchase price payments received for the disposal of PP activities totaled €461.2 million during the fourth quarter. Disposal costs of €15.0 million were incurred in this connection. Furthermore, this item also includes payments for capital expenditure in property, plant and equipment for PP activities of €13.7 million (2016: payments of €13.6 million), as well as the payment from the final installment of the negative purchase price still outstanding on the disposal of our aerostructures business with HITCO of €8.2 million (2016: payments made in connection with the disposal of our aerostructures business with HITCO of about USD 18 million). All in all, the free cash flow from discontinued operations totaled €458.7 million, compared with minus €32.9 million in the previous year.

### Liquidity increases to €383 million

As a result of the disposal of PP activities, available liquidity increased to €382.9 million as of the end of fiscal year 2017 (2016: €333.0 million). At the end of the fiscal year 2017, liquidity did not include any short-term deposits (2016: short-term deposits of €5.0 million).

### Contractual payment obligations

The most significant contractual payment obligations comprise the repayment of debt, purchasing obligations and lease obligations. The total principal amount of debt repayment and

settlement obligations was €521.9 million in 2017 (2016: €782.4 million). The decrease resulted from the early repayment of our corporate bond in the amount of €250 million in October 2017 (originally due to mature in 2021). The loans taken out by the SGL ACF joint venture are repaid in installments from SGL ACF's free cash flow. The remaining amount is due for repayment in 2020. The outstanding amount of the convertible bond issued in fiscal year 2015 in a principal amount of €167 million is due for repayment in 2020 unless the bondholders exercise their conversion rights before maturity, in which case up to 9.8 million new bearer shares will be created. The convertible bond issued in fiscal year 2012 with an outstanding volume of €239.2 million was repaid upon maturity in January 2018.

As of December 31, 2017, trade payables, derivative financial instruments, and other financial liabilities totaled €116.1 million (2016: €162.4 million). Of that amount, liabilities totaling €21.2 million were due after one year (2016: €35.4 million). Income tax liabilities and other liabilities amounted to an additional €21.1 million at the end of 2017 (2016: €23.0 million). Further details can be found in **Note 26** of the notes to the consolidated financial statements.

## Net assets

### Overview of net assets

€m	Dec. 31, 17	Dec. 31, 16
Total assets	1,541.7	1,899.2
Equity attributable to the shareholders of the parent company	457.0	331.8
Equity ratio	29.6%	17.5%
Working capital <sup>1)</sup>	318.5	254.2
Capital employed <sup>2)</sup>	896.0	829.9
Return on capital employed (ROCE EBITDA) <sup>3)</sup>	10.5%	8.4%
Return on capital employed (ROCE EBIT) <sup>4)</sup>	4.6%	2.5%
Net financial debt	139.0	449.4
Gearing <sup>5)</sup>	0.30	1.35

<sup>1)</sup> Continuing Operations: Total of inventories and trade receivables less trade payables

<sup>2)</sup> Continuing Operations: Total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital

<sup>3)</sup> EBITDA before non-recurring charges to average capital employed - continuing operations

<sup>4)</sup> Operating profit/loss (EBIT) before non-recurring charges to average capital employed

<sup>5)</sup> Net financial debt to equity attributable to the shareholders of the parent company

As of December 31, 2017, total assets decreased by €357.5 million, or 18.8%, to €1,541.7 million (2016: €1,899.2 million). Balance sheet KPIs

changed significantly in the reporting year due to the disposal of PP activities. In addition to the disposal of PP totaling €510 million, total assets also decreased as of December 31, 2017, as a result of a €36.0 million reduction in deferred tax assets. Currency effects, in particular due to the drop in the US dollar, also contributed to the decrease in total assets by €54.3 million (2016: decrease of €0.7 million). In contrast, the €49.9 million increase in cash and cash equivalents, and the first-time consolidation of SGL Composites totaling €73.3 million, both led to an increase in total assets.

Equity attributable to the shareholders of the parent company increased as a result of the consolidated net result of €138.9 million, which in particular includes gains of €125 million on the disposal of our CFL/CE business. Changes in equity were caused both by the adjustment of deferred tax assets in the amount of minus €39.6 million, and currency effects in the amount of €19.1 million. A direct increase in equity was caused by adjustments to pension provisions in the amount of €0.7 million (after tax effects). In total, these effects led to an increase in the equity ratio to 29.6% year on year (2016: 17.5%).

Gearing – the ratio of net financial debt to equity attributable to the shareholders of the parent company – improved to 0.30 (2016: 1.35). As a manufacturing company, SGL Group has a high proportion of non-current assets due to its production equipment, which is largely financed by equity (71%; 2016: 52%). The return on capital employed –  $ROCE_{EBIT}$  – defined as the ratio of operating profit (EBIT) before non-recurring charges to average capital employed – improved to 4.6% in the year under review (2016: 2.5%). The return on capital employed –  $ROCE_{EBITDA}$  – defined as the ratio of operating profit before depreciation and amortization (EBITDA) and before non-recurring charges to average capital employed – improved to 10.5% in the year under review (2016: 8.4%).

#### Balance sheet structure

€m	Dec. 31, 17	Dec. 31, 16	Change
<b>ASSETS</b>			
Non-current assets	641.0	636.2	0.8%
Current assets	882.8	722.3	22.2%
Assets held for sale	17.9	540.7	–96.7%
<b>Total assets</b>	<b>1,541.7</b>	<b>1,899.2</b>	<b>–18.8%</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to the shareholders of the parent company	457.0	331.8	37.7%
Non-controlling interests	11.3	16.1	–29.8%
Non-current liabilities	616.0	1,127.4	–45.4%
Current liabilities	446.1	237.3	88.0%
Liabilities in connection with assets held for sale	11.3	186.6	–93.9%
<b>Total equity and liabilities</b>	<b>1,541.7</b>	<b>1,899.2</b>	<b>–18.8%</b>

#### Assets

**Non-current assets** increased by a total of €4.8 million to €641.0 million in the reporting year (2016: €636.2 million). In the year under review, consolidation and reclassification led to a total increase of €56 million. As part of that increase, the first-time consolidation of SGL Composites and the inclusion of property in Gardena (USA) led to a total addition to non-current assets of €74 million. In contrast, the reclassification of the assets of SGL Kumpers as assets held for sale, as well as the carrying amount of a parcel of land in Canada no longer required for operations, resulted in a €17.9 million reduction in non-current assets. Limiting the tax planning period for the recognition of deferred taxes led to a total reduction of €36.0 million in this item (2016: increase of €6.3 million). Currency translation decreased non-current assets by €32.7 million, in particular as a result of the drop in the US dollar (2016: increase of €0.1 million). Depreciation on property, plant and equipment was close to the level of capital expenditure in fiscal year 2017, and in total did not have any significant impact on non-current assets (2016: decrease of €14.6 million). The carrying amount of investments accounted for At-Equity increased by €5.6 million due to the positive pro-rata earnings of associates, even though SGL Composites is now fully consolidated and therefore no longer carried under investments accounted for At-Equity (2016 carrying amount: €4.8 million).

**Current assets** increased by €160.5 million to €882.8 million (2016: €722.3 million). Changes in exchange rates, especially with respect to the weaker US dollar, decreased current assets by

€19.1 million. After adjustment for currency effects, current assets increased by €179.6 million, which was primarily the result of the sale of PP. Cash funds increased by €49.9 million due to the disposal of PP. In addition, still to be paid purchase price components relating to the disposal of PP expected to total €62 million are also due during the first half of 2018. The operational increase in current assets relates in particular to the €48.2 million increase in trade receivables. The increase was primarily the result of the significant increase in the business volume of GMS. The 42% increase in trade receivables on the balance sheet exceeded the 12% increase in sales revenue. After adjusting for currency effects, inventories increased by €26.2 million, or 9.7% year on year, due to the higher inventory of semi-finished and finished products as a result of the increase in business volume.

**Assets held for sale** decreased from €540.7 million in the previous year to €17.9 million as of the end of 2017. Following the disposal of the assets of the former business unit PP totaling €510 million during the fourth quarter, and the reclassification of the assets pertaining to the Gardena site as fixed assets, at the end of fiscal year 2017 this balance sheet item still contained the land held for sale in Lachute (Canada) and the assets of SGL Kumpers.

### Equity and liabilities

**Shareholders' equity** increased by €125.2 million to €457.0 million as of December 31, 2017 (2016: €331.8 million). The increase was mainly the result of gains of €155.1 million on the disposal of discontinued PP operations, in particular the CFL/CE business. The increase was partially offset by the consolidated net loss from continuing operations including minorities of €16.2 million. Limiting the tax planning period for the recognition of deferred taxes led to write-downs on equity of €39.6 million, recognized under other comprehensive income. Additional factors that affected equity were the adjustment to discount rates for pension provisions in Germany and the US to reflect the lower interest rates, which increased equity by €0.7 million (after tax effects), as well as currency gains of €19.1 million (2016: losses of €12.5 million). Currency translation effects were particularly caused by the reversal of the accumulated foreign exchange losses of PP totaling €35.6 million, which were partially offset by the €11.9 million loss resulting from the drop in the US dollar. Changes in cash flow hedges of €0.5 million (2016: €1.4 million) also directly increased equity. The equity ratio (excluding non-controlling interests) increased to 29.6% at the end of the year under review (2016: 17.5%).

	Equity attributable to the shareholders	Non-controlling interests	Total equity
<b>Jan 1, 17</b>	<b>331.8</b>	<b>16.1</b>	<b>347.9</b>
<b>Dividends</b>	<b>0.0</b>	<b>-0.5</b>	<b>-0.5</b>
Net result for the year	138.9	2.6	141.5
Other comprehensive income	-16.2	-0.8	-17.0
<b>Comprehensive income</b>	<b>122.7</b>	<b>1.8</b>	<b>124.5</b>
Other changes in equity <sup>1)</sup>	2.5	-6.1	-3.6
<b>Dec. 31, 17</b>	<b>457.0</b>	<b>11.3</b>	<b>468.3</b>

<sup>1)</sup> In particular in connection with non-controlling interests in subsidiary partnerships

The decrease in **non-current liabilities** was connected with the early repayment of the corporate bond originally issued in the amount of €250 million, and the reclassification of the outstanding amount of the convertible bond 2012/2018 of €239.2 million, which is shown under current liabilities as of December 31, 2017. The €13.0 million decrease in pension provisions to €293.0 million was primarily the result of the increased fair value of attributed plan assets, as well as currency effects resulting from the drop in the US dollar. In contrast, the adjustment to discount rates for pension provisions in Germany (by -0.1 percentage points to 1.70%) and the US (by -0.4 percentage points to 3.60%) to reflect the lower anticipated interest rate climate, increased this balance sheet item slightly. The increase was more than offset by the interest relating to negative currency effects of €7.7 million, as well as by higher income of €6.5 million on pension assets, causing a total reduction in pension provisions of €13.0 million. All in all, non-current liabilities decreased substantially by €511.4 million to €616.0 million (2016: €1,127.4 million).

**Current liabilities** increased by €208.8 million to €446.1 million as of year-end 2017 (2016: €237.3 million), particularly due to the convertible bond 2012/2018 amount of €239.2 million now being shown under this item. Trade liabilities decreased noticeably by €14.6 million to €89.3 million year on year (2016: €103.9 million). Adjusting for currency effects of €2.6 million and consolidation impacts of €2.9 million results in an operational decrease in trade liabilities of €14.9 million. The slight €4.5 million increase in current other provisions is the result of the first-time consolidation of SGL Composites in the amount of €6.5 million, which was offset by

the utilization of restructuring provisions during the year under review.

#### Net financial debt

€m	Dec. 31, 17	Dec. 31, 16	Change
Carrying amount of current and non-current financial liabilities	503.4	751.9	-33.0%
Book value of debt held for sale	2.8	0.0	---
Remaining imputed interest for the convertible bonds	12.0	20.5	-41.5%
Accrued refinancing cost	3.7	10.0	-63.0%
<b>Total financial debt (nominal amount)</b>	<b>521.9</b>	<b>782.4</b>	<b>-33.3%</b>
Liquidity - continuing operat.	379.3	329.5	15.1%
Liquidity - Assets held for sale	3.6	3.5	2.9%
<b>Total liquidity - continuing and discontinued operations</b>	<b>382.9</b>	<b>333.0</b>	<b>15.0%</b>
<b>Net financial debt - continuing and discontinued operations</b>	<b>139.0</b>	<b>449.4</b>	<b>-69.1%</b>
thereof: SGL ACF			
Non-current financial liabilities	98.1	117.1	-16.2%
Cash and cash equivalents	1.2	6.9	-82.6%
Net financial debt SGL ACF	96.9	110.2	-12.1%
<b>Net financial debt excl. SGL ACF</b>	<b>42.1</b>	<b>339.2</b>	<b>-87.6%</b>

Financial liabilities at year-end 2017 were composed of our convertible bonds 2012/2018 and 2015/2020, liabilities to local banks, the pro-rata financial liabilities of SGL ACF and other financial liabilities, as well as the remaining net imputed interest component for the convertible bonds still outstanding and refinancing costs. Financial liabilities are recorded in the consolidated balance sheet under "interest-bearing loans" and "current portion of interest-bearing loans." Liquidity comprises the "cash and cash equivalents" of continuing and discontinued operations, as well as "time deposits" (with a residual term of less than 12 months).

As a result of the proportional consolidation of SGL ACF, net financial debt of €96.9 million is included as of December 31, 2017 (2016: €110.2 million). The financial liabilities of SGL ACF are comprised of BMW Group shareholder loans.

As of December 31, 2017, **liquidity** had increased to €382.9 million (2016: €333.0 million), mainly as a result of purchase price payments of €461.2 million from the disposal of PP, less the

repayment of the corporate bond with a principal amount of €250 million, and the negative free cash flow of €144.7 million. Taking into account the liquidity of continuing operations and assets held for sale, current and non-current financial liabilities of €503.4 million (2016: €751.9 million), the remaining imputed interest components of the convertible bonds in the amount of €12.0 million (2016: €20.5 million), and the remaining refinancing costs of €3.7 million (2016: €10.0 million), the net financial debt of SGL Group amounted to €139.0 million at year-end 2017 (2016: €449.4 million). Net financial debt thus decreased by €310.4 million, or 69.1%, compared with December 31, 2016.

#### Assets not recognized and off-balance sheet financial instruments

Various assets of the SGL Group are not included in the balance sheet. These off-balance sheet assets primarily concern leased and rented goods (operating leases for land, buildings, computer equipment, vehicles and other property, plant and equipment).

The total value of these off-balance sheet items and financing instruments has had no major effect on the presentation of net assets, financial position and results of operations of the Group. Further details can be found in **Note 27** of the notes to the consolidated financial statements.

The off-balance sheet immaterial assets also include the company's brand name and the brand names for our products. In addition, our long-term relationships with suppliers and customers also have considerable value. For one thing, these relationships stabilize the course of our business and shield us from short-term market fluctuations. In addition, this very close cooperation also facilitates joint research and development projects in which the expertise and development capacities of the companies involved can be concentrated.

#### Funding status of pension obligations

The funding status of pension obligations, which represents the difference between the present value of the pension obligations and the fair value of the plan assets, was minus €290.0 million as of December 31, 2017 after minus €303.0 million as of December 31, 2016. As of December 31, 2017, the Group's pension obligations totaled €397.2 million compared with €403.4 million in the previous year. This reduction was due, in particular, to currency changes. The actuarial losses from defined benefit pension plans recognized in equity (under retained earnings) increased by €0.7 million after taxes. The status of the plan assets designated to fund the pension obligations increased from €100.4 million at

the end of the previous year to €107.2 million as of December 31, 2017.

Further information on the effects in the balance sheet and the income statement and on pensions and similar obligations can be found in **Note 24** of the notes to the consolidated financial statements.

### **General statement on the current financial situation**

#### **Business overview fiscal year 2017**

During the past fiscal year, we launched the new SGL Group and successfully completed our strategic realignment. We sold our former business unit Performance Products and placed it in good hands. With the cash proceeds, we have significantly reduced our debt and put our company back on a financially solid foundation. Now we can dedicate our entire attention to the two growth areas CFM and GMS and the enormous potential they offer.

The full acquisition of the interests in our formed joint ventures Benteler SGL in December 2017 and SGL Automotive Carbon Fibers (SGL ACF) in January 2018 means that we have invested in our future and our growth strategy, and thus placed our business unit CFM in an excellent position. In future, the new SGL Group will serve the entire value chains in both business units from a single source - from raw materials through to finished components.

In addition, we have adjusted our administrative structures and costs to the size of the new SGL Group, and aligned our organization to our strategic goals with project CORE in 2017. We were able to fully meet our expectations for our CORE project in 2017. This is also reflected in the result for the Corporate segment, where expenses were lower than our original forecasts.

The key issues for SGL's profitable growth are not only our sales organization and our technical service, but also our production facilities. As a result, together with the heads of the business units, we decided to develop and introduce a company-wide, uniform, standardized management system spanning all locations and business units for our production activities in the form of our "SGL Operations Management System" (SGL OMS). This aims to ensure lean processes, high efficiency and the best product quality, and thus constantly high customer satisfaction levels.

We have reached the financial targets we had set for fiscal year 2017. In total our EBIT and EBITDA in 2017 were significantly higher than in the previous year. We recorded a significantly higher contribution to earnings in our GMS business unit in particular. Earnings in the CFM unit were also higher than in the previous year.

In total, we have been able to substantially improve our earnings (continuing operations) as expected, even though we continued to record a loss.

#### **Assessment of the financial situation by company management**

The businesses of SGL Group began the fiscal 2018 with overall favorable developments. Revenues invoiced in the initial weeks of 2018 were higher than the prior-year level.

In the reporting segment Composites – Fibers & Materials, we are expecting sales revenue to increase in the first quarter of 2018. The full consolidation of SGL ACF and SGL Composites in the first quarter of 2018 will significantly increase the level of revenues in the automotive segment, whereas the sale of SGL Kumpers will lead to a reduction in the market segment for wind energy.

At GMS, business with graphite specialties started in the first quarter of 2018 at around the same level as in the previous year. We are expecting further increases in deliveries to customers from the second quarter of 2018, as was also the case in the previous year.

SGL Group's total sales revenue in the first quarter of 2018 will be above the level of the prior-year quarter, in particular due to effects from the acquisitions.

The restructuring activities in the previous years have mostly been completed. We also already implemented the majority of the activities for the CORE project in the past fiscal year. As a result we are not expecting any material impact on earnings from one-off expenses in fiscal year 2018.

As announced, we limited our capital expenditure in 2017 to the level of our amortization and depreciation. In order to exploit our opportunities for growth over the short term we have initiated a series of projects which will lead to an increase in capital expenditure in 2018.



Our free cash flow was once again negative in fiscal year 2017 in line with expectations despite the improved earnings from continued operations. This was also due to the reinforcement of our value chain in our business unit CFM by acquiring SGL Composites.

The proceeds from the sale of the former business unit PP allowed us to substantially reduce our financial debt. As a result, we will significantly reduce our interest charges and thus also the expenses in our financial result.

### Accounting principles used and significant estimates made

SGL Group prepares its consolidated financial statements in accordance with IFRS, as detailed in the notes to the consolidated financial statements. The principles described in the notes to the consolidated financial statements are integral to an understanding of SGL Group's financial position, financial performance, and cash flows. Under IFRS, it is necessary to make estimates in certain cases. Such estimates involve subjective evaluations and expectations that are based on uncertainty and are subject to change. As a result, assessments may change over time and thus impact the presentation of SGL Group's financial position, financial performance, and cash flows. The Board of Management therefore points out that estimates are routinely adjusted, given that unforeseeable events may alter expectations.

Additional information on accounting principles involving estimates and assumptions can be found in **Note 2** of the notes to the consolidated financial statements.

Discretionary decisions are also made by management in relation to the application of other IFRS standards. As discussions concerning the application of several IFRS standards are currently ongoing, it is not inconceivable that future decisions published on the application of IFRSs will lead to an interpretation that differs from the method currently adopted by SGL Group. In such case, SGL Group would be required to adjust its accounting practices.

### Non-financial performance indicators

In addition to financial KPIs, SGL Group's enterprise value is also essentially determined using non-financial performance indicators. The following non-financial performance indicators play an important role in the ongoing successful development of our Company:

- Employees
- Sustainable management
- R&D activities
- Production, and especially accident frequency rate

Our employee trend is presented under **Note 5** of the notes to the consolidated financial statements. As a result of the current favorable volume of incoming orders, the number of employees will continue to increase slightly during the coming fiscal year. The way SGL Group experiences sustainable management is being explained under the section titled Corporate Social Responsibility in this annual report. Our R&D activities are outlined in the Group Management Report under the heading SGL Innovation.

Responsibility for the safety and health of our employees is an inherent part of the corporate culture at SGL Group. For that reason, ensuring good health and safety practices is one of the core values of our Company. At SGL, we have made it our goal to prevent work-related injuries and illnesses in a consistent manner. Creating a safe and healthy work environment is the responsibility of both management and every employee. At the same time, it is our aim to continuously improve our existing safety measures. In 2017, the target accident frequency ceiling was set at 2.25 accidents for every one million hours of work. At an actual frequency rate of 2.5, that target was slightly exceeded during the year under review (2016: 2.9). Nevertheless, our accident frequency rate continues to remain at a very low level. In 2018, global measures such as the Safety Promise will be introduced to keep our accident frequency rate at the same low level, or to improve it even further.

### Declaration concerning non-financial Group report

The separate non-financial Group report of SGL Carbon SE, which we have prepared in accordance with Sections 315b, 315c in conjunction with Sections 289c – 289e of the German Commercial Code (HGB), and shown as a separate section of the Annual Report, will be available on our website, <http://www.sglgroup.com>, from March 15, 2018 onwards. In accordance with Section 317 (2) (4) HGB, our auditors (KPMG AG WPG) have reviewed that the separate non-financial Group report has been presented in accordance with the applicable statutory regulations. The Supervisory Board has also engaged KPMG AG WPG with the task of providing a limited assurance on the content of the separate non-financial Group report.



# Opportunity and Risk Report

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The Board of Management of SGL Carbon SE is responsible for establishing and maintaining an appropriate and suitable risk management and internal control system. In addition, it has overall responsibility for the scope and design of the systems that have been implemented.

## Risk policy

Our risk policy is geared toward protecting shareholder value, increasing it systematically and continuously, and achieving financial targets. Making full use of the opportunities arising in the dynamic growth markets we are in, is a fundamental aspect of the corporate strategy. This includes taking all significant corporate decisions only after a detailed risk analysis and assessment has been made. In order to increase growth and profitability, we consciously accept a reasonable amount of risk. As a matter of principle, we do not take on unmanageable or unreasonably high risks. The principles of this policy are set out in the SGL Group policies for risk management and represent an integral part of our corporate strategy.

## Risk Management System (RMS)

Our risk management system (RMS) is a global management instrument that ensures the implementation of SGL Group's risk policy. This is achieved through the early identification, analysis and assessment of risks and the immediate introduction and tracking of response measures. This also meets the requirements regarding risk early warning systems as stipulated in the German Stock Corporation Act (AktG). Our opportunity management system is integrated into SGL Group's RMS. We use this system to identify opportunities that help us to achieve sustainable commercial success. Moreover, variable salary components provide our managers at all levels with an additional incentive to identify and take advantage of potential opportunities. We also continuously monitor global trends in order to identify opportunities for our Company.

The RMS comprises a number of linked functions and control mechanisms, with which earnings, asset and liquidity risks are recorded and aggregated from bottom up and reported to the Board of Management at least on a quarterly basis. This includes the recording, monitoring and control of business risks and opportunities as well as the integration of RMS into our strategy and planning process. We consider risks to be every negative deviation from our expected results and, in contrast, we consider opportunities to be positive deviations beyond our expected results. The risk reporting covers the current year and includes a

summary for the complete planning horizon of five years; the opportunity report only covers the current year.

The RMS covers all areas of the Company and is continually modified in line with changing circumstances. After the sale of the business unit PP, the RMS was developed further and adapted to the Group's new organization. In particular, the threshold values for the reporting structure to the Supervisory Board and the Board of Management were significantly reduced, which placed even more focus on key market and production risks. Here we distinguish between low-impact risks (under €10 million), medium-impact risks (€10-25 million) and high-impact risks (over €25 million). Corporate Controlling supports the Board of Management, coordinating the risk management process at the Group level. Corporate Controlling stipulates the structure and the tools to be used, continually develops the RMS in accordance with international standards and ensures that the group-wide risk management guidelines remain up to date at all times for all organizational units, including its principles, definitions of terms, reporting channels and responsibilities. Specific individual risks in operational units and corporate functions are recorded and monitored on an ongoing basis. Any core risks and their financial impact are reviewed quarterly on the basis of the probability of occurrence and suitable response measures are defined. This allows us to identify potential risks early, particularly any that may pose a threat to the going concern of the Company, and implement response measures. Furthermore, any potential new risks or the occurrence of existing risks are reported immediately to the Board of Management, independent of the normal reporting intervals.

Group Internal Audit routinely monitors the functionality of the RMS. The Supervisory Board carries out its control function and receives a quarterly risk report from the Board of Management in which the risk situation and response measures are compiled.

## Internal Control System (ICS)

We define an internal control system (ICS) as the policies, procedures and measures that have been implemented by management with the aim of ensuring the effectiveness and profitability of operations (which also comprises the protection of assets, including the prevention and detection of damages to assets), the proper application of accounting standards, the reliability of both internal and external accounting, and compliance with the legal regulations that are applicable to the Company. While local controls are in place in all companies, most material companies have established an ICS based on group-

wide standardized documentation of the risks and controls for existing process structures. Approximately 275 business processes worldwide (including the SGL ACF companies) are covered by around 800 controls. Other controls are performed automatically or with IT support. Together with the process-related controls, process-independent controls and measures at management level form the foundation of a functional ICS.

Our central ICS function implements, maintains and enhances the ICS on behalf of the Board of Management. Local ICS officers support the process and control owners at the companies and serve as local contact persons for all ICS-related issues. The process owners ensure the process and control documentation is accurate and up to date. Control owners perform the controls, ensure controls are documented and update the control documentation. Our Group IT serves as the point of contact for all IT-related issues and designs the IT controls. For fiscal year 2017, an external auditor reviewed the ICS in a number of material companies for the first time in accordance with the newly established PS982 standard of the Institute of Public Auditors in Germany (IDW – Institut der Wirtschaftsprüfer) and certified it as effective. Suggestions to further increase efficiency were noted and will be implemented in 2018.

The Supervisory Board is informed of the Group's risk situation as well as of any fundamental weaknesses in SGL Group's ICS at its regular Audit Committee meetings.

#### **Significant characteristics of the RMS and ICS with regard to the group accounting process**

Risks that could influence the preparation of financial statements in accordance with applicable accounting standards and regulations are evaluated with respect to their influence on the financial statements. The ICS is intended to support the accounting process – by way of implementing the system's controls – to ensure that, in spite of potential risks, the consolidated financial statements are prepared in accordance with applicable standards and regulations. Various process-integrated and process-independent control measures contribute to achieving this objective.

The responsibilities and functions within the accounting process (e.g. local accounting, controlling and treasury as well as group accounting) are established and strictly separated. Together with a four-eyes-principle, this contributes to the early detection of errors and the prevention of potential misconduct.

The SGL Group accounting manual defines the consistent accounting and valuation principles for the domestic and foreign subsidiaries that are consolidated in the group financial statements in compliance with the International Financial Reporting Standards (IFRS). Changes to accounting regulations and the scope of consolidation are regularly incorporated into the manual and communicated to all employees involved in the accounting process. Our Group Accounting staff provides detailed explanations of more complex subjects. In order to reduce the risk of misstatements in the accounting of special accounting issues, we consult external service providers, such as actuaries to prepare expert opinions concerning pensions.

SAP-based consolidation software is used to prepare the consolidated financial statements. Group Accounting is responsible for this process. Binding content and deadline requirements minimize the discretion of decentralized units when recording, measuring and presenting assets and liabilities. For the consolidated financial statements, data is recorded at company level, automatically uploaded into the group-wide consolidation software and validated. A group-wide, standardized model chart of accounts has been established for recording business transactions.

The identified risks and any implemented response measures are updated in the quarterly reporting and reported to the Board of Management. The effectiveness of our internal accounting controls is assessed by Group Internal Audit, as well as by independent auditors for Group companies that are subject to statutory audits. Moreover, the Supervisory Board is also involved in the control system through the Audit Committee. The Audit Committee primarily monitors the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system and the audit of the financial statements.

No matter how thoroughly we have developed the RMS and ICS, both systems still have their limitations. Consequently, we can neither guarantee with absolute certainty that targets will be reached, nor that false information will be prevented or uncovered. In particular, personal judgments, erroneous controls or other circumstances can limit the effectiveness and reliability of our RMS and ICS, meaning that applying these systems group-wide may also only provide reasonable assurance with regard to the correct, complete and timely recognition of issues within Group Accounting.

### Opportunity and risk areas

Risk factors that could impact our Group's business activities are assessed in the following opportunity and risk areas. If these areas also contain opportunities, such opportunities are explicitly mentioned. The order of the strategic, operational, financial, and compliance risks presented reflects the current estimation of their risk dimension for SGL Group and therefore provide an indication of the current importance of these risks for us. This is also clarified by categorizing the risks into the opportunity and risk classes (ORCs) high, medium, and low. The opportunity and risk classes are calculated based on impact and probability of occurrence. It should be noted that risks that are currently assessed as having a low probability of occurrence could potentially cause a greater loss to SGL Group than risks that are currently assessed as having a high probability of occurrence. The risks named here could arise individually or cumulatively. Additional risks, which either have not yet been identified or are currently not classified as significant, could also affect our business activities. Unless explicitly indicated, the risks described below relate to all of our segments.

#### Classification chart

Impact		Probability		
		Low	Medium	High
Impact	High (> €25m)	Low	Medium	High
	Medium (€10m – €25m)	Low	Medium	High
	Low (< €10m)	Low	Medium	High
Opportunity and Risk Class (ORC)		Low	Medium	High

### Opportunities and risks in production (ORC: high)

SGL Group operates in a capital-intensive industrial sector that requires high investments to maintain and expand production facilities.

Because of the dynamic markets we are active in (e.g. electric mobility), significant growth opportunities may arise that will require substantially higher investments. In this case, a short-term financial requirement would be met by medium-term growth and earnings potential. If required, however, this would be a conscious decision made by management.

In order to achieve growth targets, investments are made in new assets and technologies: delays in the investment process, in ramping up new systems or in customer qualification could lead to a delay in realizing sales revenue. Every new asset undergoes startup and qualification processes in order to meet specific requirements. Furthermore, the effort necessary to maintain the production network is likewise cost intensive.

Production downtime, e.g. as a result of old production facilities, at one or more sites could lead to delivery problems with regard to quantity and quality, which could potentially result in compensation paid to customers. Our growth strategy results in ever-increasing utilization of our capacities, which could lead to higher maintenance and quality costs than expected.

Stricter environmental regulations could make investments necessary or even mean that we are no longer able to operate production sites as in the past. Production downtime as a result of natural catastrophes, terror attacks, cybercrime or other external influences can also not be completely ruled out.

### Opportunities and risks from price and volume development (ORC: medium)

Risks in the CFM business unit may arise from lower growth as a result of delays in the expected rise in demand and further capacity expansion by competitors. Here in particular, the volume development in the wind energy sector and acrylic fiber business must be monitored carefully.

In the reporting segment GMS, business with the solar, semiconductor and LED industry is seeing a strong revival. Exchange rates, oil and sales price developments bear risks with regard to the impact on earnings of individual products and customer industries as well as within different regions. In the medium term, our planning faces a risk of stagnating volumes, especially in the chemicals, solar and industrial applications industries. A drop in prices in the LED, battery and solar industries could also have a medium-term impact on SGL's sales revenue and earnings potential. In Process Technology, we see intense competition for few major projects.

In the medium to long term, we see very good growth opportunities for GMS because our products and solutions serve global megatrends such as mobility, digitization and energy efficiency.

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**Opportunities and risks from value adjustments on goodwill and property, plant and equipment (ORC: medium)**

If reporting segments CFM and GMS do not perform as foreseen in the growth initiatives, there is a medium-term risk related to an impairment loss on the reported residual carrying amounts. A medium-term improvement in the business trend in the reporting segment CFM may lead to an opportunity of a reversal of the impairment loss on fixed assets related to the past value adjustments.

**Tax and legal risks (ORC: medium)**

Changes in tax or legal provisions in individual countries in which we operate may lead to a higher tax expense and higher tax payments. Any corporate structuring and transfer pricing implemented is subject in part to complex tax regulations that could be interpreted differently. A potential additional tax exposure cannot be ruled out conclusively until after a final review by the tax authorities. Constantly increasing requirements regarding the documentation of internal transfer pricing entails the risk of additional tax expense. The recognized deferred taxes depend on the performance in the individual companies. If individual companies significantly improve earnings, there is potential in the medium term to recognize further deferred tax assets.

In the case of legal disputes, we recognize provisions based on the probability of occurrence as well as external legal opinions. However, the actual amounts may differ from our estimates and have a considerable negative impact on our results of operations, financial position and net assets. Tax risks may also arise in connection with the PP business separation process and the discontinuation of activities. Legal disputes also entail risks to SGL's financial performance.

**Risks in IT (ORC: medium)**

In order to appropriately account for the growing importance of IT security, SGL Group operates a risk-based Information Security Management System (ISMS) based on the globally recognized ISO 27001:2013 standard as part of a group-wide initiative.

Special attention is being given to further increase the safety awareness of all employees who handle sensitive information on a daily basis. To achieve this, we use global information security campaigns on topics such as data classification, authorized access to company IT and protection against payment fraud.

As part of our IT control systems, established control processes are updated on a regular basis in order to effectively prevent unauthorized access to systems and data and detect attacks early. To ensure that all business processes are handled securely, the information technology in use is checked on an ongoing basis and further developed to remain state of the art. SGL Group has an integrated and standardized group-wide IT infrastructure. Global processes and IT security that adapts to threats protect us from the loss or manipulation of data as well as unexpected downtime.

Due to the high importance of IT for proper business operations and the rising risks associated with IT attacks, and despite the measures described above, risks associated with our IT systems and IT infrastructure remain.

**Opportunities and risks in the raw material and energy markets (ORC: medium)**

We employ structured procurement concepts as well as medium- and long-term framework agreements to balance out volatility in energy markets and price fluctuations in our principal raw materials. The currently significant excess demand may result in considerable price increases and a tight supply situation. Bottlenecks and delivery delays could have a negative impact on our businesses. Therefore, we have been able to develop appropriate strategic concepts with our main suppliers based on business relationships built up over many years. However, price fluctuations in important raw materials and energy resources could also have a negative impact on our financial performance if, for example, we cannot pass on declines in raw material prices by reducing sales prices accordingly. In addition to volatile commodity and oil prices, political developments in particular in important procurement regions can have an adverse effect on the supply of individual raw materials that are difficult to substitute.

Extensive studies are sometimes necessary for substances or products affected by the registration, assessment and licensing requirements prescribed by the EU legislation on chemicals (REACH). Continued developments in legislation as well as the effects of cost intensive testing and registration procedures at European production facilities cannot currently be completely quantified. Depending on how individual material is classified by the EU in the future, we may incur significant additional costs to register, use and store such materials, which could have a negative impact on our earnings. Any ban on the hazardous materials used in production could mean, in the medium term,

that we are no longer able to continue our manufacturing processes in their current form. This could have a medium-term impact on our financial position and financial performance.

As an energy-intensive company, our sites in Germany were partially exempted from the cost allocation under the German Renewable Energy Sources Act (EEG). If we are no longer granted such an exemption from the EEG cost allocation or if we are required to make a retrospective payment for the EEG cost allocation, it could have a negative impact on our business situation. Not achieving the legal requirements of certain energy allocations could result in additional costs.

Furthermore, the European Economic Area will make further efforts to drastically reduce the emissions of pollutants, which could increase energy prices and lead to higher investments.

#### **Risks in the financial position (ORC: medium)**

We have sufficient liquidity as a result of the sale of the GE and CFL CE business units. In addition, we also have an unused syndicated credit line in the amount of €50 million. As a result, we do not currently see any financing risks.

By acquiring the shares in SGL ACF, approximately USD 200 million in debt will be fully consolidated, which will be due at final closing in December 2020. Until then, the financing will continue to be provided by BMW.

The financing agreements of SGL Group contain contractually agreed covenants that regulate compliance with specific financial ratios during the terms of the agreements. Compliance with the covenants of the financing agreements is centrally monitored and controlled along with other financial risks. If some of the outlined business risks materialize in fiscal year 2018, it is possible that we might not be able to fully achieve the relevant financial ratios in the following quarters if business development declines considerably. However, it must be noted that we have still not drawn on the syndicated credit line.

We ensure that any peaks in cash requirements are covered at all times by maintaining a strict liquidity policy with rolling liquidity and financial planning based on current estimates of operating profit and cash flow in the business units that are provided to the Chief Financial Officer on a monthly basis.

Global economic developments in our customer industries also routinely influence the creditworthiness of our customers. This

situation entails default risks that we deal with by means of effective receivables management. This includes regularly reviewing the credit standing and payment patterns of our customers and establishing group-wide credit limits according to credit management guidelines. Bank guarantees and credit insurance also limit any possible default risks. Other financial risks arise from changes in exchange rates; we hedge these risks by means of derivative financial instruments. All our activities in connection with these derivatives are guided by the overriding principle of risk minimization. In addition to separating the trading and control functions, we also carry out regular risk analyses and assessments in this area.

In consideration of the covenants in our financing agreements, we allocate investments in cash and cash equivalents predominantly to institutions in our core banks. Our investment decisions in this regard are guided by a number of factors, in particular a balanced distribution of funds to avoid the risk of clumping as well as the systemic importance and the ratings of the individual institutes.

#### **Opportunities and risks from exchange rate fluctuations (ORC: medium)**

Our key financial indicators are influenced by exchange rate fluctuations arising from our global business activities. By optimizing operating cash inflows and outflows in a particular foreign currency, we reduce our transaction-related currency risk. To cover any other currency risk above this level, we enter into currency hedges using derivative financial instruments. In the case of unhedged transactions, a depreciation of the U.S. dollar and the Japanese yen as well as an appreciation of the Polish zloty against the euro would have a negative impact on our earnings. In general, a weaker euro would have a positive effect on our competitiveness and future business development. Translation risks are not hedged.

#### **Opportunities and risks from obligations for pensions and health benefits (ORC: medium)**

Changes to the present value of the defined benefit obligation in our defined benefit and defined contribution pension plans as well as the decline in plan assets in our pension obligations affect the funding status of our pension plans. A deviation in the actual developments with regard to the underlying parameters could have a negative impact on actuarial pension obligations. In particular, the developments of plan assets and of the discount rate is a significant factor affecting the pension obligations. Fluctuations in these parameters could further increase our

pension provisions and have a negative impact on our equity. By contrast, rising interest rates could lead to an increase in the discount rate and therefore have a positive effect on our equity situation.

Modified conditions for investing plan assets in our pension funds can also influence the market values accordingly. The market interest rate, life expectancy of plan participants, inflation rate, pension adjustments, legal provisions, etc. play a significant role in this. These factors could substantially influence the current level of allocations to these funds, the pension obligations currently accounted for in the form of provisions and the resulting pension payments. Depending on the development, this could have both a negative or a positive impact on the financial performance as well as the ongoing earnings situation.

#### **Opportunities and risks in the development of growth markets (ORC: low)**

SGL's growth strategy targets markets with dynamic performance and high growth rates. This harbors opportunities and risks depending on the actual development in these markets compared to our planning assumptions.

Both business units CFM and GMS are already experiencing dynamic market and product developments with growth potential that is considerably above average. SGL Group is an enabler for its customers' production processes and products with its innovative carbon and graphite products, helping them to serve global mega-trends such as mobility, digitization, and energy efficiency. Customers receive tailored applications for the entire materials value chain. This harbors opportunities for accelerated and steadily rising sales.

Acquiring new customers and establishing new materials and products requires considerable technical, operational and financial effort.

The reporting segment Composites – Fibers & Materials (CFM) aims to grow in the automotive, aerospace, energy and industrial applications industries. For CFM, we see growth opportunities, especially in those areas where customers need a combination of lightweight materials and high strength. By acquiring the remaining shares in the joint ventures Benteler SGL (50%) and SGL ACF (49%), SGL is now one of the leading developers and mass producers of lightweight composite components (glass and carbon fibers) and consistently pursues special projects for

automotive lightweight construction. This harbors both opportunities and risks. We also believe we can generate more sales revenue in aerospace applications over the long term. The future holds considerable growth opportunities here as a result of the need to reduce weight and the significant cost savings with industrial carbon fiber, for example, for the use in materials and components for non-structural applications. However, there is also a risk that we will not be able to fully overcome the predominantly high entry barriers to this market. Since 2008, major investments have been made to expand carbon fiber capacities worldwide. However, in many markets the industrial use of carbon fibers and fiber composite materials as a replacement for materials like steel, aluminum or fiberglass is still relatively new and the technology will continue to mature in the coming years. Currently, composite components cannot be manufactured at competitive costs for many applications. The Lightweight and Application Center is intended to develop products and the associated production processes for mass producing lightweight components and, as a result, sustainably drive CFM growth in the automotive and aerospace industries. We just introduced one of the projects running there in close cooperation with the Berndt Group. It involves a "carbon carrier" – a new and integrated concept for producing innovative car interior structural components using lightweight composite materials. However, any forecasts on the growth of carbon fibers and composites are subject to risk.

In the reporting segment GMS (Graphite Materials & Systems) we see above average growth potential, especially in the LED, semiconductor and solar industries as well as in the battery segment with our anode materials for the lithium-ion battery industry. We are seeing an increase in the latter in particular and the estimated market growth by far exceeds past forecasts. This is driven primarily by electric mobility in the automotive industry. Depending on the technical solutions and how quickly electric vehicles penetrate the market, there are opportunities beyond our own plan. However, there is also the risk that the market for electric vehicles will not grow in accordance with current expectations.

If our target markets do not develop as dynamically as expected, it could have a negative impact on our results of operations, financial position and net assets.



### **Opportunities and risks from global and regional economic developments (ORC: low)**

For the SGL Group as a global company, the worldwide economic development has a significant impact on results of operations, financial position and net assets. The current macroeconomic environment is shaped by a robust global economy with a broadly-based upturn, as long as crises and risks do not escalate. These include the situation in the Middle East and Korea, as well as protectionism and structural deficits in many countries. In addition, massive corrections in cryptocurrencies, for example, could cause turbulence in the capital markets.

Europe continues to face major political challenges, such as the Spain-Catalonia conflict and Brexit. As a consequence of the latter, customs duties on imports of raw materials (e.g. precursors for carbon fiber) could lead to higher costs and have a negative impact on our business. On the other hand, the economic conditions in Europe are currently intact. This could have a positive impact on our financial performance. In the US, significant tax reductions could add stimulus to the economy. However, the potential trend toward rising protectionism and the higher customs duties that may result could have a negative impact.

Terrorist activities and disease epidemics could have negative effects on future economic development.

By closely observing the market and economy, we are able to take the necessary steps in the short term and can minimize – at least temporarily – the risks that could potentially have an impact on our business. In addition, sales risks are partly offset by the wide diversification of our product range, our global presence and the numerous customer industries we supply.

Due to the international nature of our business, we are also confronted with a wide variety of uncertainties. Some of these include the difficulties surrounding enforcement of contracts and recovery of outstanding receivables in foreign legal systems, compliance with foreign trade law, international import and export restrictions and technology transfer law in different countries as well as the difficulties surrounding global enforcement of patent protection of our products.

### **Risks from compliance and regulatory issues (ORC: low)**

Our compliance management system reduces the risk of legal violations on all levels, in particular with regard to antitrust and

corruption-related violations. The SGL compliance program comprises our Code of Business Conduct and Ethics, whistleblower policy, global antitrust compliance policy, gifts and entertainment policy as well as a business partner compliance program and a code for subcontractors and suppliers. We continuously adjust our policies and processes to comply with new legal conditions and changed business processes. Furthermore, our central compliance department conducted a targeted Compliance Risk Assessment together with business unit managers in the past fiscal year. It identified and reassessed existing compliance risks, expanded the compliance risk map to include data protection, money laundering and compliance with human rights as well as reviewed the appropriateness of the existing compliance program. Our compliance program also includes systematic and regular employee training. Further information on the compliance management system can be found in the Corporate Governance and Compliance Report.

As an energy-intensive industrial company, risks to our financial performance arise from energy and climate protection regulations if we cannot pass the full extent of the additional costs on to customers in international competition.

Regulatory risks also result from potential changes to the legal environment in countries in which we do business or have customers. Examples include new or more stringent import and export restrictions, a tightening of price controls, exchange restrictions, customs regulations, and protectionist trade restrictions. In addition to sales revenue and profitability risks, we may also be subject to penalties, sanctions, and damage to our reputation. We take precautions with established export control policies and obtain appropriate export permits.

The new EU data protection directive, also known as the EU GDPR (EU General Data Protection Regulation), which applies as from May 2018, also harbors economic risks in case of potential violations.

### **Opportunities and risks from technology (ORC: low)**

To remain competitive, we must have state-of-the-art products and production processes, and we must develop new products and manufacturing technologies on an ongoing basis. Our portfolio of innovation projects undergoes a routine analysis, which includes the commercial and technical risks for individual projects as well as the entire portfolio. The defined risk response



measures are continuously monitored and decisions to continue individual projects are linked to predefined milestones. All in all, our results also depend on our ability to keep a constant eye on market and megatrends and make adjustments accordingly as well as regularly optimize our product manufacturing costs based on competitor benchmarking. Not achieving this goal could have a negative impact on our results of operations, financial position and net assets.

We protect our intellectual property as needed through patents, trademarks and copyrights. Internally, we limit access to specific user groups. Despite these efforts, unauthorized access to our intellectual property cannot be completely ruled out. The loss of intellectual property and thus the loss of competitive advantage could have adverse effects on our business situation.

By expanding our technical expertise with applications and processes, and by developing innovative materials and products, we are meeting the growing demands of our customers. A clear innovation strategy, effective processes and methods, and involvement in collaborative ventures and corporate networks are an important basis for the future success of SGL Group. In order to develop the technologies of the future, such as lightweight construction with carbon fibers and materials for the production of lithium-ion batteries for e-mobility, in a timely manner and in accordance with market requirements, we promote the formation of corporate networks along the entire value chain. Examples of such networks are the Carbon Composites (CCeV) and the "Campus 4.0" initiative as well as the lithium-ion battery expertise network KLiB.

In order to ensure the long-term success of our innovation strategies, we systematically track megatrends and technology trends and use this analysis to define strategic fields for our future research and development. 3-D printing with carbon materials is an example of one such field.

In our Composites – Fibers & Materials business unit, we are expanding on our strong core competencies along the entire value chain, from the raw material precursor to fibers to composites, resulting in a myriad of opportunities and growth prospects. In this way, we are expanding our existing value chain by systematically developing new textile-based processes. Together with our collaborative partners, SGL Group is also developing practical solutions in multi-material design based on innovative structural composites, which have very significant potential for application in automotive engineering. The

investments in the new Lightweight and Application Center (LAC) at the Meitingen site also put us in the position to respond with greater purpose to customer demand. LAC will enable the development of processes and products as well as the production of prototypes and small series.

Innovations also offer a variety of opportunities with respect to our graphite-based products. Our particular focus in this regard is on optimizing processes and using more cost-effective manufacturing procedures in order to further strengthen SGL Group's competitiveness.

#### **Risk transfer via insurance protection (ORC: low)**

SGL Group has global insurance coverage for its major business risks, which has been developed together with the Company's insurers. Under these policies, the risk after predefined deductibles is transferred to the relevant insurer. We address the risk of defaulting insurers by routinely distributing our risk among several insurance companies. To protect our employees and the environment, as well as our buildings, plants and machinery, we continuously make improvements to our preventive measures and routinely train the employees responsible for carrying out these measures. Coordinated visits to our facilities around the world ensure that the identified preventive and security measures designed to reduce risk are implemented. SGL Group allocates appropriate capital expenditures to minimize risk at all sites. However, a risk remains that the insurance coverage may be insufficient in individual cases or that the insurance protection is dropped.

#### **Opportunities and risks from acquisitions and disposals (ORC: low)**

All acquisition decisions entail extensive risks due to the large amount of funds required and the long-term capital commitment. Therefore, SGL Group makes great efforts to minimize all related risks during the preparation and implementation of these decisions. This is carried out through due diligence contracts with external consulting firms as well as efficient project management and control. Nevertheless, it is not possible to guarantee that each acquired business will be integrated promptly and successfully and that such businesses will enjoy growth in the future. In addition, acquisitions may lead to a significant increase in goodwill and other non-current assets. The purchase price allocation method could increase the level of depreciation and amortization. Furthermore, unforeseen business developments may also have a negative impact on our earnings. The successful and timely integration of Benteler SGL

(50%) and SGL ACF (49%) will play a key role in our future financial performance. Risks may be associated with achieving lower synergies than anticipated.

When disposing of businesses or parts of businesses, we use the same high standards as in new business acquisitions.

In the case of disposed businesses, it is normal for sellers to also be liable for services rendered and products sold before the disposal date. This harbors the risk of potential expenses for already disposed areas.

#### **Opportunities and risks in human resources (ORC: low)**

Our employees and executives constitute a key pillar of SGL Group's success. The competition for highly qualified executives, scientists, engineers and technicians is very intense and will continue to increase, especially considering the demographic development in many countries where we do business. In order to achieve our strategic goals, we have to hire highly qualified personnel, offer them relevant professional development and retain them permanently. The loss of important knowledge and expertise as well as insufficient attractiveness as an employer could have a negative impact on the results of operations, financial position and net assets of SGL Group.

#### **Overall risk and opportunity assessment of SGL Group**

Because the markets we are active in are dynamic (e.g. electric mobility), significant growth opportunities may arise that will require substantially higher investments. In this case, a short-term financial requirement would be counterbalanced by medium-term growth and earnings potential. In addition, there are particular opportunities and risks in price and volume trends to both sales and procurement. A change to our business assessment could have an impact on the value of our assets. Exchange rate fluctuations could affect our financial figures, especially in the medium term.

In summary, we do not currently see any substantial financial risks that impact SGL Group as a whole. On the basis of information currently available, it is our opinion that no individual material risks exist – neither presently nor in the foreseeable future – that could jeopardize the business as a going concern. Even if the individual risks are viewed on an aggregate basis, they do not threaten SGL Group as a going concern.

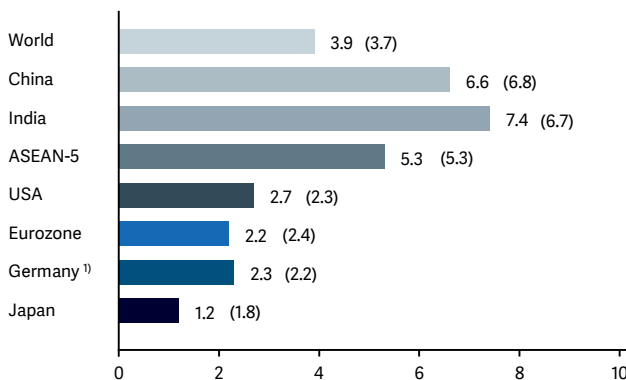
# Outlook

## Overall economic trend

According to general consensus, the upturn in the global economy is expected to continue in 2018, as long as the prevailing crises and risks do not escalate. This includes the unstable situation in the Middle East and Korea, protectionism, Brexit, and structural deficits in many countries. In addition, significant corrections to asset values (such as shares, real estate, or cryptocurrencies) could lead to turbulence on the capital markets and put a strain on the global economy.

Economically, demand is strong in industrialized countries, particularly in the US and the eurozone, and has a very broad basis with positive employment growth, as well as capital investment owing to increasingly higher capacity utilization. Emerging economies are benefitting from lively global trade, in addition to higher prices for oil and raw materials. For 2018, the IMF (International Monetary Fund) predicts global economic growth of 3.9%. Established economies will grow by 2.3%, and emerging / developing economies by 4.9%.

**Gross domestic product in 2018 (2017) at a glance**  
Real change year-on-year in %



Source: IMF, World Economic Outlook (Update) from January 2018.

<sup>1)</sup> 2017 Statistisches Bundesamt (adjusted for number of days 2.5%)

## Global economy set for robust, broad upturn in 2018

The economic upswing in the US will be borne by the corporate sector, in addition to private consumption. Huge tax cuts should create additional short-term momentum for the US economy. The IMF expects the US economy to grow by 2.7% in 2018, making the US, along with Asia, the drivers of the global economy.

Europe continues to be faced with significant political challenges (including Brexit, EU reorganization, partial

structural deficits, and the Spain / Catalonia conflict), though the economic prerequisites for a robust upswing are still intact. Private consumption is strong, and the willingness to invest is high, thanks to the buoyancy of the world economy. The ECB is reducing bond purchases, but keeping interest rates low. According to the IMF, the eurozone will grow by 2.2% in 2018. The German economy is currently experiencing a boom, and despite increased capital expenditure (and a shortage of skilled professionals), operating at close to full capacity. Nevertheless, the IMF continues to predict strong GDP growth of 2.3% for Germany in 2018.

Following its recent, surprisingly strong expansion, China's growth rate should flatten off to 6.6%, according to the IMF. The reasons for that are structural changes in favor of domestic demand, services and high technology. In addition, more emphasis will likely also be placed on stemming debt increases. India's economy will overcome its short-term reform slowdown and regain its dynamism in 2018. In the wake of the buoyant global economy, the ASEAN-5 countries will continue their rapid expansion, while Russia and Brazil are also set for robust growth.

## Industry trends

### Market segment mobility

#### Automotive industry: major upheavals benefit lightweight design and e-mobility

Industry experts are expecting limited growth in 2018. According to IHS Markit, global sales of light vehicles should only increase by 1.5%. The German automobile industry association (VDA) also anticipates that passenger car sales will only increase by about 1% (China +2%, US -2%, Western Europe -1%). The automotive industry will be driven more and more by major upheavals, and must face new challenges. Smart mobility with car sharing, technologies for digital networking, autonomous driving, and lower emissions are the way of the future. Suppliers such as Tesla and BYD have already firmly established themselves. IT and software giants like Google are also surging onto the market. Technological progress with e-cars concerning cruising range, comfort and finishing, as well as stricter emission standards, are driving the trend toward lightweight design and electric vehicles. In the meantime, all of the major automobile manufacturers are betting on fuel-efficient models and alternative engines. According to the VDA, by 2020 German automobile manufacturers alone will be putting €40 billion into the development of alternative engines. Until then, they intend to

treble their offering to more than 100 e-models. By 2025, electric cars should account for up to 25% of new vehicle registrations in Germany, according to the VDA. According to a study released by market researchers at Lucintel, the market for carbon fibers in automotive construction will grow by an annual rate of 10.4% between 2016 and 2021.

#### **Aerospace: increasing proportion of carbon fiber composites in structural and cabin components**

The aviation industry is still geared for expansion and lightweight design is gaining in importance, as it reduces operating costs and emissions. According to industry estimates, global civil aviation doubles every 15 years, meaning that airline fleets must also be continually expanded. About 60% of aircraft production addresses growth, and 40% covers replacement demand. In addition, aircraft are serviced and modernized, and their interiors are refurbished throughout their life cycle. Our lightweight construction business with the aviation industry benefits from this. We supply components and units, which are non-relevant in terms of structure, for interior cabin redesign and other purposes. According to current estimates by market experts at Lucintel, the global market for all airline cabin materials will grow by 4.5% annually by 2022/2023. Carbon fiber composite materials are proving increasingly popular. For applications in the aviation industry, Lucintel expects composites to grow by 5.3% annually overall between 2017 and 2022, with carbon fiber composites showing above-average growth.

### **Market segment energy**

#### **Lithium-ion batteries: marked growth due to e-mobility and energy storage units**

The dynamic growth seen in the overall global market for lithium-ion batteries will continue over the medium term. Forecasts from various market researchers anticipate annual growth of 12% to 17% over the next five to eight years, and above-average growth in electric mobility and stationary energy storage. In fact, Navigant Research estimates that production capacities for high-performance batteries will be expanded from 125 GWh/a in 2017, to 568 GWh/a in 2026, equating to an annual increase of 18%. According to Grand View Research, batteries for stationary energy storage devices will grow by 21% annually between 2017 and 2025, as a result of the increased generation of electricity from renewable sources.

#### **Wind industry: temporary reduction from auction systems, but long-term growth intact**

Wind energy is an established and efficient technology for producing green electricity, and constitutes a large part of renewable energy production. So far, the market has focused on only a few countries. The top 10 countries account for 85% of all installed capacity. The leaders are China, the US, and Germany, which have so far implemented the greatest number of new installations. Brazil, India and Turkey have also already invested heavily in wind energy, however. Other countries will likely follow. In addition to substantial investments in new wind parks on land, repowering (the conversion or replacement of old plants) and offshore projects are gaining in importance. This will continue to drive the market over the medium to long term. According to the Global Wind Energy Council (GWEC), by 2021 cumulative global capacity will increase by a good 10% annually to 817 GW. In the process, the volume of annual new installations will also increase steadily to about 75 GW by 2021 (an increase of 6-8% per year). The previous GWEC forecast for new installations worldwide in 2018 was 61 GW. In the short term, the market will be slowed by the transition of many countries to the auction system. Following the trend seen in 2017, that could temporarily result in flatter growth in 2018 as well. Carbon fibers are being increasingly used in the production of rotor blades.

#### **Solar/polysilicon: PV boom drives polysilicon production, huge capacity expansion in 2018**

Photovoltaics (PV) are by far the greatest driver behind the global increase in demand for polysilicon. PV manufacturers account for more than 90% of the demand for polysilicon production. Despite the strong growth surge seen over the past year, PV market researchers remain optimistic for 2018 as well. IHS Markit expects new PV installations to have a total output of 108 GW worldwide (up from well over 90 GW for 2017), and stresses that this will mean that production facilities for upstream polysilicon manufacturing will be operating at almost full capacity. In its market forecast, Bloomberg New Energy Finance (BNEF) even expects total global output to reach as high as 111 GW in 2018. During the coming four to five years, the production of polysilicon will be expanded by an annual average of about 13%. As capacity utilization is already high, that explains why manufacturers are stepping up capacity expansion. Investment campaigns begun during the past year will have a noticeable effect in 2018. According to BNEF, new capacities for polysilicon will reach 167,000 tons annually by the end of 2018, which corresponds to about a third of the total annual production for 2017.

## Market segment digitization

### Semiconductors / polysilicon: robust sales growth in all product groups and regions

For the semiconductor industry – the second largest end market for polysilicon – 2018 is also expected to be a year of robust growth. Accordingly, market observers have recently revised their estimates upward. In addition to growth in smartphones, mainframe computers and servers, the mildly positive trend reversal seen in the PC sector will also contribute to that development. In view of the increasing number of Windows 10 conversions, the overall PC market (including desktop PCs, notebooks and ultra notebooks) has inched into positive territory again for the first time in years (according to Gartner). According to the forecast issued by World Semiconductor Trade Statistics (WSTS), sales in the semiconductor segment will increase by 7.0% in 2018. Growth is expected for all product groups, especially hard disks. According to WSTS, the industry will grow in all regions, with sales in North America potentially even showing double-digit growth. The Gartner market research institute currently expects global sales in the semiconductor industry to increase by 7.5% (previous forecast: +4.0%), accompanied by additional price increases for hard disks. Excluding the hard disk segment, the semiconductor market should grow by 4.6% in 2018, according to Gartner.

### LED: lamp replacements continue, high investment in LED chips in China

Market researchers at TrendForce/LEDinside expect that the global market for LED lamps will grow by about 8% to just under USD 33 billion in 2018. LED lamps are becoming increasingly popular, even compared to energy-saving bulbs. Their penetration rate, i.e. the number of LED lamps installed in all light sources in the lighting market, should increase to 63% worldwide by the year 2022, up from 22% in 2017. During the same period, the number of installed LED lamps should thus increase by 26% per year. In addition, the market for LEDs will grow by 12.5% in the automotive industry in 2018, and by 15% for infrared LEDs (used in touch panels, screening systems for industrial and medical devices, monitoring systems, drones, and optical distance and speed measuring equipment). TrendForce/LEDinside also expects LED chip manufacturers in China to continue to expand their capacities in 2018. Manufacturers in the rest of the world, however, have recently either curbed their investment in LED chips, or abandoned production altogether. In our opinion, this situation is unlikely to change significantly in 2018.

## Market segment chemicals

### Only slight acceleration in growth expected for 2018, still driven by Asia

In the wake of buoyant industrial production, the German Chemicals Industry Association (Verband der Chemischen Industrie, VCI) expects the global production of chemicals and pharmaceuticals to pick up slightly, by 3.3% in 2018. At the same time, the VCI anticipates that development will be more evenly balanced regionally than it has been recently. In Asia, the pace of expansion is flattening out slightly. Nevertheless, the region continues to be one of the motors behind the chemicals industry. Accordingly, chemicals production in China and India should continue to experience strong growth in 2018, increasing by 5.5% and 7.0%, respectively. South Korea's chemicals industry will remain stable, increasing by 3.5%. In Brazil and the US, momentum should also pick up slightly in 2018, by 0.5% and 2.0%, respectively. Excluding growth in the pharmaceuticals segment, however, the US chemicals industry will decrease its production by an additional 1.0%. Problem areas in that industry are petrochemicals and polymers. For the EU and Germany, the VCI remains cautiously optimistic, expecting pharmaceuticals production to increase by 2.5% in each case. Excluding pharmaceuticals, chemicals production should grow by 2.0% in all other product segments in the EU, and by 1.5% in Germany. Although that is slightly lower growth than has been seen recently, high capacity utilization in Germany could improve the willingness of manufacturers to increase capital expenditure in major chemicals segments. General industry developments are of limited importance to the business of SGL Group, however, as we operate in a small niche of the chemicals industry (project business and special segments). Therefore, the short-term outlook for us remains cautiously positive.

### Overall assessment of the Group's anticipated performance by Company management

The comments in our Outlook are based on our two operating reporting segments: Composites – Fibers & Materials (CFM) and Graphite Materials & Systems (GMS). In addition, we also have a third reporting segment Corporate, in which central functions are consolidated (for information on our organizational and reporting structure, please refer to the Management Report under the section titled "SGL Group").

The Group outlook and the outlook for our business segments are based on the aforementioned expectations relating to the general performance of the economy and industry trends.

Should the geopolitical and/or sovereign debt crises escalate further, negative effects on our forecast of the Group's financial performance and financial position cannot be ruled out. For portions of our reporting segment GMS, and particularly for CFM, performance will also depend on our customers' major projects. If performance differs from our projections, this could impact the Group either positively or negatively.

Our projections are also based on certain exchange rates. On the basis of projected net positions, we have hedged relevant currency pairs in a scope of up to 80% with the aim of safeguarding our income from exchange rate fluctuations during planning year 2018. Irrespective of this, changes in net positions (e.g. due to sales trends that differ from our projections) and further upheavals to our most important currencies would influence our earnings forecast, which is based on the prevailing currency exchange rates at the time this Management Report was prepared. Distortions in the prices of essential raw materials can also influence our earnings forecast.

The following table provides an overview of relevant financial Group targets and the respective outlook for 2018:

### Group financial targets

€m	Actuals 2017	Outlook 2018 <sup>1)</sup>
Sales revenue	860.1	Increase of approx. 10%
EBIT	40.1	To increase slightly more than proportional to sales
ROCE <sub>EBIT</sub>	4.6%	Close to prior year level
ROCE (ROCE <sub>EBITDA</sub> )	10.5%	Close to prior year level
Consolidated net result - continuing operations	-16.2	Black zero

<sup>1)</sup> "Slight" indicates a variation of up to 10%; "significant" indicates a variation of more than 10%

### Group performance

We expect Group sales to increase by approximately 10% in 2018, which, adjusted for structural and currency changes, corresponds to growth in the mid to high single-digit percentage range. Group EBIT (before non-recurring charges and purchase price allocation) should slightly outpace sales growth, driven by the positive effects of a noticeable increase in volume demand, the additional contribution to earnings resulting from the full consolidation of our former joint venture SGL ACF, and cost savings. In contrast, however, we anticipate higher personnel

costs and raw material prices compared to the previous year, as well as less favorable exchange rates.

Following the loss of €16 million we recorded in the previous year, our consolidated net result for continuing operations should improve in the current year and reach a black zero, due in particular to lower interest expense as a result of the early repayment of our corporate bond on October 30, 2017, as well as the repayment of our convertible bond, which matured on January 25, 2018.

### Business trends in the reporting segments

	KPI	Actuals 2017	Outlook 2018 <sup>1)</sup>
CFM	Sales revenue	331.9	Increase of approx. 25%
	EBIT before non-recurring charges	22.7	Significant increase
GMS	Sales revenue	510.2	Slight increase
	EBIT before non-recurring charges	47.8	Slight improvement
Corporate	EBIT before non-recurring charges	-30.4	Slight deterioration

<sup>1)</sup> "Slight" indicates a variation of up to 10%; "significant" indicates a variation of more than 10%

In our reporting segment Composites – Fibers & Materials (CFM), we expect sales to increase by approximately 25%, primarily as a result of acquisitions. Adjusted for currency and structural changes, this corresponds to growth in the mid to high single-digit range. Sales with the automotive industry should more than double, primarily due to the full consolidation of our former joint ventures with Benteler and BMW (SGL ACF), while sales with the wind industry should decrease by about one quarter, owing to the deconsolidation of our former joint venture with Kumpers. Sales in the aviation construction, industrial applications, and textile fibers market segments should remain around the level of the previous year. EBIT in this business unit should improve noticeably due to the additional contribution to earnings resulting from the full consolidation of our former joint venture SGL ACF, as well as increasing volume demand. These will be partially offset by negative currency effects and higher development costs.

In our reporting segment Graphite Materials & Systems (GMS), we expect sales to increase slightly, which will correspond to mid to high single-digit growth adjusted for currency effects. Significant sales growth is expected for the LED, solar, and

automotive and transport market segments, while sales around the level of the previous year are anticipated for the semiconductor, chemicals, and industrial applications market segments. We also expect renewed strong growth in volume demand for lithium ion batteries. EBIT in our business unit GMS should increase slightly, as it is expected that positive volume effects will in part be offset by negative currency trends. Nevertheless, it should once again be possible to reach our target Group ROCE (EBITDA in relation to capital employed) of at least 15%.

In fiscal 2018, EBIT in our reporting segment Corporate should reflect slightly higher expenses than in the previous year due to general cost increases, in particular relating to wage increases. One-off income from a land sale should be offset by anticipated one-off expenses for strategic projects. In particular, these include the development and introduction of our Operations Management System (OMS) – a company-wide, uniform, standardized, cross-locational and cross-business-unit management system for production. The goal of our new OMS is to streamline processes, increase efficiency, and maximize product quality, thereby maintaining high customer satisfaction.

### **Expected financial position**

The Group's financing requirements are determined by the strategic business plans of our operating business units, which are reviewed annually based on the new projections. The favorable balance sheet ratios resulting from the successful implementation of our strategic realignment, our available financing framework, and our operating cash flow all mean that we have sufficient means to cover our anticipated liquidity requirements for 2018.

Our net financial debt at the end of 2018 should be considerably higher than it was at the end of 2017, in particular due to the full consolidation of our former joint venture SGL ACF. Nevertheless, we will remain within our target gearing level of about 0.5, and a leverage ratio under 2.5.

### **Capital expenditure, depreciation and amortization to increase in 2018 compared to previous year**

Over the medium term, we continue to expect capital expenditure around the level of depreciation and amortization. It should be borne in mind, however, that the level of depreciation and amortization has increased to about €65 million p.a. as a result of the full consolidation of our former joint ventures with BMW and Benteler. In addition, our capex

budget should be higher in the initial years of the medium term than in later years, as we intend to execute certain growth projects in the short term. Consequently, our capex budget could be between €15 million to €25 million over the level of depreciation and amortization in 2018, depending on the timing of planned capital expenditure projects. The focus of capital expenditure in our reporting segment CFM continues to be primarily on the automotive market segment, for which we are continuing to strengthen the value chain, particularly for fabrics and components. In our reporting segment GMS, expansion investments are also focusing on the automotive market segment, as well as on our lithium-ion battery business and our business with the semiconductor and LED industries.

### **Dividend performance**

The net income of our parent company SGL Carbon SE for 2017, which can be exclusively attributed to the successful sale of our former business with cathodes, furnace linings and carbon electrodes (CFL/CE), will be brought forward to fiscal year 2018 and reduce the accumulated losses carried forward from previous years by the corresponding amount.

The transformation of SGL Group will allow our company to operate profitably again on a sustainable basis. Only then will the payment of earnings-related dividends be possible. At the same time, however, it must also be carefully considered whether priority should be given to capital expenditures to participate in the strong growth opportunities provided by many of our market segments.



# Remuneration Report

## Remuneration for the Board of Management in fiscal year 2017

The remuneration system applicable to members of the Board of Management was restructured as of January 1, 2014 as part of the Supervisory Board's review of Board of Management remuneration. As a general rule, the individual agreements for Board members are identical. In some cases, however, deviations have been agreed on with respect to retirement benefits and the maximum total remuneration in order to account for differences in the Board members' respective situations. To fulfill the regulatory requirements, the following objectives were given particular consideration when restructuring the system:

- harmonization of the remuneration system for Board members;
- reduction in complexity;
- focus on sustained effectiveness of the remuneration systems.

The Annual General Meeting of SGL Carbon SE approved the remuneration system on April 30, 2014 with a majority of 99.64% of votes cast.

### Structure of Board of Management remuneration

The remuneration paid to the members of the Board of Management includes non-performance related salary and non-cash payments as well as retirement benefit obligations and performance-related (variable) components.

The non-performance related components include a fixed annual salary (basic remuneration) as well as fringe benefits and an annual contribution to retirement benefits. The basic remuneration is paid in twelve equal installments at the end of each month. Following the adjustment made in October 2017, Dr. Koehler receives €650,000 (until September 2017: €630,000) and Dr.

Majerus €500,000 (until September 2017: €465,000) on an annual basis. The fringe benefits primarily comprise the use of a company car, including a shared chauffeur, and contributions to health insurance. The latter was cancelled since the October 1, 2017 adjustment. D&O insurance with a deductible as specified by the German Stock Corporation Act (AktG) and the German Corporate Governance Code (DCGK) is also included. Membership in an accident insurance plan was included until the end of 2017 and was also cancelled effective January 1, 2018.

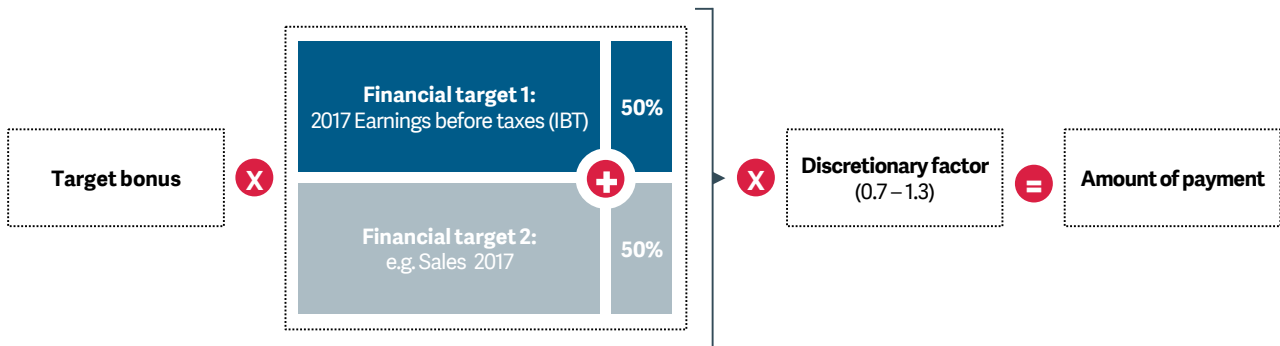
The performance-related components comprise the annual variable remuneration (SGL Carbon Bonus Plan) and a multiyear variable remuneration component (SGL Carbon Long Term Incentive Plan – LTI).

### SGL Carbon bonus plan

The annual variable remuneration for the members of the Board of Management is measured on the basis of a target bonus defined individually for each Board member. As from October 2017, the target bonus for Dr. Koehler was set at €450,000 and for Dr. Majerus at €400,000 p.a. (prior year: €420,000 and €350,000 p.a., respectively). The amount paid out depends on the financial and individual performance targets reached during the fiscal year.

As a general rule, the Supervisory Board sets two financial performance targets per year when determining the annual variable remuneration. The target values may change from year to year, and each is weighted at 50%. Depending on the target, the achievement level can range from 0% to 200%. The Supervisory Board sets the minimum and maximum targets.

In order to determine the annual variable remuneration, the figure resulting from the financial performance targets is multiplied by a discretionary performance factor of between 0.7 and 1.3 (see graph).



The Supervisory Board determines the discretionary performance factor on the basis of the individual level of achievement of the various personal targets set at the start of the year for each Board member, among other factors.

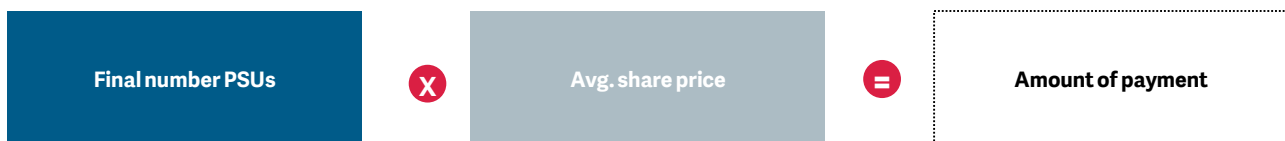
The payout is capped at 200% of the target bonus.

### **SGL Carbon long-term incentive plan**

Members of the Board of Management are entitled to multi-year variable remuneration in the form of a Long-Term Incentive Plan (LTI). The LTI is intended to honor sustained, long-term growth of the company, which is mapped using the multi-year ROCE (EBIT) trend (performance target) and the share price. One tranche from the plan is granted each year. The Supervisory Board sets the target ROCE (EBIT), including the relevant minimum and maximum thresholds, for a period of up to four years.

Upon granting, an allocation amount is set for each Board member in euros, with Dr. Köhler receiving €700,000 p.a. and Dr. Majerus €545,000 p.a. (since October 2017: €700,000). Those amounts are used to calculate the preliminary number of virtual shares (performance share units, or PSUs) every year. The number of preliminary PSUs is calculated at the start of the corresponding performance period by dividing the allocation amounts by the fair value per share for the PSU.

After a period of either three or four years, the degree of ROCE target attainment is identified. No payment is made unless the minimum ROCE target is reached. The final number of PSUs is limited and can equal between 0% and 150% of the preliminary number of PSUs. The potential payout amount is indicated by the final number of PSUs multiplied by the rounded share price during the last 60 trading days of the performance period. The total amount to be paid out is capped at 200% of the allocation amount on the date granted. Payouts are made in cash.



### **Shareholding requirements**

Members of the Board of Management are required to permanently hold a fixed quantity of shares in SGL Carbon SE for the duration of their term on the Board. For the CEO, the number of shares to be held corresponds to his fixed annual salary. For the other members of the Board of Management, the number of shares to be held corresponds to 85% of their fixed annual salaries. The number of shares is calculated on the basis

of the rounded share price at the beginning of the performance period. The number of shares to be held must be built up successively over four years, unless the Board of Management member already fulfills the shareholding requirement.

The Supervisory Board is entitled to redefine the number of shares to be held when the Board of Management is reappointed in line with the method described.

### Maximum total remuneration

The remuneration system also places a cap on the amount of the annual gross remuneration that could theoretically be paid to the members of the Board of Management (including contributions to the company pension plan) in consideration of all of the remuneration components. The maximum amount of the annual remuneration is €3,600,000 for Dr. Köhler and €3,100,000 for Dr. Majerus.

### Benefits after leaving the Board

If a member's appointment to the Board of Management is terminated prematurely – whether by mutual consent, revocation, resignation or by termination as a result of company law proceedings in accordance with the Transformation Act (UmwG) – the Board member receives a maximum compensation of two years' remuneration as set forth in the German Corporate Governance Code. If the remaining term of the Board member's employment contract is less than two years, the compensation is reduced on a pro-rata basis. The amount of the annual remuneration to be taken as a basis is determined by the total amount of the fixed salary and the variable remuneration components based on a target attainment of 100% and excluding non-cash compensation and other fringe benefits for the last full fiscal year prior to the end of the Board member's service agreement. No agreements have been entered into to pay benefits if a Board member's contract is terminated prematurely due to a change of control.

Board members are as a rule subject to a one-year ban on competition after their contracts end. As compensation, the company pays the members of the Board of Management a non-competition compensation of 50% of their annual remuneration for the duration of the non-compete clause. The amount of the annual remuneration to be taken as a basis is determined by the total amount of the fixed salary and the variable remuneration components based on a target attainment of 100% and excluding non-cash compensation and other fringe benefits for the last full fiscal year prior to the end of the Board member's service agreement. Any other income received by the Board member is offset against the non-competition bonus.

### Remuneration for the Board of Management in accordance with the German Corporate Governance Code

Since fiscal year 2014, a detailed breakdown of the remuneration paid to each member of the Board of Management has been presented in accordance with the German Corporate

Governance Code. To fulfill the requirements of the German Corporate Governance Code, the presentation of the remuneration paid to the members of SGL Carbon SE's Board of Management in fiscal 2017 includes:

- all of the benefits extended, including fringe benefits and the maximum and minimum remuneration that can be reached;
- the amount of fixed remuneration and variable remuneration received for each fiscal year;
- expenses for retirement benefits.

The remuneration data is included in the benefits table and the allocations table pursuant to the German Corporate Governance Code.

### Total remuneration for the Board of Management (benefits granted)

Total target remuneration for the members of the Board of Management in fiscal year 2017 (based on benefits granted) was €5,206,523 (2016: €3,454,044). Of the total remuneration, €1,108,750 (2016: €1,095,000) was attributable to fixed remuneration, €53,051 to non-cash benefits (2016: €62,400), €2,380,000 to the one-year variable remuneration, including special payments (2016: €770,000), €1,245,000 to the multi-year variable remuneration (2016: €1,245,000), and €419,722 to retirement benefits (2016: €281,644). As of the date of preparation of these financial statements, the Supervisory Board had not yet decided on the annual performance-related amounts to be paid out for 2017. The annual performance-related amounts are presented on the basis of the preliminary figures and assumptions regarding performance factors. The members of the Board of Management were granted PSUs from the LTI as their multi-year variable remuneration. In October 2017, a special payment of €400,000 was made to each of the two Board members in recognition of the results achieved by each of them in connection with restructuring the Company.

In the case of Dr. Köhler, the LTI tranche granted in fiscal year 2016 was divided: 25% of the PSUs granted were measured over a three-year period (2016-2018), while 75% of the PSUs were based on a four-year performance period (2016-2019). The LTI tranche granted in fiscal year 2017 was based on a four-year performance period. The PSUs granted to Dr. Majerus are based on a four-year performance period only. The following remuneration was extended to the active members of the Board of Management in the 2017 reporting year (individualized presentation):

Benefits granted (€)	Dr. Jürgen Köhler Chief Executive Officer				Dr. Michael Majerus Chief Financial Officer			
	2016	2017	Min.	Max.	2016	2017	Min.	Max.
Fixed remuneration	630,000	635,000	635,000	635,000	465,000	473,750	473,750	473,750
Fringe benefits	38,079	31,313	31,313	31,313	24,321	21,738	21,738	21,738
<b>Total</b>	<b>668,079</b>	<b>666,313</b>	<b>666,313</b>	<b>666,313</b>	<b>489,321</b>	<b>495,488</b>	<b>495,488</b>	<b>495,488</b>
Annual variable remuneration <sup>2)</sup>	420,000	1,255,000	0	1,255,000	350,000	1,125,000	0	1,125,000
Multi-year variable remuneration <sup>1)</sup>	700,000	700,000	0	1,400,000	545,000	545,000	0	1,090,000
LTI 2016-2018	175,000	0	0	0	0	0	0	0
LTI 2016-2019	525,000	0	0	0	545,000	0	0	0
LTI 2017-2020	0	700,000	0	1,400,000	0	545,000	0	1,090,000
<b>Total</b>	<b>1,788,079</b>	<b>2,621,313</b>	<b>666,313</b>	<b>3,321,313</b>	<b>1,384,321</b>	<b>2,165,488</b>	<b>495,488</b>	<b>2,710,488</b>
Retirement benefits	127,372	258,935	258,935	258,935	154,272	160,787	160,787	160,787
<b>Total remuneration (German Corporate Governance Code)</b>	<b>1,915,451</b>	<b>2,880,248</b>	<b>925,248</b>	<b>3,600,000</b>	<b>1,538,593</b>	<b>2,326,275</b>	<b>656,275</b>	<b>3,100,000</b>

<sup>1)</sup> The figures related to multi-year variable remunerations for fiscal years 2017 and 2016 correspond to the allotment values of 100%.

<sup>2)</sup> The figures related to the annual variable remuneration include the special payment received in October 2017.

### Total remuneration for the Board of Management in 2017 (amounts received)

The payments made to the Board of Management in fiscal year 2017 totaled €3,682,977 (2016: €2,692,912). Of the total amounts received, €1,108,750 (2016: €1,095,000) was attributable to fixed remuneration, €53,051 to non-cash benefits (2016: €62,400), €2,101,454 to the one-year variable remuneration, including special payments (2016: €1,253,868), €0 to the multi-year variable

remuneration (2016: €0), and €419,722 to retirement benefits (2016: €281,644).

The following table of currently active Board of Management members shows the effective amounts received in the respective calendar year, broken down into fixed remuneration, fringe benefits, one-year variable remuneration, multi-year remuneration – broken down again into individual plans – and retirement benefit expenses.

Cash method (€)	Dr. Jürgen Köhler Chief Executive Officer		Dr. Michael Majerus Chief Financial Officer	
	2017	2016	2017	2016
Fixed remuneration	635,000	630,000	473,750	465,000
Fringe benefits	31,313	38,079	21,738	24,321
<b>Total</b>	<b>666,313</b>	<b>668,079</b>	<b>495,488</b>	<b>489,321</b>
Annual variable remuneration <sup>1)</sup>	1,098,544	683,928	1,002,910	569,940
Multi-year variable remuneration	0	0	0	0
<b>Total</b>	<b>1,764,857</b>	<b>1,352,007</b>	<b>1,498,398</b>	<b>1,059,261</b>
Retirement benefits	258,935	127,372	160,787	154,272
<b>Total remuneration</b>	<b>2,023,792</b>	<b>1,479,379</b>	<b>1,659,185</b>	<b>1,213,533</b>

<sup>1)</sup> The amount paid for the annual variable remuneration in fiscal year 2017 will be determined in the supervisory meeting on March 13, 2018. The value reported here represents the amount paid in 2017 for fiscal year 2016 taking into consideration a discretionary performance factor of 1.0; the value reported for 2016 represents the payment in 2016 for fiscal year 2015.

### Additional disclosures on share-based payment instruments in fiscal year 2017

The remuneration system for the Board of Management was restructured in 2014 as described above. As a result, no new LTCIs, MSPs or SARs have been issued to the members of the Board of

Management. Those plans were replaced by the LTI. The following table shows the status of the plans being phased out:

SAR	Balance as of Dec. 31, 16		Forfeited '17	Balance at Dec 31, 17	
	Number	Weighted base price		Number	Weighted base price
Dr. Köhler	46,000	31.46	0	46,000	31.46

The SARs existing as of December 31, 2017 were not exercisable.

is expected that only the targets relating to the LTI plans granted in 2016 and 2017 will be met at the end of the three or four year performance period.

The table below shows the performance share units (PSUs) granted from the LTI in 2016 and 2017. Based on the results posted by SGL Group in 2016 and 2017 and the performance of ROCE, it

LTI	Tranche	Allocation value €	Price € <sup>1)</sup>	No. of PSUs	Performance 0% – 150% <sup>2)</sup>	Fair value € <sup>3)</sup>
Dr. Köhler	LTI 2014-2017	175,000	19.55	10,465	- %	-
	LTI 2015-2017	350,000	14.01	27,484	- %	-
	LTI 2015-2018	350,000	14.01	27,484	- %	-
	LTI 2016-2018	175,000	12.26	15,703	26%	50,994
	LTI 2016-2019	525,000	12.26	47,110	68%	400,115
Dr. Majerus	LTI 2017-2020	700,000	8.49	82,450	84%	865,032
	LTI 2014-2017	476,875	19.55	28,515	- %	-
	LTI 2015-2018	545,000	14.01	42,796	- %	-
	LTI 2016-2019	545,000	12.26	48,906	68%	415,368
	LTI 2017-2020	545,000	8.49	64,194	84%	673,498
<b>Total</b>		<b>4,386,875</b>		<b>395,107</b>	<b>65%</b>	<b>2,405,007</b>

<sup>1)</sup> Fair value on grant date before dilution

<sup>2)</sup> Estimated attainment

<sup>3)</sup> PSU- Number weighted with the performance and an average share price of €12.49 of the last 60 days in 2017

### Company retirement benefits

New appointments to the Board of Management receive company retirement benefits in the form of a defined contribution plan. The plan includes retirement benefits upon reaching the statutory retirement age and in the event of invalidity or death. Board members who have reached the age of 62 are entitled to early payout.

SGL Carbon SE pays a contribution into a benefits account for each member of the Board of Management for the duration of their employment and for each past service year. The benefits account is interest bearing until benefits start being paid out, at which time any extra interest generated due to the investments

in the benefits account having earned interest at a higher rate than the applicable guaranteed interest rate for the life insurance sector is credited to the benefits account (surplus). In the event of invalidity or death prior to the benefits falling due, the benefits account is credited with contributions up to the age of 60; however, the replenishment is limited to a maximum of ten contribution payments. The payout is made as a one-time payment or, upon application, in ten annual installments.

Regarding Dr. Köhler, €2,289,940 was paid into a re-insurance policy in 2014 in order to settle vested, non-forfeitable benefit obligations as well as the majority of benefit obligations vesting prior to June 2016. The new pension system took effect for Dr.

Majerus in July 2014. The present values of the defined benefit obligations for each of the two active Board members (shown in

the table below) are safeguarded using reinsurance policies measured at €2,898,866.

Active members of the Board of Management as of Dec. 31, 17	Present value of defined benefit obligation		Service costs	
	2017	2016	2017	2016
€ thousand				
Dr. Köhler	2,750	2,552	213	127
Dr. Majerus	514	391	154	155
<b>Total</b>	<b>3,264</b>	<b>2,943</b>	<b>367</b>	<b>282</b>

The total remuneration paid to former members of the Board of Management, executive management, and their surviving dependants, amounted to €2.0 million in fiscal 2017 (2016: €1.7 million). Provisions of €59.4 million (2016: €51.4 million) were recognized in 2017 to cover pension obligations to former members of executive management and their surviving dependants. Of that amount €26.7 million was covered by reinsurance policies (2016: €22.5 million).

### Supervisory Board remuneration

In addition to the reimbursement of out-of-pocket expenses, each member of the Supervisory Board receives fixed remuneration of €50 thousand per year, payable after the end of a fiscal year. The Chairman of the Supervisory Board receives two-and-a-half times that amount, and the Deputy Chairman one-and-a half times that amount. Each member of the Personnel Committee, the Governance Committee, the Ethics Committee, the Strategy Committee, and the Technology Committee receives €2 thousand for each meeting attended, and

each member of the Audit Committee receives €3 thousand for each meeting attended. The chairmen of the Personnel, Governance, Ethics, Strategy, and Technology committees receive €3 thousand per meeting, and the Chairman of the Audit Committee receives €6 thousand per meeting. In addition, the company pays an attendance fee of €400 for each meeting attended by the members of the Supervisory Board.

€ thousand	Board member since	Age as of the date of the release of the 2017 Annual Report	Period of service (appointed up to)	Remuneration		Total
				Basic remuneration	Additional remuneration	
Susanne Klatten (Chairwoman) <sup>1)</sup>	2009	55	2020	125.0	16.0	141.0
Dr. Ing. Hubert H. Lienhard (Deputy Chairman)	1996	67	2018	75.0	10.0	85.0
Helmut Jodl (Deputy Chairman)	2008	56	2018	75.0	10.0	85.0
Dr. Christine Bortenlänger	2013	51	2018	50.0	14.6	64.6
Dr. Daniel Camus <sup>4)</sup>	2008	65	2018	50.0	7.6	57.6
Ana Cristina Ferreira Cruz	2013	54	2018	50.0	2.0	52.0
Georg Denoke <sup>3)</sup>	2015	53	2020	50.0	20.0	70.0
Edwin Eichler <sup>2)</sup>	2010	59	2020	50.0	5.0	55.0
Michael Leppek	2013	47	2018	50.0	10.6	60.6
Marcin Rzemirski	2013	57	2018	50.0	4.0	54.0
Markus Stettberger	2013	46	2018	50.0	13.0	63.0
Dieter Züllighofen	2016	51	2018	50.0	6.0	56.0
<b>Total</b>				<b>725.0</b>	<b>118.8</b>	<b>843.8</b>

<sup>1)</sup> Chairwoman of the Personnel Committee

<sup>2)</sup> Chairman of the Strategy/Technology Committee

<sup>3)</sup> Chairman of the Audit Committee

<sup>4)</sup> Chairman of the Governance & Ethics Committee



# Disclosures pursuant to Sections 289a (1), 315a (1) HGB as well as Sections 289f, 315d of the German Commercial Code (HGB)

The following outlines the disclosures required in accordance with Sections 289a (1) and 315a (1) of the HGB:

## Composition of subscribed capital

As of December 31, 2017, the issued capital of the Company was €313,194,183.68, divided into 122,341,478 no-par-value bearer shares, each with a notional value of €2.56 (see Note 23 of the notes to the consolidated financial statements).

## Restrictions on voting rights and the transfer of shares

The SGL shares issued to plan participants in connection with the individual employee participation programs of SGL Group are subject to a certain extent to a one-year lock-up period (see Note 31). Moreover, the members of the Company's Board of Management are obligated to permanently hold a fixed quantity of shares in SGL Carbon SE during their membership on the Board, with the Chairman of the Board of Management holding an amount equal in value to one year's fixed salary and the other Board of Management members holding an amount equal in value to 85% of their annual fixed salaries. Otherwise, no restrictions exist with respect to voting rights or the transfer of shares. This does not affect mandatory statutory provisions, however, particularly those in accordance with Section 71b of the German Stock Corporation Act (AktG), which prohibits voting rights with respect to the Company's own shares, as well as the voting rights prohibition in cases of conflicts of interest in accordance with Section 136 (1) of the AktG.

## Direct or indirect interests in the Company's capital

The Company has been informed of the following holdings of direct or indirect shares in its capital exceeding 10% of voting rights: (i) SKion GmbH, Bad Homburg, with a holding of approximately 28.55% at year-end 2017 by way of voting rights notifications and information on own-account trading, and (ii) Bayerische Motoren Werke Aktiengesellschaft (BMW AG), Munich, last reported a holding of approximately 18.26% in the context of the capital increase in 2016. The holding in SKion GmbH can be attributed to Susanne Klatten, Germany, who thus indirectly held approximately 28.55% of the voting rights in SGL Carbon SE at year-end 2017.

## Holders of shares with special rights

The Company has not issued any shares with special rights conferring controlling authority over the Company.

## Type of voting rights control in the case of employee shareholders

There are no voting rights control provisions for employees having an interest in the Company's issued capital.

## Statutory regulations and provisions in the Articles of Incorporation concerning the appointment and dismissal of members of the Board of Management and amendments to the Articles of Incorporation

The statutory provisions of Article 39 of the SE Regulation, Section 16 of the Act implementing the SE Regulation and Sections 84 and 85 of the German Stock Corporation Act as well as Section 6 of the Company's Articles of Incorporation apply to the appointment and dismissal of members of the Board of Management. These provisions stipulate that members of the Board of Management are appointed and dismissed by the Supervisory Board. Board of Management members can be appointed for a maximum term of five years, with reappointment permitted. The Supervisory Board may dismiss a Board of Management member if good cause exists. Good cause includes, but is not limited to, gross negligence of Board of Management duties or a vote of no confidence at the Annual General Meeting. The Supervisory Board decides on appointments and dismissals at its own due discretion.

Changes to the Articles of Incorporation are decided by adoption of a resolution at the Annual General Meeting. Under Section 17 (4) of the Articles of Incorporation, such decisions require a simple majority of the votes cast on the resolution, provided at least half of the issued capital is represented; the foregoing does not apply if a higher majority, including a higher capital majority, is prescribed by law.

## Authority of the Board of Management to issue and buy back shares

Subject to the consent of the Supervisory Board, the Board of Management is authorized to issue new shares from authorized or conditional capital (see Section 3 of the Articles of Incorporation as well as Note 23 of the notes to the financial statements).

## Significant agreements subject to the condition of a change in control following a takeover bid

The convertible bond issued by the Company (due in 2020) entitles the bondholders to repayment of their outstanding notes at the principal amount in the event of a change in control, provided the bondholders declare such intention prior to or on

the reference date to be determined by the Company; such reference date may not be fewer than 40 or more than 60 calendar days after the change in control. Alternatively, the notes may be converted into shares on or before the reference date, which could result in a better conversion ratio for bondholders based on the staggered conversion price with respect to the residual term to maturity of the convertible bond. For the purposes of the convertible bond, a change in control exists if one or more individuals acquires control over the Company, with control being (a) direct or indirect ownership of more than 30% of the voting shares or (b) in the case of an acquisition offer, when the shares controlled by the bidder or individuals cooperating with the bidder plus the shares with regard to which the acquisition offer has been accepted exceed 50% of the voting rights in SGL Carbon SE and the acquisition offer becomes unconditional.

**Compensation agreements with the Board of Management and employees in the event of a takeover bid**

No compensation agreements exist with the Board of Management or employees in the event of a takeover bid.

**Corporate Governance declaration according to Sections 289f, 315d of the HGB**

As required by Section 289f and 315d of the HGB, we have published a corporate governance declaration on our website at [www.sglgroup.com](http://www.sglgroup.com) under Investor Relations/Corporate Governance.

Wiesbaden, March 1, 2018

SGL Carbon SE

The Board of Management of SGL Group

**Dr. Jürgen Köhler**

**Dr. Michael Majerus**

# Consolidated Financial Statements

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<b>Consolidated Income Statement</b>	<b>96</b>
<b>Consolidated Statement of Comprehensive Income</b>	<b>97</b>
<b>Consolidated Balance Sheet</b>	<b>98</b>
<b>Consolidated Cash Flow Statement</b>	<b>100</b>
<b>Consolidated Statement of Changes in Equity</b>	<b>102</b>
<b>Notes to the Consolidated Financial Statements</b>	<b>104</b>
1. General information	104
2. Summary of significant accounting policies	104
3. Recently published accounting pronouncements – not yet implemented	111
4. Acquisitions and disposals	112
5. Sales revenue, functional costs	113
6. Other operating income and expenses	114
7. Investments accounted for At-Equity	115
8. Restructuring expenses	116
9. Reversal of impairment losses	116
10. Net financial result	116
11. Income tax expense	117
12. Result from discontinued operations	118
13. Earnings per share	118
14. Intangible assets	120
15. Property, plant and equipment	122
16. Other non-current assets	123
17. Inventories	123
18. Trade receivables	123
19. Other financial assets/Other receivables and other assets	124
20. Liquidity	125
21. Assets held for sale/Liabilities in connection with assets held for sale	125
22. Deferred taxes	125
23. Equity	128
24. Provisions for pensions and similar employee benefits	130
25. Other provisions	137
26. Liabilities	138
27. Contingent liabilities and other financial obligations	142
28. Related-party transactions	143
29. Additional disclosures on financial instruments	145
30. Segment reporting	150
31. Management and employee participation plans	154
32. Audit fees and services provided by the auditors	157
33. List of shareholdings pursuant to Section 313 (2) of the German Commercial Code (HGB)	158
34. Declaration of Conformity with the German Corporate Governance Code	161
35. Events after the balance sheet date	161

# Consolidated Income Statement

for the period from January 1 to December 31

€m	Note	2017	2016
<b>Sales revenue</b>	<b>5, 30</b>	<b>860.1</b>	<b>769.8</b>
Cost of sales		-684.0	-632.9
<b>Gross profit</b>		<b>176.1</b>	<b>136.9</b>
Selling expenses		-91.6	-78.9
Research and development costs	5	-30.7	-30.3
General and administrative expenses	5	-46.5	-47.4
Other operating income	6	35.0	42.4
Other operating expenses	6	-18.7	-9.1
Result from investments accounted for At-Equity	7	16.9	7.1
Restructuring expenses	7	4.9	-9.8
Reversal of impairment losses	9	3.6	12.8
<b>Operating profit/loss</b>		<b>49.0</b>	<b>23.7</b>
Interest income	10	1.3	1.1
Interest expense	10	-46.3	-48.3
Other financing result	10	-11.8	-3.7
<b>Result from continuing operations before income taxes</b>		<b>-7.8</b>	<b>-27.2</b>
Income tax expense	11	-5.8	-6.8
<b>Result from continuing operations</b>		<b>-13.6</b>	<b>-34.0</b>
Result from discontinued operations, net of income taxes	12	155.1	-75.7
<b>Net result for the year</b>		<b>141.5</b>	<b>-109.7</b>
Thereof attributable to:			
Non-controlling interests		2.6	2.0
Consolidated net result (attributable to the shareholders of the parent company)		138.9	-111.7
Earnings per share basic (in €)	13	1.14	-1.19
Earnings per share diluted (in €)	13	1.12	-1.19
Earnings per share continuing operations, basic and diluted (in €)		-0.13	-0.38

# Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31

€m	Note	2017	2016
<b>Net result for the year</b>		<b>141.5</b>	<b>-109.7</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Changes in the fair value of securities available for sale <sup>1)</sup>		-0.1	0.0
Cash flow hedges <sup>2)</sup>		0.5	1.4
Currency translation		18.3	-12.7
<b>Items that will not be reclassified to profit and loss</b>			
Actuarial gains/losses on pensions and similar obligations <sup>3)</sup>	24	-35.7	-9.3
<b>Other comprehensive income</b>		<b>-17.0</b>	<b>-20.6</b>
<b>Comprehensive income</b>		<b>124.5</b>	<b>-130.3</b>
Thereof attributable to:			
Non-controlling interests		1.8	1.8
Consolidated net result (attributable to the shareholders of the parent company)		122.7	-132.1

<sup>1)</sup> Includes tax effects of € 0.0 million (2016: € 0.5 million)

<sup>2)</sup> Includes tax effects of minus € 0.0 million (2016: minus € 1.0 million)

<sup>3)</sup> Includes tax effects of 41.4 million (2016: € 2.0 million)

# Consolidated Balance Sheet

As of December 31

ASSETS €m	Note	Dec. 31, 17	Dec. 31, 16
<b>Non-current assets</b>			
Goodwill	14	21.1	23.3
Other intangible assets	14	25.4	17.3
Property, plant and equipment	15	524.0	493.0
Investments accounted for At-Equity	7	45.1	39.5
Other non-current assets	16	4.7	6.4
Deferred tax assets	22	20.7	56.7
		<b>641.0</b>	<b>636.2</b>
<b>Current assets</b>			
Inventories	17	281.4	268.9
Trade receivables	18	126.4	89.2
Other financial assets	19	62.4	0.0
Other receivables and other assets	19	33.3	34.7
Liquidity	20	379.3	329.5
Time deposits		0.0	5.0
Cash and cash equivalents		379.3	324.5
		<b>882.8</b>	<b>722.3</b>
<b>Assets held for sale</b>	<b>21</b>	<b>17.9</b>	<b>540.7</b>
<b>Total assets</b>		<b>1,541.7</b>	<b>1,899.2</b>

EQUITY AND LIABILITIES €m	Note	Dec. 31, 17	Dec. 31, 16
<b>Equity</b>			
Issued capital	23	313.2	313.2
Capital reserves	23	1,032.9	1,032.7
Accumulated losses		-889.1	-1,014.1
<b>Equity attributable to the shareholders of the parent company</b>		<b>457.0</b>	<b>331.8</b>
Non-controlling interests		11.3	16.1
<b>Total Equity</b>		<b>468.3</b>	<b>347.9</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar employee benefits	24	293.0	306.0
Other provisions	25	37.6	35.9
Interest-bearing loans	26	262.1	748.8
Other liabilities	26	23.3	36.7
		<b>616.0</b>	<b>1,127.4</b>
<b>Current liabilities</b>			
Other provisions	25	88.8	84.3
Current portion of interest-bearing loans	26	241.3	3.1
Trade payables	26	89.3	103.9
Other liabilities	26	26.7	46.0
		<b>446.1</b>	<b>237.3</b>
<b>Liabilities in connection with assets held for sale</b>	<b>21</b>	<b>11.3</b>	<b>186.6</b>
<b>Total equity and liabilities</b>		<b>1,541.7</b>	<b>1,899.2</b>



# Consolidated Cash Flow Statement

for the period from January 1 to December 31

€m	Note	2017	2016
<b>Cash flow from operating activities</b>			
Result from continuing operations before income taxes		-7.8	-27.2
Adjustments to reconcile the result from continuing operations to cash flow from operating activities:			
Interest expense (net)		45.0	47.2
Result from the disposal of property, plant and equipment		-0.5	-3.8
Depreciation/amortization expense		50.6	49.2
Reversal of impairment losses	9	-3.6	-12.8
Restructuring expenses	8	-4.9	9.8
Result from investments accounted for At-Equity	7	-16.9	-7.1
Amortization of refinancing costs		12.4	4.4
Interests received		1.3	1.1
Interests paid		-36.9	-32.4
Income taxes paid	11	-3.5	-5.2
Changes in provisions, net		-11.8	-5.8
Changes in working capital			
Inventories		-26.2	-9.7
Trade receivables		-48.1	-14.9
Trade payables		-14.9	7.3
Changes in other operating assets/liabilities		-16.5	-16.3
<b>Cash flow from operating activities - continuing operations</b>		<b>-82.3</b>	<b>-16.2</b>
Cash flow from operating activities - discontinued operations		34.2	1.8
<b>Cash flow from operating activities - continuing and discontinued operations</b>		<b>-48.1</b>	<b>-14.4</b>

€m	Note	2017	2016
<b>Cash flow from investing activities</b>			
Payments to purchase intangible assets and property, plant and equipment		-52.9	-34.6
Proceeds from the sale of intangible assets and property, plant and equipment		8.4	0.7
Payments received for divestitures		14.5	0.0
Dividend payments from investments accounted for At-Equity		6.0	9.0
Payments for the acquisition of subsidiaries, net of cash acquired		-33.4	0.0
Payments for capital contributions concerning investments accounted for At-Equity and investments in other financial assets		-5.0	-7.0
<b>Cash flow from investing activities - continuing operations</b>		<b>-62.4</b>	<b>-31.9</b>
Changes in time deposits		5.0	9.0
<b>Cash flow from investing activities and cash management activities - continuing operations</b>		<b>-57.4</b>	<b>-22.9</b>
Cash flow from investing activities and cash management activities - discontinued operations		424.5	-34.7
<b>Cash flow from investing activities and cash management activities - continuing and discontinued operations</b>		<b>367.1</b>	<b>-57.6</b>
<b>Cash flow from financing activities</b>			
Proceeds from the issuance of financial liabilities		8.9	6.3
Repayment of financial liabilities		-259.2	-12.2
Proceeds from the capital increase	23	0.0	180.4
Transaction costs related to the capital increase	23	0.0	-7.1
Payments in connection with financing activities		-8.2	-3.7
Other financing activities		-4.6	-0.5
<b>Cash flow from financing activities - continuing operations</b>		<b>-263.1</b>	<b>163.2</b>
Cash flow from financing activities - discontinued operations		0.0	0.0
<b>Cash flow from financing activities - continuing and discontinued operations</b>		<b>-263.1</b>	<b>163.2</b>
Effect of foreign exchange rate changes		-1.0	0.0
<b>Net change in cash and cash equivalents</b>		<b>54.9</b>	<b>91.2</b>
Cash and cash equivalents at beginning of year		328.0	236.8
Cash and cash equivalents at end of year		382.9	328.0
Time deposits at end of year		0.0	5.0
Total liquidity		382.9	333.0
Less: Cash and cash equivalents of discontinued operations at end of year		3.6	3.5
<b>Liquidity</b>	<b>20</b>	<b>379.3</b>	<b>329.5</b>

# Consolidated Statement of Changes in Equity

for the period from January 1 to December 31

	Equity attributable		
€m	Issued capital	Capital reserves	Accumulated profit/loss
Balance at Jan. 1, 2016	235.0	937.7	-833.1
Net result for the year			-111.7
Other comprehensive income			-9.3
<b>Comprehensive income</b>			<b>-121.0</b>
Dividends			
Capital increase from share-based payment plans	1.4	-1.5	
Capital increase <sup>1)</sup>	76.8	96.5	
Other changes in equity			1.4
<b>Balance at Dec. 31, 16</b>	<b>313.2</b>	<b>1,032.7</b>	<b>-952.7</b>
Balance at Jan. 1, 17	313.2	1,032.7	-952.7
Net result for the year			138.9
Other comprehensive income			-35.7
<b>Comprehensive income</b>			<b>103.2</b>
Dividends			
Other changes in equity		0.2	2.3
<b>Balance at Dec. 31, 17</b>	<b>313.2</b>	<b>1,032.9</b>	<b>-847.2</b>

<sup>1)</sup> After deduction of transaction costs of €7.1 million

to the shareholders of the parent company							Total equity
Accumulated losses							
Accumulated other comprehensive income						Total equity	
Currency translation	Cash flow hedges (net)	Results from the mark-to-market valuation of securities	Accumulated losses	Equity attributable to the shareholders of the parent company	Non-controlling interests		
-50.6	-0.3	0.6	-883.4	289.3	16.5	305.8	
			-111.7	-111.7	2.0	-109.7	
-12.5	1.4	0.0	-20.4	-20.4	-0.2	-20.6	
-12.5	1.4	0.0	-132.1	-132.1	1.8	-130.3	
			0.0	0.0	-0.5	-0.5	
			0.0	-0.1		-0.1	
			0.0	173.3		173.3	
			1.4	1.4	-1.7	-0.3	
-63.1	1.1	0.6	-1,014.1	331.8	16.1	347.9	
-63.1	1.1	0.6	-1,014.1	331.8	16.1	347.9	
			138.9	138.9	2.6	141.5	
19.1	0.5	-0.1	-16.2	-16.2	-0.8	-17.0	
19.1	0.5	-0.1	122.7	122.7	1.8	124.5	
			0.0	0.0	-0.5	-0.5	
			2.3	2.5	-6.1	-3.6	
-44.0	1.6	0.5	-889.1	457.0	11.3	468.3	

# Notes to the Consolidated Financial Statements

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## 1. General information

SGL Carbon SE, with registered offices at Söhnleinstrasse 8, Wiesbaden (Germany), together with its subsidiaries (the Company or SGL Group), is a global manufacturer of products and solutions based on carbon fibers and specialty graphites. SGL Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the additional provisions pursuant to Section 315e (1) of the German Commercial Code (Handelsgesetzbuch, HGB). The consolidated financial statements for the period ended December 31, 2017 were authorized for issue by the Board of Management on March 1, 2018.

The consolidated financial statements are generally prepared on the basis of historical cost, unless otherwise stated in Note 2 "Summary of significant accounting policies." The consolidated financial statements were prepared in euros (€) and are presented in millions of euros (€ million), rounded to the nearest €0.1 million unless otherwise indicated.

## 2. Summary of significant accounting policies

The consolidated financial statements are prepared on the basis of the following principles of consolidation, accounting and valuation. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated under IAS 8.35 as a change in accounting estimate. In particular cases, it is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities as well as of income and expenses. Such estimates and assumptions can change over time and may have a significant impact on SGL Group's financial position and performance. The accounting principles used by SGL Group that are sensitive to estimates are set out in this Note (e.g. joint operations, impairment tests as well as provisions for pensions and similar employee benefits) and also, in particular, in **Notes 21, 22, 24 and 25**.

### Consolidation principles

The consolidated financial statements include SGL Carbon SE and its subsidiaries over which SGL Group exercises control. SGL Group controls a company if it has the power over the investee. In addition, SGL Group is exposed, or has rights, to variable returns from its involvement with the investee and has the

ability to affect those through its power over the investee. As of December 31, 2017, the scope of consolidation included 15 German (2016: 19) and 34 (2016: 50) foreign subsidiaries in addition to SGL Carbon SE. Two (2016: four) jointly controlled companies and two (2016: two) associates were accounted for At-Equity. Two (2016: two) joint arrangements were classified as joint operations. The list of companies included in the consolidated financial statements as well as the full list of shares held by SGL Group in accordance with Section 313 (2) HGB can be found in **Note 33**. 22 companies were disposed of, mainly as a result of the sale of the former business unit Performance Products (PP).

### Business combinations

The cost of an acquisition is measured on the basis of the fair values of the assets transferred and the liabilities assumed as of the date of acquisition. The identifiable assets acquired and the liabilities assumed in a business combination, including contingent liabilities, are measured by SGL Group at their fair values as of the date of acquisition, regardless of any non-controlling interests. Non-controlling interests are measured at the pro-rata fair value of the assets acquired and liabilities assumed (partial goodwill method).

### Associates and joint ventures

Associates are companies where SGL Group can exercise a significant influence over financial and operating policies. Joint ventures are companies where SGL Group and another party exercise joint control. Joint control exists when the decisions about the relevant activities require unanimous consent of the parties sharing control. Interests in joint ventures and associates are included in the consolidated financial statements At-Equity. The share of SGL Group in the profit or loss of the joint venture or associate is recognized in the consolidated income statement, and its share in the other comprehensive income and of movements in equity that have not been recognized in the associate's profit or loss is recognized directly in equity. The accumulated changes after the acquisition date result in an increase or a decrease of the carrying amount of the joint venture or associate. If the losses incurred by a joint venture or associate that are attributable to SGL Group correspond to or exceed the value of the interest in such company, no further shares in losses are recognized. The interest is the carrying amount of such interest determined using the equity method together with any long-term loans that, in substance, form part of SGL Group's net investment in the joint venture. Moreover, SGL Group reviews as of each reporting date whether there is objective evidence that impairment has occurred regarding the

net investment. Impairment losses are recognized in profit or loss.

### **Joint operations**

A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement.

SGL Group, as joint operator, recognizes assets and liabilities that are controlled by SGL Group in relation to its interest in a joint operation, and also its share of any assets held jointly or of any liabilities incurred jointly. In addition, SGL Group recognizes sales revenue from the sale of its share in the output, including any related expenses, and also its share of the revenue arising from the joint operation and the jointly controlled expenses. The following two companies were classified as joint operations: SGL Automotive Carbon Fibers, Moses Lake, Washington (USA) and SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, (Germany), which, together with BMW AG, Munich ("BMW Group"), are operated to produce carbon fibers and carbon fiber fabrics (hereafter "ACF"). SGL Group holds a 51% stake in each company and controls the companies jointly with BMW. The companies sell their products directly to the partners and have no external financing sources. Therefore, the companies were consolidated on a proportional basis as joint operations within the meaning of IFRS 11. Within the context of applying the IFRS 11 rules, the assessment of the facts and circumstances that indicate that the parties have rights to substantially all the economic benefits from the joint arrangement is of particular significance. In addition, this assessment may include estimates regarding the interpretation of jointly determined objectives of the collaboration that are necessary to determine the degree of dependence of the joint arrangement on the parties. In an agreement dated November 24, 2017, SGL Group has assented to the acquisition of the BMW Group's 49% shareholding in ACF. The acquisition is in line with the strategy of offering all stages of the carbon fiber value chain from a single source. In detail, the agreement envisages a step acquisition of the two ACF companies. As a first step, ACF Germany will be transferred to the SGL Group. The closing took place on January 11, 2018. In a second step, ACF USA will be transferred to the SGL Group. The closing here is expected at the latest at the end of 2020. As a result of this transaction, the SGL Group will consolidate ACF Deutschland and ACF USA from the 2018 financial year onwards, as the SGL Group will already exercise full control, with a 51% majority of the voting rights in the US company, on the acquisition of the German shares. ACF will be fully assigned to

the Composites - Fibers & Materials (CFM) business unit. Full consolidation is expected to increase Group sales by a mid-double-digit million euro figure. All in all, the transaction should have only a minor effect on the Group result, as higher depreciation and amortization from the purchase price allocation and higher interest expenses as a result of consolidating ACF's debt will partially offset growth in EBITDA. The purchase price amounts in total to approximately €75 million. As of the date of preparation of the consolidated financial statements, the results of the purchase price allocation were not available. Based on the present carrying amounts, the difference on the assets side would amount to €28 million, non-current assets (essentially property, plant and equipment) would increase by approximately €120 million, current assets (essentially inventories) by approximately €31 million, non-current liabilities (essentially financial liabilities) by approximately €94 million, and current liabilities by approximately €10 million.

### **Foreign currency translation**

#### **Translation of items denominated in foreign currency**

In the financial statements of the individual consolidated companies, amounts receivable and payable denominated in foreign currency are translated at the year-end middle rates, irrespective of whether they are hedged. The exchange differences arising from the revaluation of items denominated in foreign currency are recognized in the income statement as other operating expense and/or other operating income. Translation differences on non-current intercompany receivables are treated as net investments in foreign operations and recognized directly in equity (currency translation).

#### **Translation of financial statements prepared in foreign currency**

Separate financial statements denominated in foreign currencies for companies included in the scope of consolidation are translated on the basis of the functional currency concept (IAS 21) in accordance with the modified closing rate method. From a financial, commercial, and organizational perspective, all subsidiaries operate their respective businesses independently, and the functional currency is therefore identical to their respective local currency. As a consequence, balance sheet items are translated at the year-end closing rate and income statement items at the average rates for the year. Currency translation differences are reported as a separate item of equity until the foreign operation is disposed of.

### Income and expenses

Income for the fiscal year is recognized when realized; expenses as incurred. Sales revenue is recognized upon transfer of risk, which is generally upon delivery of a product or rendering of services, net of any cash or volume discounts and rebates. SGL Group grants its customers cash discounts for early payment of outstanding amounts. SGL Group also grants customers volume discounts based on quantities purchased over a specific period. These volume discounts are recognized as a reduction in sales revenue. Operating expenses are recognized when a product is delivered, a service is used, or the expense is incurred. Interest income is allocated to the periods in which it is earned and interest expense to the periods in which it is incurred. Dividends are generally recognized at the time of distribution. Advertising and sales promotion expenses as well as other customer-related expenses are recognized in profit or loss as incurred. Provisions for estimated product warranty obligations are recognized upon sale of the product concerned in the amount of the estimated utilization based on past experience.

### Earnings per share

Basic earnings per share are calculated by dividing the result from continuing operations, the result from discontinued operations, and the net result for the year after tax – each of which is attributable to the shareholders of the parent company – by the weighted average number of shares outstanding during the fiscal year. Diluted earnings per share take into account all potentially dilutive convertible bonds and share-based payment plans, assuming conversion or exercise.

### Goodwill

Goodwill is not amortized, but must be tested for impairment annually, or whenever events or changes in circumstances indicate that it might be impaired. The impairment test involves allocating the goodwill to the group of cash generating units (CGU), which represent the lowest level within the organization at which goodwill is monitored for the purposes of internal management and control. At SGL Group, the CGUs are defined one level below the segment. An impairment loss is recognized if the carrying amount of the cash-generating unit that has been allocated to goodwill is higher than the recoverable amount. At SGL Group, impairment tests are performed in accordance with the procedure described in the section entitled "Impairment tests of property, plant and equipment and other intangible assets."

### Property, plant and equipment and other intangible assets

Items of property, plant and equipment as well as other intangible assets used in the business operations for more than one year are measured at cost less straight-line depreciation and any impairment losses. The same applies to investment properties, which comprise properties held by the Company to generate rental income and/or for capital appreciation and which are not used in production or for administrative purposes. If items of depreciable property, plant and equipment comprise significant identifiable components, each with a different useful life, these components are treated as separate assets and depreciated over their respective useful lives. Investment grants for the purchase or construction of items of property, plant and equipment result in a decrease of the recognized cost of the respective assets. Other grants or subsidies received are recognized over the contractual life or the foreseeable useful life of the asset.

The following useful lives are used throughout the SGL Group as the basis for calculating depreciation on property, plant and equipment:

Property, plant and equipment - useful lives	
Buildings	10 to 40 years
Plant and machinery	4 to 25 years
Other equipment	3 to 15 years
Office furniture and equipment	3 to 15 years

The other intangible assets are amortized on a straight-line basis over a useful life of up to 12 years.

### Leases

Leases are classified either as finance leases or as operating leases. Leases in which substantially all the risks and rewards associated with the use of the leased asset for a consideration are transferred to SGL Group as lessee are classified as finance leases. In such cases, SGL Group recognizes the leased asset on its balance sheet at the lower of fair value and the present value of the minimum lease payments and then depreciates the asset over the shorter of the asset's estimated useful life or the lease term (if there is no reasonable certainty that SGL will obtain ownership by the end of the lease term). At the same time, SGL recognizes a corresponding liability, which is measured at amortized cost using the effective interest method. In the case



of leases in which SGL Group is the lessee and the lessor retains the risks and rewards with respect to the leased asset (operating leases), SGL Group does not recognize the asset on its balance sheet, but allocates the lease payments as an expense on a straight-line basis over the lease term.

### **Impairment tests of property, plant and equipment and other intangible assets**

SGL Group assesses at each balance sheet date whether there are indications that its intangible assets and its property, plant and equipment are impaired. If such an indication is identified, the recoverable amount is estimated and compared with the carrying amount in order to quantify the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell (net selling price) or value in use, with the value in use being determined first. If this amount is higher than the carrying amount, the net selling price will not be calculated. SGL Group determines these amounts using measurement methods based on discounted future cash flows, corresponding to level 3 of the fair value hierarchy of IFRS 13. If an asset does not generate cash flows that are largely independent of those generated by other assets, the impairment test is not conducted on the level of the individual asset, but instead on the level of the CGU to which the asset belongs.

The discounted cash flows are themselves based on five-year projections for the individual CGUs that have been prepared using a bottom-up approach and that have been analyzed by the Board of Management and approved by the Supervisory Board of SGL Group. Those projections are based on internal expectations and assumptions that have been checked against external data and adjusted where necessary. For each year and each CGU, the projection includes budgeted unit sales, sales revenue, and cost planning together with the associated forecasts of operating profit and cash flows. Sales revenue and profit trends are projected at the product or product group level based on the expected market, economic, and competitive trends for the subsequent five years and then aggregated at CGU level. For the purpose of determining the terminal value in the reporting year, the steady state is determined on the basis of the last forecast year. The resulting future cash flows are then extrapolated using individual growth rates. The estimated future cash flows are discounted to their present value using a discount rate reflecting current market expectations for interest rates and the specific risks related to the asset or the CGU. The most significant assumptions on which the determination of the recoverable amount is based include estimated cash flows

(especially sales and margin trends), growth rates, and weighted average cost of capital. These assumptions and the underlying methodology may have a significant impact on each value and, ultimately, on the amount of any impairment loss applied to the asset. As soon as there is any evidence that the reasons for impairment have ceased to exist, SGL Group determines whether a full or partial reversal of an impairment loss is required.

### **Discontinued operations and non-current assets held for sale**

Discontinued operations are reported as soon as a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity, is classified as held for sale or has been disposed of and the business activity (1) represents a separate major line of business and (2) is part of a single co-ordinated plan to dispose of or discontinue a separate major line of business. In case of an intended sale, assets and liabilities of discontinued operations (disposal groups) are reported separately in the balance sheet in the line items "Assets held for sale" and "Liabilities in connection with assets held for sale." Earnings from discontinued operations are reported in the consolidated income statement separately from expenses and income from continuing operations in the line items "Result from discontinued operations, net of income taxes"; prior year figures are reported on a comparable basis. In the consolidated cash flow statement, cash flows from discontinued operations are presented separately from cash flows from continuing operations; prior year figures are reported on a comparable basis. An individual non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sales transaction rather than through continuing use. The asset is shown in the balance sheet separately in the line item "Assets held for sale." If the intention to sell is abandoned, the assets are reclassified to the original balance sheet item at the lower of amortized cost or recoverable amount at the time of the subsequent decision not to sell.

Non-current assets held for sale as well as disposal groups are recognized at the lower of the carrying amount and the fair value less costs to sell; they are no longer subject to depreciation/amortization.

### **Financial instruments**

A financial instrument in accordance with IAS 32 is a contractually agreed right or a contractually agreed obligation

which results in an inflow or outflow of financial assets and in the issue of equity instruments. This includes primary, i.e. non-derivative, financial instruments such as trade receivables and payables, securities and financial assets, borrowings, and other financial liabilities. It also includes derivative financial instruments that are used to hedge against risk arising from changes in exchange rates and interest rates.

Financial instruments are grouped into the following main IAS 39 measurement categories and IFRS 7 classes. The classes to be established in accordance with IFRS 7 comprise the measurement categories presented here. Moreover, finance lease liabilities as well as derivatives with a hedge relationship are part of the IFRS 7 classes. **(1) Loans and receivables.** Loans and receivables are measured at amortized cost less impairment losses. Impairment losses on trade receivables are recognized in allowance accounts. Non-current non-interest-bearing receivables or low-interest-bearing receivables are discounted to the present value. At SGL Group, this category mainly includes cash and cash equivalents, time deposits as well as trade receivables; **(2) Financial liabilities measured at amortized cost.** At SGL Group, this category primarily includes financial liabilities, trade payables as well as non-derivative current and non-current other liabilities; **(3) Available-for-sale financial assets.** This category includes non-derivative financial assets that are not allocated to one of the other categories. At SGL Group, this category includes securities that are held at foreign subsidiaries to cover pension entitlements. They are recognized at fair value. Fair value changes are recognized in equity and recognized in the income statement when the financial asset is derecognized. SGL Group does not make use of the categories of held-to-maturity investments or financial assets/liabilities held for trading or the use of these categories do not have any material consequences on the consolidated financial statements. In addition, SGL Group has not elected to make use of the option to designate financial assets or liabilities as at fair value through profit or loss at inception (fair value option). There were no reclassifications between these categories. Financial instruments are recognized as soon as SGL Group enters into a contract for the financial instrument. Financial instruments are initially reported at fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are only recognized in determining the carrying amount. The subsequent measurement of financial assets and liabilities depends on the category of the instrument concerned. Financial assets are derecognized when the contractual rights to cash flows from the financial asset in question expire or have been

extinguished. Financial liabilities are derecognized when the liability has been repaid, i.e. when all financial obligations specified in the agreement have been settled, canceled definitively or have expired. The difference between the carrying amount of the liability settled and the consideration paid is recognized in profit or loss. A purchase or sale of financial assets at market conditions is recognized as of the settlement date.

### Hybrid financial instruments

Financial instruments that contain both a debt and an equity component are classified in separate balance sheet items according to their character. Convertible bonds are examples of instruments treated as such. The fair value of the share conversion rights is recognized separately in capital reserves at the date the bond is issued and therefore deducted from the bond liability. The fair values of conversion rights from bonds issued at below-market interest rates are determined using the capitalized difference to the market interest rate level. The interest expense for the debt component is calculated over the term of the bond based on the market interest rate at the date of the issue for a comparable bond without a conversion right. The difference between the calculated interest and the interest actually paid leads to an increase in the carrying amount of the bond liability. The issuing costs of the convertible bond are deducted directly from the carrying amount of the debt component and the equity component in the same proportion.

### Derivative financial instruments

In accordance with IAS 39, all derivative financial instruments are recognized in the balance sheet at their fair value. Financial instruments are recognized as soon as SGL Group enters into a contract for a financial instrument. The financial instruments are recognized as of the date on which the relevant transaction is entered into. The Company determines upon inception of a derivative whether it will be used as a cash flow hedge. Cash flow hedges are used to hedge against fluctuations in future cash flows resulting from highly probable forecast transactions. Individual derivatives do not fulfill the hedge accounting criteria stipulated by IAS 39 although, in substance, they represent a hedge. Changes in the fair value of derivatives are recognized as follows:

1. **Cash flow hedges:** The effective portion of the changes in the fair value of derivatives used as cash flow hedges is recognized directly in accumulated other comprehensive income. Amounts recognized in this item are transferred to profit or loss when the hedged item is taken to profit or loss..

The ineffective portion of the fair value changes of the hedge must be recognized in income.

2. **Hedges of a net investment in a foreign operation:** In the case of a hedge of a net investment in a foreign operation, the effective portion of the gains or losses from the changes in value of the hedging instrument is recognized directly in equity. The ineffective portion is recognized in the income statement. If the investment is disposed of, the measurement gains or losses of the hedging instrument recognized in equity are transferred to profit or loss.
3. **Stand-alone derivatives (no hedging relationship):** Changes in the fair value of derivatives that do not meet the hedge accounting criteria are recognized in the income statement in accordance with the procedure used for financial instruments in the held-for-trading category and, therefore, must be accounted for at fair value through profit or loss. The settlement date is used as the date for first-time recognition if the trade date and the settlement date are not the same. See **Note 29** for further information on financial instruments.

### **Inventories**

Inventories are carried at acquisition or conversion cost using the weighted average cost method. Where required, the lower net realizable value is recognized. The net realizable value is determined using the estimated selling prices less costs to complete and costs to sell as well as other factors relevant for sales. In addition to directly attributable costs, the cost of conversion also includes an appropriate portion of material and production overheads. Directly attributable costs primarily comprise labor costs (including pensions), depreciation/amortization, and directly attributable cost of materials. Borrowing costs are not capitalized. Impairment losses are recognized as cost of sales.

### **Liquidity**

Liquidity is comprised of cash and cash equivalents as well as time deposits. Cash and cash equivalents consist of cash funds and bank balances with an original maturity of less than three months. Bank balances with an original maturity of more than three months are reported as time deposits.

### **Deferred taxes**

In accordance with IAS 12, deferred tax assets and liabilities are determined for temporary differences between the tax base and

the carrying amount in the IFRS consolidated balance sheet as well as for tax loss carryforwards, including tax write-downs carried forward, for interest carryforwards and tax credits carried forward. Deferred tax assets are recognized if sufficient future taxable profit is available, including income from forecasted operating earnings, the reversal of existing taxable temporary differences and possible tax strategies. To the extent that the company or the tax group has a history of recent losses, deferred tax assets arising from tax loss carryforwards are recognized only to the extent that the enterprise has sufficient taxable temporary differences or there is convincing substantial evidence that sufficient taxable profit will be available against which the unused tax losses can be utilized. Deferred tax assets are impaired to the extent that convincing substantial evidence for the usability cannot be provided. Estimates are revised in the period in which there is sufficient evidence to revise the assumption. The existence of a number of losses is substantial evidence that has to be offset with several equivalent or more important positive indicators. Due to the existence of a history of tax losses, the observation period of the detailed planning period is cut after three years since it is not possible to plan the usability of deferred tax assets at company level or tax group level with sufficient accuracy and the required necessary and sufficient particularly high certainty. If a company or a fiscal unity begins to report a sustainable positive tax result in the future, but the recent past still contains losses over the last three years, the planning horizon is extended from three years to five years, assuming appropriate planning. Accuracy. If a company or a tax group has overcome its history of losses on a sustainable and verifiable basis, i.e. there have been continuous profits over at least the last three years, the limitation of the observation period for the recognition of deferred tax assets is completely waived. Changes in deferred taxes recognized in the balance sheet generally lead to tax expense or tax income. However, in the event that items resulting in a change in deferred taxes are recognized directly in a component of equity, the change in deferred taxes is also recorded directly in this component of equity. Deferred tax assets and liabilities are netted if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes refer to income taxes of the same taxable entity levied by the same tax authority.

### **Accumulated other comprehensive income and accumulated profit/loss (Consolidated Statement of Changes in Equity)**

Accumulated other comprehensive income includes currency translation differences as well as unrealized gains or losses from

the mark-to-market valuation of available-for-sale securities (classified as financial assets available for sale) and of financial derivatives used as cash flow hedges or as a hedge of a net investment in a foreign operation, with the gains or losses being recognized outside profit or loss as a component of other comprehensive income in accordance with IAS 39. In addition, actuarial gains and losses from defined benefit plans are recognized directly in equity as accumulated profit/loss in the year in which they occur and in the full amount. Accordingly, deferred taxes recognized in connection with the above-mentioned items are also recorded directly in equity in the relevant component of accumulated other comprehensive income.

#### **Provisions for pensions and similar employee benefits**

SGL Group's pension obligations include both defined benefit and defined contribution pension plans. Provisions for pensions and other post-employment benefits in connection with defined benefit plans are determined using the projected unit credit method. This method takes into account known annuities and vested pension rights as of the balance sheet date as well as future expected salary and pension increases. If the benefit entitlements are funded through plan assets, SGL Group offsets the fair value of plan assets with the present value of the defined benefit obligation (DBO) and reports the net amount thus determined in the provisions for pensions and similar employee benefits.

The DBO is determined on the balance sheet date using the respective interest rate for first-grade corporate bonds of a similar term. The assumptions used for the calculation of the DBO as of last year's balance sheet date apply for the determination of current service cost as well as the interest income and interest expenses in the following fiscal year. Net interest income or expense for a fiscal year is calculated by multiplying the discount rate applicable for the relevant fiscal year with the net asset or the net liability as of last year's balance sheet date and is recognized in net financing costs. Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are recognized in other comprehensive income (accumulated profit/loss) in the period in which they occur, together with related deferred taxes.

Actuarial valuations are based on material assumptions, such as assumptions on discount rates, expected salary and pension increases as well as mortality rates. The discount rates used are determined on the basis of returns achieved at the end of the

reporting period for high-quality corporate bonds with a corresponding term and currency. The underlying assumptions may differ from actual development due to changing market, economic and social conditions. Payments made under defined contribution plans are expensed to profit or loss as incurred.

#### **Other provisions**

Other provisions are recognized when there is a present obligation towards third parties as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Long-term provisions are discounted at the risk-free interest rate. The accounting treatment and recognition of provisions for obligations in connection with incentive plans for management and employees is described in **Note 31**.

SGL Group recognizes tax provisions as soon as such an obligation is deemed probable and the amount of the obligation can be reasonably estimated. Expected tax refunds are not offset but recognized as a separate asset to the extent that these do not refer to the same tax type for the same fiscal year.

Product warranty provisions are expensed at the time of recognition as costs of sale. The amount of the provision is established on a case-by-case basis. In the context of the measurement of provisions, SGL Group takes into account experience related to the actual warranty expense incurred in the past as well as technical information concerning product deficiencies discovered in the design and test phases. Provisions for restructuring measures are recognized when a detailed formal restructuring plan has been adopted and has been communicated to the parties concerned. Provisions for expected losses from onerous contracts are recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Provisions are based on management judgment with regard to amount and probability of future utilization. Significant estimates and assumptions are required for the calculation of provisions related to material asset retirement obligations, closures, restructuring, and personnel measures.

#### **Financial liabilities**

SGL Group measures financial liabilities (with the exception of derivative financial instruments) at amortized cost using the effective interest method. Shares in subsidiaries held by non-SGL Group shareholders that may be returned to the Company

in return for payment of a consideration (minority interests in partnerships) represent puttable instruments in accordance with IAS 32 and are therefore classified by the SGL Group as debt and are generally reported as financial liabilities since it is assumed in the context of accounting for non-controlling interests that, as a result of specific arrangements, the repayment of this financial instrument cannot be influenced by the Group.

### **3. Recently published accounting pronouncements – not yet implemented**

The financial reporting standards issued by the IASB listed below are not yet effective and have not yet been adopted by SGL Group.

The IASB published IFRS 9 Financial Instruments in July 2014. IFRS 9 introduces a single approach for the classification and measurement of financial assets. Classification and measurement are based on the contractual cash flow characteristics and the business model for managing the financial assets. In addition, IFRS 9 introduces a new impairment model based on expected credit losses. IFRS 9 also contains new regulations on the application of hedge accounting to better represent a company's risk management activities.

The SGL Group will apply IFRS 9 for the first time to the fiscal year that begins on January 1, 2018. In accordance with the transitional provisions, the Company will refrain from adjusting the prior year's figures and will disclose the transitional effects cumulatively in retained earnings. Based on analyses conducted so far, no material impact is expected on classification and measurement of financial assets and liabilities. Use of the new impairment model affects value adjustments to debt instruments, particularly trade receivables. The SGL Group will apply IFRS 9's simplified impairment model to trade receivables. The simplified impairment model consists of a classification of trade receivables by maturity band (< 30 days, 31 - 60 days, 61 - 90 days and > 90 days) and by risk class (low, medium and high). The new impairment model assumes that trade receivables will be non-performing if the receivable is more than 90 days overdue. Based on current information, the SGL Group estimates that the application of the new simplified impairment model will reduce revenue reserves by up to €2 million as of January 1, 2018.

Due to the short terms and the external ratings of banks and financial institutions, which have only a low default risk, no material impairment is expected for cash and cash equivalents.

SGL Group will apply the requirements of IFRS 9 related to hedge accounting prospectively as from January 1, 2018. It is expected that all existing hedge accounting relationships will also fulfill the hedge accounting requirements under IFRS 9.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard stipulates that the recognition of sales revenue must depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Sales revenue is recognized when the customer obtains control of the related goods or services. IFRS 15 also includes disclosure requirements in relation to existing performance surpluses or performance obligations. These are assets and liabilities from customer contracts that arise depending on the relationship between the Company's performance and the customer's payment. In addition, IFRS 15 requires the disclosure of a number of quantitative and qualitative information to enable users of consolidated financial statements to understand the nature, amount, timing, and uncertainty of sales revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Revenue as well as the related interpretations. The standard is required to be applied for fiscal years beginning on or after January 1, 2018. Earlier application is permitted. SGL Group will adopt IFRS 15 using the modified retrospective method so that any effects from transition are recorded on a cumulative basis in retained earnings as of January 1, 2018 and that the comparative period is presented based on the previous rules. Based on present knowledge, the SGL Group estimates that retained earnings will increase by €18 million as of January 1, 2018 (prior to tax effect). This increase mainly results from a change in the timing of revenue for certain types of contracts. Above all, sales revenue arising from customer-specific and order-related mass production will be recognized earlier. In accordance with the previous rules under IAS 18, such sales revenue were recorded only upon the delivery of the goods to the customer's site, i.e. at the date on which the customer accepts the goods and the related risks and rewards incidental to the transfer of title. In the case of order-related, individual production based on standardized production processes where the final product cannot be sold to (any) other customers (third parties) due to its strongly individual and

customer-specific character (e.g. specialty graphite), sales revenue are generally recognized during production in accordance with IFRS 15. In addition, there will be changes in the statement of financial position (for example through separate items for contract assets and contract liabilities) as well as additional quantitative and qualitative disclosures in the notes.

In January 2016, the IASB issued IFRS 16 "Leases," which is the new standard for accounting for lease agreements. The new standard introduces an accounting model for lessees that no longer makes a distinction between finance leases and operating leases. In the future, a distinction will no longer be made between leasing an asset and purchasing an asset using funds from loans. In accordance with IFRS 16, the lessee recognizes a right-of-use asset as well as a lease liability upon lease inception. IFRS 16 will result in an increase in property, plant and equipment recognized in the consolidated balance sheet and also an increase in financial liabilities. In the income statement, the lessee must recognize leases in the future as capital expenditure rather than operating expense. All else remaining equal, this results in lower operating expenses and higher amortization, depreciation and interest expenses and therefore an improvement in EBITDA. IFRS 16 replaces IAS 17 as well as the related interpretations and is required to be applied for the first time for fiscal years beginning on or after January 1, 2019. It is expected at the moment that the transition effect will largely refer to real estate leased by the SGL Group. The Company is currently evaluating which impact the application of IFRS 16 will have on the consolidated financial statements. Moreover, the IASB has published a number of other pronouncements that are required to be applied for periods beginning on or after January 1, 2017. These additional pronouncements do not have no significant influence on the presentation of the consolidated financial statements of SGL Group.

## 4. Acquisitions and disposals

### Acquisitions

On November 8, 2017, SGL Group signed an agreement to purchase the 50% share of BENTELER Carbon Composites Beteiligungs-GmbH in the joint venture Benteler SGL GmbH & Co. KG, Paderborn. The transaction was completed on December 19, 2017, resulting in SGL Group being the sole owner of the company. With this transaction, SGL Group strengthens its serial production capabilities for components made from fiber-reinforced composites. The total purchase price amounts to €12.6 million and consists of a fixed purchase price, an

adjustment payment as well as payments pursuant to a patent transfer and license contract. In addition, financial liabilities with a nominal amount of €28.0 million were redeemed by SGL Group. Prior to obtaining control, the shares in Benteler SGL were accounted for At-Equity. In a business combination achieved in stages, obtaining a controlling majority is recognized under the assumption of a cash payment (for the new shares) and an exchange (of the previously held shares at fair value). The difference between the carrying amount and the fair value of the previously held shares led to an increase of the result from investments accounted for At-Equity in the amount of EUR 4.1 million. The following values result from the preliminary purchase price allocation as of the date of acquisition: other intangible assets (€12.1 million), property, plant and equipment (€41.3 million), trade receivables and other assets (€7.0 million), cash and cash equivalents (€7.6 million), inventories (€4.6 million), other non-current financial assets (€0.7 million), current financial liabilities (€2.5 million), provisions (€10.3 million; current and non-current), trade payables (€4.5 million), other current liabilities (€2.3 million), and deferred tax liabilities (€1.1 million). The intangible assets consist in particular of patents and technology amounting to €4.0 million and customer relationships amounting to €8.1 million. The purchase price allocation is preliminary since the detailed analysis of assets and liabilities has not yet been completed. The acquired business is allocated to SGL Group's BU CFM. Due to the short time between the acquisition (end of December) and December 31, 2017, the acquired business has not contributed to sales revenue or profit or loss. In 2017, SGL Composites reported sales of €54.3 million and net income for the year of €-3.6 million (based on 100%).

### Disposals

#### Disposal of the graphite electrodes business to Showa Denko completed

The disposal of the graphite electrodes (GE) business to Showa Denko at a business value of €350 million was completed on October 2, 2017. In the previous year, the GE business had already been reported as a discontinued operation. On the basis of the closing balance sheet as of September 30, 2017, the expected sales proceeds after deducting debt-like items (primarily pension provisions and restructuring provisions) amount to €285 million, of which an advance payment of €230 million was made in October 2017. The remainder will probably be transferred in the first half of 2018, following mutual agreement on the final purchase price. SGL Group recorded a gain on disposal of €2.7 million in the item "discontinued operations." The proceeds from the capital increase made in December 2016 as well as the

proceeds from the GE disposal were used by SGL Group to fully repay the corporate bond in the amount of €250 million as of October 30, 2017.

#### **Disposal of the cathodes, furnace linings and carbon electrodes (CFL/CE) business to Triton completed**

The disposal of the cathodes (CFL/CE) business to Triton at a business value of €250 million was completed on November 2, 2017. In the previous year, the CFL/CE business had already been qualified as a discontinued operation. On the basis of the closing balance sheet as of October 31, 2017, the expected sales proceeds after deducting debt-like items (primarily pension provisions) amount to €238 million, of which an advance payment of €231 million was made in November 2017. The remainder will probably be transferred to the SGL Group in the first half of 2018, following mutual agreement on the final purchase price. SGL Group recorded a gain on disposal of €124.6 million in the item "discontinued operations." The proceeds from the disposal of the CFL/CE business were used by SGL Group to repay the convertible bond in an original amount of €240 million at maturity in January 2018.

The outstanding purchase price components from both sales totaling €62.4 million are reported under other financial assets.

### **5. Sales revenue, functional costs**

The breakdown of sales revenues by segment, intersegmental revenues, and the regional distribution of sales revenue are presented in **Note 30** "Segment reporting."

The future competitiveness of SGL Group is guaranteed through sustained development of new products, applications and processes. This is also reflected in the SGL Group's research and development costs, which remained high at €30.7 million (2016: €30.3 million). Broken down by business segment, research and development costs were as follows: €8.5 million (2016: €9.0 million) in the reporting segment Graphite Materials & Systems (GMS), and €11.7 million (2016: €9.9 million) in the reporting segment Composites – Fibers & Materials (CFM). Research and development costs on a corporate level amounted to €10.5 million (2016: €11.4 million).

General administrative expenses declined by 2% compared to the corresponding prior year's figure. As expected, the greater expenses for management incentive plans and salary increases

were more than compensated for by savings from the CORE project.

Additional disclosures in connection with the nature-of-expense method are provided below:

€m	2017	2016
Wages and salaries (including bonus)	-239.0	-235.9
Social security contributions, post-employment and other employee benefit costs (thereof for pensions: 2017 minus €13.6 million; 2016: minus €18.2 million)	-63.6	-65.1
<b>Total</b>	<b>-302.6</b>	<b>-301.0</b>

In the prior year, the item "wages and salaries" included personnel measures totaling €8.6 million for the CORE project.

#### **Depreciation and amortization**

At €50.6 million, amortization and depreciation on intangible assets and property, plant and equipment were almost at the prior-year level (2016: €49.2 million). Amortization of intangible assets amounted to €3.9 million (2016: €4.3 million) and related primarily to capitalized development costs, process know-how, and SAP software specifically customized to SGL Group requirements. Depreciation of property, plant and equipment totaled €46.7 million in 2017 (2016: €44.9 million).

Personnel expenses, depreciation and amortization expense are included in all functional costs, such as the cost of sales, selling expenses, research and development costs, and general and administrative expenses.

#### **Number of employees**

As of the end of fiscal year 2017, the number of SGL Group employees had increased compared with the prior year. This number refers to employees with permanent employment contracts. Including employees with fixed-term contracts, the number of employees is 4,734. Due to the first-time full consolidation of SGL Composites (Austria), the number of employees in CFM increased by 211 compared to the prior year. In our reporting segment GMS, the number of employees rose due to the increased business activities, in particular in production-related areas. In contrast, the number of employees in administrative functions declined. This development was caused



by personnel measures conducted in connection with restructuring programs.

The tables below provide an overview of the number of employees by reporting segment and region:

Headcount	Dec. 31, 17	Dec. 31, 16	Change
Graphite Materials & Systems	2,558	2,496	2.5%
Composites - Fibers & Materials	1,404	1,183	18.7%
Corporate	231	263	-12.2%
<b>Total continuing operations</b>	<b>4,193</b>	<b>3,942</b>	<b>6.4%</b>
Discontinued operations (PP)	-	1,442	
<b>Total SGL Group</b>	<b>4,193</b>	<b>5,384</b>	<b>-22.1%</b>

Headcount	Dec. 31, 17	Dec. 31, 16
Germany	1,817	1,789
Europe excluding Germany	1,243	1,014
North America	704	711
Asia	429	428
<b>Total continuing operations</b>	<b>4,193</b>	<b>3,942</b>
Discontinued operations (PP)	-	1,442
<b>Total SGL Group</b>	<b>4,193</b>	<b>5,384</b>

The average number of employees in the individual functional areas was as follows:

Headcount	2017	2016
Production and auxiliary plants	3,019	2,942
Sales and marketing	292	279
Research and development	99	95
Administration, other functions	618	629
<b>Total continuing operations</b>	<b>4,028</b>	<b>3,945</b>
Discontinued operations (PP)	-	1,511
<b>Total SGL Group</b>	<b>4,028</b>	<b>5,456</b>

## 6. Other operating income and expenses

### Other operating income

€m	2017	2016
Costs allocated to investments accounted for At-Equity	5.7	7.5
Currency hedges/exchange-rate gains	8.6	5.8
Gains on the sale of intangible assets and property, plant and equipment	0.7	4.2
Grants received	1.5	3.7
Insurance compensations	0.4	0.3
Increase in value arising in the measurement of assets included in the disposal group at fair value	2.3	0.0
Miscellaneous other operating income	15.8	20.9
<b>Total</b>	<b>35.0</b>	<b>42.4</b>

Costs allocations refer to services provided (in particular site-specific services such as IT, administration, and maintenance) and are charged based on service level agreements. The value adjustment from the sale of the stake in the consolidated company SGL Kumpers GmbH & Co. KG is recognized as an increase in value. For more information, please refer to **Note 21**. Miscellaneous other operating income includes income of €10.0 million (2016: €14.5 million) and mainly represents compensation for fulfilling contractual delivery and performance obligations.

### Other operating expenses

€m	2017	2016
Currency hedges/exchange-rate losses	-11.8	-8.1
Losses on the sale of non-current assets	-0.2	-0.4
Other operating expenses	-6.7	-0.6
<b>Total</b>	<b>-18.7</b>	<b>-9.1</b>

Currency transaction gains and losses arising from the measurement of receivables and liabilities denominated in a currency other than the functional currency of the reporting entity at the closing rate are presented in their gross amounts under other income or other expense, as are allocated gains and losses from derivative currency hedges.

Furthermore, this item includes a negative effect on profit or loss essentially from cumulative currency translation differences of €6.0 million from the sale of the carbon fiber production site in Evanston (USA) to Mitsubishi Rayon Carbon Fibers & Composites Inc. In addition, other operating income and other operating expenses included a number of insignificant individual transactions carried out by the 50 (2016: 70) fully consolidated companies.

## 7. Investments accounted for At-Equity

### Result from investments accounted for At-Equity

€m	2017	2016
Share in the net result of the year	12.9	7.2
Thereof joint ventures	11.3	6.6
Thereof associates	1.6	0.6
Other adjustments affecting profit or loss <sup>1)</sup>	-0.1	-0.1
Thereof joint ventures	-0.1	-0.1
Increase in value arising in a business combination achieved in stages <sup>1)</sup>	4.1	
<b>Result from investments accounted for At-Equity</b>	<b>16.9</b>	<b>7.1</b>

<sup>1)</sup> Refer to Note 4

€m	Dec. 31, 17	Dec. 31, 16
Interests in joint ventures	37.0	34.7
Interests in associates	8.1	4.8
<b>Carrying amount</b>	<b>45.1</b>	<b>39.5</b>

### Joint ventures

At the end of the year under review, SGL Group held interests in the joint venture Brembo SGL Carbon Ceramic Brakes S.p.A., Stezzano, Italy. Brembo develops and produces carbon ceramic brake discs primarily for sport cars and premium class vehicles. At the end of 2017, SGL Group acquired the remaining 50% of the shares in the previous joint venture Benteler SGL GmbH & Co. KG, Paderborn, Germany (see **Note 4**). Benteler SGL (renamed to SGL Composites after the acquisition) primarily develops and produces fiber-reinforced components for the automotive industry. The table below provides summarized data on the financial performance of Brembo SGL and Benteler SGL and the financial position of Brembo SGL, as reported in their respective financial statements. The aggregation was performed according to the principles of materiality and clarity. The table also shows the reconciliation of the summarized financial information to

the carrying amount of SGL Group's share in the Brembo joint venture.

€m	2017	2016
<b>Ownership interest</b>	<b>50.0%</b>	<b>50.0%</b>
<b>Income statement</b>		
Sales revenue (100%)	211.0	184.2
Operating profit/loss	33.2	22.3
Net financing result	-1.1	-1.4
Net result for the year (100%)	22.6	11.2
Share of SGL Group in the net result for the year (50%)	11.3	5.6

	Balance as of Dec. 31	Dec. 31, 16
<b>Balance sheet</b>		
Non-current assets	41.2	75.7
Current assets	64.9	72.5
<i>Thereof cash and cash equivalents</i>	<i>31.2</i>	<i>36.0</i>
Non-current liabilities	6.5	34.9
<i>Thereof financial debt</i>	<i>0.0</i>	<i>28.4</i>
Current liabilities	33.2	46.5
<i>Thereof financial debt</i>	<i>0.0</i>	<i>7.3</i>
<b>Net assets (100%)</b>	<b>66.4</b>	<b>66.8</b>
Share of SGL Group in net assets (50%)	33.2	33.4
Goodwill/customer base	3.8	3.9
Accumulated impairment losses	0.0	-2.6
<b>Carrying amount of material joint ventures</b>	<b>37.0</b>	<b>34.7</b>

SGL Group received a dividend payment from Brembo in the amount of €6.0 million (2016: €9.0 million).

SGL Group also holds interests in a number of joint ventures and associates that are not material when taken separately. The following table is a breakdown of the carrying amounts and the share in profit/loss of the companies that are not material on an individual basis. The increase in the carrying amount of the shares in joint ventures reflects the reclassification of a non-current loan receivable as it is, in substance, a net investment of SGL Group in the joint venture:

€m	2017	2016
<b>Joint ventures</b>		
Carrying amount of interests in joint ventures	0.0	0.0
Share in the net result of the year	0.0	1.0
<b>Associates</b>		
Carrying amount of interests in associates	8.1	4.8
Share in net result for the year	1.6	0.6

## 8. Restructuring expenses

€m	2017	2016
Income/Expenses for initiated restructuring measures	4.9	-9.8
<b>Total</b>	<b>4.9</b>	<b>-9.8</b>

The amount reported refers to the reversal of provisions for the restructuring programs CORE (CORporate REstructuring) and Bonn 2020 in the total amount of €3.2 million as well as a gain from the sale of non-current assets in the amount of €1.7 million, which were previously impaired in the context of restructuring measures.

## 9. Reversal of impairment losses

€m	2017	2016
Reversal of impairment losses of property, plant and equipment	3.6	12.8
<b>Total</b>	<b>3.6</b>	<b>12.8</b>

Land and buildings at the Hitco site in Gardena, USA, are no longer classified as held for sale since it is no longer intended to sell them. Accordingly, they were reclassified to non-current assets. The land and buildings were recognized at the recoverable amount applicable as of the date when the decision not to sell was made. The recoverable amount was derived from the existing sale agreement which was negotiated within the framework of the original intention to sell this property (equals Level 2 fair value). This resulted in a reversal of impairment losses in the Corporate reporting segment in the amount of €3.6 million.

Reversal of impairment losses in fiscal 2016 solely referred to non-current assets in the amount of €12.8 million in our reporting segment CFM relating to the available-for-sale carbon fiber plant in Evanston (USA)..

## 10. Net financial result

€m	2017	2016
<b>Interest in other securities, other interest and similar income</b>	<b>1.3</b>	<b>1.1</b>
Interest on financial liabilities and other interest expense <sup>1)</sup>	-29.8	-32.2
Interest component of additions to provisions for pensions	-6.5	-8.0
Imputed interest convertible bonds <sup>1)</sup>	-8.5	-8.1
Imputed interest on finance leases <sup>1)</sup>	-1.5	0
<b>Interest expense</b>	<b>-46.3</b>	<b>-48.3</b>
<b>Interest expense</b>	<b>-45.0</b>	<b>-47.2</b>
Amortization of refinancing costs <sup>1)</sup>	-6.3	-4.4
Foreign currency valuation of intercompany loans	0.4	1.7
Early prepayment penalty corporate bond	-6.1	
Other financial income	0.2	-1.0
<b>Other financing result</b>	<b>-11.8</b>	<b>-3.7</b>
<b>Net financing result</b>	<b>-56.8</b>	<b>-50.9</b>

<sup>1)</sup> Total interest expense from financial instruments -46.1 -44.7

Interest expense in particular included the cash interest component (coupon) of the corporate bond (interest rate: 4.875%) and the two convertible bonds (2015/2020: interest rate of 3.5%; 2012/2018: interest rate of 2.75%). The non-cash imputed interest on the convertible bonds is established by approximation of the below-market coupon with the comparable market interest rate at the time the convertible bonds are issued.

The deterioration of the net financing result compared to the prior year is due to the early repayment of the corporate bond in October 2017, which meant that the previously capitalized transaction costs in the amount of €4.2 million were recognized fully in profit or loss, and the prepayment penalty of €6.1 million had to be paid.

## 11. Income tax expense

The corporate income tax rate of 15% (2016: 15%) is used as the basis for determining the income tax rate in Germany. Moreover, a solidarity surcharge of 5.5% (2016: 5.5%) is added to the corporate income tax rate. German corporations are also subject to trade tax. The trade tax rate depends on the municipality in which a business operation is located. The average trade tax rate of the companies was 14.0% in 2017 (2016: 14.0%). This results in a total tax rate in Germany of 29.8% for current taxes and for deferred taxes (2016: 29.8%). The income tax rate for foreign companies was between 16.5% and 37.9% (2016: between 16.5% and 37.9%).

The breakdown of tax expense from continuing operations is as follows:

€m	2017	2016
<b>Current income tax expense</b>		
Germany	0.0	-1.8
Other countries	-7.4	-4.7
<b>Total</b>	<b>-7.4</b>	<b>-6.5</b>
<b>Deferred tax expense</b>		
Germany	-5.1	0.6
Other countries	6.7	-0.9
<b>Total</b>	<b>1.6</b>	<b>-0.3</b>
<b>Total</b>	<b>-5.8</b>	<b>-6.8</b>

Taxes for prior years included in tax expenses amounted to €1.9 million (prior year: €1.3 million). The amount of deferred tax income attributable to the reversal of temporary differences, including valuation allowances, is €11.6 million.

The SGL Group's reported tax expense differs from the SGL Group's anticipated tax expense (calculated on the basis of an expected tax rate of 29.8%) as follows. Due to the disposal of PP, the tax rate reconciliation was prepared on the basis of continuing operations.

€m	2017	2016
<b>Result from continuing operations before income taxes</b>	<b>-7.8</b>	<b>-27.2</b>
<b>Result from continuing operations before income taxes</b>		<b>-50.5</b>
<b>Consolidated net result for the year before income taxes</b>	<b>-7.8</b>	<b>-77.7</b>
<b>Expected tax income at 29.8% (2016: 29.8%)</b>	<b>2.3</b>	<b>23.3</b>
Increase/decrease in income tax charge from:		
Income adjustments	-5.8	-5.4
Change in expected tax rate	-2.0	2.4
Change in loss carry forwards and valuation allowances on deferred taxes	-0.4	-42.9
Tax effect on investments accounted for At-Equity	3.0	2.8
Tax rate changes	-0.5	-0.9
Tax from prior periods	-2.3	-13.1
Other	-0.1	1.8
<b>Effective tax expense</b>	<b>-5.8</b>	<b>-32.0</b>
Thereof:		
<i>Tax expense from continuing operations</i>	<i>-5.8</i>	<i>-6.8</i>
For information purposes: Tax expense attributable to discontinued operations	-6.3	-25.2

The income adjustments relate primarily to non-deductible operating expenses and adjustments for the purpose of calculating German trade tax. The reduction to reflect the differing tax rate primarily takes account of the effects of withholding taxes and local taxes as well as taxation differences between Germany and other countries as a result of varying income tax rates. The changes in tax loss carryforwards and valuation allowances for deferred taxes take into account write-downs of deferred tax assets on loss carryforwards based on their future usability, with such write-downs being recognized in profit or loss. The effect of the reduction in the tax rate in the USA from 35% to 21% is shown in the line item "Change in tax loss carry-forwards and valuation allowances for deferred taxes", since the deferred taxes on loss carry-forwards were fully value adjusted in the year under review, as in the prior year. During the year under review, the actual tax expense was reduced by €2.5 million by taking into account previously unrecognized tax losses.

## 12. Result from discontinued operations

Earnings generated by PP (former business activities GE and CFL/CE) were reported in the income statement as discontinued operations for all of the periods presented.

The disposal of the BU GE led to a negative effect on profit or loss from attributable cumulative currency translation differences of €30.6 million. This effect was overcompensated by the reversal of the impairment loss due to the adjustment to the fair value less costs to sell owing to the better than expected operating development. Overall, the capital gain amounted to €2.7 million.

The sale of the CFL/CE business to Triton resulted in a capital gain of €124.6 million after taking into account the negative effect on profit or loss from attributable cumulative currency translation differences amounting to €5.0 million.

€m	2017	2016
Total revenue from discontinued operations	365.6	419.7
Total expenses from discontinued operations	-331.5	-452.2
<b>Result from operating activities of discontinued operations before income taxes</b>	<b>34.1</b>	<b>-32.5</b>
Attributable tax expense	-6.3	-25.2
<b>Result from operating activities of discontinued operations after income taxes</b>	<b>27.8</b>	<b>-57.7</b>
Result (prior year: impairment losses) from the disposal of assets included in the disposal group at fair value less cost to sell	127.3	-18.0
<b>Result from discontinued operations<sup>1)</sup></b>	<b>155.1</b>	<b>-75.7</b>
<b>Earnings per share - discontinued operations basic (in €)</b>	<b>1.27</b>	<b>-0.81</b>
<b>Earnings per share - discontinued operations diluted (in €)</b>	<b>1.25</b>	<b>-0.81</b>

<sup>1)</sup> Attributable to the shareholders of the parent company

The cash flows from discontinued operations are shown separately in the consolidated cash flow statement.

## 13. Earnings per share

Earnings per share are calculated by dividing the net result for the year attributable to the shareholders of SGL Group by the average number of outstanding shares during the year under review.

The calculation of diluted earnings per share assumes that outstanding debt securities (convertible bonds) will be converted to shares or other contracts for the issue of common shares such as stock appreciation rights are exercised.

The table below details the calculation of earnings per share for fiscal years 2017 and 2016:

**Reconciliation of basic and diluted earnings per share**

€m	Overall potentially dilutive financial instruments 2017	Dilutive financial instruments used for the calculation - continuing operations 2017	Share of net result attributable to the shareholders of the parent company 2017	Share of net result attributable to the shareholders of the parent company 2016
<b>Numerator for basic earnings per share (share of net result attributable to the shareholders of the parent company)</b>	<b>138.9</b>	<b>-16.2</b>	<b>138.9</b>	<b>-111.7</b>
plus: increase of the income by the interest costs of the convertible bonds	15.9	0.0	15.9	0.0
<b>Numerator for diluted earnings</b>	<b>154.8</b>	<b>-16.2</b>	<b>154.8</b>	<b>-111.7</b>
<b>Number of shares</b>				
<b>Denominator for basic earnings per share (weighted average number of shares)</b>	<b>122,270,977</b>	<b>122,270,977</b>	<b>122,270,977</b>	<b>93,715,729</b>
Potentially dilutive securities (weighted average, in each case)				
Convertible bond 2015/2020 (see Note 26)	9,781,400	0	9,781,400	0
Convertible bond 2012/2018 (see Note 26)	6,398,858	0	6,398,858	0
<b>Denominator for potentially diluted earnings per share</b>	<b>138,451,235</b>	<b>122,270,977</b>	<b>138,451,235</b>	<b>93,715,729</b>
<b>Thereof to be included for dilution (adjusted weighted average)</b>		<b>122,270,977</b>	<b>138,451,235</b>	<b>93,715,729</b>
Basic earnings per share (€)		-0.13	1.14	-1.19
Diluted earnings per share (€)		-0.13	1.12	-1.19

## 14. Intangible assets

€m	Industrial rights, software and similar rights	Customer relationships	Capitalized development costs	Goodwill	Total
<b>Historical costs</b>					
Balance at Jan. 1, 17	62.8	2.7	16.4	48.9	130.8
Reclassification from/to the balance sheet item assets held for sale	-2.3	0.0	0.0	0.0	-2.3
Change in the scope of consolidation	2.8	8.1	1.2	0.0	12.1
Foreign currency translation	-1.2	0.0	0.0	-2.2	-3.4
Reclassifications	-0.6	0.0	0.7	0.0	0.1
Additions	1.3	0.0	0.1	0.0	1.4
Disposals	-0.6	0.0	0.0	0.0	-0.6
<b>Balance at Dec. 31, 17</b>	<b>62.2</b>	<b>10.8</b>	<b>18.4</b>	<b>46.7</b>	<b>138.1</b>
<b>Accumulated amortization and depreciation/impairment losses</b>					
Balance at Jan. 1, 17	52.4	2.4	9.8	25.6	90.2
Reclassification from/to the balance sheet item assets held for sale	-2.3	0.0	1.4	0.0	-0.9
Foreign currency translation	-1.0	0.0	0.0	0.0	-1.0
Reclassifications	-0.6	0.0	0.6	0.0	0.0
Additions	2.2	0.2	1.5	0.0	3.9
Disposals	-0.6	0.0	0.0	0.0	-0.6
<b>Balance at Dec. 31, 17</b>	<b>50.1</b>	<b>2.6</b>	<b>13.3</b>	<b>25.6</b>	<b>91.6</b>
<b>Net carrying amount as of Dec. 31, 17</b>	<b>12.1</b>	<b>8.2</b>	<b>5.1</b>	<b>21.1</b>	<b>46.5</b>
<b>Historical costs</b>					
Balance at Jan. 1, 16	66.1	2.7	16.4	48.5	133.7
Reclassification from/to the balance sheet item assets held for sale	-4.2	0.0	0.0	0.0	-4.2
Foreign currency translation	0.3	0.0	0.0	0.4	0.7
Additions	1.0	0.0	0.0	0.0	1.0
Disposals	-0.4	0.0	0.0	0.0	-0.4
<b>Balance at Dec. 31, 16</b>	<b>62.8</b>	<b>2.7</b>	<b>16.4</b>	<b>48.9</b>	<b>130.8</b>
<b>Accumulated amortization and depreciation/impairment losses</b>					
Balance at Jan. 1, 16	54.1	1.9	8.4	25.6	90.0
Reclassification from/to the balance sheet item assets held for sale	-4.0	0.0	0.0	0.0	-4.0
Foreign currency translation	0.2	0.0	0.0	0.0	0.2
Additions	2.4	0.5	1.4	0.0	4.3
Disposals	-0.3	0.0	0.0	0.0	-0.3
<b>Balance at Dec. 31, 16</b>	<b>52.4</b>	<b>2.4</b>	<b>9.8</b>	<b>25.6</b>	<b>90.2</b>
<b>Net carrying amount as of Dec. 31, 16</b>	<b>10.4</b>	<b>0.3</b>	<b>6.6</b>	<b>23.3</b>	<b>40.6</b>



Industrial rights, software and similar rights mainly comprise purchased and internally developed IT software.

The following table shows the most significant assumptions used to determine the value in use in the impairment test as of September 30 of CGUs to which goodwill has been allocated:

€m	Recognized goodwill	Discount rate after tax	Long-term growth rate
<b>Sep. 30, 17</b>			
Graphite Specialties	19.5	7.6%	1.0%
Process Technology	1.9	7.6%	1.0%
<b>Sep. 30, 16</b>			
Graphite Specialties	20.4	7.6%	1.0%
Process Technology	1.9	7.6%	1.0%

No requirement to recognize an impairment loss was identified for the two CGUs analyzed, i.e. the CGUs' recoverable amount determined on the basis of the value in use was estimated to be higher than their carrying amount.

The value in use is mainly determined on the basis of the terminal value, which is especially sensitive to changes in the above-mentioned assumptions regarding level of sales and return on sales, long-term growth rates, and discount rates. The discount factors reflect the current market assessment of the specific risks of each individual CGU and are based on the weighted average cost of capital of the CGU. Graphite Specialties has the highest recognized goodwill. While the recoverable amount (value-in-use) of this CGU currently exceeds its carrying amount considerably, this excess would be reduced to zero in case of a combination of a change in the discount rate (plus 1 percentage point) and a simultaneous reduction of the cash flows in the terminal value by 29.0 percentage points.

## 15. Property, plant and equipment

€m	Land, land rights and buildings	Plant and machinery	Office furniture and equipment	Assets under construction	Investment property	Total
<b>Historical costs</b>						
Balance at Jan. 1, 17	395.3	1,018.0	57.5	43.8	19.8	1,534.4
Reclassification from/to the balance sheet item assets held for sale	15.9	-22.7	-1.3	0.0	0.0	-8.1
Change in the scope of consolidation	15.0	23.6	1.9	0.8	0.0	41.3
Foreign currency translation	-14.4	-35.4	-0.8	-1.0	0.0	-51.6
Reclassifications	3.0	36.8	0.5	-40.4	0.0	-0.1
Additions	9.6	14.4	2.8	24.7	0.0	51.5
Disposals	-0.9	-12.4	-1.1	-1.1	0.0	-15.5
<b>Balance at Dec. 31, 17</b>	<b>423.5</b>	<b>1,022.3</b>	<b>59.5</b>	<b>26.8</b>	<b>19.8</b>	<b>1,551.9</b>
<b>Accumulated amortization and depreciation/impairment losses</b>						
Balance at Jan. 1, 17	232.9	751.1	48.9	1.7	6.8	1,041.4
Reclassification from/to the balance sheet item assets held for sale	-0.6	-12.6	-1.2	0.0	0.0	-14.4
Foreign currency translation	-4.8	-22.0	-0.7	0.0	0.0	-27.5
Reclassifications	0.6	0.0	0.0	-0.6	0.0	0.0
Additions	8.6	34.7	3.0	0.0	0.4	46.7
Reversal of impairment losses	-3.6	0.0	0.0	0.0	0.0	-3.6
Disposals	-0.5	-12.2	-0.9	-1.1	0.0	-14.7
<b>Balance at Dec. 31, 17</b>	<b>232.6</b>	<b>739.0</b>	<b>49.1</b>	<b>0.0</b>	<b>7.2</b>	<b>1,027.9</b>
<b>Net carrying amount as of Dec. 31, 17</b>	<b>190.9</b>	<b>283.3</b>	<b>10.4</b>	<b>26.8</b>	<b>12.6</b>	<b>524.0</b>
<b>Historical costs</b>						
Balance at Jan. 1, 16	549.6	1,702.7	77.1	85.0	19.8	2,434.2
Reclassification from/to the balance sheet item assets held for sale	-161.8	-683.8	-21.7	-44.4	0.0	-911.7
Foreign currency translation	-0.9	-9.4	-0.3	-0.4	0.0	-11.0
Reclassifications	0.9	8.0	0.7	-9.6	0.0	0.0
Additions	8.5	8.7	2.8	13.6	0.0	33.6
Disposals	-1.0	-8.2	-1.1	-0.4	0.0	-10.7
<b>Balance at Dec. 31, 16</b>	<b>395.3</b>	<b>1,018.0</b>	<b>57.5</b>	<b>43.8</b>	<b>19.8</b>	<b>1,534.4</b>
<b>Accumulated amortization and depreciation/impairment losses</b>						
Balance at Jan. 1, 16	312.0	1,256.3	67.1	3.0	6.2	1,644.6
Reclassification from/to the balance sheet item assets held for sale	-79.2	-517.5	-19.4	-1.3	0.0	-617.4
Foreign currency translation	-0.8	-8.0	-0.1	0.0	0.0	-8.9
Additions	8.0	33.9	2.4	0.0	0.6	44.9
Reversal of impairment losses	-6.4	-6.4	0.0	0.0	0.0	-12.8
Disposals	-0.7	-7.2	-1.1	0.0	0.0	-9.0
<b>Balance at Dec. 31, 16</b>	<b>232.9</b>	<b>751.1</b>	<b>48.9</b>	<b>1.7</b>	<b>6.8</b>	<b>1,041.4</b>
<b>Net carrying amount as of Dec. 31, 16</b>	<b>162.4</b>	<b>266.9</b>	<b>8.6</b>	<b>42.1</b>	<b>13.0</b>	<b>493.0</b>

In the year under review, the initial consolidation of SGL Composites led to an increase in property, plant and equipment by €41.3 million. The reversal of impairment loss of €3.6 million reported in the year under review reflects the value adjustment of HITCO's land and buildings. Please refer to **Note 9** for further details.

In the previous year, upon the fulfillment of the criteria of a classification of PP as held for sale and as a discontinued operation, the assets attributable to this business unit were reclassified into the balance sheet item "assets held for sale." In addition, the reclassification columns include property, plant and equipment of the carbon fiber production site in Evanston (USA) for which a sale agreement had been entered into at the end of the reporting year. The reversals of impairment losses reported in the prior year in the amount of €12.8 million reflect the measurement of Evanston at fair value less costs to sell. For more information, please refer to **Notes 9** and **21**.

#### Investment property

As in the prior years, SGL Group has pooled a former business unit's land and buildings held as investment property within a real estate company. The fair values of developed land and the land value of the expected development area totaled €20.0 million (December 31, 2016: €19.2 million) as of December 31, 2017 using an adjusted reference land value, respectively. The market-specific reference land value was adjusted to take into account the estimated term until full development (up to ten years, based on a discount rate of 9.5%); a risk discount of 30% was deducted from the resulting value. The reported fair value corresponds to Level 3 of the fair value hierarchy of IFRS 13.

Rental income from such land amounted to a total of €1.3 million in fiscal year 2017 (2016: €1.3 million). Expenses amounted to €0.8 million (2016: €1.3 million).

#### 16. Other non-current assets

This item mainly consists of financial assets in the form of securities that are held at foreign subsidiaries to cover pension entitlements, and also in the prior year a loan to Fisigen, Lisbon, Portugal, an investment accounted for At Equity.

#### 17. Inventories

€m	Dec. 31, 17	Dec. 31, 16
Raw materials and supplies	74.4	76.2
Work in progress	108.4	103.7
Finished goods and merchandise	98.6	89.0
<b>Total</b>	<b>281.4</b>	<b>268.9</b>

In fiscal year 2017, cost of sales included a utilization of inventories in the amount of €627.2 million (2016: €588.8 million), which was recognized as an expense. The total carrying amount of inventories measured at net realizable value was €4.3 million as of December 31, 2017 (December 31, 2016: €15.0 million). Write-downs of inventories led to an increase in the overall cost of sales recognized by €3.2 million (2016: €6.0 million). Reversals of write-downs resulting from disposals in the amount of €4.3 million (2016: €2.8 million) reduced the cost of sales. As of December 31, 2017 and December 31, 2016, amounts of €13.5 million and €9.0 million, respectively, of prepayments received less prepayments made were deducted from work in process.

#### 18. Trade receivables

€m	Dec. 31, 17	Dec. 31, 16
From customers	118.7	83.2
From investments accounted for At-Equity	7.7	6.0
<b>Trade receivables</b>	<b>126.4</b>	<b>89.2</b>

The following table shows the extent of the credit risk related to total receivables:

€m	Dec. 31, 17	Dec. 31, 16
<b>Trade receivables neither impaired nor overdue</b>	<b>102.7</b>	<b>76.1</b>
<b>Overdue trade receivables not impaired on an individual basis</b>		
less than 30 days	17.3	11.5
30 to 60 days	4.4	0.9
61 to 90 days	0.9	0.0
more than 90 days	1.1	0.6
<b>Total</b>	<b>23.7</b>	<b>13.0</b>
Receivables impaired on an individual basis (gross)	5.4	6.4
Less valuation allowances	-5.4	-6.3
<b>Trade receivables, net</b>	<b>126.4</b>	<b>89.2</b>

The majority of our trade receivables are paid by the contractually agreed upon due dates. As of the balance sheet date, receivables not subject to impairment amounted to €126.4 million (December 31, 2016: €89.1 million). The total valuation allowances on receivables amounted to €5.4 million as of the reporting date (December 31, 2016: €6.3 million). The valuation allowances were calculated on the basis of uniform SGL Group accounting policies and reflect the expected default risk based on the trend in customer sectors as well as the specific situation of the customer concerned. The calculation of valuation allowances on doubtful receivables involves our sales organization making estimates and assessments of the individual receivables on the basis of the creditworthiness of the respective customer, historical experience, and current economic trends as well as existing collateral in the form of credit insurance. The portfolio of receivables is subject to continuous quality monitoring as part of our credit management system. Further explanations can be found under "Credit Risk" in **Note 29**.

The following table shows the change in impairment:

€m	2017	2016
Balance as of Jan. 1	6.3	10.1
Reclassification from/to the balance sheet item assets held for sale	0.0	-2.6
Additions recognized as expense	0.5	1.0
Reversals	-1.3	-2.0
Utilizations	0.0	0.1
Exchange differences	-0.1	-0.3
<b>Balance as of Dec. 31</b>	<b>5.4</b>	<b>6.3</b>

## 19. Other financial assets/Other receivables and other assets

€m	Dec. 31, 17	Dec. 31, 16
Purchase price receivables from the sale of GE and CFL/CE	62.4	0.0
<b>Other financial assets</b>	<b>62.4</b>	<b>0.0</b>

The final purchase price payment for both sales (GE and CFL/CE) is determined on the basis of the closing balance sheet as of September 30 (GE) and October 31 (CFL/CE), respectively. In addition to the preliminary purchase price payments already received, further payments totaling €62.4 million will probably result in the first half of 2018, and are reported as other financial assets. The effects of the sales on profit or loss are described in **Note 12**.

€m	Dec. 31, 17	Dec. 31, 16
Other tax claims	9.0	11.5
Income tax assets	2.6	2.1
Advance payments for leases and insurance premiums	5.3	4.2
Other receivables due from suppliers	4.5	3.9
Receivables due from employees	1.4	1.5
Positive fair values of financial instruments (currency rate derivatives)	2.8	3.5
Other assets	7.7	8.0
<b>Other receivables and other assets</b>	<b>33.3</b>	<b>34.7</b>

## 20. Liquidity

After the successful sale of the business unit PP as well as the repayment of the corporate bond in fiscal 2017, the Company has liquidity in the amount of €379.3 million (December 31, 2016: €329.5 million), also corresponding to cash and cash equivalents of €379.3 million. In the previous year, liquidity consisted of €324.5 million in cash and cash equivalents and €5.0 million in time deposits with original maturities of more than three months. Excluding the proportionally consolidated joint venture SGL Automotive Carbon Fibers, liquidity amounted to €378.1 million (December 31, 2016: €322.6 million).

The breakdown of liquidity as of December 31, 2017 was as follows: 93% in euros (December 31, 2016: 86%), 2% in US dollars (December 31, 2016: 6%), 1% in Japanese yen (December 31, 2016: 3%), and 4% in other currencies (December 31, 2016: 5%). As in the prior year, there was no significant amount of cash on hand as of the balance sheet date.

## 21. Assets held for sale/Liabilities in connection with assets held for sale

In December 2017, SGL Group signed an agreement to sale the 51% interest held in the fully-consolidated SGL Kumpers GmbH & Co. KG. The assets and liabilities assigned to the CFM business unit were reported as assets and liabilities held for sale as of December 31, 2017. The sale was completed mid-January 2018 and, already in 2017, led to a value adjustment of €2.3 million reported in other operating income. In addition, a plot of land of the former production site in Canada was presented as held for sale.

In the prior year, assets and liabilities attributable to PP as a whole were presented as held for sale. In addition, the carbon fiber production site in Evanston (USA) as well as the land and buildings remaining at the SGL Group at the local production site after the sale of the activities of HITCO in December 2015 were presented as held for sale. The carrying amounts of the major classes of assets and liabilities were as follows (after taking into account impairment losses):

€m	Dec. 31, 17	Dec. 31, 16
Other intangible assets and property, plant and equipment	2.4	288.3
Inventories	6.3	142.3
Trade receivables	4.9	71.7
Other receivables and other assets	0.6	22.1
Deferred tax assets	0.0	12.8
Liquidity	3.6	3.5
<b>Assets held for sale</b>	<b>17.9</b>	<b>540.7</b>
Provisions for pensions and similar employee benefits	0.0	85.7
Other provisions	1.9	29.1
Trade payables	0.8	41.5
Interest-bearing loans and other financial liabilities	6.7	
Deferred tax liabilities	0.0	25.4
Other liabilities	1.8	4.9
<b>Liabilities in connection with assets held for sale</b>	<b>11.3</b>	<b>186.6</b>

The change compared to the prior year is due to the disposal of the PP business unit and the production site in Evanston. Furthermore, HITCO's land and buildings were reclassified to property, plant and equipment as these premises will continue to be permanently available to SGL Group for production purposes. The effects on the income statement are explained in **Notes 12** (PP) and **9** (HITCO) respectively.

## 22. Deferred taxes

As of December 31, 2017, German unrecognized domestic tax loss carryforwards amounted to €463.3 million for corporate tax (December 31, 2016: €440.1 million), €324.3 million for trade tax (December 31, 2016: €280.9 million), and €49.7 million for interest carryforwards (December 31, 2016: €33.6 million). Unrecognized usable foreign tax loss carryforwards also existed primarily in the USA, amounting to USD 528.4 million for federal tax (December 31, 2016: USD 506.1 million), and in the UK, amounting to GBP 37.9 million (December 31, 2016: GBP 59.9 million). Furthermore, as of December 31, 2017, there were unrecognized interest carryforwards and capital losses in the USA totaling USD 50.2 million (December 31, 2016: USD 85.1 million). According to current legislation, tax loss carryforwards in Germany and the UK can be carried forward for an unlimited period of time. In the U.S., the loss carryforwards will expire as of the year 2022.

Deferred tax assets of €16.9 million in respect of tax loss carryforwards were recognized in the year under review.

Above all, the tax group of SGL Carbon SE (mainly SGL Carbon SE and SGL Carbon GmbH) reported a series of losses in recent years. Deferred tax assets are required to be capitalized if there is a history of losses to the extent that there is convincing substantial evidence that sufficient taxable profit will be available. If such substantial evidence exists, deferred tax assets have to be recognized when it is probable (i.e. it is more likely than not) that future sufficient taxable profit will be available in future. Based on the company-specific special situation as regards the restructuring and transformation process initiated in the past years, it was determined that the history of losses is attributable to separately identifiable single causes of loss which will not repeat in the future. In addition, it becomes obvious in retrospect that the assumptions used for corporate and tax planning in relation to cost savings and earnings improvements to be achieved through the restructuring and transformation program have occurred as planned and have led to operating improvements. In the verified tax planning of the tax entity, SGL Group expects that this trend will continue. Based on a detailed breakdown of the timing of the utilization of loss carryforwards, taking into account the release of each single temporary difference, a utilization of the loss carryforwards was simulated in the detailed planning period of three years. The detailed analysis resulted in the capitalization of deferred tax assets on loss carryforwards in the amount of €8.1 million at the German tax group and of €13.2 million on a Group-wide basis. The limitation to three years was based on the "3-year cumulative loss test" in accordance with U.S. GAAP and also applies to deductible temporary differences. Since the deferred tax assets capitalized at the German tax entity almost exclusively resulted from temporary measurement differences (which largely will reverse over the long term) in relation to pension provisions and other non-current provisions, the applied limitation now leads to valuation adjustments totaling €42.3 million. The impairment is recognized in the consolidated income statement, except to the extent that it relates to items previously recognized outside the income statement in other comprehensive income. The latter especially refers to deferred tax assets on pension provisions, leading to a reduction of "accumulated profit/loss" by €39.5 million in the statement of changes in equity due to the impairment recognized for deferred tax assets on pension provisions. An impairment loss of €11.5 million was reported in the income statement as deferred tax expense. The capitalization of deferred taxes on loss carryforwards had an offsetting effect.

No deferred tax assets were recognized for the following items as of December 31, 2017 or December 31, 2016 due to uncertainty regarding their usability:

€m	Dec. 31, 17	Dec. 31, 16
Deductible temporary differences		
From impairment tests	0.0	51.8
From other recognition and measurement differences	258.2	95.3
From tax loss carry forwards and tax credits	1,534.1	1,497.2
<b>Total</b>	<b>1,792.3</b>	<b>1,644.3</b>

Deferred taxes are reported as non-current.

Deferred tax assets and liabilities on a gross basis are derived as follows from loss carryforwards or differences between the tax base and the IFRS financial statements:

€m	Deferred tax assets Dec. 31, 2016	Deferred tax liabilities Dec. 31, 2016	Deferred tax assets Dec 31, 16	Deferred tax liabilities Dec. 31, 16
Non-current assets	30.5	28.6	41.9	53.6
Inventories	3.8	2.4	5.1	2.7
Receivables/other assets	5.0	2.5	5.6	6.5
Provisions for pensions and similar employee benefits	79.1	18.9	94.9	20.7
Other provisions	9.1	0.3	13.0	0.6
Liabilities/other liabilities	6.7	1.2	5.3	0.2
From tax loss carry forwards, interest carry forwards and tax credits	267.3	0.0	349.7	0.0
<b>Gross amount</b>	<b>401.5</b>	<b>53.9</b>	<b>515.5</b>	<b>84.3</b>
Valuation allowance	-329.0	0.0	-375.7	0.0
Netting	-51.8	-51.8	-83.1	-83.1
<b>Carrying amount</b>	<b>20.7</b>	<b>2.1</b>	<b>56.7</b>	<b>1.2</b>

Deferred tax assets and liabilities on a gross basis are offset if they relate to income taxes of the same taxable entity and the same type of tax.

SGL Group reports accumulated deferred tax effects of €41.6 million on items recognized outside profit or loss, mainly from pension provisions, in equity. The tax effects in the year under review are presented as footnotes to the statement of comprehensive income by equity category.

In both the reporting year and the prior year, no deferred tax liabilities would result from retained earnings at foreign entities which will not be distributed in the foreseeable future, since the subsidiaries' potential for distribution has largely been disbursed.



## 23. Equity

### Issued capital

As of December 31, 2017, the issued capital of the parent company, SGL Carbon SE (HRB 23960 Wiesbaden), amounts to €313,194,183.68 (prior year: €313,194,183.68) and is divided into 122,341,478 (prior year: 122,341,478) no-par-value ordinary bearer shares, each with a nominal value of €2.56. The shares are traded on various markets in Germany (including Frankfurt).

### Authorized capital

Pursuant to Section 3 (6) of the Articles of Association, the Board of Management is authorized to increase the share capital, with the approval of the Supervisory Board, by up to a total of €31,319,040.00 by issuing new no-par value bearer shares on one or more occasions (Authorized Capital 2017). Authorized Capital 2017 was created by the Annual General Meeting on May 17, 2017 and is exercisable until May 16, 2022. In principle, the shareholders will be entitled to subscription rights if the

Authorized Capital 2017 is utilized. However, pre-emptive rights should be or may be disappplied for fractional amounts, for the benefit of holders of bonds with warrants or conversion rights or obligations issued or to be issued, shares issued in return for contributions in kind to support the acquisition of companies, parts of companies, or investments in companies, and the issuance of shares of up to 10% of the issued share capital in the event of a capital increase against cash contributions.

Apart from the new Authorized Capital 2017, there were no changes as regards the total amount of authorized capital available to the Company; there was not authorized capital as of December 31, 2016.

### Conditional capital

The Annual General Meeting has approved conditional capital increases in the past years to service the share-based management incentive plans (see **Note 31**) as well as to service convertible bonds (see **Note 26**).

#### Conditional capital as of December 31, 2017

Articles of association	Date of resolution	€/Number of shares	Capital increase via:	Disapplication of pre-emptive rights/execution of the capital increase
Section 3 (11)	30.04.2015	€25,600,000.00 = 10,000,000 shares	To be used for the 2015 convertible bond	Share capital increase will be executed if participants make use of their subscription rights.
Section 3 (7)	April, 30, 2004	€76,202.56 = 298,126 shares	SAR-Plan <sup>1)</sup> 2005-2009	Share capital increase will be executed if participants make use of their subscription rights.
Section 3 (12)	April 29, 2009	€4,875,517.44 = 1,904,499 shares	SAR-Plan <sup>1)</sup> 2010-2014	Share capital increase will be executed if participants make use of their subscription rights.
Section 3 (9)	May 17, 2017	€ 31,319,040.00 =12,234,000 shares	To fulfill subscription rights of convertible bonds/bonds with warrants to be issued based on the on the enabling resolution of the general meeting dated May 17, 2017	Convertible bonds/bonds with warrants not issued as of Dec. 31, 17, on the basis of which a capital increase could occur
Section 3 (14)	April 30, 2010	€ 20,480,000.00 =8,000,000 shares	Conversion of convertible bond 2012	Share capital increase will be executed if participants make use of their subscription rights.

<sup>1)</sup> SAR Plan = Stock Appreciation Rights Plan, see Note 31

Compared with the balance as of December 31, 2016, the former conditional capital pursuant to Section 3 (9) of the Articles of Incorporation was rescinded in the amount of €25,600,000.00 € by resolution of the Annual General Meeting on May 17, 2017, and new conditional capital was created in accordance with Section 3 (9) in the amount of €31,319,040.00.

**Increase in the Company's share capital**

	2017	2016
Number of shares		
Balance as of Jan. 1,	122,341,478	91,806,502
SAR Plan 2005-2009	0	0
New shares issued to employees for bonus entitlements	0	515,000
New shares issued to share plan participants	0	19,976
Capital increase	0	30,000,000
<b>Balance as of Dec. 31</b>	<b>122,341,478</b>	<b>122,341,478</b>

As of December 31, 2017, 70,501 (December 31, 2016: 70,501) treasury shares were held at a carrying amount of €180,482.56 (December 31, 2016: €180,482.56).

On December 15, 2016, the Company completed the capital increase from authorized capital in return for cash contributions. A total of 30,000,000 new no-par value bearer shares, each with a proportional share in the issued capital of €2.56, were issued; this led to net proceeds of €173.3 million (after costs of €7.1 million).

**Disclosures on capital management**

In addition to ensuring liquidity, one of the primary objectives of capital management is to optimize financing structures on a continuous basis. In order to achieve this objective, various methods are used to reduce the cost of capital and improve the capital structure as well as to ensure effective risk management. Capital management includes both equity and debt components. Key financial figures include net debt, gearing (net debt/equity), and the equity ratio. Net debt is defined as borrowings at their principal amount less cash, cash equivalents and time deposits. In the medium term, SGL Group aims to achieve a gearing of approx. 0.5, an equity ratio of >30% and a leverage ratio (net financial debt to EBITDA before non-recurring charges) of <2.5.

In the year under review, the proceeds from the sale of the business unit PP were used to redeem the corporate bond in the amount of €250.0 million prior to maturity in 2021. The measures initiated in the prior year included the successful capital increase in the amount of €173.3 million as well as the newly agreed syndicated loan with an already available tranche amounting to €50.0 million. There were no changes as regards the approach to capital management in the year under review.

The key figures developed as follows:

€m	Dec. 31, 17	Dec. 31, 16
Net financial debt	139.0	449.4
Equity attributable to the shareholders of the parent company	457.0	331.8
Gearing	0.30	1.35
Equity ratio	29.6%	17.5%

SGL Group pursues active debt management as one of its capital management tools. The SGL Group is under an obligation to comply with certain covenants with respect to our lenders and bondholders. Adherence to these covenants is monitored continuously. In addition, financial risks are continuously monitored and controlled using certain indicators and regular internal reports as part of internal risk management. This includes, among other things, the internal financing framework for subsidiaries determined on the basis of their budget requirements and their utilization, monitoring the hedged currency exposure, the change in actual cash flows, the change in the market values of the derivatives portfolio and the maintaining and utilization of guarantee credit lines.

Since 2004, SGL Group has commissioned rating agencies Moody's and Standard & Poor's (S&P) to prepare an issuer rating, which supports both private and institutional investors in evaluating the SGL Group's credit quality. At present, SGL Group has ratings of "CAA1" from Moody's and "B-" from Standard & Poor's.

**Change in control agreement**

As of December 31, 2017, the Company had issued two convertible bonds maturing in 2018 and 2020, respectively. Each of the convertible bonds entitled the bondholders to repayment of their outstanding notes at the principal amount in the event of a change in control, provided the bondholders declare such intention prior to or on the reference date to be determined by the Company; such reference date may not be fewer than 40 or more than 60 calendar days after the change in control. Alternatively, the notes could be converted into shares up to the reference date, which could result in a better conversion ratio for bondholders based on the staggered conversion price with respect to the residual terms to maturity of the convertible bond in question. For the purposes of the two convertible bonds, a change in control existed if one or more individuals acquires control over the Company, with control being (a) direct or indirect ownership of more than 30% of the voting shares or (b)

in the case of an acquisition offer, when the shares controlled by the bidder or individuals cooperating with the bidder plus the shares with regard to which the acquisition offer has been accepted exceed 50% of the voting rights in SGL Carbon SE and the acquisition offer becomes unconditional. The convertible bond due in 2018 was redeemed in full by the Company on January 25, 2018 and ceased to exist as of that date. The convertible bond due in 2020 continues to exist with the terms mentioned.

As of December 31, 2017, the joint venture agreement between SGL Group and BMW Group establishing SGL ACF JVs stipulated that, if one of the parties to the joint venture undergoes a change in control (i.e. if a third party directly or indirectly acquires 50% or more of the voting rights in a party to the joint venture, or 25% of the voting rights if such third party is a competitor of the other party to the joint venture), the other party to the joint venture was entitled to purchase the shares belonging to the party to the joint venture affected by the change in control or to tender its shares in the joint venture at market value. This change of control clause ceased to exist upon the termination of the SGL ACF JVs on January 11, 2018.

#### Other

In 2017, SGL Carbon SE, the parent company of SGL Group, reported a net income for the year of €169.3 million in accordance with the German Commercial Code (HGB). Taking into account the loss brought forward in the amount of €1,056.8 million, the accumulated loss totaled €887.5 million. In accordance with the German Stock Corporation Act, dividends may only be paid out of the accumulated net profit reported by SGL Carbon SE in its annual financial statements prepared pursuant to the provisions of the German Commercial Code (HGB).

## 24. Provisions for pensions and similar employee benefits

The employees of SGL Group worldwide benefit from various pension plans that provide retirement benefits for employees and their surviving dependents. These benefits are granted in accordance with the specific situations in the various countries. Some of the arrangements are linked to the level of employee remuneration, whereas others are based on fixed amounts that are based on employee ranking in terms of both salary classification and position within the Company hierarchy. Some arrangements also provide for future increases based on an inflation index.

#### Germany

The various pension arrangements for the employees of SGL Group in Germany were standardized on April 1, 2000 and pooled in the legally independent pension fund for employees of Hoechst Group VVaG. In case of defined contribution plans for basic pension plans in relation to employees below the income threshold for contribution assessment, the Company pays contributions to pension insurance providers on the basis of statutory or contractual requirements. The Company generally has no further obligations other than to pay the contributions. The Hoechst VVaG pension fund (Penka I) is a defined benefit multi-employer plan in Germany. There is insufficient information available about this pension plan to allow the Company to classify it as a defined benefit plan because the plan assets cannot be allocated among the participating companies. The pension fund benefits are funded based on the actuarial equivalence principle (*Bedarfsdeckungsverfahren*). Accordingly, the employer contributions may fluctuate depending on the amount of capital gains of the fund. The contributions made by SGL Group to the pension fund (Penka I) in 2017 amounted to 500% of the employee contributions. Effective April 1, 2009, the pension plan was closed to new beneficiaries and changed from a defined benefit plan to a defined contribution plan. The employer contributions remained constant at 230% of the employee contributions. All obligations were fulfilled by making contribution payments to Höchster Pensionskasse VVaG (Penka II). In addition, there is Altersversorgungplus (AV-plus) in Germany. The employee contributes 2.0% from pensionable gross remuneration as deferred compensation to AV-plus, while the employer contributes twice that amount in the form of a direct pension commitment which is covered by assets held in a trust vehicle (Contractual Trust Arrangement, CTA). Employees may contribute an additional amount of 1.0% to Penka II, in which case the matching employer's contribution to the direct pension commitment amounts to 100% of the employee's contribution. The employee acquires a direct entitlement to benefits from the pension fund upon making his contributions to the pension fund. The employer's payments under the direct pension commitment are subject to a guaranteed minimum return of 2.25% p. a. If an insured event occurs, any benefit payments (one-off disbursement or payment in form of an annuity) are determined based on the higher of guaranteed minimum return or the current individual value of assets. In addition, employees are able to participate in deferred compensation plans and similar models.

The direct pension commitment for the defined benefit plan for the senior management level (with income above the threshold for a contribution assessment as determined by the German government pension insurance plan (Deutsche Rentenversicherung) was closed to participants as of December 31, 2014 and was replaced by a defined contribution plan (ZVplus). The entitlements earned by the participants have been frozen and are no longer subject to indexation until benefits commence. Even if employees may no longer earn entitlements from legacy commitments, the Company is still exposed to actuarial risks such as longevity and pension indexation. In relation to the new defined contribution plan, the Company grants contributions at a defined rate based on pensionable income. The contributions are subject to a minimum interest rate, which is the maximum rate for life insurance policies plus one percentage point (1.9% p.a. since January 1, 2017). In addition, the amounts are contributed as assets to a trust vehicle (Contractual Trust Arrangement, CTA). If an insured event occurs, any benefit payments (one-off disbursement or payment in form of an annuity) are determined based on the higher of guaranteed minimum return or the current individual value of assets.

## **USA**

The North American subsidiaries have country-specific pension plans which are largely covered by pension funds. The effective funding ratio for the U.S. pension plan as of December 31, 2017 amounts to 75.4% (December 31, 2016: 68.5%). This plan is subject to the legal and regulatory framework of the U.S. Employee Retirement Income Security Act (ERISA). In accordance with this framework, defined benefit plans have to ensure a minimum funding level in order to avoid a reduction of benefit payments. The current funding ratio pursuant to ERISA does not result in any obligations to pay further contributions. In addition, post-employment healthcare plans and an additional pension plan for senior managers, both of which are unfunded, exist in the USA.

In the U.S. pension fund, the plan assets are invested solely for the purpose of providing future pension benefits to the beneficiaries and minimizing the costs of administering the assets. SGL Group regularly reviews the assumptions on the expected return on plan assets of the North American, fund-financed pension plan. As part of the review, independent actuaries calculate a range for expected long-term returns on total plan assets. Net interest is determined based on plan assets measured using the discount interest rate at the end of the previous year.

In 2017, the effective return on plan assets was plus 14.0% (2016: plus 6.8%) in the U.S., which is above the expected interest based on the discount rate of 4.0% as of December 31, 2016.

The investment policy of SGL Group is geared more heavily toward fixed-income bonds and bank balances as compared to assets from growth-oriented equities and interests in companies. As of December 31, 2017, 34.7% of the plan assets in the USA were invested in equities and interests in companies (December 31, 2016: 32.1%), 57.3% in fixed-interest securities (December 31, 2016: 57.3%), 6.5% in hedge funds (December 31, 2016: 8.2%), and 1.5% in bank deposits (December 31, 2016: 2.4%).

The future benefit obligations in relation to healthcare plans are calculated using actuarial methods based on prudent estimates of the relevant parameters. The calculation parameters may be influenced to a significant degree by the assumptions with respect to the increase in costs within the healthcare sector. In the year under review, the assumed rates of increase for medical costs (first/last/year) amounted to (7.23%/5.0%/ 2025) for beneficiaries of less than 65 years of age and (8.36%/5.0%/2025) for beneficiaries of more than 65 years of age. The assumed rates for 2016 were (7.56%/5.0%/2024) and (8.82%/5.0%/2024), respectively. An increase or decrease in the assumed growth rate for healthcare costs of 1 percentage point would have led to an increase (decline) in the present value of the defined benefit obligation of €0.2 million (minus €0.2 million) and an increase (decline) in the service and interest cost of €0.0 million (€0.0 million) as of the end of fiscal year 2017.

## **Actuarial assumptions**

In addition to biometrical bases for calculation and the current long-term market interest rate, this method takes into account particular assumptions with respect to future salary and pension increases.

The following parameters are applied in Germany and the USA, the countries with the most significant post-employment benefit obligations:

	German plans		US plans	
	2017	2016	2017	2016
Discount rate as of Dec. 31	1.70%	1.80%	3.60%	4.00%
Projected salary increase as of Dec. 31	2.25%	2.25%	3.00%	3.00%
Projected pension increase as of Dec. 31	1.50%	1.50%		
Expected return on plan assets in fiscal year	1.80%	2.25%	4.00%	4.25%
Duration (years)	17.1	17.3	14.6	14.2

The change in pension obligations relating to direct commitments and post-employment healthcare obligations, the change in plan assets and the financing status of the pension plans are described in the following table.

The funded status for 2017 was as follows:

€m	Germany 2017	USA 2017	Other 2017	Total 2017
Present value of the defined benefit obligation at beginning of year	280.9	110.8	11.7	403.4
Reclassification to the balance sheet item liabilities in connection with assets held for sale	-2.1	0.0	0.0	-2.1
Service cost	4.6	2.8	0.2	7.6
Interest cost	5.0	4.0	0.4	9.4
Actuarial gains (-)/losses (+)	2.4	1.2	0.3	3.9
Benefits paid	-8.5	-3.4	-0.8	-12.7
Plan amendments	0.0	0.0	0.0	0.0
Other changes	1.4	0.1	-0.2	1.3
Currency differences	0.0	-13.6	0.0	-13.6
<b>Present value of the defined benefit obligation at end of year <sup>1)</sup></b>	<b>283.7</b>	<b>101.9</b>	<b>11.6</b>	<b>397.2</b>
Fair value of plan assets at beginning of year	42.4	58.0	0.0	100.4
Reclassification to the balance sheet item liabilities in connection with assets held for sale	0.0	0.0	0.0	0.0
Actual return on plan assets	0.2	7.7	0.0	7.9
Employer contributions	4.1	5.8	0.8	10.7
Employee contributions	0.9	0.1	0.0	1.0
Benefits paid	-1.7	-3.4	0.0	-5.1
Currency differences	0.0	-7.7	0.0	-7.7
<b>Fair value of plan assets at end of year <sup>2)</sup></b>	<b>45.9</b>	<b>60.5</b>	<b>0.8</b>	<b>107.2</b>
<b>Funded status as of Dec. 31</b>	<b>237.8</b>	<b>41.4</b>	<b>10.8</b>	<b>290.0</b>
<b>Amount recognized</b>	<b>237.8</b>	<b>41.4</b>	<b>10.8</b>	<b>290.0</b>
Termination benefits	0.0	0.7	2.3	3.0
<b>Provisions for pensions and similar employee benefits</b>	<b>237.8</b>	<b>42.1</b>	<b>13.1</b>	<b>293.0</b>

<sup>1)</sup> Of which €7.6 million relate to post-retirement health care benefits

<sup>2)</sup> This item also includes assets of €3.7 million to cover pension entitlements recognized as other non-current assets

The funded status for 2016 was as follows:

€m	Germany 2016	USA 2016	Other 2016	<b>Total 2016</b>
Present value of the defined benefit obligation at beginning of year	318.5	176.8	27.2	522.5
Reclassification to the balance sheet item liabilities in connection with assets held for sale	-45.7	-76.1	-15.0	-136.8
Service cost	5.4	2.8	0.4	8.6
Interest cost	5.9	5.3	0.2	11.4
Actuarial gains (-)/losses (+)	3.6	4.8	0.7	9.1
Benefits paid	-8.1	-6.3	-1.6	-16.0
Plan amendments	0.7	0.1	0.0	0.8
Other changes	0.6	0.0	-0.3	0.3
Currency differences	0.0	3.4	0.1	3.5
<b>Present value of the defined benefit obligation at end of year <sup>1)</sup></b>	<b>280.9</b>	<b>110.8</b>	<b>11.7</b>	<b>403.4</b>
Fair value of plan assets at beginning of year	39.4	98.5	7.4	145.3
Reclassification to the balance sheet item liabilities in connection with assets held for sale	-1.3	-49.3	-7.6	-58.2
Actual return on plan assets	0.8	6.6	0.0	7.4
Employer contributions	3.7	6.5	0.0	10.2
Employee contributions	0.6	0.1	0.0	0.7
Benefits paid	-0.8	-6.3	0.0	-7.1
Currency differences	0.0	1.9	0.2	2.1
<b>Fair value of plan assets at end of year <sup>2)</sup></b>	<b>42.4</b>	<b>58.0</b>	<b>0.0</b>	<b>100.4</b>
<b>Funded status as of Dec. 31</b>	<b>238.5</b>	<b>52.8</b>	<b>11.7</b>	<b>303.0</b>
<b>Amount recognized</b>	<b>238.5</b>	<b>52.8</b>	<b>11.7</b>	<b>303.0</b>
Termination benefits	0.0	0.8	2.2	3.0
<b>Provisions for pensions and similar employee benefits</b>	<b>238.5</b>	<b>53.6</b>	<b>13.9</b>	<b>306.0</b>

<sup>1)</sup> Of which €9.2 million relate to post-retirement health care benefits

<sup>2)</sup> This item also includes assets of €3.7 million to cover pension entitlements recognized as other non-current assets

The consolidated statement of comprehensive income includes the following amounts:

€m	Germany 2017	USA 2017	Other 2017	Total 2017	Total 2016
Actuarial gains (+)/losses (-) on pensions	-4.0	-1.2	-0.5	-5.7	-16.0
Actual return on plan assets	1.7	7.3	0.0	9.0	9.9
Less expected return on plan assets	0.8	2.0	0.0	2.8	5.2
<b>Gains (+)/losses (-) for the reporting year (gross) recognized in equity</b>	<b>-3.1</b>	<b>4.1</b>	<b>-0.5</b>	<b>0.5</b>	<b>-11.3</b>
Tax effect	0.4	0.0	-0.2	0.2	2.0
Valuation allowance on deferred taxes from pensions (Note 22)	-39.6	0.0	0.0	-39.6	0.0
<b>Gains (+)/losses (-) for the reporting year (net) recognized in equity</b>	<b>-42.3</b>	<b>4.1</b>	<b>-0.7</b>	<b>-38.9</b>	<b>-9.3</b>

The cumulative net amount of actuarial losses recognized in equity (accumulated profit/loss) was €212.9 million (2016: €182.2 million).

In fiscal year 2017, the following developments influenced the present value of the defined benefit obligation: increase by €3.1 million resulting from the decrease of the discount factor used for pension plans (2016: €20.6 million), decrease by €1.3 million as a result of taking into account new mortality tables in the USA (2016: €1.6 million) as well as a decrease by €1.7 million (2016: €9.8 million) in experience adjustments arising from differences between actuarial assumptions and actual outcome. A change in the discount factor, the salary trend, and the return on plan assets of plus 0.5 percentage points/minus 0.5 percentage points, respectively, would lead to a change in the present value of the defined benefit obligation of minus 7.1%/plus 8.1% (discount factor), plus 4.6%/minus 4.4% (projected pension increase) and plus 0.1%/minus 0.1% (change in plan assets). An increase in longevity by one year would lead to a change in the present value of the defined benefit obligation of plus 2.3%.

Pension provisions with a maturity of less than one year amounted to approximately €13.4 million (December 31, 2016: €13.5 million).

SGL Group has pension and healthcare obligations in the amount of €102.3 million (December 31, 2016: €94.4 million) arising from fund-financed pension plans. Pension obligations arising from non-fund-financed pension plans amounted to €294.9 million (December 31, 2016: €309.0 million). The actual return on plan assets in 2017 amounted to a total of €9.4 million (2016: €7.4 million).

To cover the pension obligations to members of the Board of Management, the Company has entered into reinsurance policies with three large insurance companies. As of December 31, 2017, the asset value included in the pension provisions totaled €29.6 million (December 31, 2016: €30.5 million). The expected return corresponds to the discount rate for the pension obligations. In fiscal year 2017, one-time payments totaling €1.3 million were made to reinsurers (2016: €0.8 million). The benefits under the insurance policies have been pledged to the relevant members of the Board of Management. The pension expense for active members of the Board of Management is detailed in **Note 28**.



The breakdown of pension expenses for 2017 and 2016 is as follows:

€m	Germany 2017	USA 2017	Other 2017	Total 2017	Total 2016
Current service costs	4.6	2.8	0.2	7.6	8.6
Plan amendments	0.0	0.0	0.0	0.0	0.7
Curtailment/settlement gains	0.0	0.0	0.0	0.0	-0.4
<b>Service cost</b>	<b>4.6</b>	<b>2.8</b>	<b>0.2</b>	<b>7.6</b>	<b>8.9</b>
Interest cost	5.0	4.0	0.4	9.4	11.4
Expected return on plan assets	-0.8	-2.1	0.0	-2.9	-3.5
<b>Net interest expense</b>	<b>4.2</b>	<b>1.9</b>	<b>0.4</b>	<b>6.5</b>	<b>7.9</b>
<b>Pension expenses for defined benefit plans</b>	<b>8.8</b>	<b>4.7</b>	<b>0.6</b>	<b>14.1</b>	<b>16.8</b>
Pension expenses for defined contribution plans	6.0	0.0	0.0	6.0	6.3
Pension expenses for termination benefits	0.0	0.0	0.0	0.0	0.2
<b>Pension expenses</b>	<b>14.8</b>	<b>4.7</b>	<b>0.6</b>	<b>20.1</b>	<b>23.3</b>

Contributions to state plans of SGL Group amounted to €19.0 million in 2017 (December 31, 2016: €20.0 million). Employer contributions to plan assets and reinsurance policies in 2017 are estimated at €6.2 million (actual amount for 2016: €6.2 million). As of December 31, 2017, the anticipated future pension benefit payments by SGL Group to its former employees or their surviving dependents were as follows:

#### **Pension payments to employees**

Year	€m
2017	12.7
Payable in 2018	13.6
Payable in 2019	14.2
Payable in 2020	14.5
Payable in 2021	16.0
Payable in 2022	19.2
Payable in 2023-2027	92.5

**25. Other provisions**

€m	Taxes	Personnel expenses	Warranties, price reductions and guarantees	Restructuring	Other	Total
Balance at Jan. 1, 17	4.1	45.6	10.6	44.7	15.2	120.2
Change in the scope of consolidation	0.1	1.3	7.5	0.0	1.2	10.1
Reclassification to the balance sheet item liabilities in connection with assets held for sale	-0.5	-0.9	-0.2	0.0	-0.5	-2.1
Utilizations	-2.6	-29.1	-1.7	-12.4	-8.4	-54.2
Releases	-1.1	-1.7	-0.6	-3.5	-0.6	-7.5
Additions	8.9	39.3	3.7	0.0	10.3	62.2
Other changes/exchange differences	0.0	-1.5	-0.9	0.3	-0.2	-2.3
<b>Balance at Dec. 31, 17</b>	<b>8.9</b>	<b>53.0</b>	<b>18.4</b>	<b>29.1</b>	<b>17.0</b>	<b>126.4</b>
<i>thereof with a maturity of up to one year</i>	<i>7.2</i>	<i>44.6</i>	<i>9.0</i>	<i>11.3</i>	<i>16.7</i>	<i>88.8</i>
<i>thereof with a maturity of more than one year</i>	<i>1.7</i>	<i>8.4</i>	<i>9.4</i>	<i>17.8</i>	<i>0.3</i>	<i>37.6</i>

Provisions for personnel expenses mainly comprise provisions for annual bonuses of €27.0 million (December 31, 2016: €20.2 million), provisions for anniversary benefits of €4.4 million (December 31, 2016: €4.2 million), and provisions for outstanding vacation days of €10.0 million (December 31, 2016: €9.0 million).

In addition to warranty provisions, warranties, price reductions and guarantees include provisions for price reduction risks including bonuses, volume discounts, and other reductions in

price. The restructuring provisions primarily relate to personnel measures, provisions for clean-up work and dismantling costs.

The item "Other" includes provisions for outstanding invoices in the amount of €5.7 million (December 31, 2016: €6.7 million) and a provision in the amount €3.1 million for a legal dispute with a customer. In addition, other provisions consist of various individual items of minor value from our 50 (December 31, 2016: 70) fully consolidated companies.

## 26. Liabilities

€m	Dec. 31, 17	Remaining term to maturity > 1 year	Dec. 31, 16	Remaining term to maturity > 1 year
<b>Interest-bearing loans</b>				
Corporate bond	-	-	250.0	250.0
<i>Nominal value of convertible bonds</i>	<i>406.2</i>		<i>407.0</i>	
<i>Less IFRS equity component</i>	<i>-12.0</i>		<i>-20.5</i>	
Convertible bonds	394.2	155.4	386.5	386.5
Bank loans, overdrafts and other financial liabilities	112.9	108.6	125.4	122.3
Refinancing costs	-3.7	-1.9	-10.0	-10.0
	<b>503.4</b>	<b>262.1</b>	<b>751.9</b>	<b>748.8</b>
<b>Trade payables</b>	<b>89.3</b>	<b>0.0</b>	<b>103.9</b>	<b>0.0</b>
Other financial liabilities				
Derivative financial instruments	0.0	0.0	0.8	0.0
Finance lease liabilities	22.4	21.2	20.9	19.9
Miscellaneous other financial liabilities	4.4	0.0	36.8	15.5
	<b>26.8</b>	<b>21.2</b>	<b>58.5</b>	<b>35.4</b>
Income tax liabilities	0.7	0.0	0.5	0.0
Deferred tax liabilities	2.1	2.1	1.2	1.2
Miscellaneous other liabilities	20.4	0.0	22.5	0.1
<b>Other liabilities</b>	<b>50.0</b>	<b>23.3</b>	<b>82.7</b>	<b>36.7</b>
<b>Total</b>	<b>642.7</b>	<b>285.4</b>	<b>938.5</b>	<b>785.5</b>

### Interest-bearing loans

#### Corporate bond

The corporate bond issued by SGL Carbon SE in 2013 in a nominal value of €250.0 million, with an original term until 2021 and a coupon of 4.875%, was repaid early as of October 30, 2017 due to the exercise of the contractually agreed call option. The repayment price was 102.438%. This corresponds to a prepayment penalty of €6.1 million. In addition, the early repayment resulted in amortization of refinancing costs in the amount of €4.2 million. The bond was redeemed using the proceeds from the sold business unit PP.

#### Convertible bonds

In 2015, the Company issued a new unsecured, unsubordinated convertible bond due in September 2020 in an aggregate principal amount of €167 million ("2015/2020 Convertible Bond"). The convertible bond was issued and will be redeemed upon maturity also at 100% of the principal amount. The convertible

bonds were issued in denominations of €100,000 per bond. The current conversion price amounts to €17.07. The interest coupon is 3.5% p.a., payable semi-annually and retroactively on March 31 and September 30. Based on the current conversion price, full conversion would result in the issue of approximately 9.8 million shares.

In 2012, SGL Carbon SE issued unsecured unsubordinated convertible bond due in January 2018 in a principal amount of €240.0 million. The convertible bond was issued and will be redeemed upon maturity at 100% of its principal amount. The convertible bonds were issued in denominations of €100,000 per bond. The coupon rate is 2.75% p.a. and is paid semi-annually. Based on the current conversion price, full conversion would result in the issue of approximately 6.4 million shares. On January 25, 2018, the outstanding amount of the convertible bond 2012/2018 was repaid when due.

Accordingly, as of December 31, 2017, the Company had two outstanding convertible bonds. The terms of both convertible bonds provide for protection against dilution for investors. This ensures that the bonds' conversion prices are automatically adjusted in the event of a rights issue or if dividends are paid by the Company. The adjusted conversion price reflects the dilutive effect per share.

The conversion prices of the convertible bonds changed as follows:

€	Conversion price as of Dec. 31, 17	Original conversion price per share	Change
Convertible Bond 2012/2018	37.51	44.10	-6.59
Convertible Bond 2015/2020	17.07	18.65	-1.58

#### Summary of convertible bonds

€m	Volume of issue	Outstanding volume	Carrying amount as of Dec. 31, 17	Market price <sup>1)</sup> per Dec. 31, 17	Coupon % p.a.	Issue price
Convertible Bond 2012/2018	240.0	239.2	238.7	239.5	2,750%	100.0%
Convertible Bond 2015/2020	167.0	167.0	153.6	176.3	3,500%	100.0%
<b>Total</b>	<b>407.0</b>	<b>406.2</b>	<b>392.3</b>	<b>415.8</b>		

<sup>1)</sup> Corresponds to level 1 of the fair value hierarchy of IFRS 13

Please see **Note 2** ("Hybrid Financial Instruments") for a description of the accounting treatment for convertible bonds and their separation into an equity component and a debt component.

The weighted average cash interest rate on financial liabilities based on their nominal amounts in 2017 was 3.7% p. a. (2016: 3.7% p. a.). Including the non-cash imputed interest component on the convertible bonds, the weighted average effective interest rate for 2017 was 4.8% p. a. (2016: 4.7% p. a.). As of the balance sheet date, bank loans, overdrafts and other financial liabilities amounted to €112.9 million (2016: €125.4 million). Of that amount, €78.5 million (2016: €80.0 million) was subject to fixed interest and €34.4 million (2016: €45.4 million) was subject to variable interest rates. Excluding the proportionally consolidated joint operation SGL ACF, the total of all bank loans, overdrafts, and other financial liabilities was €14.8 million (2016: €8.3 million). The entire amount was subject to fixed interest, while in the prior year €7.4 million was subject to fixed interest and €0.9 million was subject to variable interest. Of the liabilities to banks, a total of €12.3 million was secured by a land charge as of December 31, 2017.

#### Syndicated credit facility

In addition to the two convertible bonds, SGL Group also has a secured syndicated credit facility totaling €50.0 million to be used for general corporate purposes. The credit facility has equal ranking with the corporate bond and was not utilized as of the reporting date. The syndicated credit facility was agreed with SGL Group's core banks and matures at the end of 2019. The credit facility is available to various SGL subsidiaries and can be drawn on in euros or in U.S. dollars.

The agreed credit margin varies, in particular depending on the leverage of SGL Group during the term to maturity. The terms and conditions of the syndicated credit line include financing provisions.

#### Trade payables

Trade payables totaled €89.3 million as of December 31, 2017 (December 31, 2016: €103.9 million) and, as in fiscal year 2016, were primarily due to third parties and due for payment within one year.

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**Other liabilities**

As of December 31, 2017, other financial liabilities included liabilities from finance leases in the amount of €22.4 million (December 31, 2016: €20.9 million), mainly attributable to an agreement on a heritable building right.

Other miscellaneous financial liabilities of €4.4 million comprise accrued interest for the two outstanding convertible bonds. In the previous year, miscellaneous other financial liabilities mainly included, apart from the accrued interest of €10.0 million, the non-controlling interests in the subsidiary partnership Kumpers GmbH & Co. KG, Rheine, Germany, which is classified as a liability, in a total amount of €15.5 million as well as an outstanding financial liability of €8.9 million towards the acquirer of our business with aerostructure components.

Miscellaneous other liabilities totaled €20.4 million (December 31, 2016: €22.5 million) as of December 31, 2017 and included liabilities for payroll and church taxes of €7.6 million (December 31, 2016: €7.1 million), social security liabilities of €0.7 million (December 31, 2016: €0.4 million), other tax liabilities of €0.2 million (December 31, 2016: €0.3 million), and deferred income of €6.7 million (December 31, 2016: €8.7 million).

The following table shows all contractually agreed upon payments as of December 31, 2017 for repayments of principal

and payment of interest on recognized financial liabilities, including derivative financial instruments.

€m	2018	2019	2020	2021	2022	More than five years
Non-derivative financial liabilities						
Convertible bonds	245.6	5.9	171.0			
Bank loans, overdrafts and other financial liabilities	7.7	6.6	104.9	2.3	2.3	2.4
Finance lease liabilities	1.2	1.2	1.2	1.2	1.1	74.3
Trade payables	89.3					
Miscellaneous other financial liabilities	4.4					
Derivative financial liabilities	0.0					
<b>Total</b>	<b>348.2</b>	<b>13.7</b>	<b>277.1</b>	<b>3.5</b>	<b>3.4</b>	<b>76.7</b>

The major changes compared with the disclosures in the prior year results from the early repayment of the corporate bond, originally maturing in 2021, as well as the longer term of the loans granted by BMW to SGL ACF until the end of 2020.

outflows in the event of an immediate cancellation of the underlying derivative contracts. The SGL Group is of the opinion that this form of presenting liabilities from derivatives with a negative fair value as of the balance sheet date is appropriate.

The estimated interest payments for floating-rate financial liabilities were determined on the basis of the interest-rate curve on the balance sheet date. Miscellaneous other financial liabilities were determined using undiscounted contractual cash flows for the subsequent fiscal years. Derivative financial liabilities are classified as payable on demand, regardless of their actual contractual maturity. This enables a presentation of cash

The following table shows the development of interest-bearing loans.

€m	Balance at Jan. 1, 17	Additions	Repayments	Effect of foreign exchange rate changes	Change in the scope of consolidation	Imputed interest/ amortisation	Balance at Dec. 31, 17
Corporate bond	250.0	0.0	–250.0	0.0	0.0	0.0	0.0
Convertible bonds	407.0	0.0	–0.8	0.0	0.0	0.0	406.2
Bank loans, overdrafts and other financial liabilities	125.4	8.9	–8.4	–12.8	–0.2	0.0	112.9
<b>Interest-bearing loans (nominal amount)</b>	<b>782.4</b>	<b>8.9</b>	<b>–259.2</b>	<b>–12.8</b>	<b>–0.2</b>	<b>0.0</b>	<b>519.1</b>
Remaining imputed interest for the convertible bonds	–20.5	0.0	0.0	0.0	0.0	8.5	–12.0
Refinancing costs	–10.0	0.0	0.0	0.0	0.0	6.3	–3.7
<b>Interest-bearing loans (carrying amount)</b>	<b>751.9</b>	<b>8.9</b>	<b>–259.2</b>	<b>–12.8</b>	<b>–0.2</b>	<b>14.8</b>	<b>503.4</b>

## 27. Contingent liabilities and other financial obligations

As of December 31, 2017, outstanding guarantee obligations amounted to €0.3 million (December 31, 2016: €0.3 million). There were no contingent liabilities relating to investments accounted for At- Equity (December 31, 2016: €6.5 million). In addition, other financial commitments in connection with purchase orders for approved capital expenditure on property, plant and equipment amounted to €13.1 million as of December 31, 2017 (December 31, 2016: €18.2 million). Some of these capital expenditure projects extend beyond one year.

SGL Group secures the necessary raw materials for its production by means of procurement agreements with key suppliers. These agreements are normally for one year, include minimum quantities to be purchased by SGL Group, and are fulfilled by physical delivery. The prices for the supplies are based on a base price that is adjusted for variable components.

A number of agreements to provide collateral were also signed with lenders in conjunction with the refinancing carried out in 2013 and 2016, respectively. These agreements are restricted to share pledge agreements and/ or corporate guarantees for a selected number of companies in the SGL Group. The shares of the following companies serve as collateral: SGL Carbon GmbH, SGL Carbon Beteiligung GmbH, SGL Carbon Technologies GmbH, SGL Carbon LLC, SGL Carbon Holdings BV, SGL Carbon GmbH (Austria), SGL Graphite Solutions Polska sp. z o.o. No charges on real estate or other assets have been pledged as collateral.

In addition, obligations under operating leases for land and buildings, IT equipment, vehicles, and other items of property, plant and equipment amounted to €34.7 million as of December 31, 2017 (December 31, 2016: €41.9 million).

As of December 31, 2017, the future payments were as follows (the changes compared to the previous year were insignificant):

€m	2018	2019	2020	2021	2022	2022 and thereafter	Total
<b>Operating leases</b>	<b>9.6</b>	<b>7.6</b>	<b>5.1</b>	<b>3.1</b>	<b>3.7</b>	<b>5.6</b>	<b>34.7</b>
Finance leases	1.2	1.2	1.2	1.2	1.1	74.3	80.2
- discount included	-0.1	-0.1	-0.2	-0.2	-0.3	-57.1	-58.0
<b>= Present value of finance leases</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>	<b>0.8</b>	<b>17.2</b>	<b>22.2</b>

Payments from subleases were received to an insignificant amount in both 2017 and 2016. Finance leases exclusively comprised lease agreements for items of property, plant and equipment concluded as standard lease agreements without any specific purchase option as well as one heritable building right. The land lease rate for the heritable building right is adjusted every 20 years, based on the then-applicable market value of the property. The last adjustment was made in 2006. Estimates of future increases are shown in the above table. Expenses for rental and operating lease agreements totaled €33.6 million in 2017 (2016: €34.3 million).

Various legal disputes, legal proceedings and lawsuits are either pending or may be initiated in the future. This includes legal action arising in connection with alleged defects in SGL Group products, product warranties, and environmental protection issues. Tax risks may also arise as a result of the SGL Group

structure. Litigation is subject to considerable uncertainty; the outcome of individual cases cannot be predicted with any certainty. There is a reasonable probability that individual cases could be decided against SGL Group. Identifiable risks have been adequately covered by recognizing appropriate provisions.

As a company using a substantial amount of energy, our site in Bonn was partially exempted from the cost allocation under the German Renewable Energy Sources Act (EEG) in the past. Depending on whether we will no longer be granted such an exemption from the EEG cost allocation or if we will be required to make a retrospective payment for the EEG cost allocation, this might have a negative impact on our business operations.

## 28. Related-party transactions

### Joint ventures and associates

SKion GmbH, Bad Homburg, holds a share of approximately 28.55% in SGL Carbon SE according to notifications pursuant to the German Securities Trading Act (WpHG). No transactions were conducted with SKion GmbH. As in the previous year, SKion GmbH continues to hold a nominal amount of €25 million of the 2015/2020 convertible bond, with interest amounting to €0.9 million.

In fiscal years 2017 and 2016, SGL Group maintained business relations within its normal course of business with a number of joint ventures and associates related to sales revenue and allocations of general and administrative expenses. In this context, SGL buys and sells products and services at market conditions. Collateral is reported under other financial obligations (see **Note 27**). Please refer to **Note 7** for information on joint ventures and associates.

The following table presents the volume of transactions with related companies included in SGL Group:

### 2017

	Sales of goods	Sales of services	Purchases of goods	Purchases of services	Receivables as of Dec. 31	Loans as of Dec. 31	Liabilities as of Dec. 31
Joint ventures	18.0	10.9	1.1	0.0	6.4	0.0	0.0
Associates	0.1	0.4	34.9	0.6	1.3	0.0	2.9
<b>Total</b>	<b>18.2</b>	<b>11.3</b>	<b>36.0</b>	<b>0.6</b>	<b>7.7</b>	<b>0.0</b>	<b>2.9</b>

### 2016

	Sales of goods	Sales of services	Purchases of goods	Purchases of services	Receivables as of Dec. 31	Loans as of Dec. 31	Liabilities as of Dec. 31
Joint ventures	16.3	20.8	0.0	0.0	3.9	0.0	0.0
Associates	0.0	0.5	20.5	9.8	2.0	2.6	14.5
<b>Total</b>	<b>16.3</b>	<b>21.3</b>	<b>20.5</b>	<b>9.8</b>	<b>5.9</b>	<b>2.6</b>	<b>14.5</b>



### Related persons

Related persons include members of the Board of Management and the Supervisory Board.

For fiscal 2017, the total remuneration (excluding benefit expenses) for the members of SGL Group's Board of Management active in the respective fiscal year based on the principle of allocation (Zuflussbetrachtung) amounted to €3,263 thousand (2016: €3,482 thousand). In addition, pension expenses (service cost) in the amount of €420 thousand in fiscal 2017 (2016: €160 thousand) were taken into account for the members of the Board of Management as a remuneration component within the context of defined benefit plans. The DBO of the pension commitments for active members as of December 31, 2016 amounted to €3,264 thousand (December 31, 2016: €11,880 thousand).

Remuneration for the members of the Board of Management in fiscal 2017 amounted to a total net expense of €5,206 thousand (2016: €5,737 thousand). Additionally, an amount of €1,940 thousand was granted in 2016 in connection with the retirement of a member of the Board of Management.

The net amounts outstanding to members of the Board of Management as of December 31, 2017 in the amount of €2,494 thousand (December 31, 2016: €1,824 thousand) consisted of provisions for annual bonuses. A total of 395,107 PSUs (December 31, 2016: 279,855) from the LTI Performance Share Units (PSUs) were granted to active members of the Board of Management as of December 31, 2017. The allotment value at grant date for all outstanding LTI tranches amounted to €3.7 million as of December 31, 2017 (December 31, 2017: €3.7 million). In the 2017 fiscal year, 146,644 new PSUs were granted to the active members

of the Board of Management from the LTI tranche 2017-2020. The PSUs from the 2014-2016 LTI tranche of 31,392 have lapsed due to the failure to achieve the target.

Former members of the Board of Management and their surviving dependents received total compensation within the meaning of section 285 no. 9b HGB in the amount of €1,384 thousand (2016: €1,129 thousand). As of December 31, 2017, the pension provisions recognized for former members of the Board of Management (defined benefit obligation, DBO) amounted to €30,688 thousand (December 31, 2016: €29,618 thousand).

The remuneration paid to members of the Supervisory Board consisted of a basic remuneration as well as additional remuneration for Board activities and amounted to a total of €844 thousand (2016: €858 thousand), including attendance fees.

In addition, employee representatives in the Supervisory Board who are employees of SGL Group receive remuneration within the framework of their employment contracts of €392 thousand (2016: €369 thousand).

Details in relation to the remuneration system for members of the Board of Management and Supervisory Board members and the disclosure of individual levels of the remuneration can be found in the 2017 Group Management Report in the section "Remuneration Report."

No members of the Board of Management or the Supervisory Board received any loans or advances from SGL Group.

## 29. Additional disclosures on financial instruments

The following table shows the reconciliation of balance sheet items to the classes of financial instruments required to be established in accordance with IFRS 7:

€m	Measurement category under IAS 39	Carrying amount as of Dec. 31, 17	Carrying amount as of Dec. 31, 16
<b>Financial assets</b>			
Cash and cash equivalents	1)	379.3	324.5
Time deposits	1)	0.0	5.0
Trade receivables	1)	126.4	89.2
Available-for-sale financial assets	2)	4.4	3.7
Other financial assets	1)	62.4	2.6
Derivative financial assets			
Derivatives without a hedging relationship <sup>1)</sup>	3)	0.8	1.4
Derivatives with a hedging relationship	n.a.	2.0	2.1
<b>Financial liabilities</b>			
Corporate bond	4)	0.0	250.0
Convertible bonds	4)	394.2	386.5
Bank loans, overdrafts and other financial liabilities	4)	112.9	125.4
Refinancing costs	4)	-3.7	-10.0
Finance lease liabilities	n.a.	22.4	20.9
Trade payables	4)	89.3	103.9
Miscellaneous other financial liabilities	4)	4.4	36.8
Derivative financial liabilities			
Derivatives without a hedging relationship <sup>2)</sup>	5)	0.0	0.2
Derivatives with a hedging relationship	n.a.	0.0	0.6
<b>Thereof aggregated by measurement category in accordance with IAS 39</b>			
1) Loans and receivables		568.1	421.3
2) Available-for-sale financial assets		4.4	3.7
3) Financial assets held for trading		0.8	1.4
4) Financial liabilities measured at amortized cost		597.1	892.6
5) Financial liabilities held for trading		0.0	0.2

<sup>1)</sup> Thereof €0.8 million (2016: €1.4 million) classified as cash flow hedges prior to the settlement of the hedged item or for hedging of intercompany loans in foreign currency

<sup>2)</sup> Thereof €0.0 million (2016: €0.2 million) classified as cash flow hedges prior to the settlement of the hedged item or for hedging of intercompany loans in foreign currency  
n.a.=not applicable

The carrying amounts for cash and cash equivalents, time deposits, trade receivables, and trade payables have short residual maturities and are approximately equivalent to fair value.

SGL Group measures financial assets on the basis of various parameters, such as the customer's credit rating and the risk structure of the financed project. This valuation is taken as the basis for valuation allowances on the mentioned receivables. The carrying amounts of these receivables, less valuation allowances recognized, approximate their fair values due to fact that the residual maturity largely is short-term. Other financial assets further include outstanding purchase price receivables from the sale of PP which, due to their short-term maturity, approximate to their market value. In the prior year, loans to joint ventures amounting to €2.6 million were reported. If the loans have the characteristics of equity substitution, the loan amount is reduced through SGL Group's share in the losses of the joint venture that exceeds the carrying amount of the equity interest held in this company. SGL Group uses the market price in an active market as the fair value of financial assets available for

sale. If no such market price exists, the fair value is determined using observable market data.

Please refer to **Note 26** for disclosures on the market value of the corporate bond and the convertible bonds.

SGL Group calculates the fair value of liabilities to banks, other non-current financial liabilities, and liabilities from finance leases by discounting the estimated future cash flows using interest rates applicable to similar financial liabilities with comparable maturities. The fair values largely correspond to the carrying amounts.

The method used to calculate the fair values of the individual derivative financial instruments depends on the relevant type of instrument:

Currency forwards are measured on the basis of reference exchange rates, taking into account forward premiums and discounts. The following table shows the breakdown of the assets and liabilities measured at fair value into the three levels of the fair value hierarchy as of December 31, 2017 and 2016:

	<b>Dec. 31, 17</b>			<b>Total</b>
	Level 1	Level 2	Level 3	
Available-for-sale financial assets	4.4			4.4
Derivative financial assets		2.8		2.8
Derivative financial liabilities		0.0		0.0

	<b>Dec. 31, 16</b>			<b>Total</b>
	Level 1	Level 2	Level 3	
Available-for-sale financial assets	3.7	-	-	3.7
Derivative financial assets	-	3.5	-	3.5
Derivative financial liabilities	-	0.8	-	0.8

Net gains or losses recognized for financial instruments by measurement category in accordance with IAS 39 were as follows:

**Net gains/losses by measurement category**

€m	2017	2016
Loans and receivables	-4.1	3.4
Available-for-sale financial assets	0.3	0.3
Financial assets and financial liabilities held for trading	5.1	-2.9
Financial liabilities measured at amortized cost	0.5	-3.0

Net gains/losses for the "loans and receivables" measurement category largely include impairments of trade receivables, reversals of valuation allowances and cash receipts with respect to trade receivables already written off, together with gains/losses on currency conversion.

Net gains/losses for the "financial assets and liabilities held for trading" measurement category arise from the mark-to-market valuation of derivative currency instruments not subject to hedge accounting with respect to financing activities or, with respect to operating activities, for which hedge accounting has been terminated upon recognition of the hedged item in profit or loss. In economic terms, the derivative financial assets and liabilities are always based on a hedged item.

The net result of "financial liabilities measured at amortized cost" includes exchange gains / losses from foreign currency valuation. In the prior year, this item included in particular the non-controlling shareholders' share of the earnings of the subsidiary partnerships.

Interest income and expense are not included in net gains and losses, as they are already recognized as described in **Note 9**. For further information on write-downs, please refer to the overview of changes in valuation allowances for doubtful trade receivables in **Note 17**.

**Financial instrument risks, financial risk management, and hedging**

SGL Group monitors financial risk (liquidity risk, default risk, and market price risk) using tested control and management instruments. Group reporting enables periodic assessment, analysis, measurement, and control of financial risk by the

central Group Treasury function. These activities include all relevant Group companies.

**Liquidity risk**

Liquidity risk is the risk that an entity might have difficulty in meeting its payment obligations in connection with its financial liabilities. Since the financial and economic crisis, liquidity risk has become a major focus of risk management. In order to ensure SGL Group's solvency as well as its financial flexibility, the SGL Group carries out regular liquidity planning for the immediate future to cover day-to-day operations, in addition to financial planning, which normally covers five years. For the purpose of ensuring financial stability, SGL Group has endeavored to put in place a balanced financing structure based on a combination of various financing components (including capital market instruments and bank loans).

As a result of the sale of the business unit PP, the Company has sufficient liquidity reserves. The Company also has an unused syndicated credit line in the amount of €50 million. The liquidity available as of the balance sheet date in the amount of €379.3 million is more than sufficient for covering the Company's expected financing requirements for fiscal year 2018. Please refer to **Note 26** for information on the maturity of financial liabilities.

**Credit risk (counterparty default risk)**

To reduce credit risk, contracts for derivative financial instruments, and financial transactions are concluded with SGL Group's core banks, which have good credit quality.

By defining terms of payment for customers, SGL Group is exposed to normal market credit risks. As far as trade receivables and other financial assets are concerned, the maximum default risk is equivalent to the carrying amount as of the balance sheet date. In the past year, there were no significant occurrences of default in relation to customer receivables.

SGL Group has a credit management organization to manage customer credit risks. On the basis of global credit management guidelines, the credit management organization initiates and supports all key credit management processes, and it initiates and supports credit management action where required. After analyzing individual risks and country risks, SGL Group insists – either in whole or in part – on cash in advance, documentary collection, letters of credit, or the provision of collateral in connection with certain activities.

SGL Group also has trade credit insurance in place that covers most of the trade receivables due from customers. In the event of default, the financial loss is reduced by existing collateral and/or compensation payments made under the credit insurance. The compensation payments under the credit insurance normally amount to 90% of the default and therefore include a deductible of 10%. In the context of determining valuation allowances on receivables, any existing cover commitments granted by the trade credit insurance are taken into account accordingly.

The average days sales outstanding (DSO) was 40 days at the end of fiscal 2017 (2016: 38 days). In fiscal year 2017, an average of 67% of our receivables was subject to trade credit insurance (2016: 63%).

Please refer to **Note 18** for information on valuation allowances for trade receivables as well as on the breakdown of trade receivables by age.

### Market price risk

As an enterprise operating at an international level, SGL Group is exposed to market risks arising in particular from changes in currency rates, interest rates, and other market prices. These risks may result in fluctuations of earnings, equity and cash flows. The objective of risk management is to eliminate or limit these risks through appropriate measures, above all through the use of derivative financial instruments. The use of derivative financial instruments is subject to rigorous controls based on internal policies. Derivative financial instruments are exclusively used to minimize or pass off financial risk, not for speculative purposes.

### Currency risk

SGL Group operates on an international basis and is therefore exposed to currency risk arising from fluctuating exchange rates between various currencies. Currency risk is the risk that fair values or future payments of financial instruments will change as a result of exchange-rate movements. The risk arises when transactions are denominated in a currency other than the SGL Group's functional currency. Where SGL Group has cash flows in a non-functional currency, it endeavors to achieve a balance between receipts and payments as a so-called natural hedge against currency risk.

Currency hedges are entered into for the remaining net currency position (less natural hedging). SGL Group hedges such net currency positions, as required, within a time horizon of up to a maximum of two years. The most significant currency risks of SGL Group from operating transactions result from potential exchange rate changes between the euro and the Japanese yen. In order to hedge operating business, large parts of the corresponding net currency positions are hedged through currency forwards. In 2018, the Company is hedged against a weak Japanese yen at an average rate of EUR/JPY 128.72.

As a result of the hedge, SGL Group was not exposed to any material currency-related cash flow risks in its operating business as of the balance sheet date. The following table shows operating foreign currency derivatives with their nominal amounts and their recognized fair values as at December 31, 2017. The notional amount in this case is defined as the functional-currency-denominated equivalent value of foreign currency amounts purchased from or sold to external partners.

EUR	Notional amounts			Fair values		
	Purchase Dec. 31, 17	Sale Dec. 31, 17	Total Dec 31, 17	Total Dec. 31, 16	Total Dec 31, 17	Total Dec. 31, 16
€m						
<b>Forward contracts</b>	<b>24.0</b>	<b>56.1</b>	<b>80.1</b>	<b>127.5</b>	<b>2.5</b>	<b>1.9</b>
USD	0.0	9.0	9.0	9.2	0.0	-0.5
PLN	24.0	0.0	24.0	76.2	0.7	-0.3
JPN	0.0	47.1	47.1	42.1	1.8	2.7

USD	Notional amounts in US\$m			Fair values in €m		
	Purchase Dec. 31, 17	Sale Dec. 31, 17	Total Dec 31, 17	Total Dec. 31, 16	Total Dec 31, 17	Total Dec. 31, 16
<b>Forward contracts</b>	<b>15.0</b>	<b>3.4</b>	<b>18.4</b>	<b>3.7</b>	<b>0.3</b>	<b>0.1</b>
GBP	15.0	0.0	15.0	0.0	0.2	0.0
JPN	0.0	3.4	3.4	3.7	0.1	0.1

The fair values shown in the table represent financial assets or liabilities of SGL Group. In contrast, the notional amounts describe the hedged volume expressed in euros or U.S. dollars. The residual maturity of all derivative financial instruments for hedging currency risks does currently not exceed one year (2016: not exceed one year).

#### Derivative financial instruments in hedge accounting

SGL Group uses currency forwards to hedge currency risk from future receivables and liabilities denominated in foreign currencies. The derivatives used are accounted for as cash flow hedges (hedge accounting). The items hedged with cash flow hedges comprise highly probable future sales revenue or purchases denominated in foreign currency. These are expected to materialize between January and December 2018 and will be recognized in the income statement when realized. The maturity of hedges designated as cash flow hedges (recorded in the hedging reserve in equity) is matched with the maturity of the relevant hedged items. As of December 31, 2017, these hedges had positive fair values in the amount of €2.0 million (December 31, 2016: €2.1 million) and negative fair values of €0.0 million (December 31, 2016: €0.6 million).

Changes in the fair value of hedges assigned to intercompany loans as well as of operating hedges allocated to hedged items already realized as of the balance sheet date and therefore generally not – or no longer – designated as cash flow hedges were recognized through profit or loss on the balance sheet date. Positive fair values amounted to €0.8 million (December 31, 2016: €1.4 million); negative fair values amounted to €0.0 million (December 31, 2016: €0.2 million). The amounts accumulated directly in equity as hedging reserves to hedge these operating transactions were reclassified to the income statement once the hedged item was entered into. In fiscal year 2017, gains or losses resulting from changes in fair value of our currency forwards amounting to €3.6 million (2016: minus €3.1 million) previously recognized in equity were recycled to profit or loss. The residual maturity of these derivatives may be up to three months.

The effectiveness of designated hedges is determined prospectively using the critical terms match method in accordance with IAS 39. Quantitative effectiveness tests are carried out retrospectively using the dollar offset method. In this case, the cumulative change in value of anticipated cash flows from hedged items is compared against the change in the fair value of the currency forwards using the relevant forward rates. Quantitative effectiveness measurements are carried out at each balance sheet date. It is generally assumed that a hedging relationship is effective if the changes in fair value of the hedge virtually offset (80% to 125%) the changes in the cash flows for the hedged items. As of the balance sheet date, these ratios were close to 100%.

In accordance with IFRS 7, sensitivity analyses are required to illustrate the currency risk relating to financial instruments. The analyses show the effects of hypothetical changes in relevant risk parameters on profit or loss and equity.

The analyses include all primary financial instruments used by SGL Group in addition to the derivative hedging instruments used in the SGL Group's operating activities. Specifically, these include cash and cash equivalents of €22.0 million (December 31, 2016: €51.3 million), trade receivables of €64.1 million (December 31, 2016: €136.6 million), and trade payables of €42.6 million (December 31, 2016: €74.2 million). Furthermore, foreign currency effects from internal lending activities recognized in profit or loss or directly in equity are also included. It is assumed that the balance as of the reporting date is representative of the reporting period as a whole. All financial instruments not denominated in the functional currency of the respective SGL subsidiary are therefore generally considered to be exposed to currency risk. Changes in the exchange rate result in changes in fair value and impact either profit or loss or the hedging reserve as well as the total equity of SGL Group.

The following table provides a comparison between the amounts reported as of December 31, 2017, and December 31, 2016. The analysis is based on a hypothetical 10% increase in the value of

the euro and the U.S. dollar against the other currencies as of the balance sheet date.

EUR	Hypothetical exchange rate		Change in fair value/equity		Thereof: change in net profit/loss		Thereof: change in hedging reserve	
	Dec. 31, 17	Dec. 31, 16	Dec. 31, 17	Dec. 31, 16	Dec. 31, 17	Dec. 31, 16	Dec. 31, 17	Dec. 31, 16
€m								
USD	1.3192	1.1595	-9.9	-10.4	-10.5	-11.7	0.6	1.3
PLN	4.5880	4.8664	5.6	2.3	1.6	7.7	4.0	-5.4
GBP	0.9760	0.9418	-1.7	-1.9	-1.7	-1.9	0.0	0.0
Other	-	-	0.7	-5.6	-1.5	-4.4	2.2	-1.2

USD	Hypothetical exchange rate		Change in fair value/equity		Thereof: change in net profit/loss		Thereof: change in hedging reserve	
	Dec. 31, 17	Dec. 31, 16	Dec. 31, 17	Dec. 31, 16	Dec. 31, 17	Dec. 31, 16	Dec. 31, 17	Dec. 31, 16
US\$m								
GBP	0.8138	0.8935	-1.1	0.2	0.0	0.2	-1.1	0.0
CAD	1.3794	1.4806	-0.1	0.6	-0.1	0.6	0.0	0.0
MYR	0.0000	4.9346	0.5	0.5	0.5	0.5	0.0	0.0
Other	-	-	2.5	2.6	2.3	2.5	0.2	0.1

The approximate effect of a hypothetical 10% devaluation of the euro and the U.S. dollar against other currencies on the equity, profit or loss, or hedging reserve of SGL Group would be a reversal of the positive and negative signs shown above, with the amounts themselves remaining approximately the same.

### Interest-rate risk

Interest-rate risk is the risk that the fair values of or future cash flows from existing or future financial liabilities may fluctuate due to changes in market interest rates.

Interest rate risks from floating-rate financing instruments mainly arise from the variable-interest portion of the borrowings of the joint venture with BMW (SGL Carbon Automotive Fibers "ACF") in the amount of €34.4 million. As of the balance sheet date, SGL Group had financial liabilities in a principal amount of €519.1 million (December 31, 2016: €782.4 million). Of that amount, liabilities of €34.4 million (December 31, 2016: €45.4 million) had a floating interest rate. The remaining liabilities of €484.7 million (December 31, 2016: €737.0 million) have a fixed interest rate and are therefore not subject to interest rate risk. An increase in interest rates of 100

basis points would lead to a theoretical decrease in profit or loss from floating-rate liabilities of €-0.3 million (2016: €-0.5 million).

The variable interest rate liabilities were offset by cash and cash equivalents (including amounts in the held-for-sale assets) totaling €382.9 million (prior year: €333.0 million). An increase in interest rates of 100 basis points would lead to a theoretical increase in profit or loss from cash and cash equivalents of €3.8 million (2016: €3.3 million).

## 30. Segment reporting

The following segment information is based on the "management approach," pursuant to which segment information must be presented on the basis of the internal management reporting. The Board of Management of SGL Group – as chief operating decision maker (CODM) – regularly reviews this segment information in order to allocate resources to the individual segments and to assess their performance. The performance of the segments is assessed by the management based on the operating result, working capital, investments, cash generation, and capital employed. However, Group financing (including financial income and expense) as well as income taxes

are managed uniformly on a SGL Group-wide basis and are not allocated to the individual segments.

### **Segments**

The operating business processes are bundled in the two business units Composites – Fibers & Materials (CFM) as well as Graphite Materials & Systems (GMS), which are also presented as reporting segments. The CFM reporting segment bundles all of the materials business based on carbon fibers. It covers the entire, integrated value-added chain, from raw materials through carbon fibers to composite materials and the components made from them.

The reporting segment GMS focuses on products made of synthetic graphite and expanded graphites for industrial applications, machine components, products for the semiconductor industry, composites, and process technology.

In addition to the two operating reporting segments, the central research activities and the central and service functions are included in the reporting segment Corporate. In the year under review, the segment “T&I and Corporate” was

renamed to “Corporate” for the sake of simplification since the directly attributable research and development activities were integrated in the business units CFM and GMS.

The following tables provide information on income, profit or loss, and assets and liabilities in the business units of SGL Group. External sales revenue was attributable almost exclusively to revenue from deliveries of products. Trading or other sales revenue was insignificant. Intersegment sales revenue was generally derived from transactions at market-based transfer prices less selling and administrative expenses. Cost-based transfer prices may be used in exceptional cases. “Corporate” comprises companies that largely perform services for the other segments, such as SGL Carbon SE.

Capital expenditure and amortization/depreciation relates to property, plant and equipment and intangible assets (excluding goodwill). The consolidation adjustments item relates to the elimination of transactions and services between the segments.



Disclosures relating to the segments of SGL Group are shown below.

€m	CFM	GMS	Corporate	Consolidation adjustments	SGL Group
2017					
External sales revenue	331.9	510.2	18.0		860.1
Intersegment sales revenue	3.6	0.2	27.6	–31.4	0.0
<b>Total sales revenue</b>	<b>335.5</b>	<b>510.4</b>	<b>45.6</b>	<b>–31.4</b>	<b>860.1</b>
Operating profit/loss before non-recurring charges	22.7	47.8	–30.4	0.0	40.1
Non-recurring charges <sup>1)</sup>	0.4	2.3	6.2	0.0	8.9
Operating profit/loss after non-recurring charges	23.1	50.1	–24.2	0.0	49.0
Amortization/depreciation on intangible assets and property, plant and equipment	21.5	23.0	6.1	0.0	50.6
Earnings before interest, taxes, depreciation and amortization (EBITDA) before non-recurring charges	44.2	70.8	–24.3	0.0	90.7
Capital expenditure <sup>2)</sup>	11.7	29.1	12.1	0.0	52.9
Working capital (Dec. 31) <sup>3)</sup>	123.7	199.1	–4.3	0.0	318.5
Capital employed (Dec. 31) <sup>4)</sup>	435.3	401.9	96.9	0.0	934.1
Cash generation <sup>5)</sup>	0.7	26.1	–56.7	0.0	–29.9
Employees of investments accounted for At-Equity <sup>6)</sup>	428			0.0	428
Total sales revenue of investments accounted for At-Equity <sup>6)</sup>	275.6			0.0	275.6
Return on capital employed in % (ROCE <sub>EBITDA</sub> ) <sup>7)</sup>	11.3	18.0		0.0	10.5

<sup>1)</sup> Non-recurring charges comprise restructuring expenses in a total amount of minus €4.9 million and reversal of impairment losses of 3.6 million and other non-recurring charges of €0.4 million. For more information, please refer to Notes 8 and 9

<sup>2)</sup> Defined as total of capital expenditure in other intangible assets and property, plant and equipment

<sup>3)</sup> Defined as sum of inventories and trade receivables less trade payables

<sup>4)</sup> Defined as the sum of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital

<sup>5)</sup> Defined as total of operating loss/profit (EBIT) before non-recurring charges plus amortization of intangible assets and depreciation on property, plant and equipment plus change in working capital minus capital expenditure

<sup>6)</sup> Aggregated, non-consolidated 100% values with third parties

<sup>7)</sup> EBITDA before non-recurring charges for the last twelve months to average capital employed (excluding first time consolidation effects)

€m	CFM	GMS	Corporate	Consolidation adjustments	SGL Group
2016					
External sales revenue	317.4	444.1	8.3	0.0	769.8
Intersegment sales revenue	5.1	1.6	29.3	–36.0	0.0
<b>Total sales revenue</b>	<b>322.5</b>	<b>445.7</b>	<b>37.6</b>	<b>–36.0</b>	<b>769.8</b>
Operating profit/loss before non-recurring charges	20.1	27.8	–27.2	0.0	20.7
Non-recurring charges <sup>1)</sup>	11.7	–1.6	–7.1	0.0	3.0
Operating profit/loss after non-recurring charges	31.8	26.2	–34.3	0.0	23.7
Amortization/depreciation on intangible assets and property, plant and equipment	21.2	22.0	6.0	0.0	49.2
Earnings before interest, taxes, depreciation and amortization (EBITDA) before non-recurring charges	41.3	49.8	–21.2	0.0	69.9
Capital expenditure <sup>2)</sup>	10.8	15.0	8.8	0.0	34.6
Working capital (Dec. 31) <sup>3)</sup>	95.2	183.4	–24.4	0.0	254.2
Capital employed(Dec. 31) <sup>4)</sup>	386.4	385.7	57.8	0.0	829.9
Cash generation <sup>5)</sup>	13.3	39.0	–15.8	0.0	36.5
Employees of investments accounted for At-Equity <sup>6)</sup>	604			0.0	604
Total sales revenue of investments accounted for At-Equity <sup>6)</sup>	261.4			0.0	261.4
Return on capital employed in % (ROCE <sub>EBITDA</sub> ) <sup>7)</sup>	10.9	12.7		0.0	8.4

<sup>1)</sup> Non-recurring charges comprise restructuring expenses in a total amount of €9.8 million and reversal of impairment losses of 12.8 million. For more information, please refer to Notes 8 and 9

<sup>2)</sup> Defined as total of capital expenditure in other intangible assets and property, plant and equipment

<sup>3)</sup> Defined as sum of inventories and trade receivables less trade payables

<sup>4)</sup> Defined as the sum of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital

<sup>5)</sup> Defined as total of operating loss/profit (EBIT) before non-recurring charges plus amortization of intangible assets and depreciation on property, plant and equipment plus change in working capital minus capital expenditure

<sup>6)</sup> Aggregated, non-consolidated 100% values with third parties

<sup>7)</sup> EBITDA before non-recurring charges for the last twelve months to average capital employed

The following table shows selected items by geographical region:

€m	Germany	Europe excluding Germany	North America	Asia	Other	SGL Group
2017						
Sales revenue (by destination)	226.2	188.3	153.2	243.3	49.1	860.1
Sales revenue (by company headquarters)	355.4	275.1	178.2	51.4		860.1
Capital expenditure	29.5	10.1	10.6	2.7		52.9
Non-current assets <sup>1)</sup>	203.0	192.8	170.3	28.7		594.8
2016						
Sales revenue (by destination)	206.1	170.5	146.2	205.4	41.6	769.8
Sales revenue (by company headquarters)	319.0	252.9	161.5	36.4	0.0	769.8
Capital expenditure	18.7	8.3	5.3	2.3	0.0	34.6
Non-current assets <sup>1)</sup>	214.4	129.8	173.5	32.2	0.0	549.9

<sup>1)</sup> Non-current assets comprise other intangible assets, property, plant and equipment, investments accounted for At-Equity and other non-current assets (excluding financial assets)

### 31. Management and employee participation plans

SGL Group currently has three management and employee participation plans: two active plans (Short-Term Incentive Plan and Long-Term Incentive Plan) as well as the Stock Appreciation Rights Plan which is being phased out.

#### Short-Term-Incentive Plan ("STI")

All employees receive an annual bonus regardless of whether they are covered by the collective wage agreement. The amount of the bonus is based on the achievement of short-term corporate and business unit targets as well as individual targets. The reference figure is the amount of the individual fixed remuneration. The goal is to enable all employees to participate in the Company's short-term success and in so doing provide each employee with a strong incentive to contribute to the positive performance of the Company.

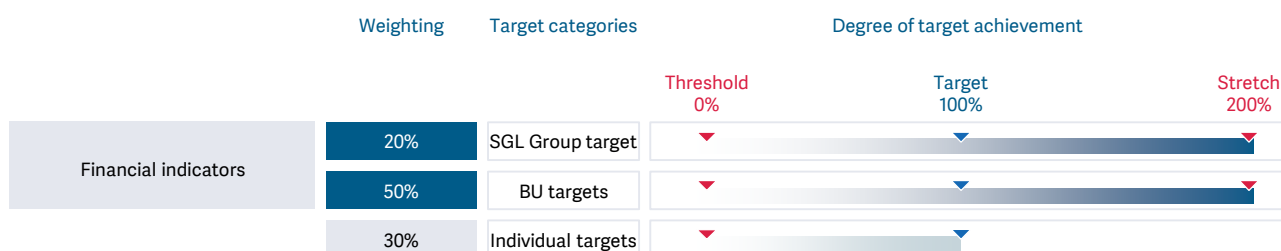
The maximum bonus potential achievable consists of the following target categories: SGL Group, relevant business unit, and individual targets. For non-exempt employees, the degree of target achievement of the SGL Group targets and individual performance evaluations are additionally analyzed. The following criteria apply: income before taxes at SGL Group level,

and sales revenues, operating profit (EBIT), and average working capital for the business unit.

The bonus is paid in the form of shares in March or April of the following year. The percentage share of the STI in the base salary for the three upper management levels is within a defined corridor and reflects an appropriate risk/reward profile per management group.

MG	Threshold	Target	Stretch
MG1	0%	70%	119%
MG2	0%	50%	85%
MG3	0%	40%	68%

The three target categories have identical weightings for the three senior management groups. The "threshold" of 0% must be exceeded in order to trigger a bonus entitlement. In addition, a stretch (200%) is defined for the financial targets to reward performance in the case of overfulfillment of planned targets. The maximum to be achieved for the agreed personal targets is 100%. Overfulfillment is not possible.



### Long Term Incentive Plan ("LTI")

The Long Term Incentive Plan for Senior Management, i.e. the members of management levels MG 1-3 ("SGL Performance Share Plan" or "PSP"), is the foundation for uniform rules for the granting of remuneration components with long-term incentive effect and a balanced risk/reward profile in the form of virtual shares ("Performance Share Units" or "PSUs").

The long-term remuneration component is based, in principle, on SGL Group's return on capital employed (ROCE) as the internal assessment basis. Within the framework of the PSP, the Board of Management of SGL Carbon SE may, prior to the beginning of individual plan tranches, determine that the internal assessment basis/bases for such plan tranches alternatively or cumulatively may be the ROCE applicable to individual business units of SGL Group or one or more other performance indicators. Furthermore, the long-term remuneration component depends on the share price performance of SGL stock at the end of the performance period.

The PSP is a cash-settled long-term incentive plan that does not grant a right to receive actual SGL shares and provides for a payout depending on the degree of target achievement. The objective of the allocation of PSUs is to retain senior management (MG 1-3) to SGL Group and to motivate them to ensure the SGL Group's long-term success. In addition, the share price feature is intended to achieve a harmonization of the interests of senior management (MG 1-3) with that of the shareholders in view of a long-term added value of SGL Group.

Based on an allocation value to be determined by the Board of Management of SGL Carbon SE in euros as well as the average opening share price for the last 20 trading days prior to commencement of the performance period, each participant is allocated a preliminary number of Performance Share Units ("number of allocated PSUs") at the beginning of the performance period. This number of allocated PSUs is calculated after the end of the performance period based on the determined degree of target achievement (the result of the performance-related adjustment is the "final number of PSUs"). The payout amount is calculated by multiplying the final number of PSUs by the average closing share price for the last 20 trading days.

The new Performance Share Plans helps to further harmonize the remuneration structure of senior managers with that of the Board of Management. Replacement of the previous long-term share-based payment components further reduces the complexity of remuneration for management members and will also significantly reduce future administrative efforts.

The existing plan tranches, including the relevant targets, are presented below as of December 31, 2017:

Tranche	Allocation value <sup>1)</sup>	Price <sup>2)</sup>	PSU <sup>3)</sup>	Performance	Fair value <sup>4)</sup>
	€m	€	Number	0% – 150%	€m
LTI 2015 - 2017	3.4	13.70	246,392	-	0.0
LTI 2015 - 2018	4.8	13.70	349,764	-	0.0
LTI 2016 - 2019	4.9	13.4	363,313	68	2.8
LTI 2017 - 2020	4.8	8.28	579,084	84	5.5

<sup>1)</sup> PSU-number outstanding as at Dec 31, 17 multiplied with price at grant of each tranche

<sup>2)</sup> Fair value at grant date

<sup>3)</sup> Outstanding at Dec. 31, 17

<sup>4)</sup> PSU-number weighted with the performance and the average share price of 11.34 €, calculated on the basis of the last 20 trading days prior to Dec 31, 17

Target indicators ROCE	Minimum	Target	Maximum
Plan 2015-2017	3.0%	5.0%	6.5%
Plan 2015-2018	3.3%	5.8%	7.8%
Plan 2016-2019	2.2%	4.6%	6.6%
Plan 2017-2020	4.1%	6.6%	8.6%

For the LTI plans 2017-2020 and 2016-2019 of the selected executives, the provisions amount to €2.8 million as of December 31, 2017 (prior year: €0.8 million) and were increased by €2.0 million in the 2017 fiscal year affecting profit or loss.

### Stock Appreciation Rights Plan (SAR Plan)

The 2010 SAR Plan came into effect on January 1, 2010. The SARs could be issued at any time during the period until the end of 2014. A maximum of 2,100,000 new shares are to be used to service the SAR Plan from 2010 onward.

SARs entitle the participants to receive variable remuneration from the Company equivalent to the difference (appreciation in price) between the SGL Carbon SE share price on the grant date (base price) and that on the SAR exercise date (exercise price) plus any dividends paid by the Company during this period, plus the value of the subscription rights, and they entitle the participants to purchase at the exercise price the number of SGL Carbon SE shares whose market value corresponds to the appreciation in price. Each SAR entitles the participant to receive that fraction of a new SGL Carbon SE share that is calculated by dividing the appreciation value by the issue price.

SARs have a term of up to ten years and may then only be exercised during defined periods (exercise windows). The SARs expire if they are not exercised within this period.

At the end of the year under review, a total of 2,182,670 SARs remained outstanding.

In 2017, no SARs were exercised from one of the replaced long-term incentive plans. The weighted average term to maturity for the SAR Plan is 4.2 years

### 32. Audit fees and services provided by the auditors

The fees for audit services of KPMG AG Wirtschaftsprüfungsgesellschaft mainly referred to the audit of the consolidated financial statements and the annual financial statements of SGL Carbon SE as well as various audits of financial statements and packages of its subsidiaries. Other attestation services refer to audits required by law or agreement, such as the EMIR audits pursuant to Section 20 of the German Securities Trading Act (WpHG) as well as the audit of our central ICS pursuant to PS982 and the audit of the separate non-financial statement of the Group. Tax advisory services mainly comprise advice on value added tax related to individual matters. Other services include advisory services in the human resources area.

The disclosures made in the previous year refer to the fee expenses for the services provided by the auditor (Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, office Eschborn, Germany) of the consolidated financial statements:

€m	2017	2016
Audit fees	0.6	0.9
Other attestation and valuation services	0.1	1.5
Tax advisory services	0.0	0.0
Other services	0.0	0.4
<b>Total</b>	<b>0.7</b>	<b>2.8</b>

**33. List of shareholdings pursuant to Section 313 (2) of the German Commercial Code (HGB)**

A. Consolidated Companies		Interest in %	held via
<b>a) Germany</b>			
1 SGL Carbon SE	Wiesbaden		
2 SGL CARBON GmbH <sup>1)</sup>	Meitingen	100	1
3 Dr. Schnabel GmbH <sup>1)</sup>	Limburg	100	2
4 SGL CARBON Beteiligung GmbH <sup>1)</sup>	Wiesbaden	100	1
5 SGL TECHNOLOGIES GmbH <sup>1)</sup>	Meitingen	100	1
6 SGL epo GmbH <sup>1)</sup>	Willich	100	5
7 SGL Technologies Composites Holding GmbH <sup>1)</sup>	Meitingen	100	5
8 Benteler SGL Verwaltungs GmbH	Paderborn	100	7
9 SGL TECHNOLOGIES Beteiligung GmbH <sup>1)</sup>	Meitingen	100	5
10 SGL Kumpers Verwaltungs-GmbH	Rheine	51	9
11 SGL Kumpers GmbH & Co. KG	Rheine	51	9
12 SGL TECHNOLOGIES Zweite Beteiligung GmbH <sup>1)</sup>	Meitingen	100	5
13 SGL/A&R Immobiliengesellschaft Lemwerder mbH	Lemwerder	51	5
14 SGL/A&R Services Lemwerder GmbH	Lemwerder	100	13
15 SGL/A&R Real Estate Lemwerder GmbH & Co KG	Lemwerder	100	14
16 SGL Carbon Asset GmbH <sup>1)</sup>	Meitingen	100	4

<sup>1)</sup> Exemption in accordance with section 264 (3) of the German Commercial Code (HGB)

A. Consolidated Companies		Interest in %	held via
<b>b) Other countries</b>			
17 SGL GELTER S.A.	Madrid, Spain	64.0	2
18 SGL CARBON S.p.A. in liquidazione (i.L.)	Mailand, Italy	99.8	16
19 SGL GRAPHITE VERDELLO S.R.L.	Verdello, Italy	100	2
20 SGL CARBON do Brasil Ltda.	Diadema, Brazil	100	2
21 SGL CARBON GMBH	Steeg, Austria	100	1
22 SGL Composites GmbH	Ried im Innkreis, Austria	100	7
23 SGL CARBON FIBERS LTD.	Muir of Ord, United Kingdom	100	21
24 FISIFE, S.A.	Lavradio, Portugal	100	21
25 MUNDITEXTIL-COMÉRCIO INTERNACIONAL DE TÊXTEIS, SOCIEDADE UNIPessoal LDA	Lavradio, Portugal	100	24
26 SGL BUSINESS SERVICES, UNIPessoal, LDA	Lavradio, Portugal	100	2
27 SGL Carbon Holdings B.V.	Rotterdam, Netherlands	100	4
28 SGL GRAPHITE SOLUTIONS POLSKA Sp. z o.o.	Nowy Sącz, Poland	100	27
29 SGL CARBON Holding S.A.S.	Paris, France	100	1
30 SGL CARBON S.A.S.	Passy (Chedde), France	100	29
31 SGL CARBON Technic S.A.S.	Saint-Martin d'Heres, France	100	29
32 SGL CARBON Ltd.	Alcester, United Kingdom	100	1
33 SGL CARBON LLC	Charlotte, NC, USA	100	4
34 Québec Inc.	Montreal, Québec, Canada	100	33
35 SGL Technologies North America LLC	Charlotte, NC, USA	100	33
36 Hitco CARBON COMPOSITES Inc.	Gardena, CA, USA	100	35
37 SGL TECHNIC LLC	Valencia, CA, USA	100	35
38 SGL CARBON TECHNIC LLC	Strongsville, OH, USA	100	33



A. Consolidated Companies		Interest in %	held via
<b>b) Other countries</b>			
39 SGL LAND HOLDING Inc.	Lachute, Quebec, Canada	100	1
40 SGL CARBON INDIA Pvt. Ltd.	Maharashtra, India	100	1
41 SGL CARBON Far East Ltd.	Shanghai, China	100	1
42 SGL CARBON Japan Ltd.	Tokio, Japan	100	1
43 SGL CARBON Korea Ltd.	Seoul, Korea	100	1
44 SGL CARBON ASIA-PACIFIC SDN BHD	Kuala Lumpur, Malaysia	100	1
45 SGL Quanhai Carbon (Shanxi) Co .Ltd.	Yangquan, China	84.5	4
46 SGL PROCESS TECHNOLOGY PTE. LTD.	Singapore	100	1
47 SGL CARBON KARAHM Ltd.	Sangdaewon-Dong, Korea	50.9	46
48 SGL CARBON Graphite Technic Co. Ltd.	Shanghai, China	100	46
49 Graphite Chemical Engineering Co. Ltd.	Yamanashi, Japan	100	46
50 SGL Graphite Solutions Taiwan Ltd.	Taipei City, Taiwan	100	2
B. Equity investments over 20%			
<b>a) Germany</b>			
51 SGL Lindner GmbH & Co. KG i.L. <sup>1)</sup>	Arnstorf	51	4
52 SGL Automotive Carbon Fibers GmbH & Co. KG <sup>1)</sup>	Munich	51	5
<b>b) Other countries</b>			
53 SGL Automotive Carbon Fibers LLC <sup>1)</sup>	Moses Lake, WA, USA	51	33
54 Brembo SGL Carbon Ceramic Brakes S.p.A.	Stezzano, Italy	50	5
55 MCC-SGL Precursor Co. Ltd.	Tokio, Japan	33.3	5
56 Fisigen, S.A.	Lissabon, Portugal	49	24

<sup>1)</sup> No control due to contractual arrangements

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### **34. Declaration of Conformity with the German Corporate Governance Code**

The annual declaration of conformity with the German Corporate Governance Code according to Section 161 of the German Stock Corporation Act (AktG) was issued by the Board of Management and the Supervisory Board of SGL Carbon SE on July 13, 2017 and has been published on the website of SGL Carbon SE.

### **35. Events after the balance sheet date**

The sale of the 51% shareholding in SGL Kumpfers GmbH & Co KG, Rheine (Germany) was completed on January 10, 2018. The related disposal of the assets of Kumpfers did not result in any effect on profit or loss in fiscal 2018.

The acquisition of SGL Automotive Carbon Fibers GmbH & Co. KG (SGL ACF), Munich (Germany) was completed on January 11, 2018. SGL now has become the sole owner of the former joint venture, which after the entry into the commercial register will have the name SGL Composites GmbH & Co. KG. As mentioned, the U.S. company of SGL ACF will, in a next step, be transferred to SGL not later than by the end of 2020; in this context, SGL Group will exercise full control over the U.S. company based on the voting majority of 51% already upon the acquisition of the German shares.

On January 25, the outstanding amount of the convertible bond 2012/2018 with a nominal value of €240.0 million was repaid on time in the amount of €239.2 million.

Wiesbaden, March 1, 2018

**SGL Carbon SE**  
**The Board of Management of SGL**

**Dr. Jürgen Köhler**

**Dr. Michael Majerus**

# Additional Information

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<b>Independent Auditor's Report</b>	<b>163</b>
<b>Responsibility Statement</b>	<b>174</b>
<b>Corporate Bodies</b>	<b>175</b>
<b>Glossary</b>	<b>178</b>
<b>List of Acronyms</b>	<b>181</b>
<b>Financial Calendar</b>	<b>182</b>
<b>Five-year Financial Summary</b>	<b>183</b>

# Independent Auditor's Report

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To SGL Carbon SE, Wiesbaden

## Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

### Opinions

We have audited the consolidated financial statements of SGL Carbon SE, Wiesbaden, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SGL Carbon SE for the financial year from January 1 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

### Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

#### Change in the group of consolidated companies – disposal of the “Performance Products” segment

*With respect to the accounting policies applied, we refer to Note 2 in the notes to the consolidated financial statements. Disclosures regarding the disposed assets and liabilities can be found in the notes to the consolidated financial statements in Note 21 and disclosures regarding the disposal result can be found in Notes 4 and 12.*

### THE FINANCIAL STATEMENT RISK

In the financial year, the SGL Group concluded the sale of the “Performance Products” (PP) segment. This consisted of the divisions “Graphite Electrodes” (GE) and “Cathodes, Furnace Linings and Carbon Electrodes” (CFL/CE). The sale of the GE units was concluded on October 2, 2017 and the sale of the CFL/CE units on November 2, 2017. As of the respective closing dates, all assets and liabilities of the sold businesses were transferred to the respective buyers. With the disposal of the two divisions, the SGL Group concluded the sale of the PP segment, which represented a significant portion of the SGL Group.

From the disposal of the GE units, the SGL Group recognized a gain on disposal of EUR 2.7 million and from the disposal of the CFL/CE units a gain on disposal of EUR 124.6 million.

As of December 31, 2016, the corresponding assets and liabilities of the two divisions were already classified as discontinued operations and thus separately disclosed in the balance sheet and measured as “assets held for sale”, respectively as “liabilities in connection with assets held for sale”.

The risk exists for the consolidated financial statements that the individual assets and liabilities relating to the divisions disposed of were not appropriately assigned at the time of the deconsolidation. In addition, the risk exists that the result of the disposal was not appropriately determined, especially under consideration of the cumulative translation effects included in accumulated other comprehensive income, which are required to be recognized in profit or loss upon the time of disposal.

### OUR AUDIT APPROACH

In order to obtain an understanding with respect to the specific arrangement of the transactions, we took a look at the sales contracts. In addition, we checked whether all conditions were met for the conclusion of the sale as of the closing date and thus the control over the units had been transferred to the respective purchasers.

We audited the final consolidation of the divisions GE and CFL/CE as well as the proper derivation of the disposal result by

- reconciling the sales proceeds with the sales contracts and evidence regarding the receipt of funds and receivables;
- obtaining the reports on the audit of the closing balance sheets for the purpose of the final purchase price adjustment and assessment of the usability of the audited values for our audit;

- 
- developing an understanding of and reconciling the determination of the translation differences relating to GE and CFL/CE included in cumulative other comprehensive income with the local reporting data of the disposed of units as well as reconciliation of the amounts recognized in the income statement;
  - reconciling the disposed of net asset amounts with the closing balance sheets and the sales contracts;
  - recalculating the determination of the disposal result compiled by the client.

#### OUR OBSERVATIONS

The allocation of the assets and liabilities to the disposed of divisions GE and CFL/CE is proper. The determination of the disposal result, under consideration of the translation differences recognized in equity, is appropriate.

#### Change in the group of consolidated companies – purchase of the 50% share of the joint venture partner in the joint venture with Benteler

*With respect to the accounting policies applied, we refer to Note 2 in the notes to the consolidated financial statements. Disclosures regarding the acquired assets and liabilities can be found in the notes to the consolidated financial statements in Note 4.*

#### THE FINANCIAL STATEMENT RISK

On December 19, 2017, the SGL Group concluded the purchase of the 50% share of Benteler in Benteler SGL GmbH & Co. KG, Paderborn, which until that time was accounted for as a joint venture. Until the time of the purchase, the SGL Group accounted for the previous 50% share by applying the equity method. With the acquisition of the remaining 50% share, the SGL Group obtained control over the company, which accordingly is fully consolidated in the consolidated financial statements from the date of acquisition, December 19, 2017.

In connection with the first-time consolidation, there is initially a deemed sale of the previously-held shares followed by the acquisition of the entire shares in connection with business combination according to IFRS 3. The disposal of the previous shares is carried out with profit or loss effect at fair value, which was derived from the purchase price for the Benteler shares in the amount EUR 12.0 million. The resulting gain on disposal of EUR 4.1 million was recognized in the income statement.

For purposes of the accounting for the business acquisition, SGL, with the help of external valuation specialists in the function as a consultant, performed an allocation of the transferred consideration to the identifiable acquired newly-measured assets and liabilities. The fair value of the shares already held by SGL represents a portion of the transferred consideration. Due to the proximity of the transaction to the balance sheet date, the valuation of the acquired assets and liabilities at the time of the preparation of the consolidated financial statements has not yet been finally concluded. According to the preliminary allocation of the transferred consideration to the identifiable assets and liabilities, no difference amount (goodwill/badwill) remains.

In view of the determination of the valuation parameters and identification of acquired assets and liabilities, the purchase price allocation is discretionary and complex. In particular, the valuation of intangible assets and contingent liabilities is subject to discretion. In this connection, to be highlighted as significant underlying assumptions are the determination of the discount rate and business planning.

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The deemed disposal of the previously held shares, which were accounted for under the equity method, leads to a disposal result from the revaluation of the shares at fair value. This fair value of the shares already held by SGL is derived from the purchase price for the Benteler shares.

With respect to the business combination, extensive disclosures are required to be made in the notes to the consolidated financial statements.

The risk exists for the financial statements that the valuation of the acquired assets and liabilities is not appropriate and the related note disclosures are not complete. Additionally, the risk exists that the disposal result from derecognition of the shares already held by SGL is incorrect.

#### OUR AUDIT APPROACH

In order to obtain an understanding with respect to the specific arrangement of the transactions, we read and analyzed the purchase agreement. We examined whether the conditions for a business combination under the definition of IFRS 3 are met. Furthermore, we examined whether all conditions for the transfer of control to SGL were met at the acquisition date of December 19, 2017.

We audited the disposal result from the deemed sale of the shares already held by SGL by inspection of the purchase agreement regarding the Benteler shares and inquiry of the client concerning the purchase price determination and by examining the mathematical determination of the disposal result.

With the involvement of our valuation specialists, we audited the first-time consolidation of the acquired assets and liabilities by

- reconciling the determination of the transferred consideration with the purchase agreement and payment advices;
- assessing the appropriateness of the significant assumptions and the valuation methods in the preliminary purchase price allocation;
- assuring the mathematical and methodical correctness of the valuation methods used;
- evaluating the completeness of the identified assets and liabilities in connection with the preliminary purchase price allocation;
- assessing the accounting treatment of the transaction in the consolidated financial statements.

In addition, we examined whether the related note disclosures were complete and appropriate.

#### OUR OBSERVATIONS

The assumptions of management underlying the preliminary purchase price allocation are reasonable, and the acquired assets and liabilities have been entirely recognized. The determination of the disposal result from the deemed disposal of the shares already held by SGL in the previous joint venture with Benteler is appropriate. The note disclosures regarding the transaction are complete and proper.

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#### Recoverability of the goodwill assigned to the cash generating unit "Graphite Specialties" (GS)

*With respect to the accounting policies applied, we refer to Note 2 in the notes to the consolidated financial statements. Disclosures regarding goodwill can be found in the notes to the consolidated financial statements in Note 14.*

#### THE FINANCIAL STATEMENT RISK

As of the September 30, 2017 reference date of the impairment test, goodwill of the cash generating unit (CGU) Graphite Specialties (GS) amounted to EUR 19.5 million and thereby represents a significant portion of the goodwill of the SGL Group.

For purposes of the annual test of the recoverability of the goodwill, the carrying amount is compared with the recoverable amount of the ZGE. The reference date established for the impairment test is September 30, 2017. If the carrying amount is in excess of the recoverable amount, there is a need for an impairment write-down. The recoverable amount is higher amount of the fair value less costs to sell and value in use of the business unit. In order to review the results, SGL carries out sensitivity analyses with respect to changes in discount rates and the growth rates and performs a comparison of the valuation results with the average market capitalization of the SGL Group in the 2017 financial year. On the basis of the comparison of the value in use to the carrying amount of the CGU, the mandatory annual impairment test carried out resulted in no requirement for an impairment write-down. Also, the sensitivity analyses performed of the SGL Group gave rise to no contrary indications.

The impairment test for goodwill is complex and is based on a number of discretionary assumptions. These include, among others, the expected business and results development of the CGU for the next five years, the assumed long-term growth rates and the discount rate applied.

The risk exists for the financial statements that an impairment of the goodwill existing as of the closing date is not identified. Furthermore, the risk exists that the required note disclosures are incomplete and not appropriate.

#### OUR AUDIT APPROACH

With the involvement of our valuation specialists, among other procedures, we have assessed the reasonableness of the significant assumptions and of the calculation methods of the Company in connection with the impairment test for goodwill. For this purpose, we discussed the expected development of the business and results, as well as assumed long-term growth rates, with the individuals responsible for the planning. In addition, we performed a reconciliation with the planning prepared by the Management Board and approved by the Supervisory Board. Furthermore, we evaluated the consistency of the assumptions with external market assessments.

We satisfied ourselves regarding the previous forecasting quality of the Company by comparing planning of earlier financial years with the actual results realized and by analyzing variances. Since even minimal changes in the discount rate can have a significant effect on the results of the impairment test, we compared the assumptions and parameters underlying the discount rate, in particular the risk-free interest rate, the peer group utilized, the market risk premium and the beta factor, with our own assumptions and publicly available data.

To ensure the computational correctness of the valuation model utilized, we developed an understanding of the Company's calculations.

In order to account for the existing forecast uncertainty for the impairment test, we have investigated potential changes in the discount rates on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these with the amounts determined by the Company.



## OUR OBSERVATIONS

The calculation method underlying the impairment test of goodwill of the CGU GS is consistent with valuation principles. The assumptions and parameters applied are reasonable. The disclosures in the notes are complete and appropriate.

### Recognition of a potential impairment reversal on the carrying amount of the CGU “Carbon Fibers & Composites Materials” (CFCM)

*With respect to the accounting policies applied, we refer to Note 2 in the notes to the consolidated financial statements.*

## THE FINANCIAL STATEMENT RISK

The carrying amounts of the CGU “Carbon Fibers & Composites Materials” (CFCM) were written down for impairment in the 2009 financial year. In 2011, due to improved expectations for the business, a partial reversal was made. In the 2017 financial year, SGL investigated the need for a further impairment reversal by way of an indicative impairment test as of the September 30, 2017 reference date.

The requirement for an impairment reversal of the carrying amounts of the CGUs is reviewed annually where there is an indicating event. If impairment losses were recognized in prior years and there is evidence that the reasons for the impairment no longer exist, there is a need to reverse the impairment as long as the carrying amount is below the recoverable amount. For this purpose, by way of an indicative impairment test, in a first step the carrying amount is compared to the recoverable amount in the form of the value in use of the respective business units. If the carrying amount is below the recoverable amount, a further consideration is undertaken. This consideration takes into account the expected sustainability of the determined impairment reversal as well as the effects of minor changes in the valuation parameters growth rate in the perpetual annuity and the discount rate. In the case of the existence of a market transaction, the fair value less costs to sell are derived from this; if this value is higher than the value in use, the carrying amount is compared with this.

The indicative impairment test of the carrying amount of the CGU CFCM carried out due to indications of the non-existence of earlier reasons for an impairment resulted in no further need to reverse impairment losses.

The impairment test of the carrying amounts of CGUs is complex and is based on a number of discretionary assumptions. These include, among others, the expected development of the business and results of the CGUs for the next five years, the assumed long-term growth rates and the discount rate utilized.

The risk exists for the financial statements that as of the closing date an indicated reversal of an impairment loss is not identified.

## OUR AUDIT APPROACH

With the involvement of our valuation specialists, we have assessed, among other factors, the appropriateness of the significant assumptions and the Company’s calculation method in connection with the indicative impairment test of the carrying amount of the CGU CFCM. For this purpose, we have discussed the expected development of the business and the results, as well as the assumed long-term growth rate, with the individuals responsible for the planning. Furthermore, we have evaluated the consistency of the assumptions with external market assessments.

Furthermore, we convinced ourselves regarding the previous forecasting quality of the Company by comparing planning of earlier financial years with the actual results realized and by analyzing variances. Since even minimal changes in the discount rate can have

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a significant effect on the results of the indicative impairment test, we compared the assumptions and parameters underlying the discount rate, in particular the risk-free interest rate, the peer group utilized, the market risk premium and the beta factor, with our own assumptions and publicly available data.

To ensure the computational correctness of the valuation model utilized for the indicative impairment test of the carrying amount of the CGU CFCM, we developed an understanding of the Company's calculations.

In order to account for the existing forecast uncertainty for the indicative impairment test of the carrying amounts of the CGU, we have investigated potential changes in the discount rates, respectively in the long-term growth rates, on the recoverable amount (sensitivity analysis) by calculating alternative scenarios and comparing these with the analyses the Company.

#### OUR OBSERVATIONS

The valuation model underlying the indicative impairment test of the carrying amount of the CGU CFCM is consistent with the valuation principles. The assumptions and parameters used, as well as the Company's exercise of discretion, are reasonable.

#### Recognition and measurement of deferred tax assets

*With respect to the accounting policies applied and the assumptions used, we refer to Notes 2 and 22 in the notes to the consolidated financial statements.*

#### THE FINANCIAL STATEMENT RISK

As of December 31, 2017, SGL recognizes deferred tax assets in the amount of EUR 20.7 million and deferred tax liabilities in the amount of EUR 2.1 million. The excess of deferred tax assets of EUR 16.9 million results primarily from the recognition of tax loss carryforwards. Of these, the largest amount, EUR 8.1 million, relates to the tax consolidation group of SGL Carbon SE.

The tax consolidation group SGL Carbon SE and further Group companies, respectively tax consolidation groups, indicate a so-called loss history in recent years as a result of tax losses. Deferred tax assets, where there is loss history, are only permitted to be recognized to the extent for which convincing substantial evidence exists that future adequate taxable income will be available for their realization. The existence of a loss history represents a substantial negative indication, which in principle must be offset by several equally-significant or more formidable positive indicators.

According to the assessment of SGL, there is convincing substantial evidence that as of December 31, 2017, the realization of the recognized deferred tax assets from the utilization of loss carryforwards and the reversal of temporary differences is probable.

Due to the change in the accounting-related estimate regarding period for consideration where a loss history exists, the deferred tax assets were reduced in total as of December 31, 2017 by EUR 42.3 million. Of this amount, EUR 39.5 million relates to items transferred from accumulated other comprehensive income to accumulated losses in equity. EUR 11.5 million was recognized as deferred tax expense in the consolidated income statement. Opposite this, deferred tax assets on tax loss carryforwards were recognized, and the effect of this was recognized in the income statement as a deferred tax benefit.

The accounting for deferred tax assets, especially where there is tax loss history, is to a large extent dependent upon the assessment and the assumptions of management with respect to the operational development and the planning of the Group as well as the tax planning derived therefrom for the individual companies or tax consolidation groups, and therefore, it is complex and subject to

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significant uncertainties. In addition, the requirements regarding the providing of convincing substantial evidence for the future realization of tax claims are high, and the evidence is also subject to discretionary judgment.

The risk exists for the financial statements that the excess deferred tax assets recognized as of December 31, 2017, from companies or tax consolidation groups with a tax loss history are not recoverable, because only insufficiently convincing substantial evidence for their probable realizability can be provided. Furthermore, the risk exists that the required disclosures in the notes to the consolidated financial statements are not complete or are not appropriate.

#### OUR AUDIT APPROACH

Initially, we took a critical look at the temporary differences between the IFRS carrying amounts and those for tax purposes, and we developed an understanding of the determination of the deferred taxes on these and on tax loss carryforwards. For this purpose, we also involved our tax specialists in the audit.

We critically assessed the recoverability of the deferred tax assets on the basis of the forecasts of the future taxable income prepared by the Company as well as the underlying assumptions. In this regard, we especially reconciled the planning of the future taxable income with the planning prepared by the Management Board and approved by the Supervisory Board, and we reviewed for consistency. The appropriateness of the planning utilized was evaluated based on external market assessments. In addition, we convinced ourselves as to the planning quality of the Company by comparing the planning of earlier financial years with subsequent results actually realized and by analyzing variances.

In addition, we investigated and assessed the available evidence to determine whether this is adequately convincing to fulfill the requirements of IAS 12 where loss history exists. We critically evaluated the assessment of SGL Carbon SE regarding the sustainable improvement in the profit situation of the Group and especially of the tax consolidation group of SGL Carbon SE and we had the Management Board provide explanations to us. In this connection, we convinced ourselves as to the largely completed implementation of the earnings-enhancing measures and analyzed the assumptions for the planned profit improvement, and we assessed the sustainability of the future taxable results. Furthermore, we discussed with the Management Board and critically assessed the analysis of the reasons for the existing loss history and appropriateness of the assessment that the reasons for the losses had a one-time character and will not recur.

#### OUR OBSERVATIONS

The assumptions underlying the measurement of the deferred tax assets are overall appropriate. The note disclosures are complete and proper.

#### Other Information

Management is responsible for the other information. The other information comprises:

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

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In connection with our audit, our responsibility is to read the other information and, in so doing, consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

#### **Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report**

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from

fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these

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assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis.

There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other Legal and Regulatory Requirements

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 17, 2017. We were engaged by the Supervisory Board, represented by the Chairwoman of the Supervisory Board and the Chairman of the Audit Committee, on July 13, 2017. We have been the group auditor of SGL Carbon SE since the financial year 2017.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dirk Janz.

Frankfurt am Main, March 2, 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Janz

Wirtschaftsprüfer

[German Public Auditor]

Krauß

Wirtschaftsprüferin

[German Public Auditor]

# Responsibility Statement

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To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Wiesbaden, 1. March 2018

**SGL Carbon SE**  
**The Board of Management of SGL Group**

**Dr. Jürgen Köhler**

**Dr. Michael Majerus**

# Corporate Bodies

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## **Board of Management**

(Status December 31, 2017)

### **Dr. Jürgen Köhler**

**Chairman/Chief Executive Officer of SGL Carbon SE**

#### **Responsible for:**

Human Resources  
Management Development  
Compliance  
Corporate Development / Strategy  
Corporate Communications  
Innovation  
Environment Protection, Health & Safety Affairs  
Business Process Excellence  
Global Engineering & Construction

#### **Internal board memberships:**

SGL Automotive Carbon Fibers GmbH & Co. KG, Munich <sup>1)</sup>  
SGL Automotive Carbon Fibers LLC, Charlotte, USA <sup>1)</sup>  
Brembo SGL Carbon Ceramic Brakes S.p.A., Stezzano, Italy <sup>1)</sup>

### **Dr. Michael Majerus**

**Chief Financial Officer of SGL Carbon SE**

#### **Responsible for:**

Group Accounting  
Group Controlling  
Group Treasury  
Financial Reporting  
Legal  
Information Technology  
Information Security  
Purchasing  
Investor Relations  
Group Taxes  
Risk Management  
Internal Audit

#### **Internal board memberships:**

SGL CARBON GmbH, Meitingen  
SGL CARBON Holding S.L., La Coruña, Spain (until 31.01.2017)  
SGL CARBON LLC, Charlotte, USA

<sup>1)</sup> Shareholder Committee

With memberships outside Germany, the respective country is mentioned



## Supervisory Board

(Status December 31, 2017)

### Susanne Klatten

**Chairwoman of the Supervisory Board of SGL Carbon SE**

Entrepreneur

#### External board memberships:

ALTANA AG, Wesel

BMW AG, Munich

UnternehmerTUM GmbH, Munich <sup>1)</sup>

### Dr.-Ing. Hubert Lienhard

**Deputy Chairman of the Supervisory Board of SGL Carbon SE**

Chief Executive Officer

Voith GmbH & Co KGaA, Heidenheim

#### Voith internal board memberships:

Voith Turbo Beteiligungs GmbH, Heidenheim <sup>1)</sup>

Voith Hydro Holding GmbH & Co. KG, Heidenheim <sup>2)</sup>

Voith Turbo GmbH & Co. KG, Heidenheim <sup>2)</sup>

#### External board memberships:

EnBW AG, Karlsruhe

Heraeus Holding GmbH, Hanau

SMS GmbH & SMS Group GmbH, Düsseldorf

### Helmut Jodl

**Deputy Chairman of the Supervisory Board of SGL Carbon SE**

Deputy Chairman of the Works Council (full-time)

SGL CARBON GmbH, Meitingen

Chairman of the Joint Works Council SGL CARBON GmbH

Chairman of the SE-Works Council

### Dr. Christine Bortenlänger

Managing Director Deutsches Aktieninstitut eV.,  
Frankfurt/Main

#### External board memberships:

Covestro AG, Leverkusen

Covestro Deutschland AG, Leverkusen

OSRAM GmbH, Munich

OSRAM Licht AG, Munich

TÜV Süd Aktiengesellschaft, Munich

### Dr. Daniel Camus

Former member of the Board of Management (CFO and International Activities) EDF, Electricité de France, Paris, France

#### External board memberships:

Cameco Corp., Saskatoon, Canada

Contour Global Plc, London, UK (Chairman Personnel Committee)

Valéo SA, Paris, France (Chairman Audit Committee)

<sup>1)</sup> Chairwoman/Chairman of the supervisory board

<sup>2)</sup> Chairman of the advisory committee

<sup>3)</sup> Chairman of the board of directors

**Ana Cristina Ferreira Cruz**

Head of Integrated Management System,  
FISIPE S.A., Lavradio, Portugal

**Georg Denoke**

Former Member of the Executive Board of Linde Aktiengesellschaft,  
CFO, Employment Director

**Edwin Eichler**

Consultant

**External board memberships or similar posts:**

Hoberg & Driesch GmbH, Düsseldorf (Advisory board member)  
Lürssen GmbH, Bremen (Advisory board member)  
Schmolz & Bickenbach AG, Emmenbrücke, Switzerland <sup>3)</sup>  
SMS Group GmbH, Düsseldorf <sup>1)</sup>

**Michael Leppek**

Managing Director (1<sup>st</sup> authorized Representative), IG Metall  
Augsburg

**External board memberships or similar posts:**

AIRBUS Helicopters Deutschland GmbH, Donauwörth  
KUKA AG, Augsburg  
MAN Diesel & Turbo SE, Augsburg

**Marcin Rzeźniński**

Quality Management Manager SGL GRAPHITE  
POLSKA Sp. z o.o., Nowy Sącz, Poland

**Markus Stettberger**

Chairman of the Works Council (full-time)  
SGL CARBON GmbH, Meitingen  
Deputy Chairman of the SE-Works Council

**Dieter Züllighofen**

Chairman of the Works Council (full-time)  
SGL CARBON GmbH, Bonn

<sup>1)</sup> Chairwoman/Chairman of the supervisory board

<sup>2)</sup> Chairman of the advisory committee

<sup>3)</sup> Chairman of the board of directors

# Glossary

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## Commercial Glossary

### Bond

Collective term for interest-bearing debt instruments with contractually fixed repayment terms. Bonds are issued either by governments or companies and sold through financial institutions and provide long term external financing.

### Cash flow

An economic measure for the inflow and outflow of cash funds representing the net inflow from sales activity and other current activities in a period. In a cash flow statement, the change in cash and cash equivalents is broken down by operating activity, investing activity and financing activity.

### Cash flow hedge

A hedge of a recognized asset or of future, highly likely (foreign currency) transactions. The change in value of the hedging instrument is recognized directly in equity.

### Cash generation

Total EBIT plus amortization/depreciation on intangible assets and property, plant & equipment plus change in working capital less capital expenditure

### Capital Employed

The sum of Goodwill, other intangible assets, property, plant & equipment, inventories, trade receivables less trade payables.

### Convertible bond

A corporate bond that includes a share option. Under the option, the bond can be exchanged (converted) for shares in the company subject to certain preconditions. The exchange is possible within a specific period at a fixed price. The conversion price normally exceeds the share price on the date of the bond issue.

### Corporate Governance

The German Corporate Governance Code is the primary legislation governing the management and monitoring of German publicly traded companies and comprises international standards for adequate and responsible corporate management.

### Declaration of conformity

Declaration of conformity by the Board of Management and Supervisory Board of compliance with the German Corporate Governance Code pursuant to section 161 German Stock Corporation Act (AktG).

### Deferred taxes

Assets and liabilities arising from the different treatment of transactions for financial and tax reporting purposes.

### Distributable accumulated profits/accumulated losses

Result of SGL Carbon SE as reported in its German GAAP financial statements based on calculation pursuant to the German Commercial Code (HGB).

### DSO (Days Sales Outstanding)

Trade account receivables divided by sales revenue, times 360 (A low figure indicates that the company collects its outstanding receivables quickly).

### Earnings per share (EPS)

The figure of EPS is calculated by dividing the net result of the year attributable to SGL Carbon SE shareholders by the weighted average number of outstanding shares for the financial year.

### EBIT

Earnings before interest and taxes. EBIT is an important key performance indicator for assessing the operational profitability of companies.

### EBITDA

Earnings before interest, taxes, depreciation and amortization. In the case of EBITDA, the focus is rather more on cash earnings potential.

### Equity ratio

The shareholders' equity as a proportion of total assets. The higher the equity ratio, the more independent a company is from external providers of capital. The equity ratio is also an indicator of the creditworthiness and robustness of a company.

### At-Equity method

Method used in the consolidated financial statements for measuring and accounting for investments in which the SGL Group has joint control in, or significant influence over. Under the equity method, investments of this kind are initially recognized at cost. In subsequent years, these investments then change in line with their profit or loss contribution.

### EURIBOR

Euro InterBank Offered Rate (EURIBOR) is an interest rate at which euro interbank term deposits are offered

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**Derivative financial instruments**

Forward contracts whose value is derived from another existing (primary) market value. An example of a derivative is a currency option, in which the premium largely depends on the option price, the maturity of the option and the volatility of this currency.

**Free cash flow**

The balance of cash flow from operating activities and cash flow from investing activities. Free cash flow therefore reflects the amount available to the company, for example, for debt repayment or distribution of dividends.

**Free float**

The total number of shares not owned by major investors (e.g. the parent company). Free float shares are distributed among a large number of shareholders and can therefore be bought and sold by many people. The number of free float shares therefore also normally provides an indication of the liquidity of the shares.

**Functional costs**

Functional costs include cost of sales, R&D expenses, selling expenses and general and administration expenses.

**Gearing**

The ratio of net debt to equity. Gearing is a key performance indicator reflecting financial strength and illustrates the dependency of a company on third-party lenders. The higher the figure, the greater the theoretical dependency.

**Goodwill**

The excess of cost of an acquisition over the fair value of the acquired entity at the time of acquisition.

**Gross profit**

Sales revenue less cost of sales.

**Hedging**

Strategy to limit or eliminate price risks. Hedging is standard practice in capital markets and is used by market players to offset risks.

**International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS)**

Uniform accounting standards to enhance comparability of financial data. According to European Union regulation, publicly

traded companies are required to prepare their consolidated financial statements in accordance with these rules.

**Joint venture**

A contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control.

**Joint operation**

A joint arrangement whereby the parties that have joint control of the arrangement have rights of the assets, and obligation for the liabilities, relating to the arrangements.

**Market capitalization**

Key performance indicator providing information on the stock market value of a listed company. It is calculated by multiplying the number of shares by the current share price.

**Rating**

Internationally recognized criteria for assessing the creditworthiness of a debtor or company. Ratings are determined by specialist agencies using standardized procedures.

**Return on sales**

Ratio of EBIT to sales revenue. Return on sales (ROS) provides information on a company's operating profit as a percentage of sales revenue in the period under review. A high return on sales indicates a high level of profitability.

**ROCE (Return on capital employed)**

The ratio of EBIT to capital employed. This key performance indicator provides information on the return on average capital employed by a company over a specific period.

**Syndicated Loan**

A loan offered by a syndicate consisting of several core industries; the loan's overall risk (e.g. resulting from credit quality or capital lock-up) is spread across the financial institutions involved.

**Weighted average cost of capital (WACC)**

An average representing the expected return on all of a company's securities. Each source of capital, such as stocks, bonds and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment.

### Working Capital

Inventories plus trade receivables minus trade payables. This figure describes the current assets employed by a company in the short-term. The lower the working capital, the better the liquidity position of a company.

### Technical Glossary

#### Cathodes

Indispensable component in the production of primary aluminum. Cathode blocks are capital investment products, used to line large smelting cells, in which aluminum oxide is reduced by an electrolysis process to produce aluminum which is deposited on these blocks.

#### Coarse grain graphite

The grain size lies between 1mm and up to approx. 20mm. Key material property is the high resistance to thermal shock. Typical product examples are graphite electrodes for steel scrap recycling, cathodes for aluminum electrolysis and furnace linings for crude steel production.

#### Fine grain graphite

Specialty graphite with a fine grain structure and a grain size of between 1mm and few  $\mu\text{m}$ , with which the required material strengths can be achieved. Fine grain graphites have a broad spectrum of applications in the semiconductor, mechanical engineering, metallurgical, industrial furnace construction, medical and analysis technology industries (isostatic graphite).

#### Graphite electrodes

The core business of the former business unit Performance Products. Graphite electrodes are used in steel production in electric arc furnaces. In a furnace, they can withstand temperatures of up to 3,500 degrees Celsius and are therefore the "engine" in the melting process of scrap recycling to produce new steel. During the manufacturing process for electric steel, graphite electrodes are fully consumed within six to eight hours.

#### Isostatic graphite

Special fine grain graphite for specific applications. Its name is derived from the method of production (isostatically pressed; in a chamber of water subjected to equal pressure from every side). The main features of isostatic graphite are strength, density and isotropic structure. It is therefore used in all applications where the mechanical properties of conventional graphite are inadequate.

### Lithium-ion battery

Rechargeable battery with high energy and performance density. The cathode is made from a lithium compound, the anode from carbon or graphite. During the charging process, the lithium ions in the cathodes migrate to the carbon lattice of the anode material (intercalation). During discharging, the lithium ions from the intercalation migrate back to the cathode. Lithium-ion batteries are the standard batteries for mobile applications today, such as for mobile phones and laptops. They are growing in importance for power tools (e.g. cordless screwdrivers) and for electric vehicles.

### Natural graphite

A natural mineral. It is extracted from both surface and underground mining. High purity (>99%) is achieved by purification processes (flotation, thermal and chemical purification). Natural graphite possesses the nearly ideal crystalline structure of graphite. Its use as a lubricant is well known. The largest natural graphite amounts are used for fire proof applications. Small amounts are also included in the recipe for fine grain graphites. Inclusion of acids produces graphite salts, which are converted to expanded graphite in a thermal process.

### PAN Precursor

Synthetic fiber made from polyacrylonitrile (PAN). PAN precursor is the raw material used in the production of carbon fibers.

### Petroleum coke

Is a mass volume by-product of the oil refining process (80 million tons). Calcined petroleum cokes are used particularly for anodes in the aluminum electrolysis. The so-called needle coke is a special quality, which can only be produced by a few refineries. This needle coke is almost exclusively used for the production of graphite electrodes. Their outer form and tailor made physical properties enable the production of modern high performance electrodes.

### REACH (regulation for chemicals)

REACH stands for Registration, Evaluation, Authorization and Restriction of Chemicals, an EU regulation for chemicals that became effective June 1, 2007. The scope of REACH includes manufacturers or importers who, in the European Union, either manufacture chemical substances and/or use such substances in formulations or import such substances into the European Union amounting to more than one ton per year.

# List of Acronyms

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**A AktG**

German Stock Corporation Act (Aktiengesetz)

**C Cefic**

European Chemical Industry Council

**CFRP**

Carbon Fiber Reinforced Plastic

**D DAX**

German Stock Index (large caps)

**E EBIT**

Earnings before Interest and Taxes

**EBITDA**

Earnings before Interest, Taxes, Depreciation and Amortization

**EHSA**

Environment, Health & Safety Affairs

**EPS**

Earnings per Share

**H HGB**

German Commercial Code

**I IAS**

International Accounting Standards

**IASB**

International Accounting Standards Board

**IFRIC**

International Financial Reporting Interpretations Committee

**IFRS**

International Financial Reporting Standards

**IT**

Information Technology

**L LTCI**

Long Term Cash Incentive

**LTi**

Long Term Incentive

**M MDAX**

Mid-Cap-DAX

**R REACH**

Registration, Evaluation, Authorization and Restriction of Chemicals

**ROCE**

Return on Capital Employed

**S SAR**

Stock Appreciation Rights

**SDAX**

Small-Cap-DAX

**V VorstAG**

Act on the Appropriateness of Management Board Remuneration

**W WpHG**

German Securities Trading Act

# Financial Calendar

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## **March 14, 2018**

- Publication of the 2017 Annual Report
- Year-end press conference, analyst conference, and conference call for analysts and investors

## **May 08, 2018**

- Report on the first quarter of 2018
- Conference call for analysts and investors

## **May 29, 2018**

- Annual General Meeting

## **August 07, 2018**

- Report on the first half of 2018
- Conference call for analysts and investors

## **November 06, 2018**

- Report on the first nine months of 2018
- Conference call for analysts and investors

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Rüdiger Nehmzow

### **Chairwoman of the Supervisory Board**

Michael Dannenmann

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# Five-year Financial Summary

€m	Footnote	2017	2016	2015 <sup>1)</sup>	2014	2013 <sup>2)</sup>
<b>Financial performance</b>						
Sales revenue		860.1	769.8	789.5	1,335.6	1,422.6
<i>thereof outside Germany</i>		74%	73%	73%	80%	82%
<i>thereof in Germany</i>		26%	27%	27%	20%	18%
EBITDA before non-recurring charges	3)	90.7	69.9	63.9	84.1	102.8
Operating profit (EBIT) before non-recurring charges	3)	40.1	20.7	13.7	2.7	22.8
Result from continuing operations before income taxes		-7.8	-27.2	-45.4	-104.4	-161.1
Consolidated net result (attributable to the shareholders of the parent company)		138.9	-111.7	-295.0	-247.0	-317.0
Return on sales (EBIT-margin)	4)	4.7%	2.7%	1.7%	0.2%	1.6%
Return on capital employed (ROCE EBITDA)	5)	10.5%	8.4%	7.9%	5.9%	6.5%
Earnings per share, basic (in €)		1.14	-1.19	-3.22	-3.26	-4.47
<b>Net assets</b>						
Equity attributable to the shareholders of the parent company		457.0	331.8	289.3	567.6	607.7
Total assets		1,541.7	1,899.2	1,856.1	2,170.3	2,059.1
Net financial debt		139.0	449.4	449.4	389.9	491.1
Equity ratio	6)	29.6%	17.5%	15.6%	26.2%	29.5%
Gearing	7)	0.30	1.35	1.55	0.69	0.81
Headcount	8)	4193	5,384	5,384	6,342	6,387
<b>Financial position</b>						
Payments to purchase intangible assets and property, plant and equipment		52.9	34.6	44.4	132.6	117.0
Depreciation/amortization expense		50.6	49.2	50.2	81.4	80.0
Working capital	9)	318.5	254.2	255.1	462.4	476.2
Free cash flow	10)	-144.7	-48.1	-48.1	-121.3	41.9

<sup>1)</sup> Adjusted to reflect PP as discontinued operations

<sup>2)</sup> Adjusted by BaFin adjustments as well as classification of AS as a discontinued operations and proportional consolidation of SGL ACF

<sup>3)</sup> Before non-recurring items of €8.9 million in 2017, €3.0 million in 2016, minus €6.8 million in 2015, minus €51.2 million in 2014 and minus €122.8 million in 2013

<sup>4)</sup> EBIT before non-recurring charges to sales revenue

<sup>5)</sup> EBITDA before non-recurring charges to average capital employed - continuing operations (total of goodwill, other intangible assets, property, plant and equipment, investments accounted for At-Equity and working capital)

<sup>6)</sup> Equity attributable to the shareholders of the parent company to total assets

<sup>7)</sup> Net financial debt to equity attributable to the shareholders of the parent company

<sup>8)</sup> Until Dec. 31, 2016 including discontinued operations

<sup>9)</sup> Total of inventories and trade receivables less trade payables

<sup>10)</sup> Cash flow from operating activities (continuing operations) minus cash flow from investing activities (continuing operations)



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