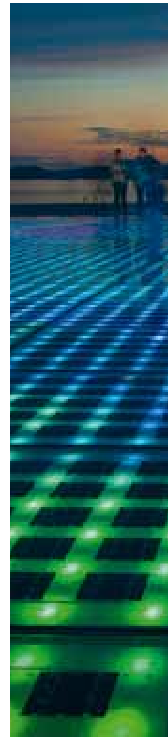


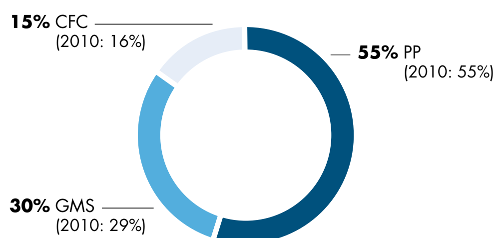
Broad Base. Best Solutions.

KEY FIGURES 2011

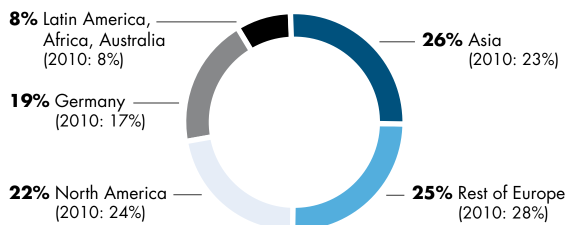
€m	**2011**	2010	Change
Sales revenue	1,540.2	1,381.8	11.5%
thereof outside Germany	*81%*	*83%*	–
thereof in Germany	*19%*	*17%*	–
EBITDA [1]	231.7	194.8	18.9%
Operating profit (EBIT) [1]	160.4	128.4	24.9%
Profit before tax	83.7	73.2	14.3%
Consolidated net profit attributable to equity holders	73.2	52.2	40.2%
Earnings per share, basic (in €)	1.09	0.80	36.3%
Dividend per share (in €)	0.20	–	–
Return on sales (ROS) [2]	10.4%	9.3%	1.1%-pts
Return on capital employed (ROCE) [3]	10.0%	9.0%	1.0%-pts
Total assets	2,271.3	2,113.3	7.5%
Equity attributable to the shareholders of the parent company	1,041.1	864.4	20.4%
Equity ratio [4]	45.8%	40.9%	4.9%-pts
Net debt	343.3	410.5	–16.4%
Gearing (ratio of net debt to equity) [5]	0.33	0.47	–
Capital expenditure on intangible assets and property, plant, and equipment	138.8	136.9	1.4%
Free cash flow	–33.1	–38.3	13.6%
Number of employees (December 31)	6,447	6,285	2.6%

[1] Before reversal of impairment losses and impairment losses
[2] EBIT (before reversal of impairment losses and impairment losses) to sales revenue
[3] EBIT (before reversal of impairment losses and impairment losses) to average capital employed
[4] Shareholders' equity to total assets
[5] Net financial debt to shareholders' equity

Share of Sales Revenue by Business Area 2011



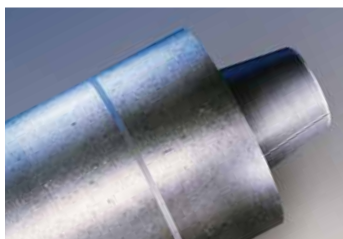
Sales Revenue by Region 2011



BUSINESS AREAS

PERFORMANCE PRODUCTS (PP)

The product portfolio of the Business Area Performance Products covers carbon and graphite electrodes, cathodes and furnace linings. We supply these products to the aluminum and steel industries as well as other metallurgical industries.



Key Figures		**2011**	2010	Change
Sales revenue	€m	845.7	762.6	10.9%
EBITDA	€m	179.9	177.5	1.4%
Operating profit (EBIT)	€m	143.3	144.1	–0.6%
Return on sales	%	16.9	18.9	–

GRAPHITE MATERIALS & SYSTEMS (GMS)

The Business Area Graphite Materials & Systems supplies products to various different industries. Coarse and fine-grain graphite and expanded natural graphite are used primarily in the chemical, automotive, semiconductor, LED, lithium ion battery and solar industries.

Key Figures		**2011**	2010	Change
Sales revenue	€m	468.7	395.9	18.4%
EBITDA	€m	101.6	54.9	85.1%
Operating profit (EBIT)	€m	84.0	36.9	127.6%
Return on sales	%	17.9	9.3	–

CARBON FIBERS & COMPOSITES (CFC)

The Business Area Carbon Fibers & Composites covers the entire value chain from carbon fiber to finished components. The Business Area CFC supplies, among others, manufacturers from the aerospace, wind energy and automotive industries.

Key Figures		**2011**	2010	Change
Sales revenue	€m	220.2	218.5	0.8%
EBITDA	€m	–5.3	4.8	–
Operating profit (EBIT)	€m	–16.9	–6.6	> –100%
Return on sales	%	–7.7	–3.0	–

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WE TURN **PROSPECTS** INTO GROWTH.

We have broad materials expertise, well-engineered production processes, longstanding applications and engineering know-how as well as a comprehensive carbon, graphite and carbon fiber-based product portfolio, augmented by an integrated value chain from carbon fibers to composites.

Worldwide, we operate close to our customers through a global sales network and state-of-the-art production sites in Europe, North America and Asia.

This broad base enables us to offer our customers best solutions.

INVESTMENTS

PRODUCTS

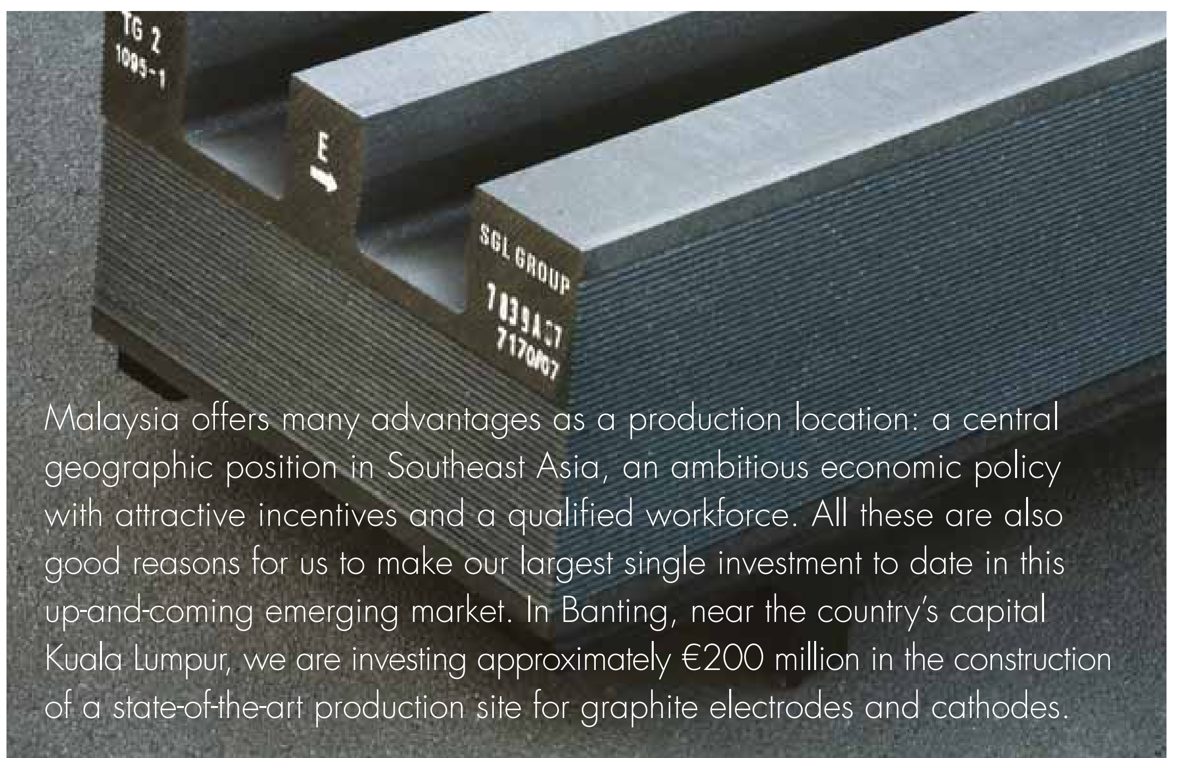
RESEARCH AND DEVELOPMENT

REGIONS

Today, SGL Group is one of the largest producers of carbon products. Our goal is to be the leading carbon company worldwide. We therefore continue to drive our growth and exploit the potential of this multifaceted and fascinating material for innovative future applications. This is also why we not only invest into new technologies but also into cooperations with our suppliers and partners. We develop cutting-edge products and strengthen our global presence. **Our broad base takes us to the top!**

INVESTMENTS

STRATEGIC **INVESTMENTS** FOR THE FUTURE



Malaysia offers many advantages as a production location: a central geographic position in Southeast Asia, an ambitious economic policy with attractive incentives and a qualified workforce. All these are also good reasons for us to make our largest single investment to date in this up-and-coming emerging market. In Banting, near the country's capital Kuala Lumpur, we are investing approximately €200 million in the construction of a state-of-the-art production site for graphite electrodes and cathodes.

IN 2011, WE INVESTED APPROX. **€140 MILLION** IN REPLACEMENT, ENVIRONMENTAL PROTECTION AND EXPANSION PROJECTS, PRIMARILY FOR THE CONSTRUCTION OF OUR NEW CARBON AND GRAPHITE PLANT IN MALAYSIA, THE EXPANSION OF CAPACITIES FOR ISOSTATIC GRAPHITE, AND THE CONTINUED DEVELOPMENT OF AUTOMATION TECHNOLOGIES FOR THE AVIATION INDUSTRY.

We support our customers in the semiconductor industry with crucibles and components made of graphite for monocrystal pulling

To be able to meet growing worldwide customer demand also in the future, we are expanding production capacities for isostatic graphite from 5,000 to 15,000 tons per year and investing about €75 million in this effort until 2013. The construction of a new, highly automated production center for isostatic graphite in Bonn plays a central role in this growth strategy.

BONN: **TOP PERFORMANCE** AT THE NEW PRODUCTION CENTER

The new production center in Bonn is scheduled for completion in 2012 and commissioning in 2013

MOSES LAKE, USA: **HIGHTECH SITE** FOR AUTOMOTIVE AMBITIONS

Groundbreaking in July 2010, completed only one year later: the plant in Moses Lake

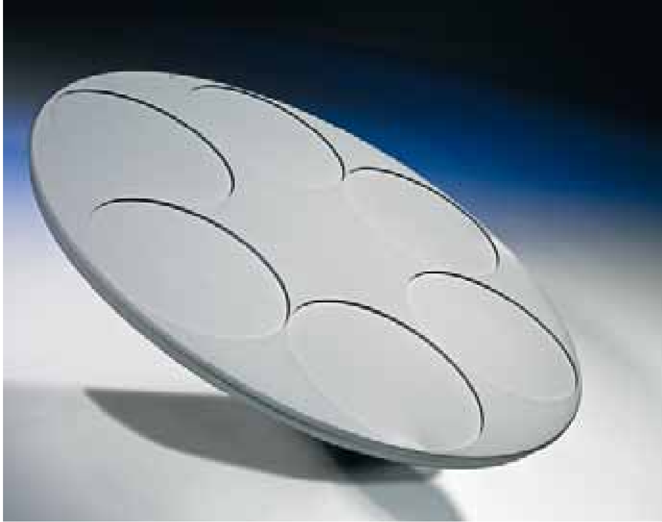
We are actively shaping automotive future with our carbon fibers

Innovative LifeDrive architecture makes the BMW i3 lightweight, safe, spacious, and dynamic

Moving into Sustainable Mobility. At our new plant in Moses Lake, Washington, USA, we are producing carbon fibers for use in BMW's i Series vehicles within our joint venture with BMW Group. The BMW i3 will be the first serially produced vehicle with a passenger cell made of carbon fibers.

OUR AT-EQUITY-ACCOUNTED INVESTMENTS STRENGTHENED THEIR BASIS FOR LONG-TERM GROWTH BY INVESTING APPROX. **€40 MILLION** IN 2011. A MAJOR PART OF THESE INVESTMENTS WERE FOCUSED ON OUR TWO JOINT VENTURES WITH BMW GROUP.

PRODUCTS



Wafer carrier made of isostatic graphite for LED production

Modern high performance LEDs are used by the billions today in traffic lights, car headlights, and mobile phones. LEDs have a big future in indoor and surface illumination. LED technology is evolving as rapidly as the LED market. We aim to participate in this dynamic market growth as a supplier to the LED industry.

THE **LED MARKET** IS GROWING RAPIDLY

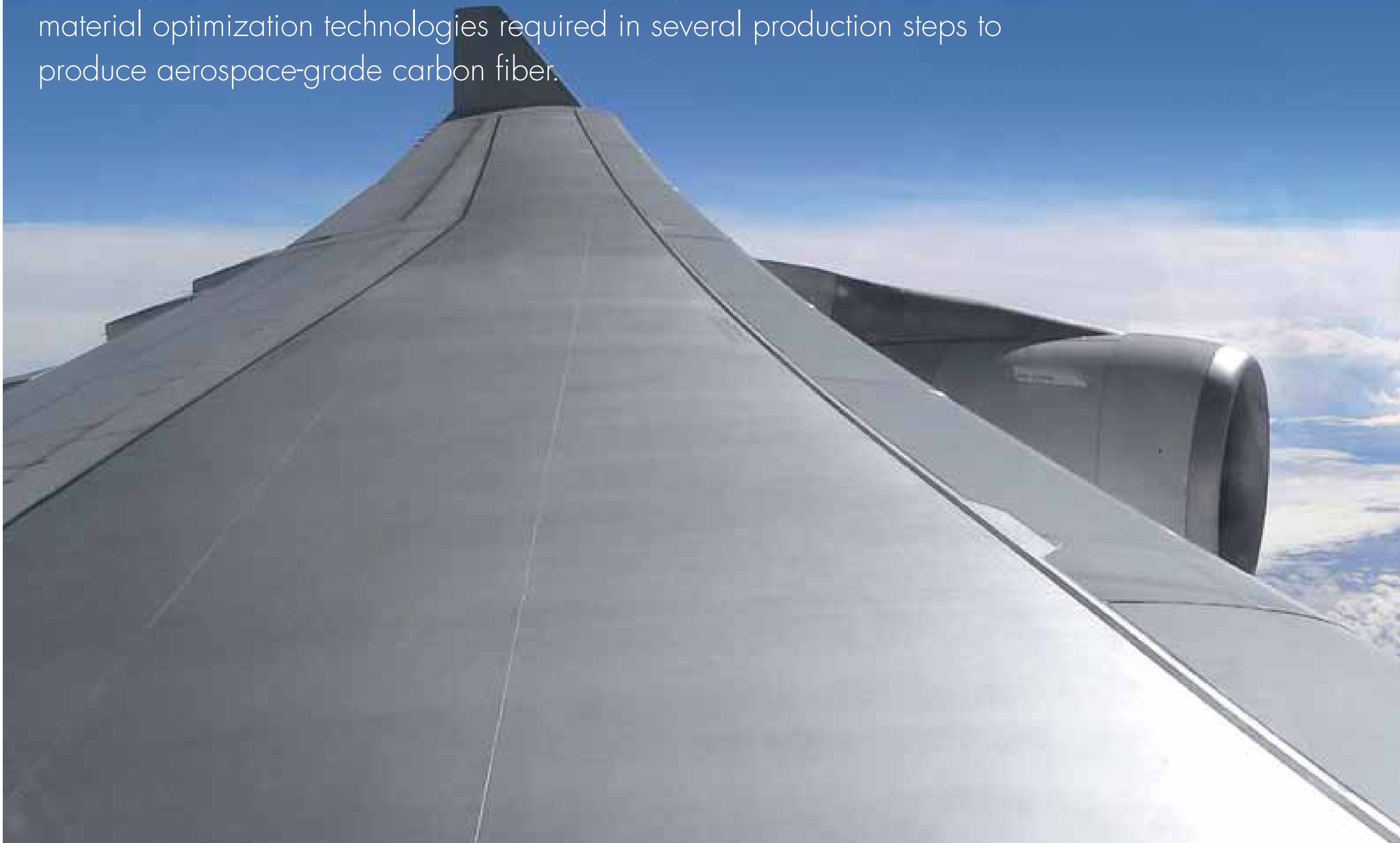
STRONG **GROWTH MARKETS** ON THE GROUND AND IN THE AIR

DECISIVE ADVANTAGE IN **EFFICIENCY** AND COST EFFECTIVENESS

Climate change, scarcity of resources, and changed economic environment are elementary challenges that demand sustainable solutions for greater energy efficiency. Since our products can make major contributions in this area, we continue to drive the development of technologies and innovations. Our activities cover a broad range of industries and growth markets, ranging from lightweight construction to e-mobility, air-conditioning technology and alternative energy sources. In aviation, steel production, and solar technology, carbon-based products play a central role due to their unique properties. They help to reduce CO_2 emissions and to save natural resources.

WE LIFT **CARBON FIBER TECHNOLOGY** TO THE NEXT LEVEL

We are currently developing carbon fiber for the European aviation industry as part of a publicly funded project called AirCarbon. An important milestone in this project was the start-up of a carbon fiber pilot plant in Meitingen, Germany, in the first quarter of 2011. The pilot plant uses the process and material optimization technologies required in several production steps to produce aerospace-grade carbon fiber.



RESEARCH AND DEVELOPMENT

€40 MILLION
FOR RESEARCH & DEVELOPMENT

In the Spirit of Innovation Developing and testing innovative solutions is a central pillar of our corporate strategy and ensures the long-term competitiveness of SGL Group. To achieve this, we continuously expand our state-of-the-art T&I infrastructure. In 2011 alone we invested €4.2 million in T&I equipment.

Strong Together SGL Group is a cofounder of the German Network of Excellence for Lithium Ion Batteries (KLiB). The initiative combines industry and research to actively drive the development and commercialization of lithium ion batteries for vehicle engine and stationary energy storage solutions. The steadily growing network introduced itself to the public for the first time at the International Motor Show in September 2011.

147 EMPLOYEES CONTRIBUTE THEIR KNOW-HOW TO T&I

Our T&I energy laboratory in Meitingen, Germany

Assembly of a test compartment

64 PATENT APPLICATIONS IN 2011 UNDERSCORE OUR POWER OF INNOVATION

Young Professionals Secure the Future Today's talents are tomorrow's specialists and executives. We take the job of promoting young talent seriously. SGL Group endowed the professorship of Carbon Composites at Munich Technical University, which already has 50 employees today. Since 2011 we have also been collaborating with AGH Krakow, one of Poland's leading technical universities, to develop a carbon development center there. Our own research center has also established itself as a talent pool: last year we supported a total of 54 graduates, interns and student trainees in Meitingen, Germany.

Active participation in the dynamic economic development of the emerging countries forms an integral part of our growth strategy. These countries are particularly important to us due to their size, impressive growth rates and rapidly advancing industrialization. SGL Group's traditional businesses in the basic industries of steel, aluminum and chemicals are benefiting from the fast-paced infrastructure development in these regions. We are strengthening our global presence to exploit this growth potential for SGL Group.

REGIONS

WE STRENGTHEN OUR **GLOBAL PRESENCE**

EXPANSION IN ASIA

With economic growth of 9.2% in 2011, China is currently one of the fastest growing markets in the world. For the coming years, average growth is projected around 9%, and in 2015 the People's Republic could be the strongest economic power in the world. SGL Group is already represented in China with three sites and is well positioned to participate in the country's strong growth prospects.

FOCUS ON THE KEY MARKETS **CHINA, INDIA,** AND **MALAYSIA**

India is steadily gaining importance as a growth market as well, posting economic growth of 7.4% in 2011. India's chemical industry, for example, already has a sales volume of €76 billion and hence is one of the biggest growth markets in the global chemical business. The country is now among the top ten chemical nations. SGL Group has expanded its existing production facility for graphite-based system components for the chemical industry in Pune and hence created the basis for continued growth in India.

SGL Group is increasing its presence in attractive economic regions in Southeast Asia. We are developing new sites with huge potential, such as in Malaysia, where we are currently building a state-of-the-art carbon and graphite plant in Banting.

ROBERT J. KOEHLER
Chairman/Chief Executive Officer

Responsible for:
- Corporate Development
- Corporate Communication
- Internal Audit
- Legal
- Management Development
- Asia

THEODORE H. BREYER
Deputy Chief Executive Officer

Responsible for:
- Carbon Fibers & Composites
- Engineering
- Corporate Security and Environmental Protection, Safety and Health at Work, Technical Audits
- Purchasing
- North and South America

ARMIN BRUCH

Responsible for:
- Performance Products
- SGL Excellence
- Europe and Russia
- Corporate Marketing & Advertising

JÜRGEN MUTH
Chief Financial Officer

Responsible for:
- Group Controlling
- Group Financing
- Group Accounting
- Financial Reporting
- Human Resources
- Information Technology
- Taxes

DR. GERD WINGEFELD

Responsible for:
- Graphite Materials & Systems
- Technology & Innovation

Letter from the Board of Management

Dear Shareholders,

The growing interest from the industry, research, and the media arenas demonstrates that carbon will steadily gain importance in the future. 2011 was the year when the broad public first gained a greater awareness of carbon. For the world economy and the financial markets, it was a year of enormous contrasts. The first six months were marked by the expectation of an upturn in the economy and many companies were confident about the future performance of their businesses. The intensification of the sovereign debt crisis in Europe in particular and the related unforeseeable effects on the real economy changed the situation in mid-2011. As of the third quarter, economic uncertainty dominated the climate, accompanied by sharply falling prices in the capital markets. The year 2011 made it clear that the growth gap between the industrial nations and the emerging economies in Asia and Latin America has become even more pronounced. While the emerging nations, led by China, have been able to continue their dynamic growth, the industrialized countries exhibited an unmistakable weakening trend.

SALES AND EARNINGS IMPROVE IN CHANGED ECONOMIC FRAMEWORK

To date, the rising macroeconomic risks have affected our businesses to a limited extent only. Against this backdrop, SGL Group performed favorably in fiscal year 2011 and reached the targeted growth in Group sales and earnings. On a Group level, we succeeded in improving sales by a double-digit percentage rate of nearly 12% to more than €1.5 billion. The operating profit (EBIT) increased at a more than proportionate rate of 25% to approx. €160 million. The return on sales increased accordingly from 9% in the prior year to 10% in the reporting period. Another important development in 2011 is that the Business Area Graphite Materials & Systems (GMS) established itself as the second major profit pillar alongside the Business Area Performance Products (PP) and achieved new record highs in sales and earnings. The majority of this growth is based on products for the solar, semiconductor and LED industries, which are especially benefiting from the dynamic economies in Asia.

In Performance Products, still our largest Business Area, a significant recovery in graphite electrodes compensated for the still slow demand for cathodes for the aluminum industry. Carbon fiber technology remained the most important focus of public attention. In the Business Area Carbon Fibers & Composites (CFC), the upward trend is continuing in carbon fibers and carbon fiber composites as well as structural components for the aviation and automotive industries. Development activities have accelerated considerably in many industries and applications. Unfortunately, this upward trend was slowed by the disappointing performance of our rotor blades business for the wind industry (SGL Rotec).

As the increase in our equity ratio to more than 45% demonstrates, our balance sheet is very solid. This means we are well positioned for the future, even in the face of the challenges associated with the not yet foreseeable consequences of the structural debt crisis in the West and increasing competitive pressures. As part of our organic growth program, we invested some €140 million in 2011 in the expansion of our worldwide production capacities and new technologies.

SUPPLYING REGIONAL MARKETS WITH LOCAL PRODUCTION

Even in the recent crises, we have consistently invested in growth markets and consequently expanded our global competitive position in the dynamic growth regions of East and Southeast Asia. We aim to increasingly production in the regions where growth is taking place. In this context, we are expressly focusing on innovative technologies and products. The results of fiscal year 2011 confirm that we are on the right track. We already generate about a quarter of our sales in Asia and the trend is increasing. The most important major projects are scheduled to be completed in the next two years. In PP, for instance, we are finalizing construction of our new fully integrated graphite electrode and cathode plant in Malaysia this year. This will give us our own production base in the strategically important growth market of Southeast Asia. In GMS, we are concentrating on expanding our production capacity for isostatic graphite in Germany and China. In the Business Area CFC we successfully started up the US based carbon fiber plant built together with BMW Group after only ten months of construction last fall. The first BMW i3 vehicles, which have a passenger cell made entirely of carbon-fiber-reinforced plastic (CFRP) as a standard feature, are expected to be launched as early as 2013. This innovation will enable a new and environmentally friendly form of mobility.

Our shareholder structure changed significantly in the past fiscal year: The largest changes related to the acquisition of an equity stake by Volkswagen AG in February and by BMW AG in November of last year. In addition, SKion increased its stake in SGL Carbon SE in 2011, among other things by converting its holding in our 2009/2013 convertible bonds. The stake of our fourth major shareholder, the Voith Group, remains unchanged. On the whole, SGL Group thus has a notable base of anchor shareholders that secures the Company's independence.

OUTLOOK 2012: CONTINUED GROWTH AND STRONGER COMPETITIVE POSITION

Economic uncertainties, above all as a result of the unresolved sovereign debts, make it difficult to reach accurate projections for 2012. Today, we are confronted by changed market dynamics and more intense competition, in particular from the emerging economies. But the majority of experts expect the economy to slow down, especially in the first half of 2012 and especially in Europe, in some countries potentially even leading to recession. For the year as a whole, however, cautious confidence prevails – as long as governments manage to get a grip on the problems of the Euro and financial crisis and consequently are able to diminish their impact on the world economy. Due to our broad base of technologies, know-how, products as well as our global alignment, we are well prepared in the event that conditions should continue to deteriorate. For PP, we expect graphite electrodes to develop stably along with a slight improvement in cathode demand. For GMS we anticipate another strong year, although after the record year 2011 we do see a cyclical slowdown in important customer industries like the solar, semiconductor and LED sectors. Nonetheless, 2012 should be the second best year in GMS's history. In CFC, the growth dynamics should lead to noticeable growth in the business with carbon fibers, composites and structural components in 2012. Due to financing-related project delays, however, the short-term prospects for the wind market are still uncertain. For the Group as a whole, on the assumption that the world economy improves during the course of the year, we are projecting a rise in sales and operating profit (EBIT).

TWENTY YEARS OF SGL CARBON: TWENTY YEARS OF PASSION FOR CARBON

The merger of SIGRI and Great Lakes Carbon to form SGL Carbon twenty years ago in February 1992 marked the birth of today's SGL Group. At that point, no one may have anticipated that our Company would evolve into the world's largest manufacturer of products made of carbon and graphite. Like in any company, we have experienced highs and lows. But one thing has always set us apart: as confirmed by the recent past, we are consistently able to take the Company further and emerge stronger, even during difficult times. Our broad base of materials, technologies and products gives us a solid starting position for sustainable, profitable growth, and we are convinced that carbon is a material of the future thanks to its tremendous versatility. Carbon-based solutions will help us master the challenges of our time – in applications ranging from new forms of mobility to regenerative energies, communications technology and infrastructure development.

In this context, we owe thanks to our customers, suppliers and partners for their excellent cooperation over all these years. We would like to take this opportunity to thank all of our employees for their dedicated commitment. Without them we would not have been able to achieve what we did in the past twenty years.

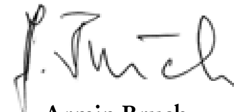
Our special thanks is dedicated to you, our shareholders, for the faith you have placed in us. You have supported us in our multi year investment program, with which we have laid the foundation for sustainable growth. We would like you, our shareholders, to participate, in our success. For this reason, SGL Group will reinstate an earnings driven dividend payment. Accordingly, the Board of Management and the Supervisory Board propose to the Annual General Meeting the distribution of a dividend payment of 20 Euro cents per dividend entitled share for the fiscal year 2011. This corresponds to an expected total payout of approximately €14 million.

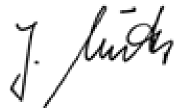
Yours sincerely,

The Board of Management of SGL Group

Robert Koehler

Theodore H. Breyer


Armin Bruch


Jürgen Muth

Dr. Gerd Wingefeld

Report of the Supervisory Board

Dear Shareholders,

After the global economy recovered more quickly and more robustly in 2010 than had been expected, the underlying conditions in 2011 were also favorable until the third quarter. SGL Group's businesses benefited from this economic recovery, increasing Group EBIT by 25% and also Group revenue grew double-digit by 12%.

The Supervisory Board of SGL Carbon SE focused intensively on the Company's development during the year under review. We supported the Board of Management with advice throughout this process and closely monitored the management of the business. The Board of Management kept us informed in a regular, timely and comprehensive manner. Where legislation or the Articles of Incorporation required the Supervisory Board to make decisions concerning individual transactions and actions of the Board of Management, we were involved at an early stage and passed the corresponding resolutions.

The Supervisory Board met five times in the year under review, on March 16, May 3, September 8 and December 9 and in an extraordinary meeting on November 16. None of the members of the Supervisory Board participated in less than half of its meetings. Prior to the ordinary meetings, the Board of Management conducted in-depth discussions with both the shareholder and employee representatives. In addition, the Board of Management provided regular reports on material transactions, quarterly financial statements, and the response in the media and financial markets. I myself was in regular dialogue with the chairman of the Board of Management concerning specific developments and issues. The chairmen of the Supervisory Board committees also held discussions with their colleagues on the Supervisory Board and members of the Board of Management in preparation for the committee meetings.

In order to avoid any impression of a conflict of interest, Dr. Lienhard – on his own request – did not participate in the discussion on the strategic orientation of the Business Unit Carbon Fibers & Composite Materials in the Strategy and Technology Committee meeting on September 7, 2011 due to the Voith Group's carbon activities.

KEY ISSUES

The Company's financial situation and the outlook for the following quarter and the rest of the year were discussed in all of these regular meetings. This included, in particular, trends in the operational and financial KPIs of the Group and the individual businesses as well as the status of the risk management system with its risk management measures.

In addition to the 2010 annual financial statements, items discussed in the March meeting included the final budget for 2011 and the notice and agenda for the Annual General Meeting on May 3.

In the May meeting, we were primarily informed about the current business situation and the Board of Management's assessment of the further business development for the remainder of 2011. Moreover, the Supervisory Board was provided with a summary review of the situation after the earthquake in Japan and the possible impact on SGL Group's business.

The September meeting took place in Bremen. A visit to the production facility of our SGL Rotec joint venture in Lemwerder and discussions with the local management provided the Supervisory Board with the opportunity to personally observe the production of rotor blades for the wind industry. Furthermore, the Supervisory Board was provided information concerning the operational planning assumptions and it discussed strategic options at a Group and business level.

The extraordinary Supervisory Board meeting in November served to discuss and approve strategic partnerships for graphite electrodes in China.

Operational planning for 2012 as well as the medium-term outlook for subsequent years were extensively discussed in the December meeting. Moreover, we were informed about individual projects, for example, additional potential business opportunities in Asia.

CORPORATE GOVERNANCE

As the German Corporate Governance Code last amended May 26, 2010 was not revised last year, we did not have to make any adjustments to the corporate governance principles of SGL Carbon SE. As a result, in the December meeting, we only made individual, editorial changes.

The declaration of compliance adopted in December pursuant to section 161 of the German Stock Corporation Act (AktG) contains two exceptions to the obligatory recommendations of the German Corporate Governance Code. The declaration is included in the Corporate Governance Report in this Annual Report and has also been published on the Company's website at www.sglgroup.com.

ACTIVITIES OF THE COMMITTEES

The Supervisory Board has set up a total of four committees in order to ensure the efficient discharge of its duties. The members of these committees are listed in the Corporate Governance Report (page 28–33). At the plenary sessions of the Supervisory Board, the committee chairmen reported in detail on the work of the committees.

In its meeting of September 7, the Strategy and Technology Committee dealt with SGL Group's portfolio and its further development. In addition, the graphite specialties activities in the high-growth region Asia were discussed and the strategic orientation of the Business Unit Carbon Fibers & Composite Materials as the key factor in the growth of the Business Area CFC was presented.

The Audit Committee is informed of the Company's financial results on a quarterly basis prior to their publication. Within the context of its review of the quarterly financial statements, the Audit Committee also discussed ongoing issues relating to reporting and internal audit, as well as any other special topics of current interest. The meetings in March and December were also attended by the auditors in order to discuss the audit procedures, key audit issues, and material findings in a timely manner. The chairman of the committee was kept constantly informed verbally and in writing regarding the status and progress of the audit, and with regard to the documentation and validation of the core processes for the internal control system. In addition to the annual financial statements and consolidated financial statements, the Audit Committee focused on the Company's risk

identification and management system, the efficiency of the internal control system, the audit fees for 2011, the audits carried out in 2011, and the key findings of the internal audit department together with the audit plan for 2012, as well as the status and development of the Group's pension obligations. Furthermore, the Audit Committee was continuously provided with information regarding the tax situation as well as the status and management of derivative financial instruments. It participated actively in the establishment of global compliance management and received a direct report on this matter from the Chief Compliance Officer.

The Personnel Committee met a total of three times in the year under review. The core issues discussed and on which resolutions were passed included the target agreements with the Board of Management, additions to the employment contracts for members of the Board of Management and the formulation of a D&O insurance policy, the introduction of an option between monthly payments or a one-off payment for pensions for members of the Board of Management, the reappointment of the Chairman for the Board of Management and the participation in further education programs by members of the Supervisory Board.

In March 2011, the Nomination Committee approved the confirmation of Mr. Edwin Eichler as a member of the Supervisory Board. Mr. Eichler had already been appointed to the Supervisory Board in August 2010 via a court resolution. However, this appointment ended at the end of the 2011 Annual General Meeting, and thus required confirmation by the Annual General Meeting, which was issued for a 5-year period of office.

2011 CONSOLIDATED FINANCIAL STATEMENTS FOR SGL GROUP AND ANNUAL FINANCIAL STATEMENTS FOR THE PARENT COMPANY, SGL CARBON SE

Both in the Audit Committee as well as in the full meeting on March 20 and 21, 2012, the Supervisory Board verified that the books and records, the separate financial statements of the parent company SGL Carbon SE and the consolidated financial statements for the period ended December 31, 2011, and the combined management reports of SGL Carbon SE and of the Group have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn, and were issued with an unqualified auditors' opinion. The Supervisory Board is satisfied as to the independence of the audit firm as well as the persons acting for the audit firm, and issued the audit engagement in accordance with the resolution of the Annual General Meeting of May 3, 2011. We received the audit reports for the consolidated and parent company financial statements promptly. The Audit Committee examined these documents in detail, and they were also examined by the full meeting of the Supervisory Board. No objections were raised, either by the Audit Committee or from our own examination. The Supervisory Board has approved the financial statements prepared by the Board of Management; the annual financial statements are thereby adopted. We endorsed the Board of Management's proposal for the appropriation of profits after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

In its meeting on March 21, 2012, the Supervisory Board also discussed the disclosures in the notes to the financial statements pursuant to section 315 (4) of the German Commercial Code (HGB). We refer to the corresponding disclosures in the management report (page 102–106). The Supervisory Board has examined the disclosures and is satisfied that they are complete.

COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The Annual General Meeting on May 3, 2011 confirmed Mr. Edwin Eichler in his office as a member of the Supervisory Board for five years, as his previous court appointment in the Supervisory Board would otherwise have ended at the end of this Annual General Meeting.

In February 2011, the Supervisory Board unanimously reappointed Mr. Robert J. Koehler as Chairman of the Board of Management of SGL Carbon SE for a period of three years from January 1, 2012 to December 31, 2014.

The Supervisory Board would like to thank the Board of Management, the employees and the employee representatives of all Group companies for their work, without which the strong performance of SGL Group in 2011 would not have been possible.

Wiesbaden, March 21, 2012

The Supervisory Board

Max Dietrich Kley
Chairman

Corporate Governance and Compliance Report

Responsible Corporate Governance

The term "corporate governance" refers to a responsible and transparent corporate management and control focused on long-term value creation. These principles have long formed the basis of all our decision-making and control processes. Corporate management and control at SGL Carbon SE is structured around the relevant legal provisions, in particular, stock corporation and capital markets law, the Articles of Incorporation, the Rules of Procedure for the Supervisory Board and the Board of Management in SGL Carbon SE's Corporate Governance Principles, and the German Corporate Governance Code.

Objectives for Composition of the Supervisory Board

In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board defined the following objectives already in December 2010:

Part of good corporate governance practice is to ensure that the company's governing bodies appropriately correlate with the company's structure. In this spirit, 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. Each member shall ensure that he or she has sufficient time to fulfill his or her mandate. Supervisory Board members who also sit on the management board of a publically traded company shall not accept memberships of more than three supervisory boards in publically traded companies outside the Group and on supervisory bodies of companies with comparable requirements.

All members of the Supervisory Board shall be able 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. The Supervisory Board shall include members from different countries to reflect the corporate structure of SGL Group. Members of the Supervisory Board shall have experience in the Business Areas of SGL Group, such as in the steel industry or with a technology company. 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. Furthermore, the Supervisory Board shall always have a sufficient number of independent members.

The Supervisory Board shall continue to make efforts to ensure that the number of women on the Board is appropriate. Currently, the Supervisory Board has one female member. The Supervisory Board has set itself the goal to increase the share of women on the Board.

The objectives recorded here shall be taken into account when candidates are proposed to the responsible election committees (incl. employee representatives) for the election of Supervisory Board members. The Supervisory Board shall report routinely on the status of achieving these goals in the Corporate Governance Report.

The election proposal made to the Annual General Meeting on May 3, 2011 was also prepared based on these objectives. After discussions in the Nominating Committee and the Supervisory Board as a whole, the Supervisory Board proposed electing Edwin Eichler, whose court appointment as a member of the Supervisory Board ended with the Annual General Meeting on May 3, 2011. Both the Committee and the Board believe that electing Edwin Eichler is appropriate given his knowledge of the steel industry and his technical expertise.

Members of the Supervisory Board shall disclose any conflicts of interest to the chairman and/or deputy chairmen of the Supervisory Board. Any significant conflicts of interest on the part of a Supervisory Board member that are not merely temporary in nature shall lead to that member's resignation from the Board.

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. The Board of Management regularly, comprehensively, and promptly reports all relevant developments within the Company to the Supervisory Board. Such developments primarily include current business developments, planning as well as risk and compliance management. 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 business operations, discontinuation of existing business operations, or issuance of bonds. The Supervisory Board of SGL Carbon SE consists of six shareholder and six employee representatives. All members of the Supervisory Board are appointed by the Annual General Meeting, which is required to vote for the candidates for employee representative proposed by the employees. 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.

With the exception of one issue which the Supervisory Board discusses in greater detail in its report to the General Meeting, in the period under review there were no indications for conflicts of interest among the members of the Board of Management or the Supervisory Board.

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. There were no contracts for advisory or other services between Supervisory Board members and the Company.

Committees Support the Work of the Supervisory Board

The Supervisory Board has established a total of four 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 Max Dietrich Kley, 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 (see remuneration of the Board of Management described below). In addition, the committee submits proposals for the appointment of new members of the Board of Management to help prepare the respective Supervisory Board decisions. The committee's other members are Susanne Klatten and Josef Scherer.

NOMINATING COMMITTEE

The task of the Nominating 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 Max Dietrich Kley. As the court appointment of Edwin Eichler as a member of the Supervisory Board ended with the 2011 Annual General Meeting, the committee discussed confirming his office and made a recommendation to the Supervisory Board that it should make a proposal to the General Meeting to elect Edwin Eichler as a member of the Supervisory Board. Following the proposal by the Supervisory Board, the Annual General Meeting elected Edwin Eichler as a member of the Supervisory Board on May 3, 2011.

AUDIT COMMITTEE

The Audit Committee consists of four members and is chaired by Andrew Simon. The other members are Max Dietrich Kley, Michael Pfeiffer, and Josef Scherer. The responsibilities of the committee include the Company's financial accounting, risk management, compliance, and consequently its internal control 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. The scheduled rotation of the auditors responsible for auditing the consolidated financial statements was implemented in 2011 and supported by the Audit Committee.

STRATEGY/TECHNOLOGY COMMITTEE

The Strategy/Technology Committee discusses fundamental corporate strategy and important technological issues such as the Company's research and development portfolio. Chaired by Hubert Lienhard, the Strategy/Technology Committee also includes Helmut Jodl and Heinz Will along with all shareholder representatives.

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 Company is working to enhance the system on an ongoing basis and adapt it 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 can be found in the risk report on pages 88–94.

Updated Declaration of Compliance

On December 9, 2011, the Board of Management and the Supervisory Board approved and signed the current version of the Declaration of Compliance pursuant to section 161 of the German Stock Corporation Act (AktG). SGL Carbon SE meets the recommendations of the German Corporate Governance Code, as amended, with only a few exceptions.

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

The Board of Management and the Supervisory Board declare that the Company is in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" ("Regierungskommission Deutscher Corporate Governance Kodex") (version as of May 26, 2010) as published by the Federal Ministry of Justice in the section of official notices of the electronic Federal Gazette (publication as of July 2, 2010) with the following exceptions:

- Code section 4.2.3 (4): The payment cap in case of the premature termination of a contract of a member of the Board of Management without serious cause is, in our view, inappropriate with respect to the current contract and compensation structure.

- Code section 5.4.6 (2): The articles of association of SGL Carbon SE provide for fixed remuneration for Supervisory Board members and additional remuneration for their work in committees. We are of the view that this rule is appropriate to our company, it has proven to be useful in the past and that it should thus be maintained for the foreseeable future.

The Board of Management and the Supervisory Board further declare that the Company had been in compliance with the recommendations of the "Government Commission on the German Corporate Governance Code" as published by the Federal Ministry of Justice in the section of official notice of the electronic Federal Gazette since the delivery of the last statement on December 9, 2011 apart from the named deviations.

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

The statement is also published on the website www.sglgroup.com.

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 calendar of regular events (such as the Annual General Meeting and conference calls with analysts and investors) is published on the Company's website, as are annual and interim reports, presentations for the Annual General Meeting, press releases, and ad hoc notifications.

Fixed and Variable Components of Board of Management Remuneration

In compliance with the German management board compensation act (VorstAG), the members of the Board of Management receive a total remuneration that comprises both fixed and variable components. The fixed component consists of a monthly salary, additional benefits and pension commitments.

The variable component consists of Variable Cash Compensation with a short-term and a medium-term component, and the SAR Plan. Furthermore, the Matching Shares Plan will be continued in its current form.

VARIABLE CASH COMPENSATION

The variable cash compensation comprises an annual bonus (60% of the variable cash compensation) and a multi-year component (40% of the variable cash compensation). 10% of the pre-tax bonus under the variable cash compensation shall be invested in SGL Carbon SE shares which are subject to a lock-up period of 24 months.

ANNUAL BONUS

A maximum bonus amount has been established for each member of the Board of Management (to be paid if 100% of target is achieved). The bonus payment depends on whether certain targets – defined by the Supervisory Board – are achieved (weighting: 70%) as well as an evaluation of the overall performance of the Board of Management, which the Supervisory Board conducts (weighting: 30%). The Supervisory Board reserves the right to review the appropriateness of the targets and specify new ones. Currently the Supervisory Board has set defined earnings before tax (EBT) targets (weighting: 35%) and free cash flow targets (weighting: 35%). Both the EBT and free cash flow targets correspond to the Company's annual planning. In the context of the overall evaluation of the performance of the Board of Management, the Supervisory Board determines an amount to be paid of between 0% and 100% of the target bonus amount defined for the performance of the Board of Management. The performance evaluation shall be based on pre-defined evaluation criteria.

MULTI-YEAR COMPONENT

The multi-year component is determined based on the average attainment of annual return on capital employed (ROCE) targets within a three-year period. The Supervisory Board sets the ROCE target and threshold values each year.

STOCK APPRECIATION RIGHTS (SAR PLAN)

In addition to the base remuneration and the variable cash compensation, the Company has a SAR Plan. For further details on the SAR Plan, please refer to the notes on the management and employee bonus plans and the Remuneration Report in the notes to the consolidated financial statements (**Note 32** and **Note 33**, respectively).

The Supervisory Board regularly reviews the appropriateness of Board of Management remuneration. Basic remuneration was reviewed for appropriateness in March 2011. The appropriateness of the Board's remuneration is based on various criteria, including the responsibilities of the individual members of the Board of Management, their personal performance, the performance of the Board of Management as a whole as well as the financial situation, the performance, and the future prospects for SGL Group. Please refer to the Remuneration Report (**Note 33**) in the notes to the consolidated

financial statements for further information on the participation programs and the remuneration received by each individual member of the Board of Management in 2011.

Supervisory Board Remuneration Regulated by the Articles of Incorporation

The remuneration of the members of the Supervisory Board, which is determined by the Annual General Meeting, is governed by section 12 of the Articles of Incorporation. Under the provisions of this section all members of the Supervisory Board receive a fixed basic remuneration plus reimbursement of out-of-pocket expenses. Each member of a committee receives additional compensation for attending a committee meeting. Please refer to the notes to the consolidated financial statements (**Note 33**) for further information on the remuneration received by each member of the Supervisory Board.

Directors' Dealings

Pursuant to section 15a of the German Securities Trading Act (WpHG), the members of the Board of Management and the Supervisory Board and persons closely related to them are obliged to disclose the purchase or sale of securities in SGL Carbon SE if the total value of these transactions exceeds €5,000 within a calendar year. In 2011, members of the Board of Management and the Supervisory Board and persons closely related to them reported a total of 12 purchase transactions with a reporting requirement with trade volumes ranging between 6,935 and 1,949,705 shares of SGL Carbon SE and 30 sale transactions with a reporting requirement with trade volumes ranging between 498 and 47,755 shares of SGL Carbon SE. The price per share was between €29.39 and €47.00 for these purchase and sale transactions. The individual transactions had a value of between €22,870.36 and €68,039,440.30. A detailed list of these transactions has been posted on SGL Group's website www.sglgroup.com.

At year-end 2011, the members of the Board of Management neither directly nor indirectly held more than 1% of the outstanding shares in the Company. According to her notification of voting rights dated May 2011 and her directors' dealings reports in May and July 2011, Supervisory Board member Susanne Klatten holds approximately 28% of the outstanding shares through SKion GmbH.

Compliance as Part of our Management and Corporate Culture

SGL Group introduced its Code of Business Conduct and Ethics in 2005. The Code underscores the obligation of SGL Group and its employees to comply with the law and internal guidelines and sets standards for ethical and law-abiding conduct. The Code also 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 legal department, and compliance officers. All employees are personally responsible for ensuring that their actions and conduct are in line with the Code of Business Conduct and Ethics 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 and measures many years ago. Our compliance programs are regularly reviewed and adjusted as required. In view of the increased requirements, and to further develop a standardized compliance approach, the Board of Management established the Group Compliance department in September 2009. Its task is to define the required comprehensive organizational, communications, and control structures for

SGL Group worldwide. The objective is to set up a compliance management system that is preventive and that is improved continuously based on a constant influx of new experiences and insights. Effective compliance goes beyond merely ensuring the adherence to legal and formal requirements and structures, and must become an integral part of value-oriented corporate management.

In this regard, during the course of 2010 the SGL Compliance Network was set up, including regional and local compliance officers and the requisite reporting structures. In addition, SGL Group's code of conduct was also revised in order to reflect the new compliance structure, including setting up a whistleblower system. Moreover, the Board of Management passed a group-wide guideline on how to deal with gifts and business invitations.

2011 was characterized by communicating these changes. Each individual employee has to be sensitized to the issue of "compliance" and their personal responsibility in this regard. The code of conduct with the newly introduced guidelines is now available as a booklet in all seven SGL Group languages, and has been issued to all SGL Group employees worldwide. In the first step, more than 1,200 executives and employees were trained around the world in more than 50 workshops. The training sessions were held by Group Compliance together with the local compliance officers. In a second step, the e-learning program for the Code was introduced worldwide for all employees.

In addition, the compliance intranet page went live in July 2011. It provides all of SGL Group's employees with information on all aspects of compliance. The information that can be downloaded includes all of the group-wide guidelines that are relevant for compliance, presentations from workshops and information on the compliance network.

In addition to the compliance roll-out, existing programs were also continued. A comprehensive, global antitrust compliance program was introduced at SGL Group already in 2001. Regularly scheduled training sessions are an integral part of the compliance program. All new employees of the respective target group participate in a personal training session, after which refresher courses take place at least every two years. Since the program was introduced, more than 147 training sessions have been conducted worldwide with approximately 2,560 employees. In 2011, roughly 154 employees took part in the personal training. Furthermore, the antitrust compliance program was supplemented by an interactive e-learning module, in which some 200 employees in Europe and Asia participated in 2011.

Other measures relate to, for example, capital markets law and compliance with the respective Group guidelines, which regulate trading in SGL Carbon SE securities for members of the Board of Management, the Supervisory Board and the Company's employees, the proper handling of potential insider information, and the maintenance of insider lists, to name a few. An Ad-hoc Committee has been in place for years now. The committee consists of representatives of a number of company 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 was expanded to include an IT-based compliance module that supports the efficient monitoring of relevant export transactions. Furthermore, training sessions and workshops on export control compliance are held regularly.

The Supervisory Board's Audit Committee addressed the Company's compliance activities in detail at its meeting in December 2011.

Corporate Social Responsibility

Socially responsible, resource and environmentally conscious behaviour, commitment to employees as well as to society are significant components of SGL Group's corporate culture and objectives. They are a key prerequisite for the success of our business.

Business Ethics and Values

Acting responsibly and in compliance with the law is anchored in SGL Group's corporate philosophy. Our Code of Business Conduct and Ethics sets binding standards for how we behave in our day-to-day business. The Code outlines how we, as a company, meet our legal and ethical responsibilities while taking the respective societal, social and cultural standards into account, and reflecting our Common Values. We act fairly and honestly vis-a-vis our customers and business partners, shareholders, authorities and the general public; our employees deal with each other courteously and with respect, and we deal responsibly with the environment – these are all key aspects of our principles. The Code plays a key role in building and maintaining trust, and promotes the personal integrity of our employees.

Each employee is responsible for ensuring that their actions are in line with the Code. Over and above the Code, individual regulations are described in greater detail in specific policies and procedures. These also form an integral part of our corporate governance principles. All of our employees around the world can find detailed information, contact persons and all of the group-wide guidelines on our intranet. In addition to regular training sessions on various compliance issues, our executives and the management act as examples while fulfilling their personnel and leadership responsibilities. A high degree of ethical and social proficiency and integrity is expected of them. They provide individual employees with competent advice.

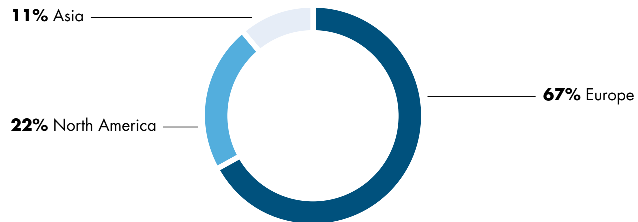
Responsibility for Employees

SGL Group combines tradition with innovation, and our employees play a crucial role in this regard. They contribute their experience, their dedication and their ideas every single day, and thus help to put the Company further ahead.

SGL GROUP EMPLOYEES

SGL Group had a total of 6,447 employees at the end of 2011, up 2.6% year on year. At 13.9%, Asia recorded the greatest increase. The regional breakdown of the Group's staff has not changed significantly: The focus continues to be on Europe with 67% (2010: 68%), where Germany accounts for 39% of the total number of employees, and 58% of European staff. North America's share in the Group's headcount remained constant at 22%, and Asia's share increased by one percentage point to 11%.

Employees by region



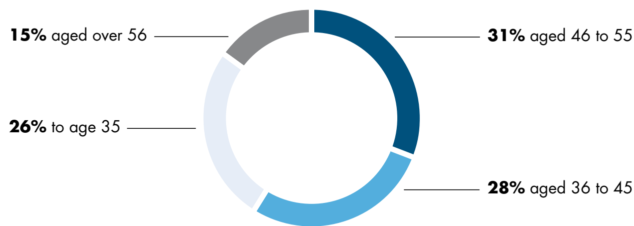
Interaction among and the exchange of knowledge between employees is supported, for example, by actively deploying employees to international sites. Prior to the start of an international deployment, and through to their return to their home location, SGL Group supports the deployed employees with competent assistance and supporting activities such as intercultural training sessions, relocation assistance and

language lessons. SGL Group regularly has around 30 executives on international deployments as so-called expatriates. At present, the largest expatriate groups can be found in Germany, China and Malaysia.

As a future-oriented company, we ensure equal opportunities for all of our employees and we place male and female employees on an equal footing. The proportion of our female employees increased year-on-year by a good two percentage points to 15% in 2011. The share of female executives was 14% during this period.

In addition, the Group's staff is also characterized by a balanced age structure. More than one quarter of all employees are younger than 36, and around 30% each are aged between 36 to 45 and 46 to 55. 15% are older than 55.

Age structure of SGL Group employees



SGL Group's responsibility for our employees' health is equally important across all age groups. In addition to extensive activities to ensure health and safety at work and regular support from company doctors, SGL Group also offers various healthcare programs, including some in cooperation with health insurance companies. The aim is to provide our employees with preventative support and advice, in order to recognize health issues at an early stage, and to treat these if required. We set up an additional, interdisciplinary healthcare program in 2011 in cooperation with an independent consulting service in the form of our "Employee Assistance Program." The team of experts includes medical specialists, psychologists, educators, attorneys and debt consultants and can provide employees with anonymous assistance 24/7.

TRAINING AND EDUCATION

At SGL Group, HR development means enabling our employees to provide top performance and to encourage them to do so – time and time over. To this end we specifically train specialists in-house, and constantly advance our employees through training activities.

The wall in Bonn, known as the "Azubi-Wand," is built of more than 2,000 graphite blocks for all of the apprentices in the 100-year history of the Bonn plant

In 2011, the Group had a total of 151 apprentices at seven German facilities, with the majority located at our Meitingen (81) and Bonn (41) sites. A further example of our commitment to HR development is the "SGL Class" initiative which was put in place in China in 2010 – an extensive training program for technical school students. In cooperation with the Fengxian Secondary Professional School, Shanghai Dianji College and the Chien-Shiung Institute in Shanghai, SGL Group awards specially tailored apprenticeships and internships to talented pupils. The tradition behind the subject of training at our sites can be seen, for example, at the "Azubi-Wand" (apprentice wall) in Bonn, a 12.5m x 3.5m wall made of graphite blocks in the plant's entrance area. Each stone is engraved with the name of an apprentice. The wall is built of more than 2,000 blocks representing all of the apprentices in the 100-year history of the Bonn plant.

Training employees is also of significant importance. In addition to a wide variety of individual programs aimed at advancing our employees' professional qualifications, we have established a Group-wide, uniform competency model to promote central, interdisciplinary competence for experts and managers. Based on this model, the various aspects of HR work such as performance assessments and planning development activities are systematically coordinated with each other. In our three-step series of programs "Leadership@Work" we also specifically support the continuing qualification of our managers. More than 950 participants have taken advantage of this initiative since it was launched ten years ago. One of the program's special features is the in-depth integration of top-level managers as mentors.

GRANTS, INTERNSHIPS AND THESES

SGL Group is an innovative, global company which also offers potential employees a wide range of attractive career opportunities. In order to demonstrate our passion for carbon as a material, and to give interested parties the opportunity to get to know the Company at an early stage, we regulary visit universities and participate in career fairs. We also offer concrete support in the form of university grants, internships and provide opportunities to work together writing dissertations and theses. We do this, for example, as part of our extensive alliances with various universities (see "Close Cooperation with Academia", page 40).

Our "Formula Student" initiative is a very special form of dedication, which has been in existence since 2008. This is an international series of construction competitions for students, in which several hundred teams from countries around the world compete against each other using self-built racing cars. The winner is not the fastest car, but the team with the best overall evaluation for factors including construction, racing performance, financial planning, fuel efficiency and sales arguments. SGL Group is currently supporting nine teams from various universities with a total of around 500 team members. In addition to financial support, opportunities for internships and support with dissertations, the students also have the opportunity to develop, build and use components made of carbon fiber-reinforced plastic (CFRP) together with SGL Group employees.

EMPLOYER BRANDING "PASSION FOR CARBON"

Additional sponsoring activities also generate broad awareness of SGL Group by aiming to increase visibility of the Company as an employer and to further reinforce our employer branding "Passion for Carbon." Our involvement with the German Bundesliga club FC Augsburg is worthy of particular mention. The centerpiece of this sponsorship is the naming right for the stadium – the "SGL arena" – which we have been sponsoring since 2011. A further example highlights rowing, where SGL Group sponsors the women's double scull, the light-weight women's double scull, and the men's double scull of the German Rowing Association.

Resources and Environmental Protection

Conscious use of resources, environmental protection and upholding high standards in health and safety at work are key prerequisites for SGL Group's responsible and continuous growth.

The organizational foundation for monitoring and developing all environmental protection and health and safety at work activities within SGL Group is formed by the central function Corporate EHSA (Environment, Health, Safety, Audits). This department coordinates all activities group-wide, sets uniform standards, and audits developments. All of the plants in the various countries around the world are linked in via regional EHSA managers and local representatives. In addition, select executives are incentivized as part of their annual bonus attainment on reaching the EHSA targets. Over and above the corporate requirements, the plants also frequently put local activities in place which are supported in a corresponding manner by the EHSA organization. Here too, the network of local and regional managers acts as a platform for exchanging best practices throughout the Group. When implementing the individual activities, we use Six Sigma methodologies and instruments. The Group has been using Six Sigma since 2002 as part of the SGL Excellence initiative.

ENERGY EFFICIENCY AS A FUNDAMENTAL PRINCIPLE

Using resources carefully is a fundamental principle for SGL Group. This applies, in particular, to the energy efficiency of our production facilities and buildings, since the manufacture of products made of carbon and graphite demands, for example, the use of specific, energy-intensive high-temperature technologies. Thus not only when planning new plants and buildings, but also when using existing facilities, our sites consistently develop and implement new activities and systems to constantly improve energy efficiency still further.

One specific example of our energy efficiency activities is the heat recovery system at our Scottish facility in Muir of Ord, where we installed equipment back in 2008 that had been modified to the site's specific requirements. It uses warm air from the processes, and returns this to the production process by warming fresh air and incidental air flows. A further example is the air conditioning system in administrative buildings using our energy-saving ECOPHIT panels in climate-control ceilings. These ceilings are used, for example, in our Group research center in Meitingen and in the building of our new headquarter in Wiesbaden-Schierstein, into which SGL Group will move in the spring of 2012.

DEALING RESPONSIBLY WITH EMISSIONS AND CHEMICAL SUBSTANCES

Dealing responsibly with emissions and chemical substances is a key aspect of environmental protection for SGL Group. In this regard, SGL Group has invested more than €50 million in the past six years in BAT (best available technologies) equipment for environmental protection. These investments focus on regenerative thermal oxidation facilities and methods for treating production emissions. A further example of achieving top-level ecological standards is the new carbon fiber manufacturing plant in Moses Lake in Washington State (USA), which is operated by SGL Automotive Carbon Fibers (SGL ACF), our joint venture with BMW Group, and which was officially inaugurated in September 2011. The electricity used by this plant to manufacture carbon fibers comes from hydropower. The availability of renewable hydropower and the competitive energy costs in Washington State were critical factors in deciding to build the joint venture carbon fiber plant in Moses Lake.

When dealing with chemicals, SGL Group provides support and assistance in the step-by-step introduction of protection targets in European chemicals policy and the European legislation on the Registration, Evaluation and Authorization of Chemicals (REACH). After successfully concluding the first phase of registration of chemical substances according to European chemicals law at the end of 2010, in 2011 we focused on preparing for Phase II and thus registration of the substances that we produce or import in quantities of between 100 and 1,000 mt p. a. In this regard, we are involved in detailed exchanges with our suppliers and customers about the use of substances. This also enables us to fulfill the consideration of substances along their entire lifecycle that is required by legislation. We have completed the necessary organizational activities and set up the IT structures required. In addition, we provide support and assistance for the introduction of the globally harmonized system for the classification and labeling of chemicals (GHS) as an additional contribution to international chemicals security.

CARBON AS A MATERIAL FOR EVIRONMENTALLY-CONSCIOUS APPLICATIONS

SGL Group is a specialist for carbon as a material, and the Company's products indirectly contribute to protecting the environment and climate as they allow customers to produce environmentally-conscious end products. Carbon's extraordinary properties as a material mean that it is uniquely suitable for a wide variety of applications and can solve various problems.

The best known example is light-weight construction, which plays an increasingly important role in both the aerospace and also the automotive industries. In order to save weight and thus to reduce fuel consumption and CO_2 emissions, many manufacturers are increasingly using components made of carbon fiber reinforced plastic (CRFP). Our materials are also used in producing renewable energy. For example, the use of carbon fibers in rotor blades in wind power plants allows ultra-large blade lengths to be used in offshore wind parks and to improve performance when harnessing wind energy at landlocked sites with weaker winds. In the solar industry graphite is used to produce silicon for photovoltaic systems. Carbon is also the first choice for many applications

in which energy storage and efficiency are critical factors, such as a material for anodes in lithium-ion batteries or as heat conductors in cooling systems. Graphite electrodes are used to recycle scrap steel in electric arc furnaces.

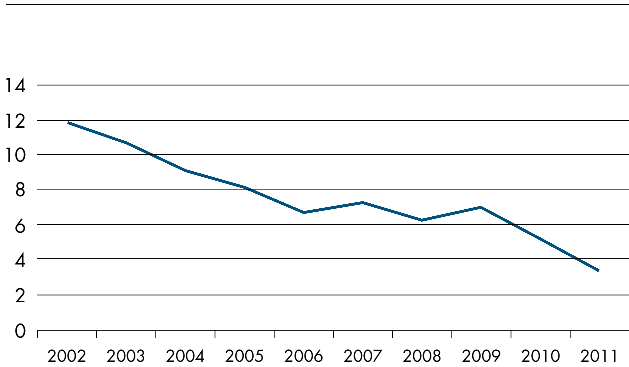
Health and Safety at Work and Risk Management

The safety of our employees and the security of our workflows as well as active, long-term risk management are a top priority for SGL Group.

ACCIDENT PREVENTION

We use our high standards, permanent improvements to safety precautions and a large number of target-oriented training sessions and activities to prevent workplace accidents. The frequency rate of accident-related work absences compared to the number of hours worked continued to develop positively as a result of our activities. Based on 1 million hours worked, the index has fallen from 11.91 in 2002 to 3.41; a reduction of around 70%.

Frequency of accident-related work absences*



* Number of accident-related work absences per 1 million hours worked

We ensure the sustainability of our efforts via ambitious targets and continuous, preventative safety management. Incoming data on all accidents and near misses is systematically analyzed, recommendations are formulated and preventative activities and training sessions are initiated. A binding, standardized reporting system is used for all sites. This can be used to specifically initiate group-wide activities. Near misses are by no means less important than actual accidents, as they are warning signals and also indicate weak points. Actively exchanging experiences with near misses also helps to develop the general safety culture in the Company. In order to also further reinforce awareness of health and safety at work in the Company's plants, the Company issues its SGL Safety Award once a year. This honors sites that have remained accident-free over a pre-defined period. The award was issued to a total of 13 SGL Group sites in 2011.

Our preventative activities are rounded off by a site-specific emergency management system in the event of a crisis. Crisis training is held regularly in all of our plants. This is also subject to the global reporting regulations, just like real cases. This ensures that all of the key aspects of crisis management, such as rapid communication, are practiced correspondingly.

MINIMIZING RISKS

On the whole, SGL Group uses various tools to minimize risks. The Group established a company-wide approach to recording, analyzing and evaluating risks back in 2002, and this approach is expanded on an ongoing basis. Removing existing risks is also anchored in the target agreements for the individual divisions and sites and is monitored and controlled using the reporting system. In addition, in cooperation with our insurance company FM Global, we regularly conduct centrally organized audits. As part of this award, the sites can obtain a special certificate which certifies their status as being a Highly Protected Risk (HPR). 18 of our production facilities now have HPR status.

At our Malaysian facility in Banting, SGL Group supports the "Rumah KIDS" orphanage

Over and above the existing plants, at SGL Group the assessment of danger and the risk management system already starts when production systems are planned and expanded. Here too, we use both our own expertise and include external partners. We performed a corresponding early-stage analysis with a consideration of potential risks last year, for example, at our isographite production expansion in Bonn, at the plant modifications in St. Marys (USA) and our plant construction in Banting (Malaysia).

Corporate Citizenship

Corporate citizenship is a fundamental aspect of our coporate social responsibility. This applies, in particular, to the regions surrounding our production facilities, with which we have traditionally had close links. It equally applies to our academic environment.

LOCAL COMMUNITY INVOLVEMENT AND ADVANCEMENT

We support the regions in which we operate with a wide range of programs and activities. The challenges and features of the individual regions vary greatly. The detailed activities are therefore site-specific and often come with a high degree of commitment furthered by our own employees on site. This ranges from social involvement and local economic advancement to supporting sporting and cultural institutions. The following section briefly outlines a few of our activities.

At our Malaysian facility in Banting, close to the capital of Kuala Lumpur, we have been supporting the orphanage "Rumah KIDS" in Klang since 2009. In addition to providing financial support, SGL Group's employees take the children on annual excursions. In 2011 they visited a bread factory. At our facility in Charlotte in the US state of North Carolina, SGL Group supports projects including a Christmas project

for the socially underprivileged. SGL Group employees fulfill senior citizens' Christmas wishes in a program called "Be a Santa to a Senior" hosted by the local organization "Home Instead Senior Center." Apprentices at our Bonn facility focused on helping young cancer patients in a special initiative. For more than ten years, the apprentices have been helping neighboring youth centers, schools and clubs. Over the past two years, they sold products they had made themselves at events held at this site and by this collected several thousand euros each year which they donated to the "Förderkreis für krebskranke Kinder und Jugendliche Bonn e.V."

Our involvement in promoting the local economy is reflected in the active participation by representatives from many of our various sites in the local chambers of commerce and business associations.

Our Italian facility in Narni near Rome has built up a particularly extensive sports promotion program. This program includes various sports for both young and old alike, including basketball, riding, fishing and soccer. More than 500 adults participate in the program on a regular basis. In addition to the financial support from SGL Group, many active and former SGL Group employees support the program on a voluntary basis as trainers and team managers.

We also encourage local cultural advancement and cultural traditions. At our Polish facility in Racibórz near Krakow we support the brass band "Plania", which was founded in 1947, primarily by the plant's staff at that time. A similar initiative is sponsorship of the folk music group "Dolina Dunajca", by our second Polish site Nowy Sacz. This group has been in existence since 1969 and was was also formed by plant employees. Both of these two groups regularly participate in national and international festivals and competitions. Even now, both groups still have many SGL employees as members.

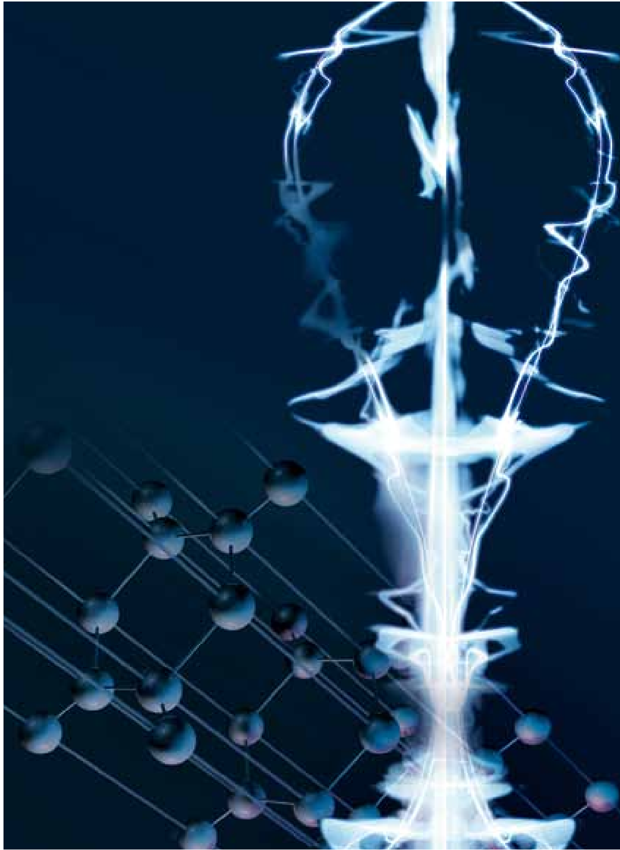
In addition to local support in the form of scheduled programs and initiatives, SGL Group also provides concrete, unbureaucratic aid in the event of a crisis. For example, at the end of May 2011, when a tornado hit the region surrounding our Ozark facility in the US state of Arkansas. SGL Group employees helped to distribute food and water, to clean up, and to provide the requisite equipment. The plant also supported the community by providing water, fuel and tools such as flashlights, work gloves and ear protectors.

CLOSE COOPERATION WITH ACADEMIA

We specifically and pro-actively help universities working in our fields to jointly further develop forward thinking research. Our wide variety of alliances are closely linked with our own research activities and are supported and driven by our global group research department Technology and Innovation (T&I) (also see page 58 – 60 in the management report). Our involvement spans topics across a wide variety of different areas regarding carbon as a material.

For example, our endowment for the professorship of Carbon Composites (LCC) at the Technical University of Munich (TUM) is driving research about carbon fiber based materials from the raw material through to the finished component. The professorship started its work in 2009 under Prof. Klaus Drechsler, and now has 50 employees, augmented by regular presentations and lecture series by SGL Group employees. This professorship is not only successful as a teaching institution, but is also becoming, in particular, a key hub for multilateral development projects and is facilitating the creation of networks both within the Carbon Composite Belt in southern Germany as well as with universities and research institutes in the USA, China, Korea and Singapore. In addition, Prof. Drechsler heads the Fraunhofer project group for lightweight construction in Augsburg, which will become a Fraunhofer Institute in the coming years.

We established a long-term research and development alliance for synthetic graphite in February 2011 with the Technical University of Krakow. This cooperation focuses on scientific studies and projects as well as dissertations, masters' theses and training sessions for students. In China, since 2008 SGL Group has been awarding scholarships and sponsorships for research projects to students at the ICCCAS (Institute of Coal Chemistry, Chinese Academy of Sciences) near to the SGL Group facility in Shanxi. Our strategic alliances with the University of Augsburg, the Technical University of Berlin and RWTH Aachen are further examples of our commitment to research institutions.



In the future, SGL Group will award the Utz-Hellmuth Felcht Prize to honor extraordinary technical and scientific contributions in the fields of carbon and ceramic materials

In 2011, the Utz-Hellmuth Felcht award was issued for the first time, carrying prize money of €20,000. In the future, SGL Group will use this biennial award to honor extraordinary technical and scientific contributions in the fields of carbon and ceramic materials. The first winner of the Felcht prize was the well-known US scientist Prof. Walter de Heer from the Georgia Institute of Technology in Atlanta (USA) for his merits in the area of graphene research and his revolutionary concept of graphene based nano-electronics. The award is presented on the occasion of the International Carbon Conferences which are held alternately in Asia, Europe and the USA. The award-winner is selected by an International Award Committee composed of six renowned scientists and persons of high standing in the industry. Young, up-and-coming scientists are also advanced with scientific prizes, for example via the annual SGL Group Award for the best dissertation in the engineering department at the Technical University of Munich in the field of lightweight construction with carbon, ceramic or hybrid materials, and also via the "Schwäbische Wissenschaftspreis" (Swabian Prize for Science).

SGL Group is a co-founder of the "Initiative Junge Forscherinnen und Forscher e.V." (IJF – Initiative for young researchers). This initiative's motto is "Mach die Zukunft zu Deiner Idee!" (Turn the future into your idea!), and it aims to allow children and young people to get a grasp of forward thinking technologies, promote their joy of making discoveries and independent thinking. Additionally, the initiative aims to train enthusiastic young people for scientific and technical professions. 24 companies and research institutes already participate in this initiative, which is jointly financed by the European Social Fund.

SGL Group Forum has been in place since 2010 at our facility in Meitingen, and in it we have created a meeting place for scientific issues for everything to do with carbon as a material. The forum is primarily a communications center, which demonstrates our technological competence, our broad product base and, in particular, our innovative abilities across a 1,700m² site. In addition, since 2008 SGL Group regularly held its "Innovation Panel" quarterly. This series of lectures with well-known guest speakers deals with future trends and developments from the areas of research and development, and promotes dialogue between experts from the worlds of business and research.

The Share and Investor Relations

The SGL Carbon SE share significantly outperformed the benchmark DAX and MDAX indices during fiscal year 2011. After peaking at €47.27 in November 2011, the share closed the year at €38.09, resulting in a market capitalization of €2,668.7 million.

2011 Stock Market Characterized by Eurozone Debt Crisis and Fears of Recession

Fiscal year 2011 was characterized by the extreme nervousness exhibited by major investors. In some cases, the stock markets plummeted. As a result of the earthquake off the coast of Northern Japan and the ensuing tsunami, as well the resulting damage to the nuclear power plant in Fukushima, share prices on international stock markets already lost a lot of ground in March. Attempts to recover were thwarted, however, as fears of recession and the eurozone debt crisis remained the predominant issue in the financial markets. The fact that it may not be possible to prevent Greece from going bankrupt, negative reports from other eurozone countries such as Italy, Portugal and Spain, and fears of a further domino effect have caused equity investors to become nervous again.

Given this background full of uncertainties, the value of Germany's leading indices slumped during the course of the year. The DAX fell by 15% in the course of 2011. At the end of the year, the index had fallen to 5,898 points, substantially lower than the previous year's close at 6,914 points. The MDAX, which includes the SGL Carbon SE share, also recorded losses and closed 12% lower at 8,897 points compared to the previous year's close of 10,128 points.

Price Performance Impacted by Changes in Shareholder Structure

Shares of SGL Carbon SE were able to decouple from the general downturn on the stock markets. The share price stood at €27.54 at the beginning of fiscal year 2011 and closed 38% higher at €38.09 at the end of the year.

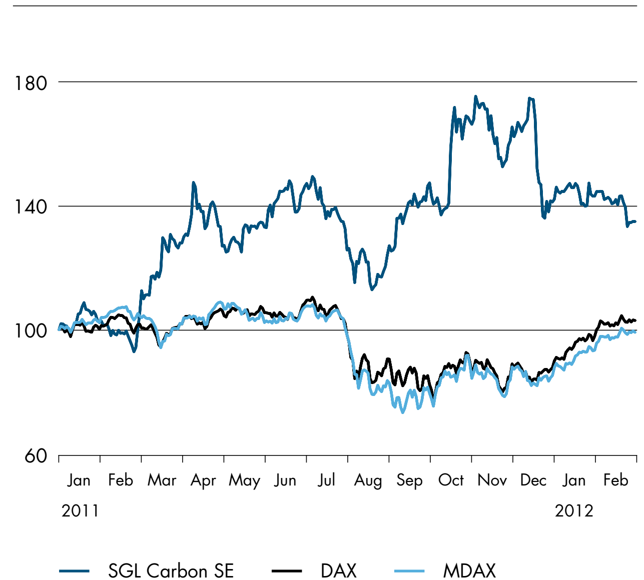
At the start of the year our shares performed in line with the market, finding its low on February 24, 2011 at €25.10. However, from the end of February they significantly outperformed the MDAX. This was on one hand due to the notification of voting rights issued by Volkswagen AG on February 25, 2011, that it had acquired an interest in our Company, and that it thus possesed voting rights of 8.18%. On the other hand, our outlook for 2011 and our medium-term outlook through to 2015, which we initially published on the occasion

Key figures for the SGL Carbon SE shares

	2011	2010
Number of shares at year-end	70,063,564	65,577,459
High (€)	47.27	29.04
Low (€)	25.10	19.48
Closing price at year-end (€)	38.09	27.02
Market capitalization at year-end (€m)	2,668.7	1,771.6
Average daily turnover in XETRA-trading (number of shares)	406,131	425,986
Free float (%)	38.01	72.63
Earnings per share (€) (basic)	1.09	0.80
Dividend per share (€)	0.20	–

of our year-end press conference on March 17, 2011, supported the positive performance of our shares. With the publication of the notification of voting rights from SKion GmbH on May 18, 2011, stating that it had increased its interest in our Company to 26.87%, our shares performed in line with the MDAX, albeit at a higher level. A magazine article published on October 17, 2011 stirred up rumors that BMW AG and Volkswagen AG were intending to buy shares in our Company, or to increase their existing interests. As a result, our share price increased significantly from €37.99 in mid-October to its high for the year of €47.27, which it reached on November 3, 2011. BMW AG's participation in our company, with an equity stake of 5.17% and options to increase the interest in our Company to around 15%, which we published in the notification of voting rights dated November 18, 2011, meant that our share price received further support at a high level. As already announced in November 2011, BMW AG increased its interest in our Company to 15.72% on December 20, 2011, and in connection with this notification of voting rights, it also announced that it did not intend to acquire significant additional voting rights within the next twelve months. As a result, the share was not able to maintain the high price level, and closed the year 2011 at €38.09.

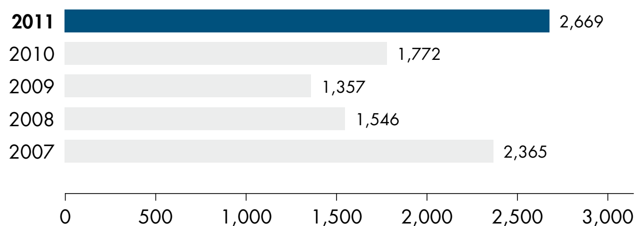
Relative share performance



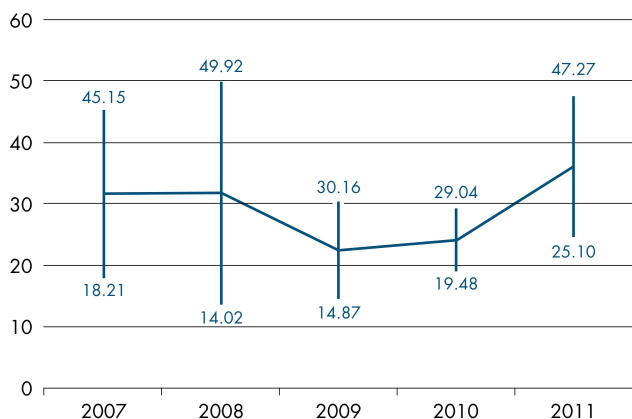
Share price performance in €

Share price performance in €

Market capitalization in €m



Highest and lowest prices of the share in €



Market Capitalization and Trading Volume

Due to the higher share price, the market capitalization increased substantially in 2011. After €1,771.6 million in the previous year, it amounted to €2,668.7 million at the end of the year. With a free-float market capitalization of €1,100.6 million on December 30, 2011 which Deutsche Börse AG employs to calculate its MDAX rankings, SGL Carbon SE took 23rd place, up from 25th place in the previous year. Deutsche Börse calculates this figure using the average volume-weighted share price over the 20 days preceeding the respective cut-off date. The number of shares outstanding increased to 70,063,564 as of December 31, 2011, up approx. 4.5 million shares compared to year-end 2010. The increase in the number of shares is due, in particular, to the early partial conversions of our two convertible bonds in the second half of 2011.

The average volume of our shares in XETRA trading fell slightly from 425,986 shares to 406,131 shares per day.

Shareholder Base Enhanced Once Again

On February 25, 2011 we received a notification from Volkswagen AG that the company had purchased a total of 8.18% of the shares of SGL Carbon SE. As part of the transaction, Volkswagen AG had acquired the share held by Landesbank Baden-Württemberg (LBBW), which was 4.43% according to the latest notification of LBBW. On May 17, 2011, SKion GmbH, Susanne Klatten's investment company, informed us that it had increased its interest in our Company, and that it now owns 26.98% of SGL Carbon SE's shares. As part of the so-called directors' dealings notifications, Susanne Klatten informed us that she acquired a further approximately 1.6 million shares in our Company on July 1, 2011 by converting her convertible bonds, with which at the end of 2011 she held an interest of approximately 28%. In addition, on November 17, 2011, BMW AG informed us that it had acquired an interest

of 5.17% in shares of our Company and voting rights of 9.99% that can be acquired via financial instruments. On December 21, 2011, BMW AG then informed us that it had exercised the financial instruments, and that it thus held an interest of 15.72% in our Company.

The development in our shareholder structure substantiates the long-term objective of SGL Group to establish a small group of anchor investors in order to support our independence.

To our knowledge, the following companies own shareholdings that are subject to disclosure requirements:

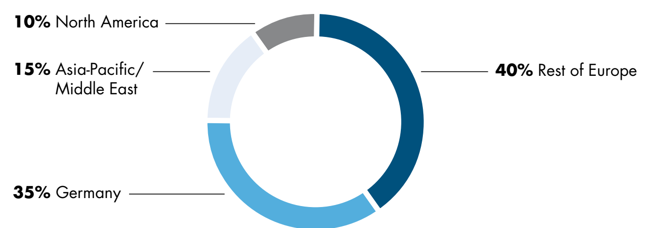
Volkswagen AG	8.18%
Voith AG	9.14%
BMW AG	15.72%
SKion GmbH	Approximately 28%

According to a shareholder identification exercise dated April 2011, the geographical distribution of institutional investors is as follows: About 35% of the shares are held by German investors, 40% by investors in the rest of Europe, 15% in the Asia-Pacific/Middle East region, and 10% by investors in the US.

Dividend Development

Subject to approval by the Annual General Meeting on May 10, 2012, we will in 2012 for the first time since 1998 reinstate dividend payments and distribute a dividend of €0.20 per share for shares which are dividend entitled for fiscal year 2011. We are committed to paying our shareholders sustainable, earnings driven dividends. In addition to the expected achievement of mid-term targets, this also takes into account the future gearing development, the return on capital employed and free cash flow.

Geographical distribution of institutional investors*



* Status: April 2011

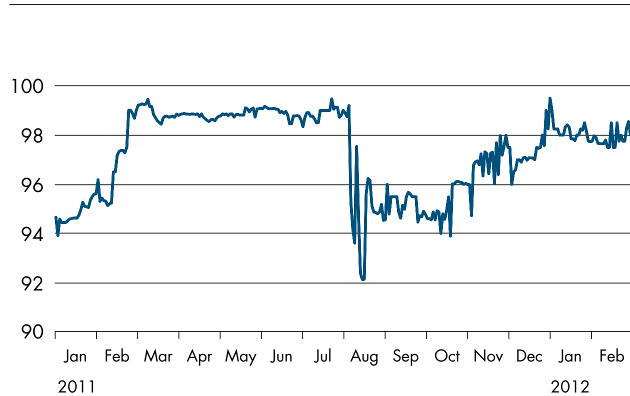
Transparent, Timely and Comprehensive Investor Relations

We provide all participants in the capital markets with transparent, timely and comprehensive information on current corporate developments, our strategy and possible structural changes. Our declared goal is to gain and maintain the confidence of shareholders. With this objective in mind, we continued to vigorously pursue our investor relations activities in 2011. In more than 350 one-on-one meetings with analysts and investors in Germany and abroad, we presented SGL Group and its growth strategy in detail.

We also participated in 21 roadshows and 10 investor conferences in 17 countries.

In line with the principle of fair disclosure, we treat all target groups equally with respect to the information we communicate. In this context, the Internet is an important communication channel. Our website (www.sglgroup.com) provides an overview of current IR activities based on our financial calendar under "Investor Relations."

Performance of corporate bond in €
(matures May 15, 2015)



We publish our financial figures very timely and present them to journalists, analysts, and investors on the same day. In addition to annual and quarterly reports, further material such as presentations, press releases, and ad-hoc notifications can be found on our website. Notifications on directors' dealings and the latest consensus forecasts of our financial analysts are also available online.

Last year's Annual General Meeting took place on April 3, 2011 at the Wiesbaden Kurhaus. Around 1,000 interested shareholders and shareholder representatives demonstrated their appreciation for SGL Group by participating in the meeting. The number of visitors to our Annual General Meeting has thus almost doubled since 2006.

Performance of convertible bond in €
(matures May 16, 2013)

Performance of Convertible bond in €
(matures June 30, 2016)

Each year, the German financial magazine Capital and the Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA – Society of Investment Professionals in Germany) rate the IR activities of leading German and European companies. In this context, analysts and institutional investors are given an opportunity to rate companies with respect to target group orientation, transparency, track record, and extra financial reporting. SGL Group improved its ranking to fifth place in the MDAX category, after taking eleventh place in the previous year.

A total of 16 German and international financial analysts now cover SGL Group and our shares on a regular basis (2010: 18 financial analysts). They arrive at very different results: At the end of February 2011, five analysts issued a hold or neutral recommendation for our shares, and nine issued a sell, underperform or underweight recommendation. The analysts' price targets were between €22.30 and €45.30.

Analyst coverage

Analyst coverage
Bankhaus Lampe
Bankhaus Metzler
Berenberg Bank
Cheuvreux
Commerzbank
Credit Suisse
Deutsche Bank
DZ Bank
Goldman Sachs
HSBC
J.P. Morgan Cazenove
Landesbank Baden-Württemberg
MainFirst
Merrill Lynch
UBS
WestLB

Key data SGL Carbon SE share

Trading locations	XETRA; Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart
Security Identification Number	723 530
International Securities Identification	DE 000 723 5301
Stock index	MDAX
Market segment	Prime Standard
Reuters symbol	
XETRA	SGCG.DE
Frankfurt	SGCG.F
Bloomberg symbol	
XETRA	SGL GY
Germany	SGL GR

Further Information on SGL Group and its Shares:

Contact our Investor Relations department:

Phone: +49 611 6029 -103
Fax: +49 611 6029 -101
Email: Investor-Relations@sglcarbon.de

Visit our website (www.sglgroup.com). You can order or download additional documentation such as annual and quarterly reports from the site.

We look forward to hearing from you.

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102 SGL Carbon SE (Parent Company) (Discussion on basis of German Commercial Code (HGB))

COMBINED MANAGEMENT REPORT

SGL Group's business continued to develop positively in fiscal year 2011 with growth in sales and earnings. The following group management report, which is combined with the management report of SGL Carbon SE, provides detailed information on business performance and our expectations for the future.

Business and Economic Conditions

SGL Group Worldwide Sites

Organizational Structure and Business Activity

LEGAL STRUCTURE OF THE COMPANY

SGL Carbon SE (the "Company"), headquartered in Wiesbaden (Germany), is quoted on the Frankfurt stock exchange and is a member of Deutsche Börse's MDAX index. SGL Group is made up of SGL Carbon SE, the operative holding company, together with its subsidiaries (a detailed overview of shareholdings of SGL Carbon SE can be found in **Note 37**).

BUSINESS AREAS AND ORGANIZATIONAL STRUCTURE

SGL Group has a global workforce of approximately 6,500 employees (as of December 31, 2011). We operate a total of 46 production facilities either directly or in cooperation with our joint venture partners. Of these production facilities, 25 are located in Europe, twelve in North America and nine in Asia. With a service network in more than 100 countries, we can accommodate the regional and industry-specific requirements of our customers and operate with flexibility. We consistently adapt to increasing globalization by building new facilities, such as our carbon and graphite plant in Malaysia, which is currently under construction.

SGL Group's business activities focus on the development, production and sale of carbon products. SGL Group – The Carbon Company – 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 know-how and a command of high-temperature manufacturing processes. Our portfolio of products and technology comprises four types of carbon materials: coarse grain graphite, fine grain graphite, expanded natural graphite as well as carbon fibers and carbon fiber composites.

As a manufacturer of carbon products, SGL Group supplies a broad range of industries. Carbon is characterized by excellent electrical and thermal conductivity, resistance to heat and corrosion, self-lubricating qualities and lightweight combined with strength. Due to these unique material properties, we sell to a wide spectrum of industries, ranging from the more traditional industrial sectors, such as the steel, aluminum and chemical industries, to newly created high-growth areas, such as the solar, lithium ion battery and LED industries. The Company also supplies manufacturers in the wind energy, aerospace and defense sectors.

Organizational structure

Base Materials	Advanced Materials	
Performance Products (PP)	**Graphite Materials & Systems (GMS)**	**Carbon Fibers & Composites (CFC)**
Graphite & Carbon Electrodes (GCE)	Graphite Specialties (GS)	Carbon Fibers & Composite Materials (CF/CM)
Cathodes & Furnace Linings (CFL)	Process Technology (PT)	Aerostructures (AS)
	New Markets (NM)	Rotor Blades (RB)
Technology and Innovation (T&I)		
Six Sigma (SGL Excellence)		

Business activities concentrate on our three established Business Areas: **Performance Products** (PP), **Graphite Materials & Systems** (GMS) and **Carbon Fibers & Composites** (CFC) which are also our reporting segments. Resource allocation is decided at this level and this is reviewed and approved by the Board of Management at its annual objectives meetings. Below the Business Areas, eight global Business Units have comprehensive responsibility for the businesses, which also includes direct responsibility for the results of their operations. We also distinguish between two Material Segments – Base Materials (BM) and Advanced Materials (AM) – which reflect the Group's strategic orientation. In addition, the profitable growth of our Business Units is supported by our research activities in the central R&D organization, Technology & Innovation (T&I), and our Six-Sigma-based SGL Excellence activities.

KEY ADDITIONS TO THE BUSINESS AREAS' PORTFOLIOS

For strategic reasons, SGL Group holds interests in companies together with other shareholders. Some of these companies (e. g., SGL Quanhai Carbon, SGL Rotec) are fully consolidated and included in the results of their respective segments (GMS, CFC).

In addition, SGL Group also holds interests in companies accounted for using the At-Equity method. These At-Equity-accounted investments primarily include our interests of 51% in SGL Automotive Carbon Fibers, Germany and SGL Automotive Carbon Fibers, USA (joint ventures with BMW Group for the production of carbon fibers and carbon-fiber fabrics for the automotive industry, respectively), our interest of 50% in Benteler SGL, Germany (development of carbon-fiber-based components for the automotive industry), our interest of 44% in European Precursor GmbH (EPG), Germany (development and manufacture of polyacrylonitrile precursor, the raw material for carbon fiber), our interest of approximately 33% in MRC-SGL Precursor, Japan (raw material supply of polyacrylonitrile precursor) and our 50% interest in Brembo SGL Carbon Ceramic Brakes, Italy (carbon ceramic brake disc business). These companies' activities fall under the Business Area Carbon Fibers & Composites (CFC) from an organizational and operational perspective. The joint venture SGL TOKAI Carbon Ltd. in Shanghai (China), which processes and markets graphite electrodes in China, falls under the Business Area Performance Products (PP) from an organizational and operational perspective. However, these joint ventures' results are not reported in the operating income of CFC or PP, but, rather, as income from At-Equity-accounted investments. (For further information please refer to page 68).

The At-Equity-accounted investments are as follows:

	Interest	Customer industry	Business Area
Benteler SGL GmbH & Co. KG, Germany	50.0%	Automotive	CFC
SGL Automotive Carbon Fibers GmbH & Co. KG, Germany	51.0%	Automotive	CFC
SGL Automotive Carbon Fibers LL C, USA	51.0%	Automotive	CFC
Brembo SGL Carbon Ceramic Brakes S.p.A., Italy	50.0%	Automotive	CFC
MRC-SGL Precursor Co. Ltd., Japan	33.3%	Raw materials supply	CFC
European Precursor GmbH (EPG), Germany	44.0%	Raw materials supply	CFC
SGL TOKAI Carbon Ltd., China	51.0%	Steel	PP

MANAGEMENT AND CONTROL

SGL Group's organization and management principles are set out in our Guiding Principles, in which the Board of Management establishes the Group's strategic direction. Fundamental business decisions are taken at only two management levels: the Board of Management and Business Unit management. Our eight global Business Units run the day-to-day operations, each of which obtains the necessary infrastructure and services from respective legal entities and production facilities. In addition, corporate functions support the Board of Management and perform services for all Business Areas, 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 via the Company's 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 the 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.

The members of the Board of Management of our Company receive a total remuneration that comprises both fixed and variable components. The fixed components consist of a monthly salary, additional benefits and pension commitments. The Supervisory Board debates and decides on the structure of this remuneration system and also reviews the system at regular intervals. In August 2009, a new law on management board remuneration (VorstAG) was passed in Germany. The variable remuneration components of the Company's remuneration system were restructured accordingly to meet the new law's requirements relating to the sustainability of the remuneration. The new remuneration system was submitted to the Annual General Meeting for approval on April 30, 2010 and approved by over 97% of the attending shareholders. The annual bonus plan was capped in favor of a multi-year component, which rewards target achievement over a three-year period. Objectives for the annual component include profit before tax, free cash flow, strategy and employee development, as well as cost savings. The multi-year component is linked to the average return on capital employed. The share-based remuneration plans are continued (SARs and Matching Share Plans). The remuneration from the SARs Plan depends on relative and absolute share price performance. The Supervisory Board regularly reviews the appropriateness of Board of Management remuneration. The appropriateness of the Board's remuneration is based on various criteria, including the responsibilities of the individual members of the Board of Management, their personal performance, the performance of the Board of Management as a whole, as well as the financial situation, the performance and the future prospects for SGL Group.

Please refer to **Notes 32 and 33** in the notes to the consolidated financial statements for further information on the stock participation plans and remuneration received by individual members of the Board of Management.

The remuneration of the members of the Supervisory Board, which is determined by the Annual General Meeting, is governed by section 12 of the Articles of Incorporation. Under the provisions of this section, all members of the Supervisory Board receive a fixed basic remuneration plus reimbursement of out-of-pocket expenses. Each member of a committee receives additional compensation for attending a committee meeting. Further information on the remuneration received by each member of the Supervisory Board can also be found in **Note 33** of the notes to the consolidated financial statements.

PRODUCTS, SERVICES AND BUSINESS PROCESSES

The core product of the Business Area **Performance Products (PP)** consists of high quality graphite electrodes utilized in electric arc furnaces that recycle scrap to produce steel. The share of electric arc furnaces in global steel production is currently approximately 30%. Graphite electrodes account for a relatively low proportion of total electric steel manufacturing costs (2–3%), but the electrodes' performance has a significant impact on the profitability of steel manufacturing. Graphite electrodes are consumable goods, which are consumed within about six to eight hours of use and have to be constantly replaced during the ongoing production process. Together with carbon electrodes, which are used in other metallurgical smelting applications (e. g., silicon, phosphorus), these products comprise the Business Unit Graphite and Carbon Electrodes (GCE).

In addition to graphite electrodes, high quality cathodes also play a key role in the development of the Business Area PP. These cathodes are used to produce aluminum. Compared with electrodes, cathodes used in aluminum smelters have a much longer life of up to approximately seven years, and are, therefore, considered capital goods. Together with furnace linings for the production of primary steel, these form the Business Unit Cathodes & Furnace Linings (CFL).

The Business Area PP has a global production network at its disposal with seven production sites in Europe, three in North America and two in Asia.

The Business Area **Graphite Materials & Systems (GMS)** comprises a broad range of customized graphite-based products. In the Business Unit Graphite Specialties (GS), graphite components are manufactured, purified and, in some cases, refined by adding a special coating – all according to customer requirements. Sales revenue in the Business Unit GS is generated, first and foremost, 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 mono-crystal production in the semiconductor and solar industries. The Business Unit is also increasingly developing products to support efficient power generation and energy storage. 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 heating and air-conditioning equipment, chemical and automotive applications.

The Business Unit Process Technology (PT) offers high quality products and solutions for the chemical and pharmaceutical industries and the environmental sector, particularly with graphite heat exchangers, columns, pumps and systems.

The Business Unit New Markets (NM) combines the future growth drivers for our Business Area GMS in an effort to develop new sales channels and markets and to accelerate market penetration together with prospective partners. Examples include anode materials for the high-growth market of lithium ion batteries and forward looking solutions for heat distribution and heat storage, which are used in applications such as high-performance cooling ceilings.

The Business Area **Carbon Fibers & Composites (CFC)** covers the entire value chain, from carbon fibers and composite materials to finished components. Carbon fibers and carbon fiber composites will benefit sustainably 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 lightweight and high stiffness. The Business Area CFC focuses, in particular, on customers from the aerospace, automotive and wind power industries.

The Business Unit Carbon Fibers & Composite Materials (CF/CM) includes materials based on carbon fibers. The Business Unit Aerostructures (AS) includes our subsidiary HITCO in the US state of California, which manufactures components for the aerospace and defense industry. The Business Unit Rotor Blades (RB) includes SGL Rotec, which manufactures long rotor blades (> 40m) for use in onshore and offshore wind parks. (For further information on the Business Units please refer to “Results of Operations of the Business Areas,” pages 72–75).

The principal raw materials used by the Business Areas PP and GMS are petroleum coke, pitch and anthracite. We purchase these raw materials primarily from suppliers with whom the Company has maintained long-term business relationships based on annual framework agreements. The main raw material used by the Business Area CFC is polyacrylonitrile (PAN) precursor. In 2011, our PAN precursor supply was secured from our joint ventures with Mitsubishi Rayon (Japan) and Lenzing AG (Austria). The Group uses both international and local energy suppliers to cover its energy requirements (natural gas and electricity) for the manufacturing processes, some of which are very energy intensive.

PRODUCTS AND SERVICES OF AT-EQUITY-ACCOUNTED INVESTMENTS

Brembo SGL

The joint venture formed with Brembo S.p.A. (Italy) in mid-May 2009 develops and produces carbon ceramic brake discs, particularly for the market for high end and luxury class vehicles.

Benteler SGL

In our joint venture with Benteler (Germany), carbon fiber reinforced plastic (CFRP) components are developed for the automotive industry with the aim of promoting the use of CFRP components in the automotive industry.

SGL Automotive Carbon Fibers

At the beginning of September 2011, the joint venture, SGL Automotive Carbon Fibers LLC, in Moses Lake, Washington (USA) opened a new, state-of-the-art carbon fiber production plant. This plant is of key importance for the production of carbon fiber reinforced plastics (CFRP). CFRP will be used in “BMW i” vehicles, which BMW Group will introduce to the market in 2013. In order to ensure the smooth market introduction of the BMW i3 in 2013, carbon fiber production has already been started at this plant. The BMW i3 will be the first vehicle to be built using the carbon fibers produced in Moses Lake.

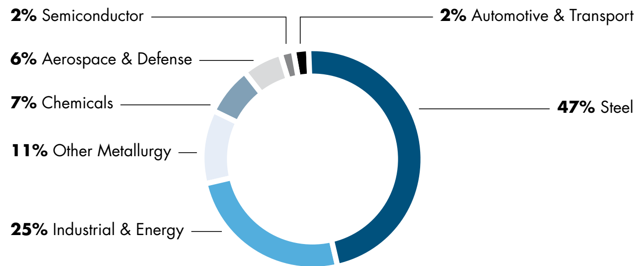
On July 19, 2010, SGL Automotive Carbon Fibers GmbH & Co. KG (Germany), the second joint venture with BMW Group, launched operations for the manufacture of composite materials at its new production facility in Wackersdorf (Germany). In the future, composite materials will be manufactured at this site using the carbon fibers produced in Moses Lake. The composite materials will then be sold to BMW Group, who will use them to manufacture automobile parts for the assembly of the BMW i3 at its plants in Landshut and Leipzig.

EPG and MRC-SGL Precursor
MRC-SGL Precursor Co. Ltd., Japan, our joint venture with Mitsubishi Rayon Corporation, and European Precursor GmbH (EPG) in Kelheim (Germany), our joint venture with Lenzing AG in Austria, ensure the independent supply of raw materials for our carbon fiber production with the polyacrylonitrile (PAN) precursor.

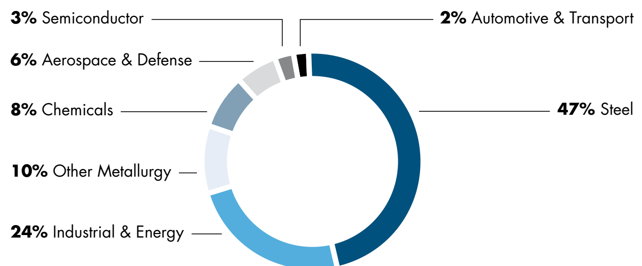
SGL TOKAI Carbon (STS)
Our joint venture, SGL TOKAI Carbon Ltd., in Shanghai (China), involves the sale and distribution of graphite electrodes on the Chinese market for its two shareholders, SGL Group in Germany and Tokai Carbon Co., Ltd. in Japan.

Major Sales Markets
SGL Group's major customer industry is still the steel industry, accounting for an unchanged 47% of Group sales in the past fiscal year. The slight relative increase in sales to customers in the industry category of other metallurgy is primarily due to the higher sales in the Business Unit Graphite Specialities. The proportionally minor increase in the areas of energy generation and industrial applications can be attributed to the higher sales to the solar industry in the Business Area GMS, which more than compensated for the project-related lower sales from SGL Rotec, a manufacturer of rotor blades for the wind energy industry. The share of total annual sales revenues was mostly unchanged year on year in all other customer industries.

Sales revenue by customer industry in 2011



Sales revenue by customer industry in 2010



Management of the Company, Objectives and Strategy

INTERNAL MANAGEMENT SYSTEM
SGL Group's management structures and principles are based on our Guiding Principles, which set the responsibility levels for both strategic and day-to-day operations. Above all, our goal is to sustainably increase SGL Group's enterprise value. The Company'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 personnel issues, safety and environmental protection.

Key leading indicators for the anticipated development of operations in our Business Areas and Business Units include the actual or forecasted growth in important customer markets, incoming orders and corresponding capacity utilization in the

Company. In the Business Area **Performance Products**, these indicators show a reliable picture of anticipated developments for the current fiscal year due to traditionally longer delivery times. Since the onset of the financial crisis in the second half of 2008 and the sovereign debt crisis, which has intensified since mid-2011, particularly in Europe, customer order patterns have shown a much shorter term tendency than in previous years. While ordering patterns temporarily returned to normal during the course of fiscal year 2011, the ordering process has become delayed again since the end of 2011, particularly in Europe and Asia. In both the Business Areas **Graphite Materials & Systems** (GMS) and **Carbon Fibers & Composites** (CFC), we can extrapolate medium to long-term market and demand indicators only for a few areas (such as graphite specialties for the semiconductor industry, process technology for the chemical industry and components for the aircraft industry), for which we already have medium to long-term contracts. Other areas are still extremely project-dependent due to the early life cycle stage of the products. Carbon fibers and carbon fiber composite materials are, for instance, replacing traditional materials at an increasing rate, such as in components for new models in the automotive and aviation industries.

CORPORATE STRATEGY

Our corporate strategy is derived from our vision:

We are the Leading Carbon Company.

Our vision is founded on our commitment to carbon as a material that comes in many different forms and applications, ranging from natural and synthetic graphite to carbon fibers and composites. As a global Company that focuses on carbon-based materials and products, carbon also forms part of our Company name:

SGL Group – The Carbon Company

Our strategic goal is sustainable, profitable growth. Our dedication to leadership in everything we do plays a decisive role in the achievement of this goal. We have the largest portfolio of carbon products worldwide and already hold leading global market positions in most of our fields. But leading means more than just that at SGL Group: We want to play the leading role in our core businesses, with state-of-the-art technologies, ideas, innovations, products, quality and delivery service. Our vision is not only a message to our customers, but most of all, also a commitment on the part of all employees of SGL Group to deliver top performance that is genuinely rewarded by the market.

The operating link between our strong brand, SGL Group – The Carbon Company, and our vision is our claim:

Broad Base. Best Solutions.

Our Broad Base is our strength and the value added we provide for our customers. It refers to our core competencies (high-temperature technology as well as materials, applications, and engineering know-how), our broad product portfolio and our global presence with a worldwide sales network and 46 production sites in Europe, North America and Asia. We are, for instance, the only European company that covers the entire value chain from carbon fibers to composite components.

Our portfolio consists of two materials segments. The first materials segment, Base Materials, is founded on high-volume products for basic industries characterized by moderate volume growth but above-average profitability and high cash flow. The second materials segment, Advanced Materials, includes developments, innovations and products with high growth potential and prospects for increasing and sustainable profitability. However, in relation to the sales volume, these products require consistently higher investments and R&D expenses than is the case for Base Materials. This dual structure offers a synergetic platform for sound and profitable growth.

BEST SOLUTIONS FOR OUR CUSTOMERS

We offer Best Solutions to our customers on this basis. This means that we want to contribute our own ideas, concepts and innovations to develop individual and tailored solutions together with our clients, establishing SGL Group as a benchmark for customer value.

In many cases, our Best Solutions contribute to the development of solutions which lead to a continuous and sustainable reduction of greenhouse gases. The unique properties of carbon make it particularly suited for the implementation of global trends such as weight reduction, renewable energy sources and higher energy efficiency. As a result, we already generate more than 60% of Group sales revenue from environmentally friendly, resource saving applications.

We employ our SGL Excellence initiative, first introduced in 2002, as the driving force to operationally achieve Best Solutions. SGL Excellence aims to continuously improve performance by means of proven Six Sigma methods and a tight organizational structure. The experiences gained from SGL Excellence are not only used internally throughout the Group, but are also offered to our key customers to optimize our shared processes. SGL Excellence encompasses all areas of the Company worldwide and is divided into Operational Excellence (costs, processes, production quality), Commercial Excellence (service quality, commercial processes, customer, and supplier relations), Innovation Excellence (ideas, projects, innovations) and People Excellence (the right people in the right place at the right time). These are key levers for the implementation of Best Solutions.

FINANCIAL TARGETS

Important management indicators in reporting are the following financial key performance indicators:

- Return on sales (ROS), based on EBIT (earnings before interest and taxes)
- Return on capital employed (ROCE), also based on EBIT (CE = average capital employed, defined as the sum total of goodwill, other intangible assets, property, plant and equipment and working capital)
- Cash generation by Business Area and Unit (earnings before interest, depreciation and amortization less investments and changes in working capital)
- Free cash flow (cash inflows/outflows from operating activities and investing activities)
- Gearing (ratio of net debt to shareholders' equity)

TARGETS FOR 2011 MOSTLY REACHED

At our year-end press conference in March 2011, we forecasted the following targets for the year:

- Group sales revenue to increase by at least 10%
- Consolidated EBIT in the range of €150–165 million
- Consolidated return on sales between 10 and 11%
- Gearing to remain at approximately 0.5
- Capital expenditure for intangible assets and property, plant and equipment of up to €150 million
- A free cash flow of around minus €30–35 million

DOUBLE-DIGIT GROWTH IN GROUP SALES REVENUE

Group sales revenue grew by around 12% thus meeting the target, although the project-related weak rotor blade business had a major negative impact on our sales revenue growth in the Business Area CFC.

GROUP EBIT TARGET REACHED

The excellent business development in the Business Area GMS, in particular, meant that we were able to narrow our full year EBIT forecast to around €160 million as part of our reporting on the first half of 2011 in August. We were able to reach this target despite the previously described disappointing business development within the wind energy markets.

GROUP RETURN ON SALES IN FORECAST CORRIDOR

We were also able to meet this target with a Group return on sales of 10.4%.

GEARING BETTER THAN FORECAST

As a result of the comprehensive partial conversion of our two convertible bonds in the second half of 2011, our gearing fell significantly to 0.33 and is thus substantially lower than the target of +/–0.5.

CAPITAL EXPENDITURE LOWER THAN BUDGETED

Capital expenditure on intangible assets and property, plant and equipment totaled approximately €139 million. It was thus approximately €10 million lower than forecast, as some of the planned spending was deferred to the following year.

FREE CASH FLOW IN LINE WITH ORIGINAL FORECAST

As part of our first half 2011 reporting in August, we adjusted our forecast for the 2011 free cash flow to minus €50 million as a result of higher requirements for working capital, which was necessary due to the continued growth in our business as well as due to increasing factor costs. Because capital expenditure was lower than forecast, it was possible to limit the negative free cash flow to minus €33 million and, thus, remain in line within our original forecast.

MEDIUM TO LONG-TERM OBJECTIVES

We are convinced that the fundamental trends for our product and materials portfolio will remain intact over the long term. Assuming that the global economy continues to develop favorably, and due to the various activities and initiatives we have put in place, we are confident that we will be able to achieve the medium to long-term objectives presented below for the 2012 to 2016 planning horizon. We presented these objectives for the first time in our 2010 annual report in March 2011 and mostly achieved these in 2011. The sole exception in this regard is the Business Area CFC, where we had aimed to generate positive results in 2011. In particular, due to the weak rotor blade business previously mentioned, this Business Area had to record a double-digit million loss.

Due to the sharp decline in business activity during the 2009 crisis, the Business Area **Performance Products** may not be able to return to the pre-crisis level of sales and profit margin levels for some time. This relates in particular to the cathode business with the aluminum industry. Nevertheless, we anticipate a steady improvement in earnings in this division. In contrast, the solar, LED, and lithium ion battery sectors are growing, and there is a rising trend towards the substitution of materials with carbon fibers in sectors such as the automotive industry. As a consequence, the Business Areas **Graphite Materials & Systems** and **Carbon Fibers & Composites** anticipate further organic sales growth during the next few years.

We remain confident in our achievement of these medium-term targets, despite the prevailing uncertainties, particularly as a result of the European sovereign debt crisis. However, from today's perspective, we cannot rule out the possibility that the current crisis may have a negative impact on our business development in 2012.

Objectives for the 2012–2016 Planning Horizon

SGL Group	Performance Products (PP)	Graphite Materials & Systems (GMS)	Carbon Fibers & Composites (CFC)
Organic growth in sales averaging more than 10% p. a.	Structural volume growth of approx. 2–3% p. a.	Annual sales growth of at least 10%	Annual sales growth of at least 20%
ROS target of at least 12% achievable again in the medium term	ROS target of at least 20% achievable again in the medium term	ROS of at least 10%	ROS target of at least 10% achievable in the medium term
ROCE of at least 17% achievable again towards the end of the planning period			

Technology & Innovation

OUR CENTRAL RESEARCH AND DEVELOPMENT

The Technology & Innovation (T&I) Center is SGL Group's research and development headquartered at our largest site in Meitingen (Germany). We have established a state-of-the-art research infrastructure at this facility over the past five years. The number of employees at the T&I Center in Germany grew from 127 at the end of 2010 to 147 as of December 31, 2011. T&I activities are also performed at SGL Group's local sites, primarily in Poland and in the US.

We increased our research spending during the past fiscal year to a total of €40.0 million (2010: €37.0 million). As a result of SGL Group's strong sales growth, the ratio of research costs to consolidated sales remained at essentially the same level in 2011 (2.6%) as in the previous year (2.7%).

In 2011, SGL Group continued to invest in expanding the T&I infrastructure and successfully concluded key projects. A carbon fiber pilot plant was started up, and we moved into a laboratory building for processing composite technologies. SGL Group now has a state-of-the-art development center for carbon fibers and composites that sets global standards at its site in Meitingen. Investments in T&I plant and equipment in fiscal year 2011 totaled €4.2 million (2010: €7.3 million).

T&I's product and process developments are aligned to SGL Group's strategic objectives and fall into the following development areas: synthetic graphite, energy systems, carbon fibers and composites and ceramic fibers and composites. As a result, T&I makes a sustainable and successful contribution to reaching the Company's targets and exploits new market and development potential.

HIGHLIGHTS OF OUR CORE DEVELOPMENT AREAS

Our developments in the field of **Synthetic Graphite** aim to optimize energy, material and cost efficiency in processes. Additionally, alternative and improved materials are being developed for the Business Area Performance Products.

In 2011, the expansion and successful application of modeling expertise optimized cost efficiency in the graphite production processes. The further development of high quality cathodes for aluminum manufacturing aims to cut energy consumption in aluminum production. During the course of 2011, corresponding electrolysis cells were tested in field trials. In addition, new cokes were successfully qualified in order to secure raw materials for graphite electrode production.

T&I develops components for forward looking **energy systems** such as redox flow batteries, which can store electrical energy in chemical compounds, and for fuel cells. In addition, T&I is developing engineered carbon and graphite powders for supercapacitors (EDLC) and lithium ion batteries, with which we are making a major contribution to the development of forward looking electrical storage solutions and energy convertors.

In 2011, developments for energy systems continued to focus on graphite anode material as a component for lithium ion batteries. We have expanded our long-standing strategic alliance with Hitachi Chemical, the global market leader for anode materials for batteries for the end consumer market. In addition to anode materials solutions for lithium ion batteries for mobile devices, we now also address the European automotive and industrial sector.

As a co-founder of the competence network for lithium ion batteries (KLiB), in 2011, SGL Group further drove the development and market launch of lithium ion batteries for vehicle engines and stationary energy storage along with companies including BASF, Bosch, Evonik and BMW. This network aims to establish an integrated cell and battery industry in

Germany. In June 2011, the German Federal Ministry of Education and Research (BMBF) stated that it intended to promote a new pilot plant for lithium ion batteries in Ulm (Germany), thus adding a key impetus. The pilot production line is the key element required to rapidly take the new cell production process out of the laboratory and put it into industrial scale production in a targeted manner. The number of KLiB members has doubled since it was formed in 2010. KLiB presented itself to the specialist and general public for the first time with a joint stand at the IAA Motor Show in Frankfurt (Germany) in the fall of 2011.

In addition to developments for the battery sector, during the past fiscal year SGL Group developed a low-cost, carbon fiber reinforced carbon material for use in the solar industry. Initial carrier structures made of this material are currently being tested by customers.

In **Carbon Fibers and Composites** we develop innovative carbon fiber reinforced plastics (CFRP). These have major advantages compared to traditional materials. Compared to steel and aluminum, they offer greater specific stiffness and strength with significantly lower weight. They are ideal substitutes for traditional materials with the aim of reducing weight and CO_2. This high level of stiffness enables 60-meter-long rotor blades to be used in wind power plants. These composites also reduce the weight of moving parts in mechanical engineering, thus helping to reduce energy consumption and material wear. In the automotive sector, our lightweight composites help to significantly reduce weight, which leads to lower emissions and compensates for the heavy battery weight in electric cars. The highest requirements of all are placed on carbon fiber composites used in the aerospace industry. We are currently developing a carbon fiber for the European aviation industry as part of the public funded project, “AirCarbon.” One of the milestones in this project was taking the carbon fiber pilot plant in Meitingen into operation in the first quarter of 2011. This pilot plant implements optimizations to workflows and materials that are required in several stages to produce aerospace grade carbon fibers.

In addition, a state-of-the-art laboratory for the process stage of surface treatment and sizing of carbon fibers went into operation in 2011. This means that we have created new possibilities to develop advanced duroplastic and thermoplastic based composites.

Our networks and industrial associations are a key success factor. SGL Group is one of ten founding members of Carbon Composites e.V. This association integrates industrial companies and research institutions along the entire lightweight construction value chain. The M-A-I Carbon initiative brought this network into being, with the aim of driving the development of serial technology for lightweight carbon composite construction and developing the Munich–Augsburg–Ingolstadt (M-A-I) region into a European center of competence for CFRP lightweight construction.

The basis for our development for **Ceramic Fibers and Composites** is the carbon ceramic brake disc. The technological expertise we have built up has been consistently developed further over the past few years, and we have been able to use first serial applications for ceramic gear systems for motor sport (24h Le Mans) together with ZF Sachs Race Engineering as our system partner. As a result of their great strength with simultaneous low thermal expansion, the further development of these ceramic composites has led to new applications in the production of memory and logic chips. We were also able to acquire new customers for applications in efficient gas turbines. The unique material characteristics and low weight, even in complex structures, means that composites can also be used in aerospace applications. We produced a holder for optical systems, a so-called optical bench, for the space probe for NASA’s Juno Mission, which has been on its way to Jupiter since August 2011.

T&I IS SGL GROUP'S TALENT POOL

In addition to developing products and technologies, T&I's task is also to acquire and advance new talent for the Company, thus training up-and-coming specialists and managers not only for research and development but also for the Business Areas and Units. T&I has increasingly become able to meet this role as a talent pool during the course of its HR and structural development. Twenty-seven new employees were recruited last fiscal year. Seven employees who became acquainted with SGL Group's entire range of materials and workflows in central research and development and who brought projects successfully to fruition left T&I in 2011 to take on positions in the Business Units.

In order to also secure this success for the future we invested a great deal in advancing and supporting up-and-coming talent in 2011, particularly in the engineering and materials science segments. T&I supported a total of 54 undergraduates, interns and students in 2011. In addition, T&I employees routinely attend leading recruitment fairs. In 2011, SGL Group again awarded scientific prizes to talented young scientists.

SGL Group co-founded and plays a driving role in the "Initiative Junger Forscher" (Initiative for Young Researchers). This initiative underscores the serious approach behind and sustainability of comprehensive support for scientific education – from nursery schools through to universities.

EFFICIENT RESEARCH NETWORKS SUPPORT OUR COMPETENCE

The quality and efficiency of its external networks and strategic alliances play a critical role in determining the strengths of an R&D organization. In addition to its work as part of large industry and research associations, where SGL Group invests in the foundation and expansion of such associations, the Group also reinforced and expanded its own research networks in 2011.

The professorship of Carbon Composites (LCC) endowed by SGL Group at the Technical University of Munich (TUM) already has more than 50 employees and is growing at a strong pace. The specialist module, "Fiber Composite Technology", launched in 2010, has received great feedback from students. There are also successful research projects underway with industrial partners and international research institutes. Additionally, a cooperation agreement was concluded between SGL Group and the AGH Krakow, one of Poland's leading technical universities, in 2011. The scientific cooperation is already under way and focuses on advancing and further developing traditional knowledge of carbon and graphite.

SGL Group presents itself on a regular basis at the well-known annual carbon conferences and assists in the management bodies of international scientific carbon institutes. The Arbeitskreis Kohlenstoff (AKK) is managed by one of our T&I scientists.

EXTENSIVE PATENTS PROTECT OUR EXPERTISE

We registered 64 new patents in 2011, thus maintaining the previous year's high level of 67 new registrations. Protecting our expertise provides long-term security for our developments and lays the foundations for innovative applications in new markets.

Overview of the Business Trend

ECONOMIC CONDITIONS

2011 was split into two distinct halves in terms of the global economy. The first half of the year continued to experience the upswing which started in 2010, while the second half of the year was overshadowed by the impact of the earthquake and tsunami catastrophes in Japan and Thailand and the sovereign debt crises in Europe and the USA.

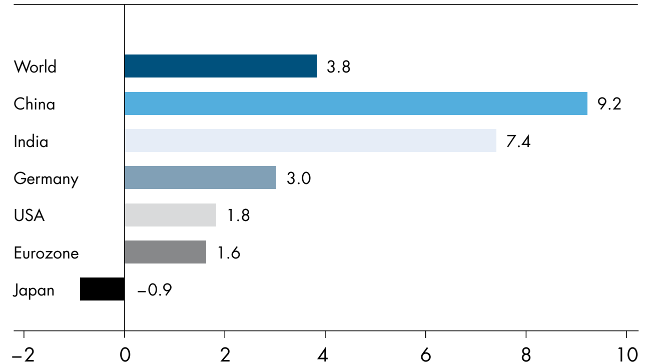
Global Economy Loses Pace During the Course of the Year

The first few months of the year were characterized by a recovery in the global economy, which experts believed could be self sustaining. However, the global expansion exhibited different paces in different regions. Growth in most of the emerging nations was at a much faster pace than in established, industrial nations, where the development was more sluggish. Through the early summer of 2011, the global economy was, on the whole, robust, and the pace of the economic cycles continued to be unbalanced. The impact of the Japanese earthquake on the domestic economy and international supply chains and high commodities prices caused a slowdown in both growth and global trade. From the start of August 2011, tension could be felt on the international financial markets, which depressed the economic recovery in industrial nations in particular. As a result of the weakening in global activity and the increased downside risks – in particular due to the European sovereign debt crisis – the International Monetary Fund (IMF) reduced its world economic outlook in September 2011 for the year as a whole from 4.3% to 4.0%.

In its updated world economic outlook dated January 2012, the IMF states that the global economy grew by a total of 3.8% in 2011 in terms of the global economic output (real gross domestic product). This represents a further reduction of 0.2 percentage points compared to the IMF's previous forecast in September 2011, reflecting the continued weakening of global economic growth in the fourth quarter of 2011.

2011 Gross Domestic Product – an Overview in %

Real year-on-year change



Source: IMF, World Economic Outlook dated January 2012

DEVELOPMENT OF KEY CUSTOMER INDUSTRIES

Record Production Level in the Steel Industry in 2011

According to the World Steel Association, global steel production was higher than ever before in 2011. Production of crude steel soared to a record 1.5 billion tons, up 6.8% year-on-year. Production thus increased in almost all of the world's key regions. Japan, which was hit by a major earthquake and tsunami in 2011, was the only exception. China continued to be the world's largest steel producer with 695.5 million tons, and recorded a market share of 45.5%. Japan and the USA took second and third place, respectively.

Global capacity utilization fell to 71.7% towards the end of 2011 due to the weakening demand and was thus the lowest figure recorded since May 2009. The high for 2011 was recorded in February at a significantly higher 83.3%.

Aluminum Industry Lifts Production in 2011

The aluminum industry benefits, in particular, from the continued industrialization of Asia and the substitution of traditional materials with aluminum. According to the International Aluminium Institute (IAI), overall global production of primary aluminum in 2011 rose by 7.4% over the previous year, driven primarily by China and the Gulf Region. The volume of primary aluminum produced in the full year 2011 was approximately 43 million tons (2010: approximately 40 million tons).

Growth in the European Chemical Industry Lower than Expected

In December 2011, Cefic (European Chemical Industry Council) forecast that European chemical production would grow by around 2.0% in 2011 as a whole, and that it would thus be lower than the original forecasts. In June 2011, Cefic still forecasted growth for the European chemical industry of 4.5%. In January 2012, Cefic then reported that the European chemical industry had only grown by 1.5% from January to November 2011 compared to the same period of the previous year. As a result of significantly higher growth rates in other regions, in November 2011 the German Chemical Industry Association (Verband der chemischen Industrie – VCI) reported that it was expecting growth of 4.0% in global chemical production in 2011.

Solar Industry Records Major Increases in 2011

Analysts with the market research institute IHS iSuppli forecast global growth in photovoltaic capacity of around 23.8 GW for 2011 as a whole. This corresponds to growth of 34% compared to 2010. Taken together, Italy and Germany account for half of the global market with around 13 GW of newly installed photovoltaic capacity. The Federal Network Agency is forecasting that photovoltaic systems will grow to around 7.5 GW in Germany in 2011, which is even more than in the previous record year of 2010. According to IHS iSuppli, the third-largest photovoltaic market in 2011 was the USA. Installed systems in the USA have nearly tripled to 2.7 GW.

Semiconductor Industry Sales Top US$300 billion for the First Time

The semiconductor market continued to grow in 2011. The World Semiconductor Trade Statistics association (WSTS) forecasts that the global semiconductor market could record sales of US$302 billion in 2011 and, therefore, surpass the US$300 billion mark for the first time. This corresponds to growth of 1.3% compared to the record year of 2010.

Aviation Industry Presents Mixed Picture

According to information from the IATA, 2011 was a year of contrasts. Whereas passenger transport grew by 6.1% – in particular in the first half of 2011 – air freight slowed down by –0.5% on the previous year. Around the world, all of the aviation companies were able to increase their sales in 2011 to US$596 billion. This corresponds to growth of 9.1% year-on-year. However, net profits fell to US$6.9 billion in 2011, primarily due to increasing oil prices (2010: US$15.8 billion).

The world's largest aircraft manufacturers Airbus and Boeing closed 2011 with new order and delivery records. Airbus delivered a total of 534 aircraft in 2011, thus beating its previous record from 2010 by 24. In addition, order intake at Airbus was also at a record 1,608 aircraft. Boeing delivered a total of 477 passenger aircraft in 2011 and closed 2011 with a record order intake of 805 passenger aircraft.

Wind Energy Industry Grows, Driven by China

In its 2011 semi-annual report, the World Wind Energy Association (WWEA) put the growth in newly installed wind capacity worldwide at 18.4 GW in the first six months of 2011. This figure is, thus, up by 15% compared to the previous year. As a result, global wind capacity totaled 215 GW. The WWEA is forecasting 43.9 GW in new wind capacity for 2011 as a whole. China continues to be the largest single market for wind capacity with 53 GW. In the first half of 2011 alone, around 8 GW of new wind capacity was installed in China, whereas growth in Europe was only moderate or even fell (e. g., in Denmark and France).

SHARE PRICE PERFORMANCE IN 2011

A description of our share price performance as well as key indicators and other information concerning our shares can be found in the section on shares on pages 42–47.

Key Events for the Business Development

REVERSAL OF IMPAIRMENT LOSSES AND IMPAIRMENT LOSSES

In its first half 2011 financial report, SGL Group performed impairment tests for its Business Units Carbon Fibers & Composite Materials (CF/CM) and Rotor Blades (RB), both part of the Business Area CFC. The impairment test resulted in a net reversal of €5.1 million and increased the EBIT disclosed in the period under review for SGL Group to €165.5 million. For further information please refer to "Segment Reporting CFC" and "Information on the Consolidated Financial Statements" in this annual report.

PARTIAL CONVERSION OF CONVERTIBLE BONDS STRENGTHENS EQUITY

In fiscal year 2011, SGL Group's two outstanding convertible bonds, issued in 2007 and 2009, were converted to shares in the Company by some bond holders. On July 1, 2011, SKion GmbH (SKion), Bad Homburg v.d.H. (Germany), exercised conversion rights with a principal amount of €47.5 million from the 2009 convertible bond resulting in 1,616,195 new shares in SGL Carbon SE. The initial exercise price was €29.39 per share. In December 2011, other bond holders converted additional conversion rights from the 2009 convertible bond with a principal amount of €5.75 million to 195,643 shares in the Company at an initial exercise price of €29.39 per share. In the fourth quarter of 2011, a principal amount of €54.15 million was converted from the 2007 convertible bond to 1,482,742 shares in SGL Carbon SE at an initial exercise price of €36.52. As a result, in 2011 a total principal amount of €107.4 million was converted from both of the convertible bonds to 3,294,580 shares in the Company.

After deducting the remaining imputed interest and the associated refinancing costs in the amount of €9.4 million, the partial conversion reduced the financial liabilities on the balance sheet by €98.0 million and increased equity by the same amount. The gearing thus improved by approximately 0.16. The lower number of convertible bonds still outstanding means that interest expenses will be relieved by €6.9 million in 2012.

DETAILS OF COMPANY ACQUISITIONS AND DISPOSALS

Effective January 1, 2011, SGL Group acquired ASL Aircraft Services GmbH (ASL) from EADS via a 51% shareholding in SGL/A&R Immobiliengesellschaft Lemwerder mbH. The remaining 49% is held by ABEKING & RASMUSSEN Schiffs- und Yachtwerft Aktiengesellschaft in Lemwerder, our partner at SGL Rotec. ASL assets consist primarily of an investment in a real estate company, which currently leases most of its buildings in Lemwerder (Germany) to SGL Rotec, a Group company. The companies' major assets comprise land and buildings with a value of around €17 million. As part of the planned expansion of business activities at the Lemwerder site, SGL Rotec will now be in a position to utilize additional production halls and buildings on company grounds thanks to the ASL acquisition.

REpower Systems SE (Germany) purchased the remaining 49% interest in PowerBlades GmbH from SGL Rotec GmbH & Co. KG, a majority-owned company of SGL Group effective December 31, 2011. The Bremerhaven-based company was formed in 2007 as a joint venture for the production of rotor blades for wind parks and was accounted for at-equity within SGL Group. REpower has held a 51% interest in PowerBlades GmbH since the start of the cooperation, while SGL Rotec has held a 49% interest.

Results of Operations, Financial Position and Net Assets

Results of Operations of the Group

Income Statement

€m	**2011**	2010	Change
Sales revenue	1,540.2	1,381.8	11.5%
Gross profit	419.0	369.6	13.4%
Operating profit (EBIT) before reversal of impairment losses and impairment losses	160.4	128.4	24.9%
Reversal of impairment losses and impairment losses	5.1	–	–
Operating profit (EBIT)	**165.5**	**128.4**	**28.9%**
Results from At-Equity-accounted investments	–32.6	–11.9	> –100%
Net financing cost	–49.2	–43.3	–13.6%
Profit before tax	**83.7**	**73.2**	**14.3%**
Income tax expense	–22.8	–23.0	0.9%
Non-controlling interests	12.3	2.0	> 100%
Consolidated net profit (attributable to the shareholders of the parent company)	**73.2**	**52.2**	**40.2%**
Earnings per share, basic (in €)	1.09	0.80	36.3%
Earnings per share, diluted (in €)	1.08	0.79	36.7%

SALES REVENUE INCREASES BY 12% TO €1.5 BILLION

Group sales revenue continued to develop well in the 2011 reporting year, rising by 12% (currency adjusted: 13%) year-on-year from €1,382 million to €1,540 million. All Business Areas contributed to the increase. With the exception of the Business Unit Rotor Blades (part of the Business Area CFC), all of our Business Units also saw growth. The positive development was driven primarily by the excellent business conditions in the customer industries served by the Business Area GMS, which generated sales revenue growth of 18%.

Higher sales volumes had a positive impact of €190 million on sales revenue, whereas currency losses reduced sales revenue by €16 million compared with the prior year. Decreasing prices, especially in the Business Area PP, reduced Group sales revenue by €28 million.

Distribution of sales revenue

€m	**2011**		2010		Change
PP	54.9%	845.7	55.2%	762.6	10.9%
GMS	30.4%	468.7	28.7%	395.9	18.4%
CFC	14.3%	220.2	15.8%	218.5	0.8%
Other	0.4%	5.6	0.3%	4.8	16.7%
Total	**100%**	**1,540.2**	**100%**	**1,381.8**	**11.5%**

The Business Area Performance Products (PP) generated a year-on-year sales revenue increase of 11% (currency adjusted: 13%) in 2011. The share of the Business Area PP in total Group sales revenue remained unchanged at approximately 55%.

The Business Area Graphite Materials & Systems (GMS) increased sales significantly by 18% (currency adjusted: 17%) due to both volume and price effects and thus recorded the highest increase in sales revenue within the Group. Accordingly, the Business Area GMS thus increased its share in Group sales revenue from 28.7% to 30.4%.

In the Business Area Carbon Fibers & Composites (CFC), sales revenue increased only marginally from the prior year, rising approximately 1% (currency adjusted: 3%). The Business Area CFC's share in Group sales revenue decreased, accordingly, falling from 15.8% in 2010 to 14.3% in 2011.

Please see pages 72–75 for details on the Results of Operations of our Business Areas.

SALES REVENUE BY REGION: EUROPE IS LARGEST SALES MARKET

SGL Group generates, by far, the greatest part of its sales revenue outside of Germany. Foreign sales made up €1,253.8 million, or 81.4%, of Group sales revenue in fiscal year 2011. In fiscal year 2010, the share of foreign sales was €1,145.0 million, or 82.9%. Although Europe is SGL Group's largest sales market by a wide margin, the Asia region registered the highest increase in sales revenue versus the prior year with a rise of approximately 30% in 2011.

Sales revenue by destination

€m	**2011**	**% of total**	2010	Change
Germany	286.4	18.6%	236.8	20.9%
Europe excluding Germany	385.8	25.1%	386.2	–0.1%
North America	347.0	22.5%	333.4	4.1%
Asia	404.9	26.3%	312.7	29.5%
Rest of world*	116.1	7.5%	112.7	3.0%
Total	**1,540.2**	**100%**	**1,381.8**	**11.5%**

* Latin America, Africa, Australia

The significant increase in Asia was due, in particular, to the strength of Far East markets such as China and Malaysia, though business in the Middle East was also well above the previous year. Sales revenue in Europe outside of Germany remained stable, with business in Germany rising sharply on the back of high demand in our GMS and PP Business Areas and, therefore, more than compensating for the lower rotor blade activities. The increase in North America was impacted by currency losses of €25 million, as the US dollar was, on average, weaker in 2011 than in fiscal year 2010. The currency-adjusted increase in North American sales revenue was 12%.

In terms of sales origin, we continued to manufacture mostly in Germany (36%; 2010: 35%), the rest of Europe (38%; 2010: 39%) and North America (22%; 2010: 23%). The decrease in North America was due to currency factors. The share of Asian sales revenue rose gradually to reach 4% as a result of the expansion of our production capacities in China and Malaysia. The strong growth in sales revenue in Germany resulted, in particular, from high revenues from the Business Area PP.

Sales revenue by geographical origin

€m	**2011**	**% of total**	2010	Change
Germany	557.1	36.2%	484.1	15.1%
Europe excluding Germany	585.0	38.0%	542.7	7.8%
North America	339.5	22.0%	314.4	8.0%
Asia	58.6	3.8%	40.6	44.3%
Total	**1,540.2**	**100%**	**1,381.8**	**11.5%**

MIXED ORDER BACKLOG DEVELOPMENT

The order intake situation differed in the various Business Areas over the course of 2011. All in all, the combined value of the order backlog over all Business Units at year-end 2011 was similar to that of the prior year.

In the Business Area **Performance Products**, the order backlog for graphite electrodes was impacted by the more cautious and short-term ordering pattern of our customers compared to prior years. However, order backlog levels have meanwhile reached 2010 levels. Demand for cathodes from the aluminum industry has not yet seen a comprehensive improvement. The fact that current aluminum prices are lower than the average for 2011 is putting cost pressure on aluminum manufacturers, which could negatively impact cathode demand in 2012. Therefore, as in 2011, we once again do not expect PP to be operating at full capacity in 2012.

In the Business Area **Graphite Materials & Systems,** we registered a high level of new orders in the first half of 2011, particularly in the second quarter. However, order levels have been decreasing in Graphite Specialties since September 2011, mainly triggered by overcapacities in the photovoltaic industry. The Business Unit Process Technology ended the year 2011 with a record number of new orders, while new orders in New Markets remained stable.

Performance in the Business Area **Carbon Fibers & Composites** continued to vary depending on the specific Business Unit. Demand in our Aerostructures business (components for the civilian and military aviation industries) hardly showed any cyclical decline as a result of the long-term nature of these industries. In 2011, we, again, succeeded in acquiring new business in this area. With respect to demand and order levels for carbon fibers and composite materials (fabrics, prepregs), we registered slight growth compared with the end of 2010. After cancellation of a major order in our rotor blade business for the wind industry, we recorded new orders from existing customers and anticipate higher delivery levels in 2012 than in the past fiscal year.

COST OF SALES: IMPROVEMENT IN GROSS MARGIN

€m	**2011**	2010	Change
Sales revenue	1,540.2	1,381.8	11.5%
Cost of sales	–1,121.2	–1,012.2	10.8%
Gross profit	**419.0**	**369.6**	**13.4%**
Gross margin	27.2%	26.7%	–

Sales revenue grew by €158.4 million, or 11.5%, compared with the prior year. Cost of sales also rose, increasing by €109.0 million, or 10.8%, which was slightly less than the increase in sales revenue. As in previous years, the higher costs in the 2011 reporting year were mainly due to the continued increase in raw material and energy prices. Personnel expenses rose due to the adjustments necessary under collective bargaining agreements. The total expense for annual bonuses for 2011 to be paid out in 2012 increased due to the improved earnings situation and higher levels of target achievement in the various Business Units. Depreciation on property, plant and equipment, most of which is included in the cost of sales, increased by €4.9 million year-on-year to €71.3 million.

With a rise of 13.4% to €419.0 million (2010: €369.6 million), gross profit again improved by more than sales revenue during the reporting period, as reflected in the increase in the gross margin to 27.2% (2010: 26.7%). This development was primarily driven by the very high capacity utilization level at GMS, as well as savings of approximately €24 million generated through our SGL Excellence initiative. The majority of the savings related to cost of sales, though the functional costs described below were also reduced.

OTHER OPERATING EXPENSES SUPPORT RISE IN EBIT

€m	**2011**	2010	Change
Gross profit	419.0	369.6	13.4%
Selling expenses	–153.0	–132.8	–15.2%
Research and development costs	–40.0	–37.0	–8.1%
General and administrative expenses	–83.0	–73.7	–12.6%
Other operating expenses/income	17.4	2.3	> 100%
Operating profit (EBIT)*	**160.4**	**128.4**	**24.9%**

* Before reversal of impairment losses and impairment losses of €5.1 million in 2011

Other functional costs (selling expenses, research and development costs and general and administrative expenses) increased by a total of 13.3% compared with the prior year to €276.0 million (2010: €243.5 million). The net amount of income and expenses not allocated to functional costs was €17.4 million in fiscal year 2011 (2010: €2.3 million).

SELLING EXPENSES RISE DUE TO HIGHER VOLUMES AND INCREASED FREIGHT COSTS

Selling expenses rose by 15.2% to €153.0 million in 2011 (2010: €132.8 million). The increase in selling expenses was thus somewhat greater than the rise in sales revenue, and it resulted, in particular, from the rise in freight costs due to greater sales volumes and higher costs for transport services during the reporting year.

FURTHER INCREASE IN RESEARCH AND DEVELOPMENT COSTS

Research and development costs increased to €40.0 million in fiscal year 2011, or 2.6% of sales revenue, up from €37.0 million in the prior year. R&D activities in fiscal year 2011 focused on developing new products, applications and processes as part of our innovation initiatives for electrical energy storage systems and in lightweight construction. To this end, we put a globally trendsetting development center for carbon fibers and composites into operation at our Meitingen site (Germany).

GENERAL AND ADMINISTRATIVE EXPENSES INCREASE SLIGHTLY MORE THAN SALES REVENUE

General and administrative expenses increased from €73.7 million in 2010 to €83.0 million in 2011. The additional expense resulted from higher accruals for our management incentive programs (including annual bonuses), wage and salary adjustments, expansion of our topic-related networks with leading universities and implementation of a project to improve our internal reporting system.

IMPROVEMENT IN NET OTHER OPERATING INCOME AND EXPENSES

The net amount of other operating income and expenses was €17.4 million in fiscal year 2011 (2010: €2.3 million). In 2010, other operating income had been impacted by non-recurring income of €4.8 million from the sale of a piece of property. In 2011, other operating income included income from government grants for projects in the amount of €3.7 million (2010: €4.3 million) and income from charging on costs in the amount of €1.7 million to our joint venture with BMW Group (ACF). Other income and expenses related primarily to currency gains and losses, whereby our successful hedging of foreign currency positions in fiscal year 2011 led to a net gain of €4.6 million. In 2010, the balance of currency gains and losses resulted in a loss of €5.7 million.

REVERSAL OF IMPAIRMENT LOSSES EXCEED IMPAIRMENT LOSSES

An impairment test of assets in the Business Unit Carbon Fibers & Composite Materials (CF/CM) led to a partial reversal of impairment losses in the amount of €29.2 million with respect to the impairment loss of €74 million recognized in fiscal 2009. In the Business Unit Rotor Blades (RB), a test of the recoverability of assets led to an impairment loss of €24.1 million attributable to intangible assets and property, plant and equipment. The net amount of impairment losses and reversal of impairment losses was €5.1 million in fiscal year 2011. For detailed information on the impairment tests conducted, please see **Note 8** of the notes to the consolidated financial statements.

OPERATING PROFIT (EBIT) IMPROVES TO €166 MILLION

Operating profit (EBIT) before reversal of impairment losses and impairment losses increased by approximately 25% to €160.4 million (2010: €128.4 million), thus exceeding the rise in sales revenue. The corresponding EBIT margin improved from 9.3% in 2010 to 10.4% in 2011. Netting the reversal of impairment losses against the impairment losses results in a net gain of €5.1 million and increases the operating profit for 2011 to €165.5 million, up from €128.4 million in 2010.

€m	**2011**	2010*	Change
Operating profit (EBIT)	**165.5**	**128.4**	**28.9%**
Loss from At-Equity-accounted investments	–32.6	–11.9	> –100%
Net financing costs	–49.2	–43.3	–13.6%
Profit before tax	**83.7**	**73.2**	**14.3%**
Income tax expense	–22.8	–23.0	0.9%
Non-controlling interests	12.3	2.0	> 100%
Net profit after non-controlling interests (attributable to shareholders of SGL Carbon SE)	**73.2**	**52.2**	**40.2%**
Earnings per share, basic (in €)	1.09	0.80	36.3%
Earnings per share, diluted (in €)	1.08	0.79	36.7%

* Prior-year comparatives adjusted, see **Note 3** of the notes to consolidated financial statements

RESULTS FROM INVESTMENTS ACCOUNTED FOR AT-EQUITY

The **results from At-Equity-accounted investments** amounted to €–32.6 million in the reporting period compared with €–11.9 million in the prior year. The increase in the loss from At-Equity-accounted investments was primarily attributable to non-recurring expenses at PowerBlades and EPG, which added a total of €13.9 million to the loss from At-Equity accounted investments. This figure includes expenses from impairment losses of €5.3 million on our At-Equity investment in PowerBlades and €8.6 million from a write-down on our At-Equity investment in EPG resulting from the poor earnings situation at both companies. We sold our 49% share in PowerBlades to REpower as of year-end 2011. The operating losses for our At-Equity-accounted investments in Benteler SGL, STS, EPG, and Brembo SGL totaled €7.6 million, up from losses of €6.8 million posted in the prior-year period. In addition, start-up costs were incurred in the planned amounts for carbon fiber and carbon fiber fabrics production in our joint ventures with BMW Group.

€m	**2011**	2010	Change
Sales revenue *	168.6	158.0	6.7%

* Aggregated, unconsolidated full values of all At-Equity-accounted investments

The majority of the aggregated, non-consolidated sales revenue of our At-Equity-accounted investments – which amounted to €155.7 million in fiscal year 2011 (2010: €137.0 million) – relate to the Business Area Carbon Fibers & Composites.

BREMBO SGL: CURRENTLY OPERATING AT FULL CAPACITY

Sales revenue decreased slightly in 2011 versus the previous year. The end of the fiscal year did see an increase in new orders, however. As a result, production facilities in Meitingen (Germany) and Stezzano (Italy) are currently running at almost nearly full capacity. Earnings for fiscal year 2011 were at the same level as in the prior year.

BENTELER SGL: STRONG INCREASE IN SALES REVENUE AND LOWER START-UP COSTS IN 2011

In our joint venture with Benteler, sales revenue increased by approximately 60% year-on-year due to the delivery of prototypes. At the same time, start-up costs declined further. Benteler SGL is involved in numerous automotive projects that show great potential and should reach commercialization within the next few years.

SGL AUTOMOTIVE CARBON FIBERS: PROCEEDING AS PLANNED

These joint ventures with BMW Group were established at the end of 2009 for the purpose of producing carbon fibers and carbon fiber fabrics for use in automotive manufacturing. The joint venture began operations in 2010. An ultramodern plant for the manufacture of carbon fibers was completed on schedule in Moses Lake, Washington (USA). Since the summer of 2011, the joint venture has been supplying carbon fibers to the joint facility in Wackersdorf (Germany) in preparation for serial production. In Wackersdorf, the carbon fibers are being processed to lightweight carbon fiber fabrics. The carbon fiber reinforced plastic (CFRP) parts and components are made from these fabrics at the BMW plant in Landshut (Germany). Start-up costs will be incurred in the initial years until the start of serial production. This also applies to 2012.

EPG

Production volumes and sales revenue of precursor, the raw material used for our carbon fibers, increased further in 2011 following the commissioning of a second production line in Kelheim (Germany). EPG's earnings were reduced in the reporting year due to non-cash impairment losses on intangible assets and property, plant and equipment.

POWERBLADES

The joint venture between SGL Rotec and REpower for production of rotor blades was also negatively impacted by the generally difficult situation in the wind energy market in 2011. Sales revenue fell by approximately 23% from the prior year, and losses increased significantly. Effective December 31, 2011, REpower Systems SE acquired the remaining 49% of the shares in PowerBlades GmbH from SGL Rotec GmbH & Co. KG, a majority holding of SGL Group. SGL Group will concentrate on developing the Lemwerder location, which is specialized in the manufacture of rotor blades and molds for wind turbine manufacturers.

STS

In the reporting year, the sales volumes of our joint venture for graphite electrodes in China were below the prior year level. Moreover, earnings for 2011 were impacted by a write-down of inventories.

NET FINANCING COST: NET INTEREST EXPENSE IMPROVES SLIGHTLY

Net financing costs

€m	**2011**	2010*	Change
Interest income	3.1	2.7	14.8%
Interest expense	–16.9	–16.1	–5.0%
Interest cost component on convertible bond (non-cash)	–13.9	–13.9	0.0%
Interest cost component on finance leases (non-cash)	–1.2	–1.1	–9.1%
Interest expense on pensions	–16.8	–17.6	4.5%
Interest expense, net	**–45.7**	**–46.0**	**0.7%**
Amortization of refinancing costs (non-cash)	–2.6	–2.6	0.0%
Foreign currency valuation of Group loans (non-cash)	1.6	–0.4	–
Other financial income and expenses	–2.5	5.7	–
Other financing costs	**–3.5**	**2.7**	**–**
Net financing costs	**–49.2**	**–43.3**	**–13.6%**

* Prior-year comparatives adjusted, see **Note 3** of the notes to consolidated financial statements

Despite the lower average liquidity level, interest income increased by €0.4 million to €3.1 million in the reporting year (2010: €2.7 million) as a result of higher interest for call and term deposits.

Cash interest expense increased by €0.8 million to €16.9 million due to higher interest rates and an increase in the average level of financial liabilities. The fact that the increase was only moderate was due to the partial conversion of our convertible bonds issued in 2007 and 2009, which occurred prior to maturity – on July 1, 2011 and in the fourth quarter of 2011. The conversions resulted in €0.8 million lower interest expenses in the second half of 2011 compared with the prior year. In addition, interest for investment projects to be capitalized pursuant to IFRS reduced the interest expense by €1.6 million (2010: €0.9 million). As in the prior year, the average cash interest rate was 2.3% p. a. in 2011.

Non-cash expense from the imputed interest cost on the two convertible bonds amounted to €13.9 million, as in the previous year. The total amount of the non-cash imputed interest component is equal to the hidden premium recognized in equity upon recognition of the two convertible bonds and increases the interest expense of the cash coupons of 0.75% and 3.50% to a total of 5.8% and 8.4%, respectively. The partial conversion undertaken in 2011 will reduce the non-cash imputed interest component as well as the cash interest component starting in fiscal year 2012, thus providing a relief for the net interest expense.

The imputed interest cost for a heritable building right agreement also resulted in non-cash interest expenses of €1.2 million (2010: expense of €1.1 million), which we have reported separately under net financing costs. Due to lower discount rates, interest expense on pensions was below the prior-year level at €16.8 million in the year under review (2010: expense of €17.6 million). All in all, net interest expense amounted to €45.7 million in the year under review, which is slightly below the figure reported in 2010 (expense of €46.0 million).

The other financing costs of €–3.5 million in 2011 (2010: income of €+2.7 million) primarily include – in addition to the non-cash expense for amortization of the refinancing costs from 2007 and 2009 – the effects of mark-to-market valuation of interest rate and currency hedges as well as currency translation gains and losses arising from intercompany and external local loans. Foreign exchange gains and losses from financing our subsidiaries resulted in non-cash income of €1.6 million versus a non-cash expense of €0.4 million in 2010. The other financial expense of €–2.5 million in 2011 (2010: income of €+5.7 million) primarily consists of currency losses from our bank loans in Malaysia denominated in foreign currency and the effects of non-cash mark-to-market valuations of our interest rate hedges. The net financing cost (excluding the result from At-Equity-accounted investments) thus increased by 14% in the reporting period to €–49.2 million (2010: expense of €–43.3 million).

GROUP TAX RATE AT 27.2%

The income tax expense amounted to €22.8 million in the reporting period (2010: €23.0 million). The tax expense includes an adjustment to deferred tax assets in the German consolidated tax group as a consequence of the impairment test carried out in the Business Unit Rotor Blades in the second quarter of 2011 as well as a previously unrecognized reversal of deferred taxes in the US based on the good business outlook and the resulting improved ability to utilize losses carried forward in the US. Moreover, certain losses from At-Equity-accounted investments were not taken into account for tax purposes. These factors decreased the reported tax rate to 27.2% (2010: 31.4%). In fiscal year 2011, cash taxes amounted to €12.5 million (2010: €19.7 million), corresponding to a cash tax rate of 14.9% (2010: 26.9%). In addition to continuing to utilize loss carryforwards in the US and Germany, we also received tax refunds in the year under review. The tax refunds relate to taxes paid in previous years.

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

SIGNIFICANT INCREASE IN NON-CONTROLLING INTERESTS

As of our financial report on the first half of 2011, we began reporting the share in the operating result (including impairment) of our minority interests in partnerships under non-controlling interests (minority interests). The partnerships within our Group are SGL Rotec and SGL Kümpers. The operating loss of both companies is included in full in our Group EBIT. We report the share of the loss attributable to minority interests under "non-controlling interests" directly above "consolidated net profit/loss attributable to the shareholders of the parent company," which increases accordingly. Prior to the 2011 half-year report, we had reported minority interests of partnerships under "net financing costs." The comparative figures were adjusted accordingly. SGL Group believes that the new approach of presenting the non-controlling interests of consolidated partnerships in profit or loss increases reporting transparency and provides more relevant information, because this approach is consistent with the treatment of non-controlling interests in subsidiaries other than partnerships.

CONSOLIDATED NET PROFIT UP 40% TO €73.2 MILLION

Including non-controlling interests, the consolidated net profit for the year amounted to €73.2 million, an increase of 40.2% on the 2010 figure of €52.2 million.

Based on an average number of shares of 67.0 million, basic earnings per share increased to €1.09 (2010: €0.80). In calculating diluted earnings per share, the shares that may potentially be issued under the 2007 and 2009 convertible bonds as well as under the Stock Option Plan and the Stock Appreciation Rights Plan are also taken into account. The average number of shares for 2011 thus increased to 67.5 million, leading to diluted earnings per share of €1.08. In 2010, diluted earnings per share amounted to €0.79 per share.

Five-Year Overview of Results of Operations

€m	**2011**	2010	2009	2008	2007 [2]
Sales revenue	1,540.2	1,381.8	1,225.8	1,611.5	1,373.0
Operating profit (EBIT) [1]	160.4	128.4	111.0	306.4	258.4
in % of sales revenue	10.4%	9.3%	9.1%	19.0%	18.8%
Net profit/loss for the year	73.2	52.2	–60.8	189.3	133.5
in % of sales revenue	4.8%	3.8%	–5.0%	11.7%	9.7%
Earnings per share, basic (in €)	1.09	0.80	–0.93	2.95	2.10

[1] Before reversal of impairment losses and impairment losses of €5.1 million in 2011 and an impairment loss of €74.0 million in 2009
[2] Before adjustment of the heritable building rights agreement in accordance with IAS 17

Results of Operations of the Business Areas

PERFORMANCE PRODUCTS (PP): DOUBLE-DIGIT INCREASE IN SALES REVENUE

Performance Products (PP)

€m	**2011**	2010	Change
Sales revenue	845.7	762.6	10.9%
EBITDA	179.9	177.5	1.4%
Operating profit (EBIT)	143.3	144.1	–0.6%
Return on sales	16.9%	18.9%	–
Capital expenditure for intangible assets and property, plant and equipment	61.0	66.3	–8.0%
Cash generation*	118.2	95.9	23.3%
Depreciation and amortization	36.6	33.4	9.6%
Number of employees (at year-end)	2,094	2,100	–0.3%

* EBITDA less capital expenditure and change in working capital

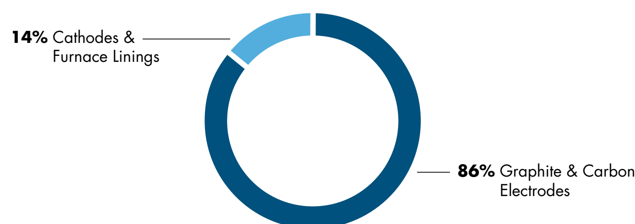
Sales revenue in the Business Area PP rose by 11% to €845.7 million in 2011 (2010: €762.6 million). The currency adjusted increase in sales revenue amounted to 13%. The sales increase was driven by continued improvement in graphite electrode volumes resulting from the global growth in electric steel production. As expected, cathode sales started recovering slightly in the third quarter of 2011, albeit at lower sales. The first half of 2011 was still impacted by the investment pause and destocking in the aluminum industry seen throughout 2010.

Despite the rise in sales revenue, EBIT remained at nearly the same level as in the previous year at €143.3 million (2010: €144.1 million), mainly due to lower sales prices, particularly for cathodes. Cost savings from our SGL Excellence initiative amounted to approximately €10 million. The start-up costs for commissioning our new production facility in Banting (Malaysia) also weighed on earnings of the Business Area PP. The return on sales for full-year 2011 thus declined to 16.9% compared with the previous year (2010: 18.9%).

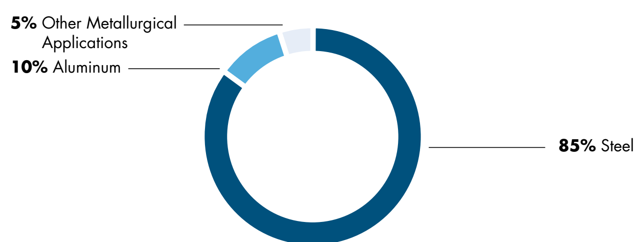
Capital expenditure in intangible assets and property, plant and equipment dropped by 8% year-on-year to €61.0 million, and there was a continued focus on construction of the aforementioned plant in Malaysia. Necessary replacement and environmental protection investments were also made, particularly at our sites in La Coruña (Spain) and Racibórz (Poland).

With a state-of-the-art carbon and graphite plant under construction in Malaysia since 2007, the Business Area PP will have at its disposal a fully integrated graphite electrode plant starting in the first quarter of 2012 and a fully integrated cathode plant in the course of the year in the high-growth Asian market. The first production module of the multistage graphite electrode facility went into operation at the beginning of 2009. Additional production modules were completed and commissioned during the course of fiscal year 2010. Finally, a green manufacturing plant for graphite electrodes was constructed in 2011 which will be put into operation at the start of 2012.

Sales revenue by Business Unit, 2011 (PP)



Sales revenue by customer industry, 2011 (PP)



GRAPHITE MATERIALS & SYSTEMS (GMS): NEW RECORD LEVELS IN SALES REVENUES, EBIT AND RETURN ON SALES

Graphite Materials & Systems (GMS)

€m	2011	2010	Change
Sales revenue	468.7	395.9	18.4%
EBITDA	101.6	54.9	85.1%
Operating profit (EBIT)	84.0	36.9	> 100%
Return on sales	17.9%	9.3%	–
Capital expenditure for intangible assets and property, plant and equipment	35.1	21.1	66.4%
Cash generation*	43.5	18.7	> 100%
Depreciation and amortization	17.6	18.0	–2.2%
Number of employees (at year-end)	2,811	2,647	6.2%

* EBITDA less capital expenditure and change in working capital

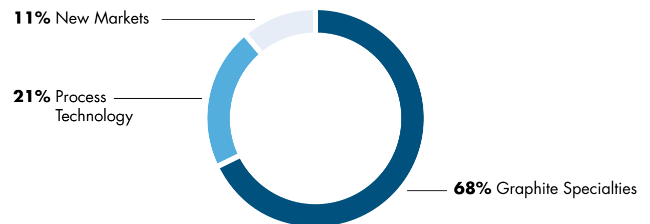
Sales revenue in the Business Area GMS rose by 18% to €468.7 million in fiscal year 2011, up from €395.9 million in 2010. The currency adjusted increase in sales revenue was 17%. The growth was attributable to very high demand from all customer industries, especially in the solar, semiconductor and LED sectors. Sales revenue in 2010, particularly in the first quarter, was still at a low level due to the global financial crisis.

EBIT more than doubled in 2011, increasing by €47.1 million to €84.0 million, and the return on sales rose to 17.9% (2010: 9.3%). The positive earnings development is attributable to a high capacity utilization, successful implementation of price increases and measures introduced to improve earnings power. For example, cost savings of €8 million were realized under the SGL Excellence initiative.

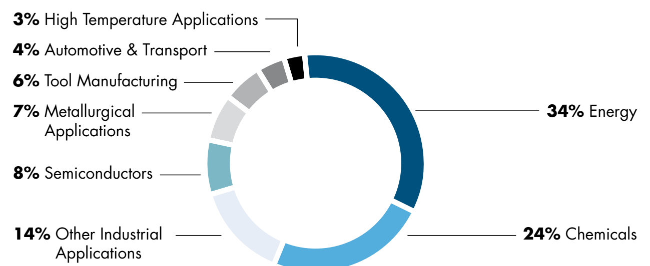
Capital expenditure increased from €21.1 million in 2010 to €35.1 million in 2011. Major projects included construction of a new production center for isostatic graphite at our site in Bonn (Germany), establishment of additional coating capacities in St. Marys, Pennsylvania (USA), development of our site in Shanghai (China) and construction of a production site in Pune (India). We also made a number of replacement and environmental protection investments in Chedde (France) and Morganton, North Carolina (USA).

The new production center in Bonn is expected to be completed in 2012 and to begin operations in 2013. This will increase SGL Group's global isostatic graphite capacity from 5,000 to 15,000 tons p. a. over the next few years. A new, large press in Bonn will enable SGL Group to meet growing demand for large molded parts made of isostatic graphite.

Sales revenue by Business Unit, 2011 (GMS)



Sales revenue by customer industry, 2011 (GMS)



CARBON FIBERS & COMPOSITES (CFC): DEVELOPMENT IMPACTED BY FURTHER DELAYS FROM THE WIND ENERGY INDUSTRY

Carbon Fibers & Composites (CFC)

€m	**2011**	2010	Change
Sales revenue	220.2	218.5	0.8%
EBITDA [1]	–5.3	4.8	–
Operating profit (EBIT) [1]	–16.9	–6.6	> –100%
Return on sales	–7.7%	–3.0%	–
Capital expenditure for intangible assets and property, plant and equipment	28.8	29.6	–2.7%
Cash generation [2]	–80.2	–55.8	–43.7%
Depreciation and amortization	11.7	11.4	2.6%
Number of employees (at year-end)	1,469	1,476	–0.5%

[1] Before reversal of impairment losses and impairment losses of €5.1 million in 2011
[2] EBITDA less capital expenditure and change in working capital

Sales revenue in the Business Area Carbon Fibers & Composites rose only slightly, increasing by 1% to €220.2 million in fiscal year 2011 (2010: €218.5 million). The currency adjusted increase in sales revenue was 3%.

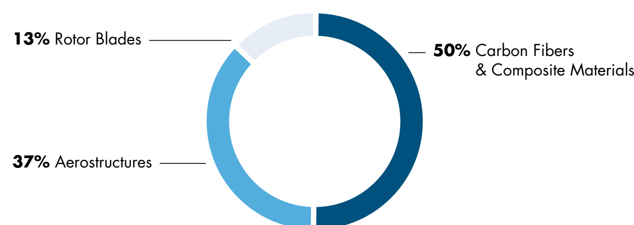
EBIT in the Business Area CFC amounted to €–16.9 million (before effects of the impairment tests conducted in the second quarter of 2011) versus €–6.6 million in 2011. As described in the interim reports for 2011, the loss in the Business Area CFC is solely attributable to the disappointing development of our rotor blade business (SGL Rotec), which sells to the wind energy sector. The project-related lack of sales revenue at SGL Rotec in fiscal year 2011 had a disproportionately high impact on earnings due to the high level of fixed costs in rotor blade production. The Business Area CFC excluding SGL Rotec generated slightly positive EBIT, as the Carbon Fibers & Composite Materials and Aerostructures Business Units on the whole showed satisfactory performance. Cost savings from our SGL Excellence Initiative amounted to approximately €5 million. Return on sales fell from –3.0% in 2010 to –7.7% for fiscal year 2011.

As described in our interim financial report for the first half of 2011, IFRS rules required that we partially reverse the impairment losses on intangible assets and property, plant and equipment initially recognized in 2009. A reversal of €29.2 million was recognized in the second quarter of 2011 due the significantly improved prospects for the Business Unit Carbon Fibers & Composite Materials compared with year-end 2010. The impairment loss had originally been recognized in the amount of €74.0 million at the end of the 2009 fiscal year.

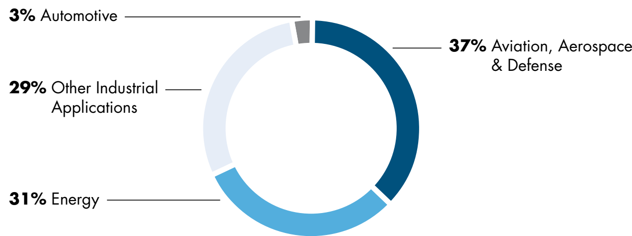
We were also required to recognize an impairment loss of €24.1 million on intangible assets and property, plant and equipment in the Business Unit Rotor Blades in 2011 due to the difficulties of our rotor blade customers and persistently sluggish investment activity in the wind energy sector. The net impact of the impairment losses and reversal of impairment losses resulted in income of €5.1 million. For more information, please see **Note 8**.

In the Business Area CFC, capital expenditures focused on further expansion of automation technologies and a new production facility at HITCO in Gardena, California (USA). In Lemwerder (Germany), a number of investments were made in connection with the takeover of the EADS building. Investments were made in expanding automation technologies at SGL Kümpers in Lathen (Germany) and in environmental protection at our carbon fiber plants in Scotland. At €28.8 million, total capital expenditure for intangible assets and property, plant and equipment for the Business Area CFC remained at approximately the prior-year level.

Sales revenue by Business Unit, 2011 (CFC)



Sales revenue by customer industry, 2011 (CFC)



Central T&I costs and corporate costs

€m	2011	2010	Change
Sales revenue/other revenue	5.6	4.8	16.7%
Operating profit (EBIT)			
Central T&I costs	–12.9	–12.6	–2.4%
Corporate costs	–37.1	–33.4	–11.1%
Number of employees (T&I)*	147	127	15.7%
Number of employees (corporate)*	73	62	17.7%

* At year-end

Central T&I spending in 2011 remained at nearly the same level as in the previous year at €12.9 million (2010: €12.6 million). These costs relate to those research and development initiatives that are not allocated to the Business Areas and Business Units due to their long-term, fundamental nature.

Corporate costs increased to €37.1 million in 2011 from €33.4 million in the previous year. However, the 2010 figures included non-recurring income of €4.8 million from a property sale. Adjusted for this factor, corporate costs fell by €1.1 million, or 2.9%.

Financial Position

PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The primary objective of financial management at SGL Group is to maintain the Group's financial strength and to ensure solvency at all times. As in past years, we place great importance on our internal financing, which contributes significantly to the financing of our business growth.

SGL Group's financial management is conducted centrally in order to hedge interest rate and currency risks in the best possible way, ensure compliance with lending provisions, optimize financing costs and utilize economies of scale. The Group's financial management activities primarily extend to cash and liquidity management, group financing using bank and capital market products, financing activities for Group companies, customer credit management and the management of interest rate and currency risks.

Group Treasury, a centralized function at SGL Carbon SE, the Group holding company, governs world-wide financial management activities and is supported in its activities by regional financial centers in Charlotte, North Carolina (USA) and Shanghai (China), as well as by our local subsidiaries.

LIQUIDITY MANAGEMENT

Operational liquidity management is centrally coordinated and undertaken in cooperation with our subsidiaries on a global basis. Insofar as permitted by legal and economic constraints, 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 are automated and settled via a central in-house cash center without the need for external bank accounts. SGL Carbon SE acts as a clearing center for the legal entities participating in this process. To the extent permissible, the weekly settlement of supplier invoices is handled through the global in-house cash center, thus allowing central management of a large portion of the Group's

global cash outflows. In addition, SGL Group constantly endeavors to increase the efficiency and transparency of payment transactions by maintaining a high degree of standardization and implementing continuous improvements processes. In order to secure the standards we have attained on a permanent basis, in recent years, we have introduced key performance indicators (KPIs) that allow us to constantly measure the degree of payment transaction standardization we have achieved and the related average costs, as well as to continuously develop our system further.

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, and by using available liquidity and credit lines, SGL Group ensures that it has adequate liquidity reserves at all times. These reserves allow SGL Group to respond to cash flow fluctuations during the year in a flexible manner and to meet all payment obligations on time at all times.

Our financing agreements include stipulations made by investors regarding the investment of available cash funds. These stipulations form the foundation of our conservative investment strategy. 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 as well as the financial stability and systemic importance of our business partners.

GROUP FINANCING

Group financing is geared to the strategic business plans of the operating Business Units as well as central Group planning. Since the start of the global financial crisis, SGL Group has been paying even closer attention to the financing opportunities presenting themselves on the financial markets and to trends in the availability of funds and the cost of procuring them. For this reason, 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 of the Group's financing objectives. Our committed credit lines and existing liquidity reserve are sufficient to meet our anticipated financing requirements for fiscal year 2012.

In past years, selected properties, IT equipment and vehicles have been financed, in part ,via operating leases. Further details can be found in **Note 28** of the notes to the consolidated financial statements.

MARKET PRICE RISK

In order to limit finance-related market price risk, 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 cash flows with regard to the following major risk positions:

- US dollar – Euro
- Japanese yen – Euro
- Euro – Polish zloty
- Pound sterling – US dollar
- US dollar – Canadian dollar

Currency forwards are the primary instrument used by the Group to hedge currency risk. To manage interest rates, SGL Group uses interest-rate cap transactions as hedging instruments. The anticipated risk from currency fluctuations and interest rate changes is adequately covered for fiscal year 2012. 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 30** of the notes to the consolidated financial statements.

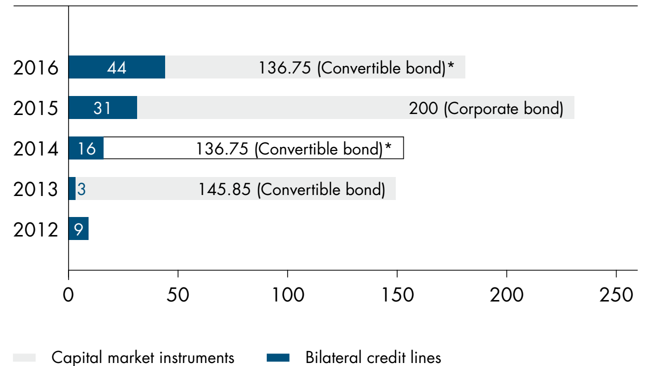
FINANCING ANALYSIS

SGL Group's financing is primarily composed of a corporate bond in the amount of €200 million (coupon = 3-month EURIBOR +1.25%, maturing in 2015), a convertible bond in the initial amount of €200 million (€145.85 million after conversion in the reporting year; coupon of 0.75%, maturing in 2013) and a convertible bond in the initial amount of €190 million (€136.75 million after conversion in the reporting year; coupon of 3.5%, maturing in 2016, bondholder put option in 2014). The early partial conversion to shares from the 2007 and 2009 convertible bonds in a total amount of €107.40 million in 2011 reduced SGL Group's debt accordingly. The conversions also added a total of €98 million to equity, thus having a positive effect on gearing, which is one of the Group's key performance indicators. Gearing is calculated by dividing net debt by equity attributable to the shareholders of SGL Carbon SE. Therefore, a reduction in gearing is to be seen positively.

At the start of 2011, the Company concluded an agreement with its core banks to prematurely prolong the existing syndicated credit line in the amount of €200 million at unchanged terms until the end of April 2015. The syndicated credit line is available to the Company to compensate for fluctuations in working capital during the year as well as for general corporate financing purposes. It can also be used as a bridge when financing instruments fall due.

In addition, local credit lines have been taken out in US dollars and Malaysian ringgits to finance our investments in Malaysia. In fiscal year 2011, the Company agreed with the financing banks on extending the maturity profile and on deferring amortization until 2014 at nearly unchanged conditions. This will have a positive impact on medium-term cash outflows. All in all, undrawn credit facilities amounting to €215.4 million were available to SGL Group to cover working capital and investments as of December 31, 2011 (2010: €227.4 million).

Debt profile in €m



* Maturing in 2016, convertible bond put option in 2014

Since 2004, SGL Group has commissioned the 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 Group's credit standing. At present, SGL Group has ratings of Ba2 and BB from Moody's and Standard & Poor's, respectively.

In general, rating agencies differentiate between investment grade and non-investment grade companies, with these categories being sub-divided into further classes known as rating categories. The classification is based on two factors: the business risk profile and the financial risk profile of a company. Business risk and financial risk are determined individually as part of the rating process. As such, a company's rating (issuer rating) is a combination of business risk and financial risk. The classification of SGL Group at the higher end of the non-investment grade category reflects our appropriate financial risk profile as well as our business risk profile, which the rating agencies view as cyclical and to some extent volatile.

The corporate bond issued by SGL Group was awarded an investment grade rating of BBB- by S&P due to its top-ranking security structure. S&P gave a BB rating to the two unsecured convertible bonds that are subordinate to the corporate bond. Moody's has issued a Ba1 rating for the corporate bond, which is the highest non-investment grade rating, and a Ba3 rating for the convertible bonds.

In June 2010, Standard & Poor's revised its outlook from negative to stable. The upward revision of the rating was in response to the good performance of Group EBITDA and the continued good outlook for the past fiscal year, thus doing justice to our ability to finance growth-related investments from our own resources to a significant degree.

Rating agencies have awarded the following corporate ratings to SGL Group:

Rating agency	Rating	Date of rating
Moody's	**Ba2** (Outlook: stable)	May 2011
Standard & Poor's	**BB** (Outlook: stable)	February 2012

The rating agencies have published the following ratings for the corporate bond and the convertible bonds:

Corporate bond

Rating agency	Rating	Date of rating
Moody's	**Ba1**	May 2011
Standard & Poor's	**BBB–**	February 2012

Convertible bond

Rating agency	Rating	Date of rating
Moody's	**Ba3**	May 2011
Standard & Poor's	**BB**	February 2012

Thanks to the credit ratings issued by the rating agencies, SGL Group continues to have stable access to the capital markets should it decide to issue any future bonds.

FREE CASH FLOW REMAINS NEGATIVE DUE TO GROWTH PROJECTS

SGL Group continued to pursue its growth strategy in 2011. Capital expenditure for the construction of our new graphite electrode and cathode plant in Banting (Malaysia) and targeted replacement and expansion investments was again well in excess of the depreciation and amortization charge in 2011. The majority of this capital expenditure was financed with operating cash flow in order to limit the increase in net financial debt. Free cash flow improved to €–33.1 million in 2011 compared with the prior-year figure of €–38.3 million.

Liquidity and capital resources

€m	**2011**	2010	Change
Cash provided by operating activities	136.2	115.5	17.9%
Cash used in investing activities	–169.3	–153.8	–10.1%
Free cash flow*	**–33.1**	**–38.3**	**13.6%**
Cash provided by/ used in time deposits	120.0	–200.0	–
Cash used in/provided by financing activities	–10.7	18.0	–
Foreign exchange rate changes	0.8	2.7	–70.4%
Cash and cash equivalents at beginning of year	84.7	302.3	–72.0%
Cash and cash equivalents at end of year	**161.7**	**84.7**	**90.9%**
Time deposits at end of year	80.0	200.0	–60.0%
Total liquidity	**241.7**	**284.7**	**–15.1%**
Net change in liquidity	**–43.0**	**–17.6**	**–144.3%**

* Defined as cash provided by operating activities less cash used in investing activities before time deposits

The cash flow statement shows the change in cash and cash equivalents of SGL Group in the reporting period and is composed of net cash provided by operating activities, net cash used for investing activities and net cash provided by/used in financing 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 six months (€80.0 million).

SHARP INCREASE IN NET CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities totaled €136.2 million in 2011 (2010: €115.5 million). The increase on the prior year was primarily due to the improved operating result and a decrease in tax payments of €7.2 million to €12.5 million (2010: €19.7 million). By contrast, working capital rose by a total of €61.0 million (2010: €38.8 million) as a result of increased business activity. Interest payments increased slightly from the previous year's level to €14.8 million (2010: €13.6 million).

NET CASH USED IN INVESTING ACTIVITIES UP FROM 2010

Net cash used in investing activities increased by €15.5 million year-on-year to €169.3 million. This item contains payments for intangible assets and property, plant and equipment, investments in our At-Equity-accounted investments and other payments and receipts. We limited payments for capital expenditure on intangible assets and property, plant and equipment to €138.8 million in the reporting year (2010: €129.5 million after deducting payments from BMW Group amounting to €7.4 million).

CAPITAL EXPENDITURE REMAINS HIGHER THAN DEPRECIATION/AMORTIZATION

Capital expenditure and depreciation/amortization in intangible assets and property, plant & equipment

€m	**2011**	2010	2009	2008	2007
Capital expenditure	139	137	154	239	130
Depreciation and amortization	71	66	61	54	49

Capital expenditure on intangible assets and property, plant and equipment in fiscal year 2011 was distributed as follows: 44% for PP (€61.0 million) 25% for GMS (€35.1 million), 21% for CFC (€28.8 million) and 10% (€13.9 million) for central projects (2010: 49% for PP, 15% for GMS, 22% for CFC and 14% for central projects).

Capital expenditure in the Business Area PP continued to focus on the construction of the plant in Banting (Malaysia). Necessary replacement and environmental protection investments were also made, particularly at our locations in La Coruña (Spain) and Racibórz (Poland).

In the Business Area GMS, capital expenditure in the reporting year related to expanding our isostatic graphite capacities at our site in Bonn (Germany) and investments in expanding capacities in St. Marys, Pennsylvania (USA), Shanghai (China) and Pune (India). We also made a number of replacement and environmental protection investments in Chedde (France) and Morganton, North Carolina (USA) as well as for the Sigraflex facility in Meitingen (Germany), which had been damaged by fire.

In the Business Area CFC, investment activities in 2011 focused on further expansion of automation technologies and a new production building at HITCO in Gardena, California (USA). In Lemwerder (Germany), a number of investments were made in connection with the acquisition of the EADS buildings. At SGL Kümpers in Lathen (Germany), investments were made in expanding automation technologies. Finally, for our carbon fiber plants in Scotland, investments were made for environmental protection.

Central capital expenditure in the reporting year focused on infrastructure investments at the Meitingen location and projects to improve IT systems in the reporting year.

Other intangible assets and property, plant and equipment therefore increased to €886.6 million as of December 31, 2011 (December 31, 2010: €794.3 million). Other than capital expenditure, the increase was mainly attributable to initial consolidation of the land and buildings in Lemwerder purchased from EADS, the reversal of impairment losses at Carbon Fibers & Composite Materials, the impairment losses recognized at Rotor Blades and currency effects.

Investments in our At-Equity-accounted companies decreased to €14.2 million (2010: €18.0 million). In the year under review, this figure related to the scheduled capital increase of €7.6 million at our joint ventures with BMW Group as well as payments for capital increases to expand capacity at our joint ventures with Lenzing (EPG) and Benteler (Benteler SGL) totaling €6.5 million.

Payments for business combinations included the last installment on the purchase price for the acquisition of ASL Aircraft Services GmbH at the site of our rotor blade production, SGL Rotec, in Lemwerder (Germany) of €4.2 million, an interest in the operating company of SGL arena in Augsburg (Germany) of €5.5 million and securities of €12.3 million that are classified as financial instruments available for sale. In 2010, net cash used in investing activities already contained advance payments of €12.4 million for the acquisition of ASL Aircraft Services GmbH, which indirectly owns the land and buildings at the Lemwerder site through its shareholding in a property company.

Proceeds from the sale of intangible assets and property, plant and equipment in the reporting year included proceeds of €5.7 million from the sale of technical equipment to our joint venture with BMW Group in Moses Lake (USA), which SGL Group had purchased in advance for development purposes. In 2010, this item contained the proceeds from the sale of a piece of property in Italy in the amount of €6.1 million.

NET CASH USED IN/PROVIDED BY FINANCING ACTIVITIES: SWING IN ANNUAL COMPARISON

In the year under review, net cash used in financing activities amounted to €–10.7 million compared to €18.0 million in 2010. The change was predominantly due to a payment for the acquisition of an additional 23.9% of the shares in SGL Rotec GmbH & Co. KG as well as payment of financing costs for extending a syndicated credit line until 2015. The net cash inflow in the prior year was the result of additional drawings on local credit lines for the construction of the new production facility in Malaysia.

CASH FUNDS AT €242 MILLION

Available cash funds decreased from €284.7 million in 2010 to €241.7 million at the end of fiscal year 2011, mainly due to the negative free cash flow of €–33.1 million. At the end of the fiscal year, cash funds included short-term time deposits of €80.0 million (2010: €200.0 million).

CONTRACTUAL PAYMENT OBLIGATIONS

The most significant contractual payment obligations comprise the repayment of debt, purchasing obligations and obligations under operating leases. The total principal amount of debt repayment obligations was €585.0 million (2010: €695.2 million). The credit lines drawn upon locally in Malaysia are to be repaid in installments. A total of €54.15 million of the convertible bond issued in 2007 with an original principal value of €200 million was converted in fiscal year 2011. The outstanding bonds in the amount of €145.85 million are due for repayment in cash in 2013 unless holders exercise their conversion rights before maturity, in which case up to 4.0 million new bearer shares may be created (2010: 5.5 million shares). A total volume of €53.25 million of the convertible bond issued in 2009 with an original principal value of €190 million was converted in fiscal year 2011. The outstanding principal amount of €136.75 million is due for repayment in 2016 in cash unless the bondholders exercise their conversion rights before maturity, in which case up to 4.7 million new bearer shares will be created (2010: 6.5 million). The bondholders may also return their bonds prior to maturity in 2014. The corporate bond in the amount of €200 million is due in 2015.

As of December 31, 2011, trade payables, derivative financial instruments and other financial liabilities totaled €240.2 million (December 31, 2010: €200.5 million). Of this total, liabilities of €34.6 million were due after one year (December 31, 2010: €45.2 million). Income tax liabilities and other liabilities amounted to an additional €48.0 million at the end of 2011 (December 31, 2010: €47.0 million), the vast majority of which were current. Further details can be found in **Note 26** of the notes to the consolidated financial statements.

DIVIDENDS

The dividend distribution is calculated in accordance with the net retained profits reported by SGL Carbon SE in its annual financial statements prepared pursuant to the provisions of the German Commercial Code. SGL Carbon SE did not pay any dividends in previous years.

After deducting taxes, the net income of SGL Carbon SE for fiscal year 2011 was €3.6 million. Together with the profit brought forward from the previous year amounting to €7.6 million and a withdrawal amounting to €8.8 million out of retained earnings, the total balance sheet profit amounts to €20.0 million at year end 2011.

Net Assets

Five-Year Overview of Net Assets

€m	**Dec. 31, 2011**	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007 [5]
Total assets	2,271.3	2,113.3	1,891.0	1,791.1	1,473.6
Equity attributable to the shareholders of the parent company	1,041.1	864.4	749.4	762.7	603.9
Equity ratio	45.8%	40.9%	39.6%	42.6%	41.0%
Working capital [1]	673.9	605.6	545.3	578.0	485.1
Capital employed [2]	1,677.9	1,516.4	1,338.5	1,356.2	1,053.9
Return on capital employed (ROCE) [3]	10.0%	9.0%	8.2%	25.4%	27.0%
Net debt	343.3	410.5	367.9	332.6	285.2
Gearing [4]	0.33	0.47	0.49	0.44	0.47

[1] Defined as the sum of inventories, receivables from long-term construction contracts, and trade receivables less trade payables
[2] Defined as the sum of goodwill, other intangible assets, property, plant and equipment, and working capital
[3] Ratio of operating profit/loss (EBIT) before reversal of impairment losses and impairment losses to average capital employed
[4] Net debt to equity attributable to the shareholders
[5] Before adjustment of the heritable building right agreement in accordance with IAS 17

EQUITY STRENGTHENED, DEBT REDUCED

As of December 31, 2011, total assets had increased by €158.0 million, or 7.5%, to €2,271.3 million (2010: €2,113.3 million). Currency gains totaling €16.4 million due to the softening of the euro against nearly all other currencies contributed to the rise in total assets. The balance sheet ratios improved versus the previous year, largely due to early conversion on the part of investors of the 2007/2013 and 2009/2016 convertible bonds in the amounts of 27% and 28%, respectively, during the fiscal year. Our non-current liabilities thus decreased by €98.0 million and net debt by €107.4 million as of the balance sheet date. As a result, the Group further reduced gearing – the ratio of net debt to shareholders' equity – to 0.33 in 2011 (December 31, 2010: 0.47) despite a continued high level of investment spending. In addition, the equity ratio improved significantly, rising to 45.8% (December 31, 2010: 40.9%). As

a capital-intensive manufacturing company, SGL Group has a high proportion of non-current assets, 86% of which are financed by equity (December 31, 2010: 79%). The return on capital employed (ROCE) – defined as the ratio of operating profit to average capital employed – rose to 10.0% before impairment losses and reversal of impairment losses in the year under review (December 31, 2010: 9.0%).

Balance sheet structure

€m	**Dec. 31, 2011**	Dec. 31, 2010	Change
ASSETS			
Non-current assets	1,212.7	1,097.0	10.5%
Current assets	1,058.3	1,010.3	4.8%
Assets held for sale	0.3	6.0	–95.0%
Total assets	**2,271.3**	**2,113.3**	**7.5%**
EQUITY and LIABILITIES			
Equity attributable to the shareholders of the parent company	1,041.1	864.4	20.4%
Non-controlling interests	14.0	13.5	3.7%
Non-current liabilities	881.0	928.7	–5.1%
Current liabilities	335.2	306.7	9.3%
Total equity and liabilities	**2,271.3**	**2,113.3**	**7.5%**

During fiscal year 2011, deferred tax assets were again offset against deferred tax liabilities at the parent company level. Further details can be found in **Note 22** of the notes to the consolidated financial statements.

Assets

Non-current assets rose by €115.7 million to €1,212.7 million in the reporting year (December 31, 2010: €1,097.0 million). The increase was primarily the result of capital expenditure for property, plant and equipment, which exceeded depreciation by €67.5 million, as well as currency effects of €10.1 million. In addition, receivables from long-term construction contracts increased from €51.0 million as of December 31, 2010, to €72.4 million as of December 31, 2011.

Current assets rose by €48.0 million to €1,058.3 million in fiscal year 2011 (December 31, 2010: €1,010.3 million), mainly due to increased levels of inventories and receivables relating to the strong growth in sales revenue. Currency factors such as the strong US dollar also impacted this figure, resulting in an increase of €6.3 million compared with the prior year. Cash funds decreased from €284.7 million as of December 31, 2010 to €241.7 million as of December 31, 2011.

Assets held for sale decreased from €6.0 million as of December 31, 2010 to €0.3 million as of December 31, 2011. The previous year's figure related primarily to two furnaces that were installed for development purposes at our plant in Evanston, Wyoming (USA) and sold to our joint venture with BMW Group in 2011.

Equity and liabilities

Equity increased by €177.2 million to €1,055.1 million in fiscal year 2011 (December 31, 2010: €877.9 million). The equity ratio (excluding non-controlling interests) increased from 40.9% at the end of 2010 to 45.8% at the end of 2011, mainly as a result of the partial conversion of convertible bonds in the amount of €98.0 million and the net profit for the year of €73.2 million.

Non-current liabilities decreased by a total of €47.7 million to €881.0 million in 2011 (December 31, 2010: €928.7 million). The reduction was due to the partial conversion of the convertible bonds in the amount of €98.0 million. The decline was partially offset by an increase in provisions for pensions, which was necessary due to lower discount rates.

Current liabilities increased by €28.5 million to €335.2 million as of the end of 2011 (December 31, 2010: €306.7 million), mainly due to higher trade payables, which rose by €47.5 million year-on-year as a result of the positive business development. The current portion of interest-bearing loans decreased by €22.1 million to €6.2 million as of December 31, 2011 as a result of the amended maturity structure (December 31, 2010: €28.3 million).

Net debt

€m	**Dec. 31, 2011**	Dec. 31, 2010	Change
Current and non-current financial liabilities	556.6	642.4	–13.4%
Remaining interest component for the convertible bonds	21.8	44.9	–51.4%
Refinancing costs included	6.6	7.9	–16.5%
Total debt	**585.0**	**695.2**	**–15.9%**
Time deposits	80.0	200.0	–60.0%
Cash and cash equivalents	161.7	84.7	90.9%
Total liquidity	**241.7**	**284.7**	**–15.1%**
Net debt	**343.3**	**410.5**	**–16.4%**

NET DEBT REDUCED BY 16%

Financial liabilities are composed of our corporate bond, two convertible bonds, liabilities to local banks and other financial liabilities, as well as the remaining net interest cost 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.” Cash funds comprise “cash and cash equivalents” as well as “time deposits” (with a residual term of less than 12 months) as stated in the consolidated balance sheet.

Net debt was impacted by the partial conversion of the convertible bonds in fiscal year 2011. Net debt of SGL Group amounted to €343.3 million at year end (December 31, 2010: €410.5 million). This figure included cash and time deposits in the amount of €241.7 million (December 31, 2010: €284.7 million), current and non-current financial debt of €556.6 million (December 31, 2010: €642.4 million), the remaining interest cost components of the two convertible bonds in the amount of €21.8 million (December 31, 2010: €44.9 million) and the remaining refinancing costs of €6.6 million (December 31, 2010: €7.9 million). Net debt has thus declined by €67.2 million from that as of December 31, 2010.

Consolidated Statement of Changes in Equity

€m	Equity*	Minority Interest	**Total equity**
Balance as of Dec. 31, 2010	864.4	13.5	877.9
Net profit/loss for the year	73.2	–12.3	60.9
Other comprehensive income	–26.0	0.5	–25.5
Total comprehensive income	**47.2**	**–11.8**	**35.4**
Capital increases from share-based payment programs	26.5	–	26.5
Partial conversion of bonds	98.0	–	98.0
Other changes in equity	5.0	12.3	17.3
Balance as of Dec. 31, 2011	**1,041.1**	**14.0**	**1,055.1**

* Attributable to shareholders of the parent company

Equity attributable to the shareholders increased to a total of €1,041.1 million as of December 31, 2011 (December 31, 2010: €864.4 million). The equity ratio thus increased to 45.8%, up from 40.9% in the previous year. The increase resulted primarily from the net profit for the year of €73.2 million, the effects from the partial conversion of the convertible bonds in the amount of €98.0 million and capital increases and

additions to capital reserves from share-based payment plans of €26.5 million (2010: €20.4 million). Gains and losses recorded directly in equity amounted to a loss of €–26.0 million (2010: gain of €42.4 million) and mainly comprise the changes in cash flow hedges recognized outside profit or loss and our pension obligations.

Bondholders may exercise their conversion rights related to the convertible bond issued in 2007, which would result in the issue of up to 4.0 million new shares in SGL Carbon SE. Additionally, up to 4.7 million new shares in SGL Carbon SE may still be issued from the convertible bond issued in 2009.

Assets Not Recognized and Off-Balance Sheet Financial Instruments

Various SGL Group assets 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/financing instruments has had no major effect on the presentation of the results of operations, financial position and net assets of the Group. Further details can be found in **Note 28** of the notes to the consolidated financial statements.

The “SGL Group – The Carbon Company” brand is among the intangible assets not recognized in the balance sheet. In addition, our long-term relationships with suppliers and customers also have considerable value. These relationships stabilize the course of our business and shield us from short-term market fluctuations. This trusting cooperation with our partners, often spanning many years, provides us with a tangible competitive advantage. In addition, this intense cooperation also facilitates joint research and development projects in which the expertise and development capacities of the companies involved can be pooled.

Employees

SGL Group was able to hire additional new employees in 2011 as a result of the good business development, in particular, in the Business Area GMS. As of December 31, 2011, SGL Group had a total of 6,447 employees, up 162 or 2.6% compared to the end of the previous year. Another 609 employees work at our At-Equity-accounted investments (2010: 640). The exit of the PowerBlades employees was almost entirely compensated by new hires for our joint ventures with BMW Group.

Employees by Business Area

	Dec. 31, 2011	Dec. 31, 2010	Change
PP	2,094	2,100	–0.3%
GMS	2,811	2,647	6.2%
CFC	1,469	1,476	–0.5%
Corporate	73	62	17.7%
Total	**6,447**	**6,285**	**2.6%**

Broken down by Business Area, the number of GMS employees grew by 164 in 2011, while the number of PP and CFC employees decreased by 6 and 7, respectively. The increase in the number of GMS employees was due to the Business Area’s high level of capacity utilization, with most of the increase occurring in China and the USA. Regional employee growth reflects the strong growth in Asia, particularly in China and Malaysia, a moderate increase at the German sites, Meitingen and Bonn, and a slight increase in staff in North America and the rest of Europe.

Employees by region

	Dec. 31, 2011	Dec. 31, 2010	Change
Germany	2,535	2,480	2.2%
Europe excluding Germany	1,815	1,793	1.2%
North America	1,410	1,409	0.1%
Asia	687	603	13.9%
Total	**6,447**	**6,285**	**2.6%**

The European workforce (including Germany) again accounted for the largest share of Group employees at 67%. Germany accounted for more than half of the European employees, making it the most important region. The share of Group employees working in Asia increased to 11%. North America continued to account for 22%.

The share of women in our workforce has risen in recent years. At year end, women accounted for 15% of our workforce (2010: 13%). This figure is thus in line with the industry average. Furthermore, 14% of our managers are female (2010: 14%).

Despite the economic crisis, SGL Group continued to attach great importance to training young people. The Group had a total of 151 trainees at seven sites in Germany in 2011 (2010: 162). The majority were at our plants in Meitingen, totaling 81 (2010: 89), and Bonn, totaling 41 (2010: 42).

Environmental Protection and Occupational and Process Safety

Socially responsible, resource and environmentally-conscious actions, responsibility for our employees and a commitment to society are major components of SGL Group's corporate culture and objectives. They are a key condition for the success of our business. The organizational foundations for monitoring and the continuous development of all environmental protection and health and safety at work activities in SGL Group are formed by the central function Corporate EHSA (Environment, Health, Safety, Audits), which coordinates all of the activities group-wide, sets uniform standards and audits developments. All of the plants in the various countries around the world are linked in via regional EHSA managers and local project owners. In addition, the responsible executives are incentivized in that part of their annual bonus that depends on reaching the EHSA targets.

ETHICAL PRINCIPLES

Acting responsibly and in accordance with the law is anchored in SGL Group's corporate philosophy. Our Code of Business Conduct and Ethics sets binding standards for how we behave in our day-to-day business. The code defines that we, as a Company, meet our legal and ethical responsibilities while taking the respective societal, social and cultural standards into account, and it reflects our common values. We act fairly and honestly vis-à-vis our customers and business partners, shareholders, authorities and the general public. Our employees deal with each other courteously and with respect, and we deal responsibly with the environment. These are all key aspects of our principles.

HEALTH AND SAFETY AT WORK ARE A TOP PRIORITY

The safety of our employees and the security of our workflows as well as active, long-term risk management are top priorities for SGL Group. We use our high standards, permanent improvements to safety precautions and a large number of target-oriented training sessions and activities to prevent workplace accidents.

We ensure the sustainability of our efforts via ambitious targets and continuous, preventive safety management. Incoming data on all accidents and near misses is systematically analyzed, recommendations are formulated and preventive activities and training sessions are initiated. A binding, standardized reporting system is used for all locations. This can be used to specifically initiate top-level activities.

The frequency rate of accident-related work absences based on one million hours worked has dropped from 11.91 in 2002 to 3.41 in 2011, thus decreasing by approximately 70%. Targeted initiatives and information campaigns at our facilities have made it possible to quickly and effectively prevent critical developments.

PROCESS SAFETY REDUCES RISK

Risk management within SGL Group, which we established years ago as part of our environmental protection and occupational and process safety, helps identify and assess potential environmental and process risks at an early stage and take appropriate action to minimize them.

Our risk minimization system, which was established together with our insurer FM Global and adapted to SGL Group's requirements, is a substantial component of operational risk management; it provides for centrally organized audits with external specialists. The system yields comprehensive reports and action lists that serve to eliminate and minimize risks. The system also allows us to undertake facility assessments at regular intervals.

BEST POSSIBLE TECHNOLOGIES FOR ENVIRONMENTAL PROTECTION

We take a clear, uniform approach to environmental protection: employing the best possible technology. This enables all Business Units, subsidiaries and facilities to work together to achieve and maintain our Group objectives.

We structure our operations to meet legal requirements and to have minimal impact on the environment. It goes without saying that the health and safety of our employees take priority over any financial advantages.

CARBON FOR ENVIRONMENTAL PROTECTION

In addition, SGL Group's products also make an indirect contribution to protecting the environment and climate as they allow customers to implement global trends and produce their goods while conserving resources and reducing CO_2 emissions. Carbon's extraordinary properties as a material mean that it is uniquely suitable for a wide variety of applications and to provide various solutions.

The best known example is lightweight construction, which plays an increasingly important role in both the aerospace and automotive sectors. In order to save weight and, thus, to cut fuel consumption and CO_2 emissions, many manufacturers are increasingly using components made of carbon fiber reinforced plastics (CFRP). Carbon is also the first choice for many applications in which energy storage and efficiency are critical factors, for example as an anode material in lithium ion batteries or as heat conductors in cooling systems. Graphite in the form of electrodes is used to recycle scrap steel in the steel producers' arc furnaces.

SUCCESSFUL IMPLEMENTATION OF REACH

When dealing with chemicals, SGL Group provides support and assistance in the step-by-step introduction of protection targets in European chemicals policy and in the European legislation on the registration, evaluation and authorization of chemicals (REACH). After successfully concluding the first phase of registration of chemical substances according to European chemicals law at the end of 2010, in 2011 we focused on preparing for Phase II which includes the registration of substances that we produce or import in quantities of between 100 and 1000 mt p. a. In this regard, we are involved in in-depth exchanges with our suppliers and customers with regard to the use of substances. This also enables us to fulfill the consideration of substances along their entire lifecycle that is required by legislators. We have completed the requisite organizational activities and set up the IT structures required.

General Statement on the Current Financial Situation

ASSESSMENT OF THE FINANCIAL SITUATION BY COMPANY MANAGEMENT

From a Group perspective, SGL Group has met the objectives we had set for 2011 on the whole. Our Business Areas contributed to this to varying degrees. While GMS exceeded the set targets by a wide margin, PP was within expectations, and CFC – triggered by the situation in the Business Unit Rotor Blades – fell well below target. Key objectives – such as maintaining gearing at +/–0.5 – were more than achieved as of the end of 2011 despite continued high levels of capital expenditure. Moreover, gearing and net debt benefited from the partial conversion of our two convertible bonds prior to maturity.

SGL Group has had a good start to the new fiscal year. The sales revenues invoiced in the initial weeks of the year are comparable to those of the previous year. Among our Business Areas, the trends are varied. Within the Business Area PP, we currently expect a slow volume development in the first half of the year. We anticipate a recovery in the further course of the year both for graphite electrodes and for cathodes. In the first few months of the year, the individual businesses within GMS will still benefit from good order backlog levels. However, order intake is below the record levels seen in 2011, particularly in the Business Unit Graphite Specialties. At CFC, our aviation industry components business has also started the year at the prior-year level. Carbon Fibers & Composite Materials have recovered slightly from the low level of recent months. Billing levels in our rotor blades business is expected to increase as the year progresses.

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 Net Assets, Results of Operations 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 net assets, results of operations and cash flows. The Board of Management therefore wishes to point 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 4** of the notes to the consolidated financial statements.

Events after the Balance Sheet Date

CONVERTIBLE BOND

In January and February 2012, holders of the Company's two convertible bonds converted additional 2007/2013 convertible bonds with a total volume of €0.35 million to 9,583 shares and 2009/2016 convertible bonds with a total volume of €2.05 million to 69,751 shares that are entitled to dividends as of January 1, 2012.

Risk Report

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. From today's perspective, all risks are limited and manageable; there is no risk to the Company's ability to continue as a going concern.

RISK POLICY

Our risk policy is geared towards protecting shareholder value, systematically and continuously increasing it and achieving financial targets. The principles of this policy are set out in standard SGL Group guidelines for risk management and represent an integral part of our corporate strategy. All significant corporate decisions are taken only after a detailed risk analysis and assessment. As a matter of principle, we do not take on unmanageable or inappropriately high risks.

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 corrective action. The RMS comprises a number of networked functions and control mechanisms. These include the recording, monitoring and control of internal company processes and business risks as well as a standard Group-wide planning process. The RMS covers all areas of the Company and is continually modified in line with changing circumstances.

In recent years, SGL Group's RMS has been continuously enhanced in accordance with international standards. In 2010, apart from a revision of our Group-wide risk management guidelines, we produced a manual for all organizational units that includes a description and definition of the principles, concepts, reporting channels and responsibilities in the RMS. 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 countermeasures are defined. Results are summarized by the Group's controlling department and are presented to the Board of Management at no greater than quarterly intervals. In this way, any risks, particularly any that may jeopardize the Company's existence as a going concern, can be identified at an early stage and countermeasures instituted. 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.

The Supervisory Board regularly receives a consolidated risk report at all meetings. This risk report covers the current year and includes a summary for the total planning horizon of five years.

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. The ICS is based on a uniform, structured documentation of the risks and controls for existing process structures. More than 400 business processes worldwide are covered by approximately 1,400 controls. A large number of these controls are performed automatically or with IT support. In addition to the process-related controls that are documented for all material subsidiaries of SGL Group, process-independent controls and measures at management level form the infrastructure and prerequisite for a functional ICS. The management controls are assessed annually by conducting structured, written surveys of the management of all material, as well as selected smaller companies, our Business Areas and units and the managers of our corporate functions. All ICS documents are stored in an intranet-based database, for which access authorizations (reading and writing permissions) have been established. Our ICS is geared toward internationally applicable standards.

Our Corporate ICS department implements, maintains and enhances the ICS on behalf of the Board of Management. Local and regional ICS officers (e. g. in North America and China) 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 centralized IT department serves as the point of contact for all IT-related issues and designs the IT controls.

The effectiveness of the ICS at process level is reviewed by Internal Audit once annually on a random sample basis. As part of its regular Audit Committee Meetings, the Supervisory Board is informed about the risk situation as well as about any major shortcomings of SGL Group's ICS.

No matter how thoroughly we have developed the RMS and ICS, limitations still exist. 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 the RMS and ICS we have in place, meaning that the Group-wide application of the implemented systems may also only provide reasonable assurance with regard to the correct, complete and timely recognition of issues within Group accounting.

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 to be identified and 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. Both the RMS and ICS encompass all material subsidiaries and all processes that are relevant to the preparation of the consolidated financial statements.

The responsibilities and functions within the accounting process (e. g. local accounting, controlling, treasury and Group accounting) are established and clearly separated. Together with an ongoing principle of dual control, this contributes to the early detection of errors and the prevention of potential misconduct.

The SGL accounting manual regulates the consistent accounting and valuation principles for the domestic and foreign subsidiaries that are consolidated in the Group financial statements in compliance with accounting regulations according to the International Financial Reporting Standards (IFRS). Changes to accounting regulations are regularly incorporated in the manual and communicated to all employees involved in the accounting process. Group accounting staff offer special training workshops for more complex topics. In order to reduce the risk of misstatements in the accounting of more complex and challenging accounting topics, we consult external service providers, such as actuaries to prepare expert opinions concerning pensions.

SAP-based consolidation software is used for the preparation of the consolidated financial statements. Technical responsibility for the software falls under the centralized Group accounting function. Binding requirements in terms of content and scheduling minimize the scope 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, uniform chart of accounts has been predefined for recording of business transactions.

The quarterly reporting distributed to the Board of Management is regularly updated with respect to identified risks and the corresponding countermeasures taken. The effectiveness of internal controls with regard to accounting is assessed once per year by Internal Audit. Moreover, the Supervisory Board is also involved in the control system, in particular 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 auditing system and the audit of the financial statements.

RISK TRANSFER VIA INSURANCE PROTECTION

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 insurance carrier. We address the risk of defaulting insurers by routinely distributing our risk among several insurance companies. Furthermore, we generally only choose insurers who carry at least a Standard & Poor's rating of A-. Our external insurance broker is responsible for continuously monitoring and reporting on the possibility of falling below this rating, as set forth in the mandate agreement concluded with the broker. 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 for minimizing risk to all sites.

RISK AREAS

Risk factors that impact our Group activities are reflected in the risk areas outlined below. The order in which the risks appear represents how we currently estimate the relative risk potential for SGL Group. Additional risks of which we are currently unaware or which we currently consider immaterial could also have an adverse effect on our business activities.

MARKET AND BUSINESS ENVIRONMENT RISKS

As a global company, international economic developments have a significant influence on potential risks and opportunities for SGL Group. Close observation of the market and economy allows us to take necessary countermeasures in the short term and minimizes impacts that could potentially influence our Company. When necessary we react in a timely manner by making appropriate production adjustments. This also comprises all possible measures concerning employee management (including introducing short-time working hours, severance packages, etc.).

Sales risks are partly offset by the wide diversification of our product range, our global presence and the numerous customer industries we supply to. However, drops in demand or sluggish growth in individual customer industries could have a negative impact on our business.

Our Business Areas are often subject to intense competition. We are seeing consolidation in some of the industries in which we do business, which could change our relative market position.

In Northern Africa and the Middle East in particular, we see uncertainties in the political environment that could significantly impact our business in those countries and have negative financial consequences. The loss of individual customers would, to some extent, have a considerable impact on our business as well as on the recoverability of our assets.

Our Business Area Performance Products is dependent on the steel industry, in particular electric arc furnace steel production, and on the aluminum industry. Although demand for graphite electrodes for electric arc furnace steel production continued to increase in 2011, we registered only a slight rise in our cathode business with the aluminum industry, at lower sales prices. In the medium term, both the World Steel Association and the aluminum industry expect a return to sustained positive growth. In our Business Areas Graphite Materials & Systems and Carbon Fibers & Composites, many of our customers in the LED, semiconductor and chemical industries have a similarly positive growth outlook, but projections are slightly lower for 2012. Increasing material substitution in the automotive industry will have a very positive influence on demand for our carbon-fiber based products in the coming years as well. According to an OECD study, the aviation industry will grow slightly in 2012. However, if a crisis were to occur, a decline would have to be expected, which, in addition to affecting sales revenue and earnings within our Business Unit Aerostructures, could also potentially trigger write-downs on long-term contracts recognized using the percentage-of-completion method. We currently depend on a small number of customers for our rotor blade sales to the wind energy industry. The wind energy market is expected to bottom out by 2012/2013. In the medium term, positive growth is likely in this sector as well.

The overall trend in interest rates has an effect on the calculation of the internal weighted average cost of capital. Any interest rate increase could lead to an increased impairment risk of individual assets.

We address market risks by expanding our technological expertise and by continuously developing new and innovative solutions to today's problems – both in relation to our product portfolio and our manufacturing processes – in order to stand out from our main competitors. Our primary focus is on client-specific requirements, which we further optimize through joint projects with our customers. Our own cost position is analyzed on an ongoing basis; lasting savings are regularly identified and implemented through our Six Sigma-supported, worldwide SGL Excellence initiative, strengthening our international competitive position.

We employ structured procurement concepts as well as medium-term and long-term framework agreements to balance out volatility in energy markets and any unforeseen price increases in our principal raw materials. Significant excess demand in the market may result in considerable, unanticipated price increases and supply bottlenecks. Delivery delays and bottlenecks could have a negative impact on our businesses.

To offset this risk, we have been able to develop appropriate strategic concepts with our main suppliers based on business relationships built up over many years. Price fluctuations in the raw materials and energy resources used by our main suppliers could also impact our results of operations if we are not able to pass on these price increases through corresponding increases to our sales prices.

RISKS FROM MERGERS, ACQUISITIONS AND CAPITAL EXPENDITURES

All merger, acquisition and capital expediture decisions entail extensive risks due to the large amount of funds required and the long-term capital commitment. SGL Group therefore makes great efforts to minimize risks during the preparation, implementation and follow-up of these decisions. This is carried out through due diligence and 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. Start-up and production problems, particularly in the case of newly installed facilities, can have a negative impact on earnings.

In addition, acquisitions may lead to a significant increase in goodwill and other non-current assets. Corrective write-downs on these assets as a result of unforeseen business developments may also have a negative impact on our earnings. Corresponding corrective impairments were already recognized in 2009 for the Business Unit Carbon Fibers & Composite Materials (CF/CM) (and partly reversed in 2011). In the Business Unit Rotor Blades (RB), an impairment was recorded in mid-2011.

TECHNOLOGY RISKS

To remain competitive, our businesses must keep pace with the evolution of technology and develop new products and applications. Our Technology & Innovation Center (T&I) – the Group's central research organization – brings together the comprehensive range of knowledge from our various research departments and makes it available to all units. T&I serves to accelerate work on development projects and increases the success rate. We expect to further strengthen our corporate portfolio by implementing important technology projects, enabling us to offset the risks arising from technological change.

The development and utilization of new technologies is an integral part of our growth strategy. We take a number of approaches to minimize the accompanying technological risks, including rigorous project evaluation and prioritization. Decisions on the continuation of individual projects are linked to predefined milestones. All in all, our results depend on our ability to keep a constant eye on market trends 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.

LEGAL AND TAX RISKS

We recognize provisions for legal disputes if it is probable that an obligation exists and it is possible to make a reasonable estimate of the amount of the obligation. However, the recognized provisions may turn out to be insufficient to cover the expenses resulting from the litigation, leading to a considerable negative impact on the Company's results of operations, financial position and net assets.

Our Compliance Management System reduces the risk of legal violations on all levels – in particular with regard to antitrust and corruption-related violations. Our 2005 Code of Business Conduct and Ethics was revised and a new Gifts and Business Hospitality Guideline as well as a Whistleblower Guideline were adopted Group-wide in 2011.

Regulatory risks also result from potential changes of 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 or customs regulations and protectionist trade restrictions. In addition to sales revenue and profitability risks, the Company could also be subject to penalties, sanctions and reputational risk. We take precautions with established export control policies and, if applicable, obtain appropriate export permits.

Changes in tax or legal provisions in individual countries in which we operate may lead to a higher tax expense and higher tax payments and may have an impact on our deferred tax assets and liabilities. Any corporate structuring implemented is partially subject to complex tax regulations that could be interpreted differently. A potential additional tax exposure cannot be conclusively ruled out until after a final review by the tax authorities.

CURRENCY RISKS

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. For 2012 the major transaction-related net currency exposures have been hedged. Translation risks are not hedged.

RISKS FROM INVESTMENTS ACCOUNTED FOR AT-EQUITY

Our strategy includes strengthening our business through joint ventures, which are accounted for using the at-equity method. All factors that negatively impact the profitability of At-Equity-accounted investments, including detrimental effects on their sales revenue, earnings and liquidity, can adversely influence our net income from these At-Equity-accounted investments or lead to write-downs on such investments. In the reporting year, such write-downs were recognized for the PowerBlades joint venture (Business Unit Rotor Blades), and for the EPG joint venture (Business Unit Carbon Fibers & Composite Materials). In addition, our results of operations, financial position and net assets could be adversely affected with respect to loans, guarantees or the failure to comply with covenants arising from loan agreements in connection with these At-Equity-accounted investments.

REGULATORY RISKS

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). To date, the registrations required by law have been implemented on time. Continued developments in legislation as well as the impacts of cost intensive testing and registration procedures at European production facilities cannot currently be quantified.

As a result of close contact with authorities and industry associations, our Corporate EHSA (Environment, Health & Safety, Audit Systems) function receives a constant flow of information on the latest developments and provisions under the REACH regulation. Furthermore, we have a REACH team in place to monitor whether the legal stipulations are being strictly adhered to and the registration of substances are completed on a timely basis.

Two of our sites will be subject to EU emissions trading as of 2013. In the first few years, we anticipate that additional costs will be negligible due to the allocation of corresponding CO_2 certificates.

Stricter liability or environmental protection legislation could increase our costs. A rise in social security contributions and other statutory ancillary payroll benefits would also lead to cost increases.

FINANCIAL RISKS

The financing agreements of SGL Group contain contractually agreed financial covenants that regulate specific procedural obligations of SGL Group regarding compliance with certain financial performance indicators during the terms of the agreements. Compliance with the covenants of the financing agreements is centrally monitored and controlled by Group Treasury along with other financial risks.

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.

Global economic developments in our customer industries also routinely influence the creditworthiness of our customers. This situation bears default risks that we deal with by means of effective receivables management. In this context, the credit standing and payment patterns of our customers are regularly reviewed and the credit limits are established according to credit management guidelines applied throughout the Group. Bank guarantees and credit insurance also limit any possible default risks. Other financial risks arise from changes in interest rates and exchange rates; we hedge these risks by means of derivative financial instruments. The primary principle in all activities in connection with these derivatives is the minimization of risk. 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 and given the currently difficult market and banking environment, we predominantly allocate investments in cash and cash equivalents to institutions in our circle of core banks. In this context, our investment decisions are guided by a number of factors, in particular a balanced distribution of funds to avoid the risk of clumping and the systematic importance of the individual counterparties. Above all since the beginning of the global financial crisis, SGL Group has been monitoring counterparty risks in financial assets and derivative financial instruments very closely. This is accomplished by regularly monitoring the credit default swaps of the core banks.

HUMAN RESOURCES RISKS

Our employees and management constitute a key pillar in SGL Group's success. The competition for highly qualified executives, scientists and engineers is very intense. In order to achieve our strategic goals, we have to hire and retain highly qualified personnel. Not achieving this goal would have a considerable negative impact on our business.

OBLIGATIONS FOR PENSIONS AND HEALTH BENEFITS

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 of our North American companies affect the funded status of our pension plans. A deviation in the actual developments in the actuarial pension obligations from the parameters used in some or all of the calculations could have a negative impact.

IT RISKS

To ensure that all business processes are handled securely, the information technology used by the Group is checked and modified on an ongoing basis. SGL Group has an integrated and standard Group-wide IT infrastructure. Global security systems, mirror databases, virus protection and encryption systems, together with comprehensive access authorization structures – all based on current technological standards – protect us against the loss or manipulation of data. 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.

OVERALL RISK ASSESSMENT OF SGL GROUP

An overall assessment of the above risks primarily reveals market and competition risks in connection with price and volume trends for both sales and procurement. In extreme cases, these risks could also adversely affect the impairment of net assets and may require related write-downs. In contrast, internal production processes are much less subject to risk. Presently, we see no substantial financial risks that impact SGL Group as a whole. On the basis of information currently available, in our opinion 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

BUSINESS POLICY

Fiscal year 2011 started with a continuation of the strong recovery that began in 2010 and led to a continued increase in demand in most of our customer markets. Around mid-year, the upswing lost momentum around the world. This trend was not only a result of the sovereign debt crisis of Western economies, but also a consequence of the earthquake and tsunami in Japan in March and the floods in Thailand and Australia. The majority of economists expect a significant slowdown in growth in 2012 as a result of uncertainties. However, we are convinced more than ever that the fundamental trends for our materials and applications will continue. One recent global trend, for instance, is an acceleration of the substitution process. Traditional raw materials and energy sources are increasingly being replaced by alternative materials and energies. We can benefit from this trend by leveraging our new technologies, for instance in the Business Area Carbon Fibers & Composites. Mega trends, such as environmental protection and mobility, create new areas of application for our products. Carbon – the "steel of the future" – will generate high demand for SGL Group in years to come.

For these reasons we aim to consistently implement our growth strategy based on our claim "Broad Base. Best Solutions" (for more information please refer to page 55 in the chapter "Corporate Strategy").

CUSTOMER MARKETS

Our customer markets in Asia and Eastern Europe will continue to grow dynamically in 2012 and over the medium term. We intend to participate in this growth with our products and the significant local presence we have built up, particularly in Asia.

The strong need for basic materials in the emerging markets of Asia has not abated. Additionally, demand for new materials and renewable energies is rising at an increasing rate in the industrialized nations of West. These factors will further drive up demand for our products.

On this basis, SGL Group will carry on expanding its technical expertise in applications and processes by consistently developing new and innovative materials and products. Our SGL Excellence Initiative, which has been a success for years, will help us to achieve these objectives.

DEVELOPMENT OF NEW TECHNOLOGIES

Due to the dynamic growth fields in the Materials Segment Advanced Materials, research and development expenditures will remain high in fiscal year 2012 and in subsequent years and they may even rise. During the year under review, we intensified SGL Group's global research and development activities at our new Technology & Innovation (T&I) Center in Meitingen (Germany). In 2011, we continued to expand the laboratory and pilot production infrastructure around the T&I Center in order to strengthen our capabilities to implement new ideas and concepts. Our scientific staff will continue to grow in this area in the medium term.

ENVIRONMENTAL PROTECTION

Expenses for planned environmental measures from 2012 to 2014 will remain at the level of prior years. These measures will meet existing legal provisions and requirements, to the extent currently known.

FUTURE PRODUCTS

As one of the leading global manufacturers of carbon products, it is important that SGL Group continuously develops new products and solutions. This will allow us to continue to grow profitably and create added value for our customers. Our T&I organization will continue to innovate modern, high-performance materials for future applications. This includes both enhancing existing products and technologies and developing completely new solutions for new application areas. Our development efforts will remain focused on innovative materials and solutions for more efficient energy utilization and high-performance fibers and composites. We also concentrate on the development of products for environmentally friendly and resource-conserving applications. These applications currently account for more than 60% of Group sales revenue and we expect this share to grow in the coming years.

ECONOMIC OUTLOOK

Experts predict that the world economy will experience a significant slowdown in fiscal year 2012 as a consequence of the European sovereign debt crisis. In a study published on January 24, 2012, the International Monetary Fund (IMF) made a significant downward adjustment to its economic outlook for 2012 and now says worldwide growth will only be 3.3% instead of the 3.9% projected in September 2011. Once again, regional differences will be substantial in some cases. While growth of 1.8% is still anticipated for the USA, the IMF expects the euro zone to experience a decline of 0.5% due to the sovereign debt crisis. Only Germany and France are forecast to record slight growth of 0.3% and 0.2%, respectively. As a consequence of recovery and rebuilding efforts in the wake of the earthquake and tsunami, Japan will likely record growth of 1.7% in 2012. According to the IMF, the greatest contribution will once again come from China, which will likely grow by 8.2%. India is also expected to see dynamic growth of 7.0%.

While the IMF also revised its worldwide economic growth projection for 2013 from 4.5% in September 2011 down to 3.9% in January 2012, it does anticipate a slight pickup in growth compared to 2012.

INDUSTRY TREND

Steel Industry: Uncertain Outlook for 2012 – Consumption Continues to Rise in Emerging Economies

The World Steel Association projects a further rise in global steel consumption of 5.4% in 2012. However, the association has noted that uncertainties resulting from the continued turbulence on the financial markets could impact the real economy. The forecasts made in October 2011 predict that the emerging economies will continue to drive worldwide growth and that the economic policy measures to counteract the European sovereign debt crisis will prevent a further increase in the volatility on the capital markets. In light of this global economic uncertainty, the association refers to its projection as “cautiously optimistic.” Growth is again expected to vary significantly from region to region. While the recovery of steel demand will likely be slow in the West, it is still anticipated to be robust in most of the emerging economies. The current prognosis for 2012 is that steel consumption in the developed world may remain 15% below the record year of 2007. In contrast, consumption volume in the emerging economies will surpass 2007 levels by 44%. As a consequence, the emerging countries are likely to generate 73% of worldwide steel demand in 2012, up from 61% in 2007.

Aluminum Industry Continues to Grow

The aluminum industry has essentially recovered and experts anticipate that demand will continue to exceed GDP growth. The consulting firm Harbor, for instance, expects production growth to reach 11% in 2012, up from 7% growth in 2011. The construction of several new aluminum smelters started in 2010. In addition, we expect a number of capital expenditure programs for new aluminum smelters, which were suspended during the crisis, to resume in the next few years due to rising demand.

Growth of Chemical Industry Slows in 2012

The European Chemical Industry Council (Cefic) projects a slight slowdown in growth to 1.5% for 2012, down from 2.0% in 2011. However, the council expects chemical production to pick up slightly over the course of 2012 after a slow development in the first few months of the year. This outlook is predominantly based on the assumption that oil prices will not continue to rise and that the incentive for stockpiling will thus be reduced. Additionally, the uncertain business outlook will trigger a reduction in working capital. As a result of these factors, slow growth is inevitable, at least in the short term.

Solar Industry Set to Continue Consolidation Due to Subsidy Cuts

After many years of dynamic growth, 2012 is expected to be a year of consolidation for the worldwide photovoltaic market, largely driven by the gradual reduction of subsidies. The European Photovoltaic Industry Association (EPIA), for instance, anticipates moderate growth of worldwide newly installed capacities by some 9%. In the European Union, however, newly installed capacities are expected to decline by 14%.

Slight Recovery of Semiconductor Industry in 2012

According to the World Semiconductor Trading Statistics (WSTS), the global semiconductor market is expected to grow somewhat stronger again in 2012. Global semiconductor sales revenue should rise by 2.6% after an only marginal increase of 1.3% in the past year.

Aviation Industry: Unclear Prospects for 2012

Based on an OECD study, the International Aviation and Transport Association (IATA) sees the failure of governments to find a sustainable solution to the debt crisis in the euro zone as one of the greatest risks to the development of the aviation industry. Therefore, two projections are made for 2012: a central prognosis that assumes it is now possible to avert the financing problems in Italy and Spain, if necessary with the help of the IMF, and a "bank crisis prognosis" that presumes that the debt crisis in the euro zone will spin out of control and precipitate a banking and economic crisis.

The central prognosis predicts 2.9% growth in global air traffic, accompanied by a nearly parallel rise in capacities by 3.1%. The bank crisis prognosis estimates air traffic to decline by 1.3%, with capacities remaining unchanged. This would have corresponding negative effects on the results of operations of aviation companies.

Varied Trend in Wind Industry in 2012

According to the consulting firm Global Data, new installations are likely to increase by 12% worldwide in 2012. In some instances, trends may vary considerably from country to country. In the USA, for instance, growth in new installations is predicted to be robust at 39% due to the phase-out of a subsidy at the end of 2012. The Indian market is likely to decline by about 11%. Growth is expected to be more moderate in China as well. Growth in the United Kingdom and Germany is forecast to grow by some 27% and 17%, respectively. The wind energy industry is still beset by project delays due to technology and financing issues as well as surplus capacities, price pressure and subsidy cuts. As a result, these prognoses may prove too optimistic.

If the economy stabilizes again, these industries should see positive trends in 2013.

SALES AND EARNINGS GROWTH

Performance Products: Growth in Sales Anticipated

Although production output in the steel industry is expected to rise slightly in 2012, growth will primarily be concentrated in the emerging nations, as seen in prior years. This is why we think sales volumes of our graphite electrodes will be stable in comparison to the prior year. In addition, we anticipate a rise in raw material costs and other factor cost increases that we intend to pass on in our sales prices. Since the order patterns from steel producers do not, as of yet, cover the full year, our ability to predict the second half of 2012 is limited at this time. As we do not foresee the need for any significant restocking or destocking, we expect our capacity utilization trend to be in line with that of electric arc furnace steel production.

The first half of 2011 was still characterized by low capital expenditure in the aluminum industry and the continued decrease in cathode inventories. Since mid-2011 we have seen a slight recovery in cathode demand, which should continue over the course of 2012. We already see higher maintenance and new investments for additional aluminum capacity. However, a noticeable increase in demand – primarily related to new investments – will only translate into higher utilization of our cathode capacities in the coming years. Therefore, in 2012, we will not yet be able to pass on rising factor costs.

As a result of rising demand, we anticipate a continued increase in sales revenue with a slight improvement in margins for the Business Area Performance Products in fiscal year 2012 compared with 2011. The increasing recovery in demand for our customers' products in the steel and aluminum markets, driven by a stronger economy, leads us to view the further trend in 2013 as positive.

Graphite Materials & Systems: Set to Maintain Record Sales Level of 2011

The Business Area Graphite Materials & Systems achieved record levels in sales revenue, EBIT, and profit margins in 2011. This trend reflected the recovery of the economy as a whole and was also significantly boosted by the growth in our more recent activities, such as the solar and semiconductor industries and, in particular, for the LED industry. In the second half of 2011, however, new orders began to slow for our Business Unit Graphite Specialties, and this could impact sales in 2012. The Business Unit Process Technology, in contrast, ended fiscal year 2011 with a record order backlog, which is likely to have a positive effect on sales revenue in 2012. On the whole, we, therefore, expect sales for the Business Area GMS to remain stable year-on-year. However, since capacity utilization is likely to be slightly lower, especially in the Business Unit Graphite Specialties, it may not be possible to replicate the record profit margins of 18% achieved in 2011. Yet we anticipate that returns will be significantly higher than our medium-term target of at least 10%. If the economic trend is sufficiently positive, an improvement in sales revenue and earnings is expected in 2013.

Carbon Fibers & Composites: Striving for Significant Improvement in Earnings

In 2011, the development of the Business Area Carbon Fibers & Composites was heavily influenced by the difficult wind energy market, which is still suffering from the after-effects of the financial crisis and consequently took a hard toll on our Business Unit Rotor Blades. Since this market still shows no signs of a sustained recovery in the immediate future, additional adverse effects on our rotor blades business cannot be ruled out. However, thanks to the acquisition of new customers and our optimization measures, we expect to be able to reduce losses in this Business Unit. The other two Business Units in this Business Area, Carbon Fibers & Composite Materials and Aerostructures, are expected to continue the positive trend of 2011 in 2012. However, it is difficult to estimate at this time whether this will be sufficient to offset the losses anticipated for the Business Unit Rotor Blades. We will make every effort to reach a break-even result in the Business Area CFC.

Due to the continuous acceleration of material substitution in our target markets automotive, industrial applications and aviation/defense along with the expectation that the wind energy market should have bottomed out by 2012/13, additional improvements in sales revenue and earnings should be possible in 2013.

EXPECTED FINANCIAL POSITION AND PLANNED CAPITAL EXPENDITURES

Financing Requirements Covered for 2012 and 2013

The Group's financing requirements are determined by the strategic business plans of the operational Business Units. These are reviewed annually based on new plans. Our anticipated financing requirements for fiscal years 2012 and 2013 are covered by existing liquidity reserves and committed credit lines. Based on our solid long-term financing structure, we will likely not need to refinance existing capital market instruments in 2012. The earliest point at which we may need refinancing is 2013. This would be the case if the remaining convertible bonds have not been converted to shares by the maturity date in May 2013. However, we could temporarily utilize the syndicated credit line for this purpose as well.

Capital Expenditures Remain High in 2012

In the event that the economic recovery is delayed during the remainder of the year, we will postpone our investment projects. Our medium-term target for gearing remains at +/–0.5.

Due to the high number of long-term expansion projects already underway in all Business Areas, capital expenditures in 2012 will continue at a high level of up to €150 million. We do not anticipate a reduction in capital expenditures until 2013.

Liquidity Trend

A sound balance sheet structure, the available financing framework and operating cash flows guarantee anticipated liquidity requirements are covered for 2012 and 2013. This also includes the financing of our planned growth strategy.

Dividend Development

We owe it to our shareholders to distribute sustainable, earnings-based dividends. In addition to expected midterm target attainments, we also need to consider the future development of gearing, return on capital employed and free cash flow.

Opportunity Management

SGL Group has an opportunity management system that incorporates all areas of the Company. This system allows us to identify opportunities that help us to conduct our business successfully over the long term. Moreover, variable salary components motivate our managers at all levels to identify and take advantage of potential opportunities.

An example of our efficient opportunity management, and in this case innovation management, was the consolidation of our global research and development expertise at our new T&I Center in Meitingen (Germany). By expanding our technical expertise in applications, processes and the development of new materials and products, we are responding to the increasing requirements of our customers.

We also continuously monitor global mega trends in order to identify opportunities for our Company. In general, SGL Group is reaping the benefits of two fundamental trends. First, industrialization in the emerging markets in Asia and Eastern Europe is a strong driver of global growth. Second, the global acceleration of substitution and innovation processes – such as in the areas of alternative energies and environmentally friendly materials and technologies – represents a major challenge for the whole world. We are in an excellent position thanks to our products and solutions both for basic materials, such as steel and aluminum, as well as for new environmentally friendly technologies.

OPPORTUNITIES IN THE BUSINESS AREAS

Performance Products: New Plant in Malaysia Near Completion

Growth in the graphite electrodes sector is driven by the uninterrupted high demand for steel products, especially in the BRIC countries (Brazil, Russia, India, and China), and by the trend toward electric arc furnace technology in steel production. The graphite electrode plant completed in the first half of 2012 will set new cost and quality standards. We are convinced that this will help us further strengthen our leading position in graphite electrodes. The demand for cathodes will be high as a result of the return to dynamic growth anticipated after the crisis. Furthermore, the modernization of existing aluminum capacity will be associated with a shift in demand to higher quality graphitized cathodes, which will benefit our business.

Graphite Materials & Systems: Capacity Expansion in Isostatic Graphite

The Business Area Graphite Materials & Systems is well-positioned in the area of low CO_2 power generation and more efficient energy utilization – a position we intend to use to fully participate in the latest market developments, exploiting our opportunities as materials specialists in the global market. SGL Group already has a broad portfolio of high quality products and solutions for the solar and nuclear industry as well as the battery and LED industries. In order to take part in the growth anticipated in the growing markets of solar energy, semiconductors and LEDs, in particular, we decided in mid-2010 to triple our capacity for isostatic graphite gradually over the next few years. Our new production center is scheduled for completion as early as 2012, with operational start-up planned for 2013. Furthermore, we have phase-change materials at our disposal that are based on expanded graphite and offer opportunities for optimizing air conditioning technology.

Carbon Fibers & Composites: Excellent Growth Potential

We see strong potential for growth in the Business Area Carbon Fibers & Composites. SGL Group offers a range of products for energy generation technology in this business area as well. Our carbon fiber products, for instance, reinforce large rotor blades. The trend toward large on-shore and off-shore wind farms, in particular, offers promising opportunities. We also see major growth potential in the automotive industry as a result of greater use of carbon fibers and composites. We have positioned ourselves well in this area through our joint ventures with BMW Group and Benteler-SGL. The significant increase in the use of carbon fiber composites in the aviation industry represents an especially important opportunity for our US subsidiary HITCO.

Likelihood of Target Achievement

Global economic developments continue to harbor uncertainties. It is these developments, however, that will determine the extent to which SGL Group will achieve its targets. From today's point of view, the extremely volatile financial and currency markets could have either positive or negative effects on SGL Group, depending on exchange rate fluctuations. Higher raw material and energy costs may accelerate the process of substituting traditional materials with graphite and carbon fiber products. Our Company could also see additional sales revenue and earnings potential from further energy saving measures stipulated by law as well as the continued promotion of alternative energies.

GENERAL STATEMENT ON ANTICIPATED DEVELOPMENTS

Sales Revenue and EBIT Continue to Improve in 2012

The expectations outlined above for the individual Business Areas are based on the assumption that the world economy will begin to pick up pace from the second half of 2012. However, this assumption is subject to risk. If the world economy picks up pace over the course of the year, we currently anticipate additional improvements in sales revenue and EBIT in 2012. At this point, however, it is difficult to forecast whether the return on sales target of at least 12% (based on EBIT) set in March 2011 will be achievable by the end of fiscal year 2012. The continued need for high capital expenditures will be covered to a large extent with operating cash flows so that we can maintain our goal of keeping our gearing at approximately 0.5.

Return on Sales of at Least 12% Targeted for 2013

The forecasted longer-term economic recovery forecast and the mega trends that remain intact, especially the substitution of materials and the increased use of our products in energy technology, are likely to allow for additional sales revenue and earnings improvements in 2013, at which time we intend to once again reach our Group return on sales target of at least 12%.

Additional disclosures pursuant to Section 289 (4), Section 315 (4), and Section 289a of the German Commercial Code (HGB)

DISCLOSURES PURSUANT TO SECTION 289 (4) AND 315 (4) OF THE HGB

The following outlines the disclosures required in accordance with sections 289 (4) and 315 (4) HGB:

289 (4) 1/315 (4) 1
Composition of Subscribed Capital

As of December 31, 2011, the issued capital of the Company was €179,362,723.84, divided into 70,063,564 no-par-value bearer shares, each with an imputed share of the issued capital of €2.56 (see **Note 23** in the notes to the consolidated financial statements).

289 (4) 2/315 (4) 2
Restrictions on Voting Rights or the Transfer of Shares

No restrictions exist with respect to voting rights or the transfer of shares.

289 (4) 3/315 (4) 3
Direct or Indirect Shares in Capital

The Company was informed by voting rights notifications in accordance with sections 21 et seq. of the German Securities Trading Act (WpHG) of the following holdings of direct or indirect shares in capital exceeding ten percent of voting rights: (i) SKion GmbH, Bad Homburg, last reported a holding of 26.87% in May 2011 and (ii) Bayerische Motoren Werke Aktiengesellschaft (BMW AG), Munich, last reported a holding 15.72% in December 2011.

289 (4) 4/315 (4) 4
Holders of Shares with Special Rights

The Company has not issued any shares with special rights conferring control authority over the Company.

289 (4) 5/315 (4) 5
Type of Voting Rights Control in the Case of Employee Shareholders

No special rights of shareholders exist that confer control authority over the Company. There are no provisions for employees to exercise control over voting rights.

289 (4) 6/315 (4) 6
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 Articles of Incorporation do not include any rules governing the appointment or dismissal of members of the Board of Management. In accordance with legal provisions, such decisions are taken by the Supervisory Board.

Changes to the Articles of Incorporation are decided by approval 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 issued capital represented at the vote on the resolution, providing 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.

289 (4) 7/315 (4) 7
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 (6) to section 3 (14) of the Articles of Incorporation).

Subject to the consent of the Supervisory Board, the Board of Management is also authorized in the period up to April 29, 2015, to buy back the Company's own shares pursuant to section 71 (8) of the German Stock Corporation Act (AktG) (see **Note 23** in the notes to the consolidated financial statements).

289 (4) 8/315 (4) 8
Important Agreements Subject to the Condition of a Change in Control Following a Takeover Bid

In the event of a change in control, the Company may be under an obligation to repay amounts lent to the Company by lenders or bondholders under major financing agreements (syndicated loan, corporate bond).

289 (4) 9/315 (4) 9
Compensation Agreements with the Board of Management and Employees in the Event of a Takeover Bid

The Company has entered into compensation agreements with the members of the Board of Management and senior managers that will be triggered in the event of a change in control (see **Note 34** in the notes to the consolidated financial statements).

DECLARATION PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB)

As required by section 289a of the HGB, we have published a corporate governance declaration on our website at www.sglgroup.com.

SGL Carbon SE (Parent Company) (Discussion on basis of German Commercial Code (HGB))

The Management Report of SGL Carbon SE and the Group Management Report for fiscal year 2011 have been combined in accordance with section 315 (3) of the HGB in conjunction with section 298 (3) of the HGB. The annual financial statements of SGL Carbon SE pursuant to the HGB and the combined Management Report are published concurrently in the electronic Federal Gazette (Bundesanzeiger).

BUSINESS AND GENERAL CONDITIONS

SGL Carbon SE, with registered offices in Wiesbaden, is the parent company of SGL Group. As such, SGL Carbon SE acts primarily as a holding company and undertakes cash management for the Group companies. SGL Carbon SE is responsible for the strategic orientation and management of the Group, which involves the central functions for corporate development, management cost accounting, investor relations, public affairs, Group accounting, treasury, personnel, legal affairs and compliance. The majority of the Company's assets consist of shares in and receivables from affiliated companies. Profit or loss transfer agreements and control agreements have been entered into with some of these companies. The Company's earnings are significantly impacted by such profit or loss transfer agreements, particularly the agreements with the following subsidiaries: SGL Carbon GmbH, SGL Technologies GmbH, SGL Carbon Beteiligung GmbH and SGL Technologies Beteiligung GmbH. SGL Carbon SE has both direct and indirect stakes in 68 companies, including minority shareholdings.

As of December 31, 2011, SGL Carbon SE employed a total of 73 persons, up from 62 as of December 31, 2010. The Company had an average of 69 employees in fiscal year 2011.

The economic framework of SGL Carbon SE corresponds in essence, with that of the Group and has been described in detail in the section entitled, "Business and Economic Conditions", fom page 49 on.

RESULTS OF OPERATIONS

Income Statement

€m	**2011**	2010
Result from long-term equity investments	19.4	39.3
Reversal of impairment losses (+)/ write-downs (–) on long-term financial assets	6.8	–2.9
Interest income, net	12.0	17.1
General and administrative expenses	–34.5	–27.0
Other operating income	40.2	38.3
Other operating expenses	–40.1	–40.4
Result from ordinary activities	**3.8**	**24.4**
Extraordinary result	0.0	–7.3
Income tax expense	–0.2	–1.9
Net profit for the year	**3.6**	**15.2**
Profit carried forward	7.6	0.0
Withdrawals from (+)/transfers to (–) other revenue reserves	8.8	–7.6
Distributable profit carried forward	**20.0**	**7.6**

The results of operations of affiliated companies also impacted the results of operations of SGL Carbon SE in the year under review. The result from long-term investments decreased to €19.4 million in fiscal year 2011, or half of that of the prior-year. The deterioration resulted primarily from increased expenses based on losses transferred from SGL Technologies GmbH.

In the reporting year, the Company assumed a loss of €55.7 million from SGL Technologies GmbH (2010: loss of €6.4 million), whereas SGL Carbon GmbH transferred a profit of €57.1 million (2010: profit of €18.2 million) and SGL Carbon Beteiligung GmbH transferred a profit of €14.5 million (2010: profit of €27.4 million). In the previous year, the amounts transferred by SGL Carbon GmbH and SGL Technologies GmbH were additionally impacted by these companies' implementation of the provisions of the German Accounting Law Modernization Act (BilMoG), which resulted in their transferring losses of €–32.9 million and €–3.4 million, respectively. The losses resulted mainly from implementation of the new measurement rules for pension provisions.

After adjusting the result from long-term investments from 2010 for these non-recurring conversion effects, the result from long-term investments for 2011 decreased by nearly 75%.

Result from long-term equity investments

€m	2011	2010*	Change
Income from profit or loss transfer agreement with SGL Carbon GmbH	57.1	51.1	11.7%
Income from profit or loss transfer agreement with SGL Carbon Beteiligungs GmbH	14.5	27.4	–47.1%
Expenses from losses transferred from SGL Technologies GmbH	–55.7	–3.0	> 100%
Income from other long-term equity investments	3.5	0.0	–
Total	**19.4**	**75.5**	**–74.3%**

* Adjusted by BilMoG effects

The significant increase in expenses for loss transfers from SGL Technologies GmbH are mainly attributable to the profit or loss transfer agreement between SGL Technologies GmbH and SGL Technologies Zweite Beteiligung GmbH. The latter company wrote down its investment in SGL Rotec GmbH & Co. KG, a subsidiary, by €29.8 million in the reporting year. SGL Technologies GmbH, in turn, wrote down its investment in a joint venture in the precursor business by €7.7 million to reflect the lower fair value. SGL Technologies Beteiligung GmbH, a wholly owned subsidiary of SGL Technologies GmbH, did not transfer any profits in the reporting year. In 2010, SGL Technologies Beteiligung GmbH had transferred profits of €6.1 million, which resulted primarily from the reversal of an impairment loss on its investment in SGL Kümpers GmbH & Co. KG. The predominant cause for the write-downs of these investments was a revaluation of the long-term market trend. The revaluation performed with regard to SGL Rotec was due to problems with our rotor blade customers and the still ongoing, very risk-averse investment climate in the wind energy sector.

The adjusted rise in income from profit or loss transfer agreements of SGL Carbon GmbH in the amount of €6.0 million was based on a further general improvement in the economic situation in the reporting year and the resulting positive business trend.

The income reported from the profit or loss transfer agreement with SGL Carbon Beteiligung GmbH related primarily to dividend payments from a Polish group company (2011: €29.1 million; 2010: €44.3 million).

The result from long-term investments benefited in 2011 from a profit distribution by SGL Canada Inc. in the amount of €3.3 million (2010: €0 million).

The earnings of SGL Carbon SE also benefited from a **reversal of the impairment loss** recognized for SGL Carbon Far East Ltd., China, in the amount of €6.8 million to reflect the original purchase cost. In 2010, this item contained a write-down on the investment in SGL Carbon S.A.S., France, in the amount of €2.9 million.

Net interest expense decreased by €5.1 million to €12.0 million due to a significant rise in the liquidity requirements of subsidiaries and second-tier subsidiaries. The main reason for the decrease was the write-down on a discount reported under prepaid expenses in the amount of €9.1 million due to the partial conversion of our two convertible bonds that occurred in the reporting year prior to maturity. In financial terms, "prepaid expenses" represents a hidden premium on the low interest rate of the convertible bonds compared with the market interest rate. This item is generally reversed systematically as interest expense over the term of the convertible bonds. Further details on the partial conversions that have been undertaken prior to maturity and their impact on net assets can be found below in the sections entitled "Net Assets" and "Financial Position."

Other operating income rose slightly in 2011, increasing by €1.9 million to €40.2 million. Other operating expenses also remained nearly constant at €40.1 million (2010: €40.4 million). Rental income increased slightly, rising from €9.7 million in 2010 to €11.5 million in 2011. This item also includes intercompany charges (2011: €15.9 million; 2010: €16.3 million) and currency gains from loans extended in foreign currency (2011: €9.9 million; 2010: €4.6 million). The **other operating expenses** include losses from currency forward hedges (2011: €9.4 million; 2010: €11.2 million) and other expenses related to the intercompany charges reported under other operating income.

General and administrative costs increased by €7.5 million to €34.5 million in 2011, mainly due to higher expenses for management incentive plans, wage and salary adjustments and higher external consulting costs.

The **result from ordinary activities** was €3.8 million in 2011 (2010: €24.4 million). The factors already mentioned were responsible for the decline of 84%.

The **extraordinary result** for 2010 contained the effects on SGL Carbon SE of changes in measurement policies as of January 1, 2010 due to BilMoG.

The **taxes on income** of €0.2 million (2010: €1.9 million) relate primarily to domestic trade tax and corporate income tax based on the German minimum taxation regulations.

After deducting taxes, the **net income for the year** was €3.6 million. Together with the profit brought forward from the previous year amounting to €7.6 million and a withdrawal amounting to €8.8 million out of retained earnings, the total balance sheet profit amounts to €20.0 million at year end 2011.

The net income for 2010 totaled €15.2 million, €7.6 million of which was transferred to other revenue reserves and €7.6 million of which was carried forward as balance sheet profit.

NET ASSETS

In fiscal year 2011, a total amount of €54.2 million from our 2007/2013 convertible bond with an initial principal value of €200.0 million was converted to 1,482,742 Company shares prior to maturity of the bond. In addition, a total amount of €53.2 million from our 2009/2016 convertible bond with an initial principal value of €190.0 million was converted to 1,811,838 Company shares prior to maturity. This reduced our long-term bond liabilities by a total of €107.4 million. Equity increased accordingly, rising by €8.4 million due to the creation of 3,294,580 new bearer shares with a proportional share in the issued capital of €2.56 from the partial conversion. The difference of €99.0 million was taken to capital reserves.

Total assets of SGL Carbon SE rose slightly on the prior year with an increase of €45.1 million, or 3%, to €1,541.6 million. Fixed assets increased by €37.3 million to €668.6 million (December 31, 2010: €631.3 million). This represents a rise of 6%. The increase was primarily caused by the performance of shares in affiliated companies. Capital increases at SGL Technologies GmbH and, to a lesser extent, at SGL Carbon India Private Ltd., Pune, India, increased shares in affiliated companies by €13.4 million. In addition, it was possible to completely reverse the impairment loss recognized for the Company's equity investment in SGL Carbon Far East Ltd., China, in the amount of €6.8 million due to significantly improved expectations. Moreover, investments in long-term securities totaling €12.3 million (December 31, 2010: €0.0 million) increased fixed assets substantially. Finally, tangible fixed assets increased by €5.2 million on the prior year to €41.8 million as a result of capital expenditure to expand our Meitingen site. The share of fixed assets in total assets increased only marginally by 1 percentage point to the current 43%.

Current assets rose by €31.3 million to €851.4 million as of year-end 2011 (December 31, 2010: €820.1 million) due to the rise of €93.0 million in receivables from affiliated companies to €643.9 million (December 31, 2010: €550.9 million). The increase in receivables from affiliated companies was mostly due to loan increases at SGL Carbon LLC, USA, (+€53.1 million), SGL Carbon Holding S.L., Spain, (+€24.8 million) and SGL Rotec (+€19.8 million). However, this increase was nearly completely offset by the liabilities arising from loss transfers from SGL Technologies GmbH against a loan receivable due from that company in almost the same amount.

Cash on hand and bank balances declined to €199.7 million in 2011(December 31, 2010: €261.9 million) as a result of providing high levels of financing to long-term equity investments. Further details are provided in the disclosures on financial position.

Prepaid expenses and deferred income primarily contain the hidden premiums for the two convertible bonds. The reduction of €23.5 million to €21.6 million as of December 31, 2011 (December 31, 2010: €45.1 million) is attributable to the scheduled reversal of this item as well as the unscheduled reversal resulting from the aforementioned partial conversion of the convertible bonds.

Balance Sheet

€m	**Dec. 31, 2011**	Dec. 31, 2010
ASSETS		
Intangible assets	9.7	10.2
Tangible assets	41.8	36.6
Shares in affiliated companies and long-term equity investments	334.7	314.5
Loans to affiliated companies	270.0	270.0
Long-term securities	12.4	0.0
Non-current assets	**668.6**	**631.3**
Receivables from affiliated companies and from other long-term investments	643.9	550.9
Other assets	7.8	7.3
Cash on hand and bank balances	199.7	261.9
Current assets	**851.4**	**820.1**
Prepaid expenses	21.6	45.1
Total assets	**1,541.6**	**1,496.5**

€m	**Dec. 31, 2011**	Dec. 31, 2010
EQUITY AND LIABILITIES		
Issued capital	179.2	167.8
Capital reserves	641.4	506.0
Revenue reserves	124.4	133.2
Distributable profit carried forward	20.0	7.6
Equity	**965.0**	**814.6**
Provisions for pensions and similar employee benefits	24.3	25.0
Provisions for taxes	0.6	2.1
Other provisions	12.4	11.5
Provisions	**37.3**	**38.6**
Bonds (of which convertible €282,600 thousand)	486.4	594.9
Trade payables	1.0	1.0
Liabilities to affiliated companies	39.3	39.0
Other liabilities	12.6	8.4
Liabilities	**539.3**	**643.3**
Total equity and liabilities	**1,541.6**	**1,496.5**

Shareholders' equity increased by €150.4 million to €965.0 million as of December 31, 2011 (December 31, 2010: €814.6 million).

The equity ratio thus rose to 62% (December 31, 2010: 54%) at slightly increased total assets. The rise in shareholders' equity resulted from the above-mentioned partial conversion of the convertible bonds in the amount €107.4 million, which led to a decrease in bond liabilities in the same amount. Capital increases from share-based payments (€38.6 million) and – to a lesser extent – the net income for the year of €3.6 million also contributed to the increase in shareholders' equity. Subscribed capital increased by a total of €11.5 million to €179.1 million as of December 31, 2011 due to the issue of 4,486,105 new shares.

Provisions remained nearly constant at €37.3 million (December 31, 2010: €38.6 million).

Liabilities declined by €104.0 million to €539.3 million as of December 31, 2011 (December 31, 2010: €643.3 million). The decrease of 16% was due to the reduction in bond liabilities of €107.4 million as a result of the partial conversion of the convertible bonds. Although liabilities to affiliated companies stayed near the prior-year level, other liabilities increased by €4.2 million to €12.6 million as of December 31, 2011. The increase in other liabilities was the result of higher negative fair values for derivatives.

The Company's financing includes a corporate bond in the amount of €200 million (coupon = 3-month EURIBOR +1.25%, maturing in 2015), a convertible bond issued in 2007 with an outstanding volume of €145.85 million (coupon of 0.75%, maturing in 2013), a convertible bond issued in 2009 with an outstanding volume of €136.75 million (coupon of 3.50%, maturing in 2016, bondholder put option in 2014), and a syndicated credit line in the amount of €200 million (payable in 2015) that was extended in the reporting year and was undrawn in 2011.

FINANCIAL POSITION

The financial position of SGL Carbon SE is characterized by a high level of lending to domestic and foreign affiliated companies, which has led to negative **cash flows from operating activities** of €–26.4 million in 2011. Net income for the year amounted to €3.6 million (2010: €15.2 million). The net income is adjusted for non-cash effects from write-downs and write-ups as well as other non-cash expenses, particularly from the Matching Share Plan, the SAR plan and the bonus plan for employees. Details on the various management and employee participation plans can be found in **Note 32** of the notes to the consolidated financial statements.

Cash flows from investing activities stood at €–35.1 million. This figure includes investment in securities in the amount of €12.3 million. Investment in intangible and tangible fixed assets increased by €6.9 million on the prior year as a result of capital expenditure to expand our Meitingen site.

Net cash flows, i. e. cash outflows from operating activities less cash outflows from investing activities, amounted to €–61.5 million.

Cash flows from financing activities were slightly negative in the reporting year at €–0.7 million. Cash was impacted, among other things, by exercise of the share option plan (2011: €+1.4 million; 2010: €+5.8 million) and a payment of €–2.1 million related to refinancing.

Liquidity – defined as cash on hand and bank balances – declined from €261.9 million at the start of 2011 to €199.7 million as of December 31, 2011. This figure includes time deposits with a remaining term of up to six months in the amount of €80.0 million. In 2010, €200.0 was invested in time deposits.

RISKS AND OPPORTUNITIES

Via its subsidiaries, SGL Carbon SE is subject to essentially the same risks and opportunities as SGL Group with respect to its business trend. SGL Carbon SE shares in the risk of its long-term investments and subsidiaries in accordance with its interest in the respective company.

SGL Carbon SE has concluded profit and loss transfer and control agreements with some of its subsidiaries. Therefore, in order to generate income, the Company is reliant upon the operating companies of SGL Group turning a profit and transferring such profit to it. By the same token, the Company is obligated to compensate any losses incurred by the long-term investments with which it has concluded profit and loss transfer and control agreements. This can lead to a significant negative impact on the results of operations, financial position and net assets of the Company.

To avoid or minimize this risk, SGL Carbon SE, as the parent of SGL Group, operates the Group-wide risk management system, in which all subsidiaries are included. For more information, please see the section entitled, “Risk Report”, on page 88.

Additional risk is posed by the statutory and contractual liabilities (particularly financing) to which we are subject based on our relationships with our long-term investments and subsidiaries. Such liabilities are described in the notes to the financial statements of SGL Carbon SE.

OUTLOOK

Two income components play a particular role in the results of operations of SGL Carbon SE. The first is income from long-term investments. The risk of fluctuation in this item is high due to the dependence of investment income on the business development of the subsidiaries and the resulting income from profit transfers or dividend payments. The second component is loans to affiliated companies and bank balances. The Company has high levels of both of these items. The resulting income from interest and investment funds serves to reduce the dependency of SGL Carbon SE’s business development on the financial success of the subsidiaries. It is assumed that SGL Carbon SE will continue to post positive net income in both 2012 and 2013.

Please refer to, “Internal Control System (ICS)”, on page 88 for a description of the internal control system of SGL Carbon SE as required pursuant to section 289 (5) of the HGB.

The outlook with respect to the business development of SGL Carbon SE, the parent company, for the next two years is generally identical with the outlook for SGL Group, which is described in detail in the Group’s outlook report (SGL Group).

Wiesbaden, February 29, 2012

SGL Carbon SE

The Board of Management

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

for the period January 1 to December 31

€m	Notes	2011	2010*
Sales revenue	6, 16, 31	**1,540.2**	**1,381.8**
Cost of sales		–1,121.2	–1,012.2
Gross profit		**419.0**	**369.6**
Selling expenses		–153.0	–132.8
Research and development costs	6	–40.0	–37.0
General and administrative expenses	6	–83.0	–73.7
Other operating income	7	29.7	34.4
Other operating expenses	7	–12.3	–32.1
Reversal of impairment losses and impairment losses	8	5.1	0.0
Operating profit		**165.5**	**128.4**
Results from equity accounted investments	9	–32.6	–11.9
Interest income	10	3.1	2.7
Interest expense	10	–48.8	–48.7
Other financing costs	10	–3.5	2.7
Profit before tax		**83.7**	**73.2**
Income tax expense	11	–22.8	–23.0
Net profit for the year		**60.9**	**50.2**
Attributable to:			
Non-controlling interests		–12.3	–2.0
Consolidated net profit (attributable to shareholders of the parent company)		**73.2**	**52.2**
Earnings per share (€)			
– Basic earnings per share (EPS)	12	1.09	0.80
– Diluted earnings per share (EPS)	12	1.08	0.79

* Prior-year comparatives adjusted, see **Note 3**

Consolidated Statement of Comprehensive Income

for the period January 1 to December 31

€m	Notes	**2011**	2010*
Net profit for the year		**60.9**	**50.2**
Changes in the fair value of securities available for sale [1]		1.0	0.0
Cash flow hedges [2]		–4.9	9.4
Currency translation		–2.5	42.0
Actuarial losses on defined benefit plans and similar obligations [3]	24	–19.1	–8.1
Other comprehensive income		**–25.5**	**43.3**
Total comprehensive income		**35.4**	**93.5**
Of which attributable to shareholders of the parent company		*47.2*	*94.6*
Of which attributable to non-controlling interests		*–11.8*	*–1.1*

[1] Includes tax effects of €0.0 million (2010: €0.0 million)
[2] Includes tax effects of €1.7 million (2010: €–1.8 million)
[3] Includes tax effects of €10.8 million (2010: €3.1million)

* Prior-year comparatives adjusted, see **Note 3**

Consolidated Balance Sheet
as of December 31

ASSETS €m	Notes	**Dec. 31, 2011**	Dec. 31, 2010
Non-current assets			
Goodwill	13	117.4	116.5
Other intangible assets	13	26.8	33.3
Property, plant and equipment	14	859.8	761.0
Equity accounted investments	15	45.1	59.8
Receivables from long-term construction contracts	16	72.4	51.0
Other non-current assets	17	23.4	17.1
Deferred tax assets	22	67.8	58.3
		1,212.7	**1,097.0**
Current assets			
Inventories	18	507.8	442.8
Trade receivables	19	275.3	245.9
Income tax assets		4.1	5.7
Other receivables and other assets	20	29.4	31.2
Liquidity	21	241.7	284.7
Time deposits		*80.0*	*200.0*
Cash and cash equivalents		*161.7*	*84.7*
		1,058.3	**1,010.3**
Assets held for sale	20	**0.3**	**6.0**
Total assets		**2,271.3**	**2,113.3**

EQUITY AND LIABILITIES €m	Notes	**Dec. 31, 2011**	Dec. 31, 2010
Equity			
Issued capital	23	179.4	167.9
Capital reserves	23	630.1	517.1
Retained earnings		231.6	179.4
Equity attributable to the shareholders of the parent company		**1,041.1**	**864.4**
Non-controlling interests		14.0	13.5
Total equity		**1,055.1**	**877.9**
Non-current liabilities			
Provisions for pensions and similar employee benefits	24	278.7	247.7
Other provisions	25	11.2	11.4
Interest-bearing loans	26	550.4	614.1
Other liabilities	26	35.9	47.8
Deferred tax liabilities	22	4.8	7.7
		881.0	**928.7**
Current liabilities			
Other provisions	25	76.8	78.7
Bonds and interest-bearing loans	26	6.2	28.3
Trade payables	26	181.6	134.1
Income tax payables	26	2.4	2.0
Other liabilities	26	68.2	63.6
		335.2	**306.7**
Total equity and liabilities		**2,271.3**	**2,113.3**

Consolidated Cash Flow Statement

for the period January 1 to December 31

€m	Notes	2011	2010*
Cash flow from operating activities			
Profit before tax		83.7	73.2
Adjustments to reconcile profit/loss to net cash provided by operating activities:			
Interest expense (net)		45.7	46.0
Loss/Gain on sale of property, plant and equipment		0.5	–4.9
Depreciation/amortization expense	13, 14	71.3	66.4
Reversal of impairment losses less impairment losses	8	–5.1	0.0
Loss/income from equity accounted investments		32.6	11.9
Amortization of refinancing costs	10	2.6	2.6
Interest received		3.0	2.3
Interest paid		–17.8	–15.9
Income taxes paid	11	–12.5	–19.7
Changes in provisions, net		5.5	4.5
Changes in working capital			
Inventories		–63.3	–28.7
Trade receivables		–43.6	–41.8
Trade payables		45.9	31.7
Other operating assets and liabilities		–12.3	–12.1
Net cash provided by operating activities		**136.2**	**115.5**

€m	Notes	**2011**	2010
Cash flow from investing activities			
Payments to purchase intangible assets and property, plant and equipment	13, 14	–138.8	–129.5
Proceeds from sale of intangible assets and property, plant and equipment		5.7	6.1
Payments for the acquisition of equity investments and subsidiaries as well as other financial assets		–22.0	–12.4
Payments for capital increases concerning equity accounted investments and for other financial assets		–14.2	–18.0
Net cash used in investing activities		**–169.3**	**–153.8**
Payments for investments in time deposits		120.0	–200.0
Net cash used in investing activities and cash management activities		**–49.3**	**–353.8**
Cash flow from financing activities			
Proceeds from issuance of financial liabilities		4.1	10.2
Repayment of financial liabilities		–6.8	–0.1
Payments in connection with refinancing		–2.1	0.0
Proceeds from capital increase		1.6	0.7
Other financing activities		–7.5	7.2
Net cash provided by financing activities		**–10.7**	**18.0**
Effect of foreign exchange rate changes		0.8	2.7
Net change in cash and cash equivalents		**77.0**	**–217.6**
Cash and cash equivalents at beginning of year		84.7	302.3
Cash and cash equivalents at end of year		**161.7**	**84.7**
Time deposits		80.0	200.0
Total liquidity	21	**241.7**	**284.7**

* Prior-year comparatives adjusted, see **Note 3**

Consolidated Statement of Changes in Equity
for the period January 1 to December 31

			Equity attributable to
€m	Issued capital	Capital reserves	Accumulated profit/loss
Balance as of January 1, 2010	167.4	497.2	207.9
Net profit for the year			
Other comprehensive income			–8.1
Total comprehensive income			**–8.1**
Capital increase from share-based payment plans	0.5	19.9	
Appropriation of net profit 2009			–60.8
Other changes in equity			
Balance as of December 31, 2010	**167.9**	**517.1**	**139.0**
Balance as of January 1, 2011	167.9	517.1	139.0
Net profit for the year			
Other comprehensive income			–19.1
Total comprehensive income			**–19.1**
Partial conversion of convertible bonds	8.4	89.6	
Capital increase from share-based payment plans	3.1	23.4	
Appropriation of net profit 2010			52.2
Other changes in equity*			5.0
Balance as of December 31, 2011	**179.4**	**630.1**	**177.1**

* In particular in connection with non-controlling interests in subsidiary partnerships. For further disclosures, please refer to **Note 3**

the shareholders of the parent company								
Retained earnings								
		Accumulated other comprehensive income						
	Consolidated net profit/loss	Currency translation	Cashflow Hedges (net)	Results from the mark-to-market valuation of securities	Total retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	**Total equity**
	–60.8	–53.5	–8.8		84.8	749.4	4.7	754.1
	52.2				52.2	52.2	–2.0	50.2
		41.1	9.4		42.4	42.4	0.9	43.3
	52.2	**41.1**	**9.4**	**0.0**	**94.6**	**94.6**	**–1.1**	**93.5**
						20.4		20.4
	60.8							0.0
							9.9	9.9
	52.2	**–12.4**	**0.6**	**0.0**	**179.4**	**864.4**	**13.5**	**877.9**
	52.2	–12.4	0.6	0.0	179.4	864.4	13.5	877.9
	73.2				73.2	73.2	–12.3	60.9
		–3.0	–4.9	1.0	–26.0	–26.0	0.5	–25.5
	73.2	**–3.0**	**–4.9**	**1.0**	**47.2**	**47.2**	**–11.8**	**35.4**
					0.0	98.0		98.0
					0.0	26.5		26.5
	–52.2				0.0	0.0		0.0
					5.0	5.0	12.3	17.3
	73.2	**–15.4**	**–4.3**	**1.0**	**231.6**	**1,041.1**	**14.0**	**1,055.1**

Notes to the Consolidated Financial Statements General Disclosures

1. BASIS

Description of business activities

SGL Carbon SE (SGL Carbon), with registered offices at Rheingaustrasse 182, Wiesbaden (Germany), together with its subsidiaries (SGL Group), is a global manufacturer of carbon and graphite products. For further information on the business activities of the Group, please refer to **Note 31** and the Combined Management Report.

Basis of presentation

Applying Section 315a of the German Commercial Code (HGB), the accompanying consolidated financial statements of SGL Carbon SE and its subsidiaries (hereinafter referred to as SGL Group, SGL, the Group, or the Company) for the year ended December 31, 2011, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable on the balance sheet date, and in accordance with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All standards published by the IASB which were effective on or prior to the date of these consolidated financial statements and which have been adopted by the European Commission for application in the EU were applied by SGL Carbon SE in these consolidated financial statements.

The consolidated financial statements of SGL Carbon SE are, therefore, also in accordance with IFRS as issued by the IASB. "IFRS" is thus used in the text below as a single term. The consolidated financial statements are prepared on the basis of historical cost, except for certain financial instruments accounted for at fair value. 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.

The Board of Management prepared the consolidated financial statements on February 29, 2012 and submitted them to the Supervisory Board for approval. It is planned for the consolidated financial statements and the Combined Management Report for fiscal year 2011 to be approved and released for publication at the meeting of the Supervisory Board on March 21, 2012.

2. CONSOLIDATION

The consolidated financial statements are prepared for a twelve-month period ending December 31 and include the accounts of SGL Carbon SE and its subsidiaries, which are consolidated from the date of acquisition (i. e. from the date on which SGL Group acquires control). Consolidation ends as soon as the parent effectively loses control. As of December 31, 2011, the scope of consolidation included 18 German (2010: 15) and 42 (2010: 42) foreign subsidiaries in addition to SGL Carbon SE. Seven (2010: eight) jointly controlled companies and one associate (2010: one) were accounted for using the equity method. The subsidiaries included in the consolidated financial statements are listed in **Note 37**.

The financial statements of the entities included in the consolidated financial statements were prepared in accordance with uniform accounting policies.

In accordance with IAS 27, SGL consolidates its subsidiaries by offsetting the carrying amount of its investment in each subsidiary against the portion of equity it holds in the subsidiary concerned. The equity of the acquired subsidiary is determined as of the date of acquisition, taking into account the fair value of the assets, liabilities, contingent liabilities, deferred taxes and any goodwill on that date. Initial consolidation includes recognizing any intangible assets that had not previously been reported in the single-entity financial statements of the acquired company at their fair value.

Intangible assets identified in a business combination such as brands, technologies, customer relationships and existing orders are only recognized separately if the requirements of IAS 38 for the capitalization of intangible assets are met.

Intercompany receivables and payables, intercompany gains and losses and intercompany sales revenues, expenses and other income are all eliminated as part of the consolidation process. In accordance with IAS 12, deferred taxes are recognized with respect to timing differences arising from consolidation.

Any change in ownership interest that does not result in a change of control is accounted for as an equity transaction with owners, with the impact of the transaction between the owners of the parent and the non-controlling interest being recognized directly in equity in accordance with IAS 27 (2008).

Joint ventures and companies where SGL Group has a significant influence on business and financial decisions – mainly by way of direct or indirect voting rights of 20% to 50% (associates) – are accounted for using the equity method. Any resulting unrealized gains or losses from transactions the Group enters into with jointly controlled entities are eliminated to the extent of the Group's share in the relevant jointly controlled entity.

3. ACCOUNTING POLICIES

With the exception of the voluntary change in accounting policy described below, the accounting policies applied in these consolidated financial statements are unchanged from the accounting policies applied in 2010.

Non-controlling interests in subsidiary partnerships

In fiscal year 2011, SGL Group changed its accounting policy applied to non-controlling interests (minority interests) held in subsidiary partnerships. Under the previously used method, the non-controlling shareholders' portion in the net result of the partnership was reported in net financing costs. Under the new method, the portion of current net profit or loss attributable to non-controlling shareholders is presented on the face of the income statement as allocation of profit or loss attributable to non-controlling interest (after net profit or loss for the period). The corresponding amount, which is initially recorded in equity, is reclassified to financial liabilities on each reporting date. Under the previously applied method, the changes in the value of financial liabilities resulting from remeasurement at fair value were accounted for by applying the provisions related to the subsequent measurement of contingent considerations in accordance with IFRS 3 (2004) (i. e. as an adjustment to goodwill resulting from the acquisition). Under the new method, however, the changes in the value of financial liabilities are recognized directly in equity as an equity transaction in accordance with IAS 27.30 (i. e. as a transaction with owners acting in their capacity as owners) by adjusting the item "equity attributable to the shareholders of the parent company." For more information, please refer to the consolidated statement of changes in equity. This accounting policy change did not impact the presentation of the previous year's balance sheet. If the previous method had still been applied, basic earnings per share and diluted earnings per share would have amounted to €0.92 and €0.92, respectively.

SGL Group believes that, under the new method, the presentation of minority interests of consolidated partnerships in current net profit or loss will provide more relevant information, as it is consistent with the presentation of minority interests in subsidiaries that are not partnerships.

SGL Group retrospectively adjusted the comparative figures for the prior reporting periods as if the new accounting policy had always been applied. This resulted in a charge of €2.5 million recorded in net financing costs for 2010.

Foreign currency translation

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 translation of items denominated in foreign currency are recognized in the income statement as other operating expense and/or other operating income.

Standalone 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, except for two (2010: one) insignificant holding companies. As a consequence, balance sheet items are translated at the year-end closing rate and income statement items at average rates for the year.

Currency translation differences are reported as a separate item of equity. Translation differences on non-current intercompany receivables are treated as net investments in foreign operations and recognized directly in equity. No stand alone financial statements from companies in hyperinflationary economies are included in the consolidated financial statements.

The exchange rates of those currencies significant to the consolidated financial statements have developed as follows:

Currencies	**ISO code**	**Middle rate at balance sheet date**		**Annual average rates**	
1 € =		**Dec. 31, 2011**	Dec. 31, 2010	**2011**	2010
US dollar	USD	1.2939	1.3362	1.3920	1.3257
Pound sterling	GBP	0.8353	0.8608	0.8679	0.8578
Canadian dollar	CAD	1.3215	1.3322	1.3761	1.3651
Polish zloty	PLN	4.4168	3.9603	4.1189	3.9939
Chinese yuan	CNY	8.1588	8.8220	8.9960	8.9712
Malaysian ringgit	MYR	4.1055	4.0950	4.2558	4.2668
Japanese yen	JPY	100.2000	108.6500	110.9600	116.2400

Income and expenses

Income for the fiscal year is recognized when realized; expenses as incurred. 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. Long-term construction contracts are accounted for using the percentage-of-completion (PoC) method; accordingly, revenues from construction contracts are recognized in accordance with the percentage of completion. The percentage of completion is determined on the basis of the ratio of costs incurred to estimated total costs (cost-to-cost method). If the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent to which contract costs have been incurred (zero-profit method). Insofar as the aggregated capitalized contract revenues exceed the advance payments received, the gross amount due from customers is presented as trade receivables or as a separate line item as non-current assets in the case of multi-year construction contracts, where contract revenues will remain non-current due to the maturity of the agreement. If there is a negative balance after deduction of the advance payments, the gross amount due to customers is presented as a trade payable. Any expected losses are recognized as an expense immediately.

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. The interest portion for long-term construction contracts is reported as sales revenue. Dividends are generally recognized at the time of distribution.

Advertising and sales promotion expenses as well as other customer-related expenses are recognized as incurred. Provisions for estimated product warranty obligations are recognized upon sale of the product concerned.

Earnings per share

Earnings per share are calculated on the basis of the weighted average number of shares outstanding. Treasury shares are deducted for the period they are held in treasury. Diluted earnings per share also include shares from the potential exercise of option or conversion rights. The corresponding expenses that would no longer be incurred after the conversion or exchange are eliminated.

Goodwill

Goodwill resulting from business combinations is defined by IFRS 3 as the excess of the cost of the business combination over the Groups' interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is measured at cost upon first-time recognition and is not amortized. However, IAS 36 specifies that following initial recognition, goodwill must be tested for impairment annually, or on such occasions that events or changes in circumstances indicate that it might be impaired. The impairment test involves allocating the goodwill acquired as of the acquisition date to the group of cash generating units, which represent the lowest level within the organization at which goodwill is monitored for the purposes of internal management and control. For SGL Group, these are the Business Areas Performance Products (PP), Graphite Materials & Systems (GMS) and Carbon Fibers & Composites (CFC). The amount of the impairment, if any, is defined as the difference between the carrying amount and the recoverable amount of the group of cash-generating units to which the goodwill has been allocated. At SGL Group, impairment tests are performed in accordance with the procedure described in the section entitled "Impairment of Property, Plant and Equipment and Other Intangible Assets (Impairment Test)."

Other intangible assets

On initial recognition, intangible assets acquired for a consideration are measured at cost. If a substantial period of time (generally more than six months) is necessary for acquisition or production in order to bring the asset to its intended working condition, directly attributable borrowing costs incurred until such working condition is achieved are capitalized as part of the cost of the asset.

Intangible assets with a finite useful life are generally amortized on a straight-line basis over their useful lives. Impairment losses are recognized in accordance with the impairment test provisions included in IAS 36. The amortization period for intangible assets with a finite useful life is up to ten years. Customer relationships are amortized over their expected useful life of 20 years. The expected useful life of a customer relationship acquired for a consideration is measured in accordance with the term limit of the respective agreement or the observable customer behavior. The amortization expense on intangible assets is reported under various items in the income statement depending on the function of the expense. SGL Group does not amortize intangible assets with an indefinite useful life, but tests for impairment at least once a year.

Internally-generated intangible assets are only capitalized if the Company can demonstrate the technical feasibility of completing the intangible asset and its intention to complete the asset and use or sell it is proven. The Company must also be able to demonstrate the future economic benefits to be generated by the intangible asset, the availability of adequate resources to complete development and its ability to reliably measure the expenditure attributable to the intangible asset during its development. Research costs cannot be recognized as intangible assets and are therefore expensed as incurred. Non-repayable government grants are recognized immediately in the income statement under other operating income.

Property, plant and equipment

Property, plant and equipment used in the business operations for more than one year is measured at cost less straight-line depreciation and any impairment losses. The cost of internally developed assets includes a proportion of material and production overheads in addition to direct costs. If a substantial period of time (generally more than six months) is required for the acquisition or production of an asset in order to bring the asset to its intended working condition, directly attributable borrowing costs incurred until such working condition is achieved are capitalized as part of the cost of the asset. Repair and maintenance costs that do not extend useful life are expensed directly as incurred. The costs of any improvements that prolong the useful life or increase the opportunities for future utilization of an asset are generally capitalized. 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. If an asset is sold or scrapped, the asset is derecognized from property, plant and equipment and any resulting gain or loss is recognized in the income statement. Carrying amounts, useful lives and depreciation methods are reviewed each fiscal year and adjusted where required. 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.

As in prior years, the following useful lives are used throughout the Group as the basis for calculating depreciation on property, plant and equipment:

Property, plant and equipment – useful lives	
Buildings	10 to 41 years
Plant and machinery	4 to 25 years
Other equipment	3 to 15 years
Office furniture and equipment	3 to 15 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 the 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 in respect of 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. Moreover, SGL Group assesses whether, based on their economic substance, certain contractual agreements constitute or contain a lease, even though these might not be classified as lease agreements. Wherever SGL Group identified contracts containing a lease agreement, these are disclosed as either a finance lease or an operating lease in accordance with the accounting regulations relating to leases. Lease income generally includes a purchase option at market prices at the end of the lease term.

Impairment tests of property, plant and equipment and other intangible assets (Impairment Test)

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 in order to quantify the amount of the impairment loss. The recoverable amount is the higher of fair value less costs to sell (net selling price) and value in use, with the net selling price being determined first. If this amount is higher than the carrying amount, the value in use will not be calculated. SGL Group determines these amounts using measurement methods based on discounted cash flows. If an asset does not generate cash flows that are largely independent of those from other assets, the impairment test is not conducted on the level of the individual asset, but instead on the level of the cash-generating unit (CGU) to which the asset belongs. Pursuant to the definition of a CGU, the individual Business Units (BUs) of the Business Areas (BAs) are generally considered cash-generating units at SGL Group. The discounted cash flows are themselves based on five-year plans for the individual CGUs that have been prepared using a bottom-up approach and that have been analyzed and approved by the Board of Management of SGL Group.

These plans 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 plan includes budgeted unit sales, sales revenue and cost planning together with the associated projected operating profit and cash flows. In the first step, sales revenue and profit trends are budgeted at product or product group level, based on expected market, economic and competitive trends for the subsequent five years. In the second step, these budgets are then aggregated at CGU level. After the fifth year of the plan, cash flows are 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, growth rates and weighted average cost of capital. These assumptions and the underlying methodology may have a significant impact on each amount 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.

Joint ventures and associates

Interests in joint ventures and associates, i. e. investments in companies over which SGL Group has significant influence with respect to business and financial decisions (usually by way of direct or indirect voting rights of 20% to 50%), are accounted for using the equity method and initially recognized at cost. Companies in which SGL Group holds the majority of the voting rights, but where the minority shareholders have significant participation rights enabling them to block significant business or financial decisions of the majority shareholders in the ordinary course of the operating business, are classified as jointly controlled entities (joint ventures). The difference between the cost of the acquisition and the share of SGL Group in the net assets of these companies is initially allocated to acquirer's share in the acquired identifiable assets and liabilities. Any excess is considered goodwill. Any goodwill resulting from the acquisition of the associate or the joint venture is included in the carrying amount of the investment and is not amortized. After the purchase date, the carrying amounts of the investment in the associate or joint venture are increased or decreased based on the pro-rata results, dividends paid and other changes in equity. The share of SGL Group in the profit or loss of the associate or joint venture is recognized in the income statement, and its share of movements in equity that have not been recognized in the associate's profit or loss is recognized directly in equity.

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 and borrowings and other financial liabilities. It also includes derivative financial instruments that are used to hedge against risks from changes in exchange rates and interest rates.

Primary financial instruments

Primary financial instruments are classified under one of the following three categories according to the purpose for which they are held. The classification is reviewed at each balance sheet date and affects whether the asset is reported as non-current or current as well as determining whether measurement is at cost or fair value.

- Available-for-sale financial assets
- Loans and receivables
- Financial liabilities measured at amortized cost

SGL Group does not make use of the categories of *held-to-maturity investments* and *held for trading*, nor has SGL Group elected to make use of the option to designate financial assets and liabilities as at fair value through profit and 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 recognized at their 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. Please refer to the following sections related to the relevant categories and **Note 30** for further information.

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 and measured separately by those components. Instuments under this handling are convertible bonds. 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 with below-market interest rates are calculated based on the present value of the difference between the coupon rate and the market rate of interest. 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 deemed interest and the coupon rate accrued over the term to 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 market 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 the income statement when the hedged item is taken to income. 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 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 the income statement.

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 of 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 30** for further information on financial instruments.

Inventories

Inventories include spare parts, raw materials, supplies, work in progress and finished goods as well as merchandise purchased for resale and advance payments made to suppliers. 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), write-downs and directly attributable cost of materials. Borrowing costs are not capitalized. Impairment losses are recognized as cost of sales.

Loans and receivables

Financial assets that are classified as loans and receivables are recognized by SGL Group at amortized cost, net of any impairment losses. Impairment losses on trade receivables are recognized in allowance accounts; in the case of other assets, the actual carrying amount is reduced. Receivables are derecognized if they are uncollectible. Notes receivable and interest-free or low-interest-bearing receivables due after more than one year are discounted.

Liquidity

Liquidity is comprised of cash on hand, checks and bank balances as well as fund shares that may be sold on a short-term basis. Bank balances with an original maturity of more than three months are reported as time deposits. Cash funds with an original maturity of less than three months are considered cash and cash equivalents.

Deferred tax assets and deferred tax liabilities

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the carrying amount in the IFRS consolidated balance sheet and the tax base as well as for tax loss carryforwards. Deferred tax assets are taken into account only in the amount at which they will probably be utilized. Calculation is based on those tax rates applicable as of the balance sheet date and expected to be applicable as of the date on which the temporary differences are reversed or the loss carry-forwards are utilized. In the event items resulting in a change in deferred taxes are recognized directly in equity, the change in deferred taxes is also recorded directly in equity.

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 as incurred in the year and in the full amount in accordance with IAS 19.93A. Accordingly, deferred taxes recognized in connection with the above-mentioned items are also recorded directly in equity.

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.

The present value of the defined benefit obligation including future salary increases is measured on the balance sheet date at the respective interest rate for first-grade corporate bonds of a similar term. 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. The interest portion of the addition to pension provisions is shown separately under net financing costs. Payments made under defined contribution plans are expensed as incurred.

Other provisions

Under IAS 37, other provisions should be recognized if an entity has a present obligation to third parties as a result of a past event, 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. Non-current provisions are discounted. The accounting treatment and recognition of provisions for obligations in connection with incentive plans for management and employees is described in **Note 32**.

SGL Group recognizes provisions for environmental protection obligations as soon as such an obligation is deemed to be probable and the amount of the obligation can be reasonably estimated. Potential insurance recovery payments are not deducted from these estimated liabilities, but are reported as a separate asset up to the amount of the recognized provision, providing reimbursement is virtually certain. 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.

Share-based payments

SGL Group operates a number of equity-settled share-based payment models (Matching Share Plan, Stock Option Plan, Stock Appreciation Rights Plan and Bonus Program for Employees). SGL Group does not maintain any cash-settled share-based payment plans.

The obligation arising from equity-settled share-based payment transactions is measured at fair value on the grant date and the fair value of the obligation is recognized as a personnel expense over the vesting period.

In the case of the Bonus Share Plan, the fair value of the services received is equivalent to the bonus claim of the plan participants measured in cash plus a 20% share premium. Payments under the Stock Option Plan and the Stock Appreciation Rights (SAR) Plan are measured indirectly, taking into account the fair value of the equity instruments granted. The fair value is determined using recognized valuation methods (e. g. the Monte Carlo model). Further information on the individual share-based payment plans can be found in **Note 32**.

Financial liabilities

SGL Group initially recognizes financial liabilities at their fair value including transaction costs. In subsequent periods, financial liabilities (with the exception of derivative financial instruments) are measured at amortized cost using the effective interest method. For further information on the presentation of the convertible bond, please refer to **Note 26**.

Trade payables and other current financial liabilities are recognized at amortized cost. This amount is normally equivalent to the principal amount of the liability.

Shares in subsidiaries held by non-Group shareholders that may be returned to the Company in return for payment of the market value (minority interests in partnerships) represent puttable instruments in accordance with IAS 32 and are therefore classified by the Group as debt and are also reported as financial liabilities. In the context of accounting for non-controlling interests, SGL Group assumes that as a result of specific arrangements, the repayment of the financial instrument cannot be influenced by the Group, for which reason the financial instrument must be classified as a financial liability (IAS 32). The fair value of the non-controlling interest is derived from the cost of the majority interest as of the date of acquisition. This corresponds to the value at which a non-controlling shareholder may redeem its shareholding in return for cash in the amount of its relevant share in equity. In contrast, the value changes of the financial liabilities resulting from remeasurement at fair value are accounted for in accordance with the method described in the section entitled "Non-Controlling Interests in Subsidiary Partnerships." This is based on applying the provisions related to a change in the proportion of ownership interests held in a subsidiary that does not result in a change of control. The fair value is normally determined by SGL Group using the discounted cash flow method, which is based on the future cash flow projections prepared within the framework of corporate planning.

Financial reporting standards applied for the first time

The accounting rules to be applied for the first time in fiscal year 2011, such as IAS 24R "Related Party Disclosures," had no significant impact on the presentation of the financial position, financial performance or cash flows of SGL Group.

Effects of financial reporting standards required to be applied in the future

The financial reporting standards issued by the IASB listed below are not required to be applied at the moment, nor has SGL Group opted for voluntary early application. The impact of these standards in the consolidated financial statements is currently being evaluated by SGL Group as follows:

In June 2011, the IASB issued IAS 19 Employee Benefits. The amended IAS 19 eliminates the corridor approach and requires actuarial gains and losses to be recognized in other comprehensive income. These amendments will not have an impact on SGL Group since the corridor approach is not applied and actuarial gains and losses are already recognized in other comprehensive income. In addition, the amended IAS 19 replaces expected return on plan assets and interest cost on pension obligations with a uniform net interest component. The amendments are required to be applied for fiscal years beginning on or after January 1, 2013.

In May 2011, the IASB issued the following three new standards related to accounting for business combinations: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. At the same time, the IASB issued amended versions of IAS 27 Separate Financial Statements (as amended in 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011).

IFRS 10 provides a uniform definition of the concept of control and a uniform basis for determining whether a parent-subsidiary relationship exists and the associated definition of the consolidated companies. The standard includes comprehensive application guidance for determining the control relationship. The new standard replaces SIC 12 Consolidation – Special Purpose Entities in full and replaces parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 governs the accounting for situations where a company exercises joint control over a joint venture or carries out joint operations. The new standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

IFRS 12 summarizes all disclosures within a single standard that are required to be made by a company holding interests or other investments in other entities. This includes interests in subsidiaries, associates, joint arrangements and structured entities. The new standard replaces the previous disclosure requirements set out in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31 Interests in Joint Ventures and SIC 12 Consolidation – Special Purpose Entities.

The amended IAS 27 now only contains rules related to accounting for and disclosures on subsidiaries, joint ventures and associates that are relevant to separate financial statements prepared in accordance with IFRS.

The amended IAS 28 governs the accounting for interests in associates and the requirements for applying the equity method to interests in associates and joint ventures.

The new standards and the amended standards are required to be applied for fiscal years beginning on or after January 1, 2013.

The IASB issued a number of other pronouncements in 2011. These additional pronouncements will have no significant influence on the presentation of the consolidated financial statements of SGL Group.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements under IFRS requires estimates and assumptions that may affect the reported amounts of assets and liabilities as well as of income and expenses. Actual amounts may differ from these estimates. Assumptions and estimates made within SGL Group refer to the measurement of pension obligations and pension plan assets,

the measurement of provisions, impairment losses for intangible assets and property, plant and equipment, the establishing of uniform useful economic lives throughout the Group as well as the assessment with respect to the realizability of future tax credits. Estimates with regard to the percentage of completion are required for companies that have entered into long-term construction contracts with customers where revenue recognition is based on the percentage-of-completion method.

In addition, assumptions and estimates refer to share-based payments, the determination of fair values for financial derivatives not traded on the stock exchange, the evaluation of companies using cash flow forecasts and the classification of leases. Furthermore, estimates are made for allowances for doubtful trade receivables and other receivables. For further information on assumptions used in accounting for pensions, please refer to **Note 24**. Provisions are based on management judgment with regard to amount and probability of future utilization. Please refer to **Note 25** ("Other Provisions") for further clarification. Assumptions used as the basis for testing the impairment of intangible assets (including goodwill) and property, plant and equipment are described in detail in **Note 3** in the section entitled "Accounting Policies" as well as in **Note 8** ("Reversal of Impairment Losses and Impairment Losses") and in **Note 13** ("Intangible Assets") Assessments related to the realizability of future tax credits are explained in **Note 22** ("Deferred Taxes"). Please refer to the section entitled "Property, Plant and Equipment" included in **Note 3** for explanations related to the useful life of property, plant and equipment. The assumptions for the classification of finance leases and operating leases are set out in "Accounting Policies" as well as in **Note 28** ("Contingent Liabilities and Other Financial Obligations"). **Note 32** ("Management and Employee Stock Option Plans") includes a detailed description of the terms and conditions of share-based payments. Finally, the assumptions relating to financial derivatives not traded on a stock exchange and mark-to-market valuation can be found in the section entitled "Derivative Financial Instruments" in **Note 30** ("Additional Disclosures on Financial Instruments"). Estimates and underlying assumptions are continuously reviewed. Adjustments to estimates are generally taken into account in the period in which they are changed and in subsequent periods.

5. CHANGES IN THE SCOPE OF CONSOLIDATION

Effective January 1, 2011, SGL Group acquired ASL Aircraft Services Lemwerder GmbH (ASL) (including its wholly-owned subsidiaries EADS Real Estate Object Lemwerder GmbH & Co. KG and Aviation Community Lemwerder GmbH) within the framework of a share deal via SGL Group's 51% stake in SGL/A&R Immobiliengesellschaft Lemwerder mbH. This acquisition was presented as a purchase of assets in accordance with IAS 16 since the assets acquired do not qualify as an operation as defined by IFRS 3. ASL's assets primarily consist of an investment in the real estate company that leases its buildings in Lemwerder (Germany) to SGL Rotec, a Group company. SGL Group intends to expand the existing production facility for rotor blades on ASL's company grounds.

The acquired companies were renamed SGL/A&R Services Lemwerder GmbH, SGL/A&R Real Estate Lemwerder GmbH & Co KG and Aviation Community Lemwerder GmbH, respectively.

There were no material changes in the scope of consolidation in the prior year.

Consolidated Income Statement Disclosures

6. SALES REVENUE, FUNCTIONAL COSTS

The breakdown of sales revenue by Business Area and intersegment revenue, as well as the regional distribution of sales revenue, is presented in **Note 31** of the segment report.

Sales revenue includes the interest portion of long-term construction contracts in the amount of €0.9 million (2010: €0.8 million).

The future competitiveness of SGL Group is safeguarded through sustained development of new products, applications and processes. This is also reflected in the Group's research and development costs, which remained high at €40.0 million (2010: €37.0 million). Broken down by business segment, research and development costs were as follows: €9.4 million (2010: €8.2 million) in the Business Area PP, €8.8 million (2010: €7.9 million) in the Business Area GMS and €7.5 million (2010: €6.2 million) in the Business Area CFC. In addition, research and development costs on a corporate level amounted to €14.3 million (2010: €14.7 million).

General and administrative expenses grew by 12.6% compared to the prior year. The increase resulted primarily from higher bonus expenses, wage and salary adjustments and increased costs for external consultancy services.

Additional disclosures based on the nature-of-expense method are provided below:

Cost of materials

€m	**2011**	2010
Cost of raw materials, supplies and purchased goods	402.9	375.2
Cost of purchased services	97.9	82.2
Total	**500.8**	**457.4**

In the function-of-expense method, the cost of materials is included in the cost of sales.

Personnel expenses

€m	**2011**	2010
Wages and salaries (including bonus)	324.6	303.6
Social security contributions, post-employment and other employee benefit costs (thereof for pensions: 2011: €24.0 million, 2010: €24.3 million)	69.3	68.7
Total	**393.9**	**372.3**

Depreciation and amortization

At €71.3 million, amortization and depreciation on intangible assets and property, plant and equipment were greater than the prior-year level of €66.4 million following the increase in investing activities. Amortization of intangible assets amounted to €5.3 million (2010: €4.9 million) and related primarily to capitalized development costs in the amount of €2.4 million for SAP software specifically customized to SGL Group requirements (2010: €2.0 million). Depreciation of property, plant and equipment totaled €66.0 million in 2011 (2010: €61.5 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.

Human resources

Successful business development affected the number of employees within SGL Group. As of the end of the fiscal year, the Group employed 6,447 people, representing an increase of 162 employees, or 2.6%, compared to the end of 2010. This increase at SGL Group resulted exclusively from the high capacity utilization in the Business Area Graphite Materials & Systems, where the number of employees rose by 164 to 2,811 in the year under review. The number of employees in the Business Areas Performance Products (PP) and Carbon Fibers & Composites (CFC) declined slightly in the fiscal year ended December 31, 2011 compared to the previous year. A total of 2,094 people were employed in PP (2010: 2,100) and 1,469 people in CFC (2010: 1,476).

The table below provides an overview of the number of employees by region at year-end:

Number	**2011**	2010
Germany	2,535	2,480
Europe excluding Germany	1,815	1,793
North America	1,410	1,409
Asia	687	603
Total	**6,447**	**6,285**

The average number of employees in the individual functional areas was as follows:

Number	**2011**
Production and auxiliary plants	5,055
Sales and marketing	376
Research	140
Administration, other functions	850
Total	**6,400**

We have elected not to disclose the prior-year figures due to the structural changes introduced in the current year and the resulting lack of comparability.

7. OTHER OPERATING INCOME AND EXPENSES

Other operating income

€m	**2011**	2010
Currency hedges, exchange-rate gains	10.2	10.4
Costs allocated to equity accounted investments	7.1	5.6
Grants received	3.7	4.3
Special income from the reversal of other provisions	0.8	2.6
Gains on the sale of property, plant and equipment	0.8	0.2
Gains on the sale of intangible assets and property, plant and equipment	0.6	5.4
Miscellaneous other operating income	6.5	5.9
Total	**29.7**	**34.4**

Cost allocation refers to services provided at various locations.

Other Operating Expenses

Other operating expenses comprise the expenses not attributable to functional costs:

€m	**2011**	2010
Currency hedges, exchange-rate losses	5.6	16.1
Additions to other provisions	1.4	0.7
Losses on the sale of non-current assets	1.2	0.5
Restructuring costs	0.0	3.8
Miscellaneous other operating expenses	4.1	11.0
Total	**12.3**	**32.1**

Currency translation 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. Income from exchange rate differences comprise realized gains from currency hedges in the amount of €0.4 million (2010: €3.2 million). Gains on the sale of intangible assets and property, plant and equipment recorded in the previous year include one-off gains amounting to €4.8 million in connection with the sale of property in Ascoli (Italy). Expenses for exchange rate differences mainly comprise realized losses from currency hedges in the amount of €2.0 million (2010: €14.6 million).

In addition, miscellaneous other operating income and miscellaneous other operating expenses included a number of insignificant individual transactions carried out by the 61 (2010: 58) consolidated companies.

8. REVERSAL OF IMPAIRMENT LOSSES AND IMPAIRMENT LOSSES

SGL Group conducted impairment tests as of June 30, 2011 for the Business Unit Carbon Fibers and Composite Materials (CF/CM) and the Business Unit Rotor Blades (RB), both belonging to the Business Area CFC.

€m	**2011**	2010
Reversal of impairment losses Business Unit CF/CM	29.2	0.0
Impairment losses Business Unit RB	–24.1	0.0
Total	**5.1**	**0.0**

The impairment test was conducted as described in the section entitled "Impairment of Property, Plant and Equipment and Other Intangible Assets (Impairment Test)" in **Note 3**.

As a result of the significantly improved expectations for the Business Unit Carbon Fibers & Composite Materials (CF/CM), SGL Group conducted an event-driven review of whether the causes for impairment losses recognized in 2009 on intangible assets (excluding goodwill) and property, plant and equipment totaling €74.0 million still existed and if a partial or full reversal of these impairment losses was necessary. The impairment test performed showed a significant excess of the recoverable amount over the carrying amount of the net assets attributable to this Business Unit and, thus, the need for a partial reversal of the impairment loss previously recognized in the amount of €29.2 million. The reversal related to buildings (€2.9 million) and plant and machinery (€26.3 million). The recoverable amount for the Business Unit CF/CM was calculated on the basis of the value in use, using a terminal value growth rate of 2.0% and a discount rate of 13.0% before taxes.

In addition, as a result of the significant deterioration in the sales and earnings development within the Business Unit Rotor Blades, the Group conducted an impairment test of the assets employed in that Business Unit. The impairment test showed that the recoverable amount was significantly lower than the carrying amount of the net assets attributable to the Business Unit. The corresponding impairment loss as of June 30, 2011 amounted to €24.1 million. The impairment loss related to intangible assets (€5.8 million), buildings (€15.2 million) and plant and machinery (€3.1 million). The recoverable amount for the Business Unit RB was calculated on the basis of the value in use, using a terminal value growth rate of 2.0% and a discount rate of 13.7% before taxes.

A reduction in the terminal value growth rate of 1.0 percentage point would lead to an increase of €3.6 million in the impairment loss at RB. A reduction in the average annual cash flows of 10.0% would increase the expense by €4.1 million. The expense would rise by €5.1 million if the discount rate increased by 1.0 percentage point.

The positive net effect of the impairment tests totaled €5.1 million and led to a corresponding increase in operating profit.

A year-end review of the assumptions and estimates made on the date of the impairment tests did not result in the need to adjust the recorded amounts.

9. RESULT FROM EQUITY ACCOUNTED INVESTMENTS

€m	**2011**	2010
Result from equity accounted investments	–32.6	–11.9

The loss from equity accounted investments includes planned high start-up costs in 2011 for the two joint ventures established with BMW Group and the joint venture with Benteler, as well as the Group's share in losses incurred for two joint ventures in Germany due to extraordinary write-downs.

Please refer to **Note 15** for detailed information on the investments accounted for using the equity method.

10. NET FINANCING COST

€m	**2011**	2010
Interest on other securities, other interest and similar income	**3.1**	**2.7**
Interest on borrowings and other interest expense [1]	–16.9	–16.1
Interest component of additions to provisions for pensions and other employee benefits	–16.8	–17.6
Interest cost component on convertible bond [1]	–13.9	–13.9
Interest cost component on finance lease [1]	–1.2	–1.1
Interest expense	**–48.8**	**–48.7**
Interest expense, net	**–45.7**	**–46.0**
Amortization of refinancing costs [1]	–2.6	–2.6
Foreign currency valuation of group loans	1.6	–0.4
Other financial income and expenses [2]	–2.5	5.7
Other financing costs	**–3.5**	**2.7**
Net financing cost	**–49.2**	**–43.3**

[1] Total interest expense from financial instruments was €34.6 million (2010: €33.7 million)
[2] Prior year comparatives adjusted. For further disclosures, please refer to **Note 3**

Interest on borrowings and other interest expense primarily includes interest expenses for the corporate bond and the cash coupon for the 2007/2013 and 2009/2016 convertible bonds of 0.75% p. a. and 3.5% p. a., respectively. During the year under review, borrowing costs in the amount of €1.6 million (2010: €0.9 million) were capitalized in connection with long-term investment projects, which resulted in a corresponding improvement of interest expenses on borrowings.

In addition to the cash coupon, IFRS requires the recognition of a non-cash interest cost component on the 2007/2013 and 2009/2016 convertible bonds in order to present interest coupons at market conditions overall. The calculations performed in

May 2007 and June 2009 assumed comparable market interest rate of 5.8% and 8.43% p. a., respectively. This is the rate at which SGL Group would have been able to secure alternative financing. In fiscal year 2011, this resulted in a non-cash interest expense for both convertible bonds in the amount of €13.9 million (2010: €13.9 million). However, interest expenses for 2012 will be reduced by approximately €6.9 million as a result of early conversion of a portion of the 2007/2013 and 2009/2016 convertible bonds in a volume of 27% and 28% of their respective principal amounts.

At a total of €16.8 million, the interest portion of the allocation to pension provisions in 2011 was €0.8 million higher than in 2010 (€17.6 million), mainly due to lower interest rates and changed currency exchange rates. Please refer to **Note 24** for further details.

Other financial income and expenses primarily comprises expenses related to our interest rate hedges in the amount of €2.0 million (2010: €0.0 million) as well as currency translation losses from our bank loans in Malaysia denominated in foreign currency. In the year under review, these translation losses totaled €1.3 million, after currency translation gains in the amount of €4.5 million were generated in the previous year. This deterioration of €5.8 million was mainly due to changed currency exchange rates.

11. INCOME TAXES

As in the previous year, the corporate income tax rate of 15% in Germany was used as the basis for determining the income tax rate. Moreover, a solidarity surcharge of 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 SGL Group companies was 13.4% in 2011 (2010: 13.3%). This resulted in an income tax rate of 29.2% for the German companies in 2011 (2010: 29.1%). The income tax rate for foreign companies was between 17% and 42% (2010: between 15% and 42%).

The breakdown of tax expense is as follows:

€m	**2011**	2010
Current income tax expense		
Germany	–2.0	–2.5
Other countries	–16.7	–13.6
Deferred tax expense		
Germany	–10.5	2.8
Other countries	6.4	–9.7
	–22.8	**–23.0**

In 2011, the tax expense fell to €22.8 million (2010: €23.0 million) based on a profit before tax of €83.7 million (2010: €73.2 million). The Group tax rate for 2011 amounted to 27.2%, compared to a Group tax rate of 31.4% in 2010. Income tax expenses are incurred from current taxation at domestic and foreign companies. Taxes included in the tax expenses for prior years amounted to €1.0 million (2010: €2.1 million). Tax payments amounted to €12.5 million in 2011 (2010: €19.7 million).

The tax expense reported differs from the anticipated tax expense calculated on the basis of an expected tax rate of 29.2% as follows:

€m	**2011**	2010*
Profit before tax	**83.7**	**73.2**
Expected income tax expense at 29.2% (2010: 29.1%)	**24.4**	**21.3**
Increase/decrease in income tax liability from:		
– Income adjustments	3.4	3.7
– Change from expected tax rate	–8.4	–3.0
– Change in loss carryforwards and valuation allowances	–4.5	–0.7
– Valuation allowances on deferred taxes, impairment test	3.4	0.0
– Tax effect for equity accounted investments	4.4	2.4
– Tax rate changes	0.4	–0.2
– Tax from prior periods	–1.0	–0.6
– Other	0.7	0.1
= Effective tax expense	**22.8**	**23.0**

* Prior year comparatives adjusted. Please refer to **Note 3**

The income adjustments relate primarily to non-deductible operating expenses, the non-exempt portion of dividend income in Germany and adjustments for the purpose of calculating German trade tax. The reduction to reflect the different tax rate takes account of the effects of withholding taxes and minimum taxes as well as taxation differences between Germany and other countries as a result of varying income tax rates.

12. EARNINGS PER SHARE (EPS)

Earnings per share are calculated by dividing the net profit/loss for the year attributable to the shareholders of SGL Group by the average number of outstanding shares during the year under review. The average number of outstanding shares is computed from the weighted average number of common shares in circulation during the reporting period and amounted to a total of 67,013,712 shares in 2011 and 65,425,068 shares in the prior year.

The calculation of diluted earnings per share assumes the conversion of outstanding debt securities (convertible bonds) to shares or exercise of other contracts for the issue of common shares such as stock options or stock appreciation rights. The above-mentioned financial instruments are included in the calculation of diluted earnings per share only if they had a dilutive effect during the reporting period concerned.

The table below details the calculation of earnings per share for fiscal years 2011 and 2010:

€m	Overall potentially dilutive financial instruments 2011	**Dilutive financial instruments used for the calculation 2011**	2010
Numerator for basic earnings per share (proportion of net income attributable to the shareholders of the parent company)	**73.2**	**73.2**	**52.2**
plus: Increase in profit equivalent to convertible bond interest expense	16.0	0.0	0.0
Numerator for diluted earnings	**89.2**	**73.2**	**52.2**
Number of shares			
Denominator for basic earnings per share (weighted average number of shares)	**67,013,712**	**67,013,712**	**65,425,068**
Potentially dilutive securities (weighted average, in each case)			
Convertible bond 2007 (see **Note 26**)	5,352,889	0	0
Convertible bond 2009 (see **Note 26**)	5,558,865	0	0
Share-based payment plans (see **Note 32**)	39,737	39,737	83,867
Stock Appreciation Rights (see **Note 32**)	2,664,740	473,557	267,443
Denominator for potentially diluted earnings per share	**80,629,943**		
thereof to be included for dilution (adjusted weighted average)		**67,527,006**	**65,776,378**
Basic earnings per share (€)		1.09	0.80
Diluted earnings per share (€)		1.08	0.79

As of December 31, 2011, the 2007/2013 and 2009/2016 convertible bonds, the Stock Option Plan and the Stock Appreciation Rights were still outstanding. Only the stock option plans and the Stock Appreciation Rights totaling 513,294 shares had a dilutive effect as of December 31, 2011. No dilutive effect on earnings per share resulted from taking into account the additional average 5,352,889 shares from the convertible bond issued in 2007 or the additional 5,558,865 shares from the convertible bond issued in 2009 since the profit or loss for the period is adjusted to reflect the interest expense (interest payments and non-cash interest cost) for both convertible bonds and recognized in net financing costs. In the future, these instruments may become fully dilutive.

Please refer to **Note 23** for information on the capital increases conducted after the balance sheet date.

Consolidated Balance Sheet Disclosures

13. INTANGIBLE ASSETS

€m	Industrial rights, software and similar rights	Customer relationships	Capitalized development costs	Goodwill	Total
Historical cost					
Balance as of January 1, 2011	57.4	9.2	12.3	116.5	195.4
Foreign currency translation	0.1	0.0	0.1	0.9	1.1
Reclassifications	0.2	0.0	0.0	0.0	0.2
Additions	2.8	0.0	1.5	0.0	4.3
Disposals	–0.7	0.0	0.0	0.0	–0.7
Balance as of December 31, 2011	**59.8**	**9.2**	**13.9**	**117.4**	**200.3**
Cumulative amortization					
Balance as of January 1, 2011	40.4	2.1	3.1	0.0	45.6
Additions	4.8	0.3	0.2	0.0	5.3
Impairment	2.6	3.2	0.0	0.0	5.8
Disposals	–0.6	0.0	0.0	0.0	–0.6
Balance as of December 31, 2011	**47.2**	**5.6**	**3.3**	**0.0**	**56.1**
Net carrying amount as of December 31, 2011	**12.6**	**3.6**	**10.6**	**117.4**	**144.2**
Historical cost					
Balance as of January 1, 2010	54.3	9.0	6.3	112.1	181.7
Foreign currency translation	0.7	0.2	0.0	3.6	4.5
Reclassifications	1.2	0.0	1.6	0.0	2.8
Additions	2.1	0.0	4.4	0.0	6.5
Disposals	–0.9	0.0	0.0	0.0	–0.9
Other	0.0	0.0	0.0	0.8	0.8
Balance as of December 31, 2010	**57.4**	**9.2**	**12.3**	**116.5**	**195.4**
Cumulative amortization					
Balance as of January 1, 2010	37.0	1.0	3.0	0.0	41.0
Foreign currency translation	0.3	0.2	0.1	0.0	0.6
Additions	4.0	0.9	0.0	0.0	4.9
Disposals	–0.9	0.0	0.0	0.0	–0.9
Balance as of December 31, 2010	**40.4**	**2.1**	**3.1**	**0.0**	**45.6**
Net carrying amount as of December 31, 2010	**17.0**	**7.1**	**9.2**	**116.5**	**149.8**

Intangible assets include carrying amounts totaling €2.4 million that are not subject to amortization. These relate to the Rotec brand in the amount of €0.4 million (December 31, 2010: €3.0 million) and capitalized costs in connection with REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) in the amount of €2.0 million (December 31, 2010:

€0.0 million). SGL Group assumes an indefinite useful life for both the brand (due to its being a corporate brand name) and for REACH (since the use of a registration is not limited in time). The Rotec brand is allocated to the Business Area CFC, while REACH is allocated to the PP, GMS and CFC Business Areas in the amounts of €0.9 million, €0.7 million and €0.4 million, respectively.

Industrial rights, software and similar rights mainly comprise purchased and internally developed IT software. Additions in the year under review primarily reflect the integration of additional companies into the standard Group-wide SAP system (SGL-ONE) in the amount of €1.6 million (December 31, 2010: €0.6 million). Of this amount, a total of €0.4 million of own work was capitalized in connection with the SGL-ONE project in 2011 (December 31, 2010: €0.1 million). Together with the capitalized development costs shown separately, internal development costs were capitalized in a total amount of €1.9 million in 2011 (December 31, 2010: €4.5 million).

The additions to capitalized development costs include an amount of €1.1 million (December 31, 2010: €3.7 million) representing costs for the development agreement nearly finalized with BMW Group, a joint venture partner. The agreement involves the development of carbon fiber processes and textile semi-finished products for use in vehicle construction. In addition, €0.4 million (December 31, 2010: €0.8 million) was capitalized for the REACH project.

The borrowing costs capitalized in the reporting period amounted to €0.2 million, determined on the basis of a borrowing rate of 6%.

Please refer to **Note 8** for information on impairment testing of intangible assets (excluding goodwill).

SGL Group tests goodwill for impairment at least once annually in accordance with IFRS, using the procedure described in the section entitled "Goodwill" in **Note 3**. In fiscal years 2011 and 2010, the recoverable amounts for the Business Areas calculated on the basis of fair value less costs to sell were already estimated as being higher than the carrying amounts. Consequently, no impairment loss was identified by management.

The following table shows the most significant assumptions used to determine fair value less costs to sell for impairment tests related to the Business Areas to which a considerable amount of goodwill was allocated:

	Recognized goodwill in €m	Discount rate after tax in %	Long-term growth rate in %
Sept. 30, 2011			
Business Area PP	10.3	10.2	1.0
Business Area GMS	19.4	9.8	1.0
Business Area CFC	85.4	8.4	2.0
Sept. 30, 2010			
Business Area PP	11.0	10.1	1.0
Business Area GMS	19.3	10.2	1.0
Business Area CFC	84.6	7.5	2.0

In the Business Area CFC, where many of the products are only at the beginning of their life cycles, growth rates are projected to be higher than in the other segments according to the five-year plan.

When calculating the weighted average cost of capital (WACC) the following parameters, which were determined for each Business Area on the basis of a peer group, were used in addition to the market risk premium of 5.0% (December 31, 2010: 5.0%): a 5-year monthly beta of 1.61 (December 31, 2010: 1.75) for PP and 1.47 (December 31, 2010: 1.57) for GMS, and a maturity equivalent risk-adjusted debt rate of 6.72% (December 31, 2010: 5.42%), based on the respective financing structure of the peer group.

In the Business Area CFC, the average cost of capital was determined separately for each individual Business Unit in order to adequately take into account the differences in the risks specific to the individual Business Units. For this purpose, we assumed a 5-year monthly beta of between 0.91 and 1.59 (December 31, 2010: between 0.96 and 1.76) and maturity equivalent risk-adjusted debt rates ranging from 4.37% to 6.72% (December 31, 2010: between 4.0% and 5.42%) based on the respective financing structure of the peer group.

The impairment test performed as of September 30, 2011 confirmed the value of the existing goodwill.

CFC has the highest goodwill among the Business Areas and the lowest excess of recoverable amount over the carrying amount of the net assets attributed to it (“headroom”). The headroom for CFC amounted to €8.3 million (December 31, 2010: €111.6 million).

This headroom would be reduced to zero under the following assumptions: (i) in the event of a reduction of the terminal value growth rate by 0.1%-point (from 2.0% to 1.9%); (ii) in the event of a reduction in the cash flows underlying the terminal value by 1.9%; or (iii) an increase of the discount factor by 0.1%-point.

14. PROPERTY, PLANT AND EQUIPMENT

€m	Land, land rights and buildings	Plant and machinery	Office furniture and equipment	Advance payments and assets under construction	**Total**
Historical cost					
Balance as of January 1, 2011	463.4	1,299.1	79.3	119.2	1,961.0
Change in scope of consolidation	15.2	1.2	0.1	0.0	16.5
Foreign currency translation	1.0	3.1	0.1	1.6	5.8
Reclassifications	6.7	30.3	0.7	–38.1	–0.4
Additions	21.3	40.7	4.4	68.1	134.5
Disposals	–2.2	–22.4	–5.3	0.0	–29.9
Balance as of December 31, 2011	**505.4**	**1,352.0**	**79.3**	**150.8**	**2,087.5**
Cumulative depreciation					
Balance as of January 1, 2011	221.4	911.4	66.5	0.7	1,200.0
Foreign currency translation	0.2	1.3	0.1	0.0	1.6
Reclassifications	0.0	–0.3	0.1	0.0	–0.2
Additions	10.8	51.1	4.1	0.0	66.0
Reversal of impairment losses	–2.9	–26.3	0.0	0.0	–29.2
Impairment	15.2	1.9	1.2	0.0	18.3
Disposals	–1.9	–21.8	–5.1	0.0	–28.8
Balance as of December 31, 2011	**242.8**	**917.3**	**66.9**	**0.7**	**1,227.7**
Net carrying amount as of December 31, 2011	**262.6**	**434.7**	**12.4**	**150.1**	**859.8**
Historical cost					
Balance as of January 1, 2010	423.6	1,187.9	88.2	181.1	1,880.8
Foreign currency translation	15.3	38.9	1.2	19.4	74.8
Reclassifications	30.2	131.6	0.7	–169.9	–7.4
Additions	7.3	32.4	2.6	88.1	130.4
Disposals	–13.0	–91.7	–13.4	0.5	–117.6
Balance as of December 31, 2010	**463.4**	**1,299.1**	**79.3**	**119.2**	**1,961.0**
Cumulative depreciation					
Balance as of January 1, 2010	219.6	905.9	74.5	28.3	1,228.3
Foreign currency translation	4.4	21.0	0.8	1.0	27.2
Reclassifications	0.3	28.9	–0.3	–29.0	–0.1
Additions	9.8	47.4	4.3	0.0	61.5
Disposals	–12.7	–91.8	–12.8	0.4	–116.9
Balance as of December 31, 2010	**221.4**	**911.4**	**66.5**	**0.7**	**1,200.0**
Net carrying amount as of December 31, 2010	**242.0**	**387.7**	**12.8**	**118.5**	**761.0**

Capital expenditure on property, plant and equipment amounted to €130.4 million in the year under review, a decline of €4.1 million from the 2010 figure of €134.5 million. As in the previous year, investment activities in 2011 focused on continued expansion of the new production capacities for graphite electrodes and cathodes in Banting, Malaysia (€29.7 million) as well as the expansion of the production capacities for the aviation industry at HITCO CARBON COMPOSITES Inc., USA (€15.6 million). In addition, we invested €12.1 million to expand isostatic graphite capacities at the Bonn site as well as €6.0 million to build-up additional coating capacities in St. Marys, Pennsylvania (USA). In our technology center in Meitingen (T&I), €3.0 million was invested in the continuing development of carbon fibers for the aviation and automotive industries. Necessary replacement investments related to quality improvement and environmental protection were made at our US sites in St. Marys, Pennsylvania, Morganton, North Carolina and Ozark, Arkansas as well as in Racibórz (Poland).

Depreciation of property, plant and equipment amounted to €66.0 million compared to €61.5 million in the prior year. This increase is mainly the consequence of additional assets, resulting from the year-on-year increase in the volume of property, plant and equipment investment projects conducted in recent years, being put into operation. Capitalized amounts under finance leases included within "Land, land rights and buildings" as well as "Plant and machinery" amounted to €20.2 million as of December 31, 2011 (December 31, 2010: €20.6 million). Borrowing costs capitalized in the reporting period amounted to €1.4 million, determined on the basis of a borrowing rate of 6%.

Please refer to **Note 8** for information on impairment testing of property, plant and equipment.

15. EQUITY ACCOUNTED INVESTMENTS

Equity accounted investments (associates and joint ventures) as of December 31, 2011 and 2010 were as follows:

	December 31, 2011	December 31, 2010
Benteler SGL GmbH & Co. KG, Paderborn, Germany	50%	50%
Brembo SGL Carbon Ceramic Brakes S.p.A., Milan, Italy	50%	50%
European Precursor GmbH (EPG), Kelheim, Germany	44%	44%
MRC-SGL Precursor Co. Ltd., Tokyo, Japan	33%	33%
PowerBlades GmbH, Bremerhaven, Germany *	–	49%
SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, Germany	51%	51%
SGL Automotive Carbon Fibers LLC, Charlotte, USA	51%	51%
SGL TOKAI CARBON Ltd. (STS), China	51%	51%

* Sold to REpower Systems SE in December 2011

As of December 31, 2011, the carrying amount of the equity accounted investments was €45.1 million (December 31, 2010: €59.8 million). The change in the carrying amount compared to the previous year was due to the loss from equity accounted investments in the amount of €32.6 million (see **Note 9**), which correspondingly reduced the carrying amounts in accordance with the equity method described in **Note 3**. The capital contributions made at our two joint ventures with BMW Group (€7.6 million) and the joint ventures with Benteler (€3.5 million) and Lenzing (€6.0 million) had an offsetting effect.

The reporting date for all equity accounted investments was December 31, 2011.

The following table provides summarized financial information on our equity accounted investments for fiscal years 2011 and 2010:

€m *	2011	2010
Sales revenue	168.6	158.0
Total expenses	227.2	175.9
Profit/loss for the period	–58.6	–17.9
Current assets	96.7	99.4
Non-current assets	120.0	117.3
Current liabilities	51.2	66.9
Non-current liabilities	96.5	56.4

* 100% values for companies

The associates and joint ventures are shown in the list of companies (see **Note 37**).

16. RECEIVABLES FROM LONG-TERM CONSTRUCTION CONTRACTS

In 2011, total sales revenue of €47.7 million (December 31, 2010: €39.9 million) was recognized with respect to long-term contracts using the percentage-of-completion method in accordance with IAS 11. After deduction of the costs incurred of €39.1 million (December 31, 2010: €35.8 million), the profit on these contracts was €8.6 million in the year under review (December 31, 2010: €4.1 million). On the balance sheet, total advance payments of €6.4 million (December 31, 2010: €14.4 million) received from customers in respect of these contracts were offset against the respective cumulative receivables of each contract, resulting in net receivables (i. e. a net amount due from customers) of €105.7 million and net payables (i. e. a net amount due to customers) of €5.1 million (December 31, 2010: net receivables of €73.5 million and net payables of €0.5 million). Since a portion of these receivables from PoC-accounting is non-current, €72.4 million (December 31, 2010: €51.0 million) is reported as a separate item under non-current assets. The current portion is reported under trade receivables.

17. OTHER NON-CURRENT ASSETS

This item mainly refers to exchange listed investment securities that were purchased in the year under review in the amount of €13.3 million (including the positive market price adjustment in the amount of €1.0 million) as well as the shareholding in the company operating the SGL arena in Augsburg in the amount of €5.5 million. As in the previous year, other non-current assets include securities held by foreign subsidiaries to cover pension entitlements. These securities amounted to €3.7 million as of year-end 2011 (December 31, 2010: €3.8 million). All securities are allocated to the category “available-for-sale financial assets.”

In the previous year, other non-current assets included the advance payment made with regard to the purchase price for the planned acquisition of shares in ASL Aircraft Services Lemwerder GmbH in the amount of €12.4 million.

18. INVENTORIES

€m	**December 31, 2011**	December 31, 2010
Raw materials and supplies	161.2	152.5
Work in progress	253.7	211.8
Finished goods and purchased goods	92.9	78.5
Total	**507.8**	**442.8**

In fiscal year 2011, cost of sales included inventories in the amount of €1,023.4 million (December 31, 2010: €929.9 million) recognized as an expense. The total carrying amount of inventories measured at net realizable value was €19.7 million (December 31, 2010: €12.3 million). Write-downs of inventories led to an increase in the overall cost of sales recognized of €6.5 million (December 31, 2010: €2.4 million). Write-ups resulting from disposals in the amount of €1.9 million (December 31, 2010: €0.1 million) reduced cost of sales.

19. TRADE RECEIVABLES

€m	**December 31, 2011**	December 31, 2010
from customers	267.3	235.0
from equity accounted investments	8.0	10.9
Trade receivables, current	**275.3**	**245.9**

SGL Group reports the total amount of trade receivables as follows:

€m	**December 31, 2011**	December 31, 2010
Receivables from long-term construction contracts (see **Note 16**)	72.4	51.0
Trade receivables, current	275.3	245.9
Total trade receivables	**347.7**	**296.9**

The following table shows the extent of the credit risk related to total receivables:

€m	**December 31, 2011**	December 31, 2010
Trade receivables neither written down nor overdue	**309.8**	**271.9**
Overdue trade receivables not written down on an individual basis		
less than 30 days	26.5	15.3
30 to 60 days	4.2	3.7
61 to 90 days	1.6	1.2
more than 90 days	3.6	2.1
Total	**35.9**	**22.3**
Receivables written down on an individual basis	7.0	8.7
less valuation adjustment	−5.0	−6.0
Trade receivables, net	**347.7**	**296.9**

The majority of our trade receivables are paid by the contractually agreed due dates. As of the balance sheet date, receivables in the amount of €345.7 million were not subject to impairment (December 31, 2010: €294.2 million). The total write-down on receivables amounted to €5.0 million as of the reporting date (December 31, 2010: €6.0 million). The specific write downs were calculated on the basis of uniform 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 write-downs 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 in **Note 30** ("Credit Risk").

The following table shows the change in impairment:

€m	**2011**	2010
Balance as of January 1	6.0	7.9
Additions recognized as expense	2.3	3.5
Reversals	−3.1	−4.6
Utilizations	−0.2	−0.8
Balance as of December 31	**5.0**	**6.0**

20. OTHER RECEIVABLES AND OTHER ASSETS, ASSETS HELD FOR SALE

€m	**December 31, 2011**	December 31, 2010
Other tax claims	10.5	9.5
Advance payments for leases and insurance premiums	5.1	4.0
Receivables from employees	1.6	1.7
Positive fair values of financial instruments (currency and interest rate derivatives)	1.5	6.7
Other receivables due from equity accounted investments	2.0	0.7
Other assets	8.7	8.6
Other receivables and other assets	**29.4**	**31.2**
Assets held for sale	**0.3**	**6.0**

In the previous year, assets held for sale amounted to €6.0 million and primarily consisted of ovens acquired for development purposes. These were transferred, as planned, to our joint venture, SGL Automotive Carbon Fibers, LLC (USA), in the reporting year.

21. LIQUIDITY

Liquidity is comprised of short-term time deposits with a maturity of more than three months (2011: €80.0 million; December 31, 2010: €200.0 million) and cash and cash equivalents on the balance sheet depending on the respective original maturity. Cash and cash equivalents include bank balances with an original maturity of less than three months in the amount of €161.7 million (December 31, 2010: €84.7 million).

The breakdown of cash funds as of December 31, 2011 was as follows: 88% in euros (December 31, 2010: 91%), 5% in U.S. dollars (December 31, 2010: 2%), 4% in Japanese yen (December 31, 2010: 2%), and 3% in other currencies (December 31, 2010: 5%). As in the prior year, there was no significant amount of cash on hand as of the balance sheet date.

22. DEFERRED TAXES

Deferred tax assets mainly refer to deferred taxes on loss carry-forwards as well as deferred taxes on measurement timing differences between IFRS and the tax base resulting from differences in the measurement of provisions, non-current assets, inventories, and financial derivatives. Deferred tax liabilities primarily arise from differences in the depreciation and amortization methods between the IFRS consolidated financial statements and the tax accounts.

As of December 31, 2011, domestic tax loss carryforwards in the amount of €217.0 million (December 31, 2010: €202.8 million) related to corporate income tax and €149.2 million (December 31, 2010: €135.0 million) related to municipal trade tax. In addition, foreign tax loss carryforwards of US$117.6 million (December 31, 2010: US$94.7 million) related to federal tax in the U.S. and foreign tax loss carryforwards of £54.0 million (December 31, 2010: £46.6 million) related to the UK. The loss

carryforwards in Germany and the UK may be carried forward without limitation in accordance with currently applicable laws. In the U.S., the loss carry-forwards will expire starting in 2022.

No deferred tax assets were recognized for the following items as of December 31, 2011 and December 31, 2010 due to uncertainty regarding their usability:

€m	**December 31, 2011**	December 31, 2010
Deductible temporary differences		
from impairment test	27.0	67.0
from other recognition and measurement differences	3.6	10.9
Tax loss carryforwards and tax refunds received	313.4	235.5
Total	**344.0**	**313.4**

The loss carryforwards in Germany for corporate income tax and municipal trade tax are taken into account separately for each type of tax. The prior-year figure was adjusted accordingly to enhance comparability.

Deferred taxes predominantly have a maturity of more than one year.

Deferred tax assets and liabilities are derived as follows from loss carryforwards or differences between the tax base and the IFRS financial statements:

€m	**Deferred tax assets Dec. 31, 2011**	**Deferred tax liabilities Dec. 31, 2011**	Deferred tax assets Dec. 31, 2010	Deferred tax liabilities Dec. 31, 2010
Non-current assets	27.8	–79.5	28.6	–58.5
Inventories	9.7	–4.7	7.9	–5.5
Receivables/other assets	4.2	–9.5	1.4	–3.4
Provisions for pensions and similar employee benefits	51.0	–4.0	40.0	–3.1
Other provisions	7.2	–1.0	8.7	–0.6
Liabilities/other liabilities	8.3	0.4	6.5	1.7
Tax loss carryforwards and tax refunds received	110.6		95.5	
Other	7.8	–1.2	5.7	–1.3
Total	**226.6**	**–99.5**	**194.3**	**–70.7**
Allowance	–64.1		–73.0	
Netting	–94.7	94.7	–63.0	63.0
Carrying amount	**67.8**	**–4.8**	**58.3**	**–7.7**

Deferred tax assets and liabilities are netted insofar as these involve income taxes levied by the same taxable entity.

The balance of deferred tax assets and liabilities rose by €12.4 million in 2011 (December 31, 2010: decline of €1.2 million) to a total of €63.0 million (December 31, 2010: €50.6 million). The effect on earnings totaled €4.1 million in 2011 (December 31, 2010: €6.9 million). Deferred taxes declined by €2.5 million (December 31, 2010: decline of €1.6 million) as a result of changes in foreign exchange rates. Other reductions of €14.0 million (December 31, 2010: €4.4 million) related to items recognized in equity. These primarily included the increase in deferred tax assets not recognized in income resulting from valuation differences in pension provisions due to the actuarial losses recognized in equity. Other changes not affecting the income statement resulted from cash flow hedges as well as future tax benefits in relation to share-based payment plans. In the previous year, €0.3 million related to deferred taxes offset against goodwill.

A deferred tax liability of €1.2 million (December 31, 2010: €1.3 million) was also recognized in Germany with respect to foreseeable future dividend payments by foreign operations.

Recognition of this liability resulted from the fact that a portion of foreign dividend income is not tax-free in Germany in addition to withholding taxes. Any further profits of foreign operations that will not be distributed in the foreseeable future would lead to an additional deferred tax liability of €6.0 million (December 31, 2010: €3.6 million).

23. EQUITY

As of December 31, 2011, the Company's issued capital amounted to €179,362,723.84 (December 31, 2010: €167,878,295.04) and was divided into 70,063,564 (December 31, 2010: 65,577,459) no-par-value ordinary bearer shares, each with a notional value of €2.56. The shares are traded on various markets in Germany (including Frankfurt).

Capital structure
Authorized capital as of December 31, 2011

Articles of Association	Date of resolution/ limitation	€/ Number of shares	Capital increase via:	Pre-emptive rights are excluded
para. 3 sec. 6	April 29, 2009 limited until April 28,2014	52,384,192.00 € = 20,462,575 shares	Cash contribution or contribution in kind	– if new shares are issued to employees from Matching Share Plan up to €544,192.00 = 212,575 shares – if issued via contribution in kind
para. 3 sec. 8	May 3, 2011 limited until May 2, 2016	5,120,000.00 € = 2,000,000 shares	Cash contribution or contribution in kind	– if new shares are issued to employees
para. 3 sec. 11	April 25, 2008 limited until April 26, 2012	23,873,251.84 € = 9,325,669 shares	Cash contributions	– if new shares are issued up to a max. of 10% of the Company's issued capital, provided the issue price of the new shares is not significantly lower than the stock exchange price

The Board of Management is authorized, subject to the consent of the Supervisory Board, to increase the Company's issued share capital by way of an issue of new no-par value bearer shares on one or several occasions.

Shareholders generally have pre-emptive rights to any such issue. Pre-emptive rights may be disapplied, subject to the consent of the Supervisory Board, in the context of shares issued to employees, shares issued in return for contributions in kind and the issuance of shares of up to 10% of the issued share capital.

Conditional capital as of December 31, 2011

Articles of Association	Date of resolution	€/Number of shares	Capital increase via:	Exclusion of pre-emptive rights/ Execution of the capital increase
para. 3 sec. 9	April 27, 2000	1,964,928.00 € = 767,550 shares	Stock Option Plan 2000–2004	Share capital increase will be executed if participants make use of their subscription rights.
para. 3 sec. 7	April 30, 2004	941,114.88 € = 367,623 shares	SAR-Plan * 2005–2009	Share capital increase will be executed if participants make use of their subscription rights.
para. 3 sec. 12	April 29, 2009	5,376,000.00 € = 2,100,000 shares	SAR-Plan * 2010–2014	Share capital increase will be executed if participants make use of their subscription rights.
para. 3 sec. 10	April 29, 2009	12,844,180.48 € = 5,017,258 shares	To be used for the convertible bond 2007	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.
para. 3 sec. 13	April 29, 2009	15,841,694.72 € = 6,188,162 shares	To be used for the convertible bond 2009	Share capital increase will be executed if creditors of the convertible bond exercise their conversion rights.
para. 3 sec. 14	April 30, 2010	35,840,000.00 € = 14,000,000 shares	To be used for convertible bonds/ bonds with warrants	Authorization to issue convertible bonds/ bonds with warrants up to €500 million (limited till April 29, 2015) with the possibility to exclude pre-emptive rights up to 10% of the Company's issued capital

* SAR Plan = Stock Appreciation Rights Plan (see **Note 32**)

Changes in the number of shares compared to December 31, 2010 relate to the reduction of authorized and contingent capital due to capital increases.

The Annual General Meeting has resolved contingent capital increases to service the share-based management incentive plans (see **Note 32**) as well as to service convertible bonds and bonds with warrants (see **Note 26**).

Increase in the Company's Share Capital

Number of shares	**2011**	2010
Balance as of January 1	65,577,459	65,379,227
Stock Option Plan 2000–2004	108,200	36,300
SAR Plan 2005–2009	645,537	62,295
Issuance to employees for bonus entitlements	263,449	17,006
Own bonus shares	86,551	32,994
New shares for share plan participants	87,788	49,637
New shares issued from conversion of convertible bonds	3,294,580	0
Balance as of December 31	**70,063,564**	**65,577,459**

The total number of shares rose from 65,577,459 as of December 31, 2010 to 70,063,564 as of December 31, 2011, an increase of 4,486,105.

A total of 437,788 new shares were issued for the purpose of servicing bonus entitlements as well as entitlements of employees in relation to the Matching Share Plan 2009 (see **Note 32**). The new shares were issued at a price of €2.56 each, increasing issued capital to a total of €1,120,737.28. Of the 350,000 new shares, a total of 263,449 shares were transferred to employees of the Company at a price equivalent to the opening price in XETRA trading on March 16, 2011 in order to satisfy bonus entitlements in accordance with the terms of the agreed bonus arrangements. The Company purchased 86,551 shares at a price of €2.56 per share. These shares were not needed to satisfy bonus entitlements, because of the increase in the share price between the date on which the resolution to increase issued capital was passed and March 16, 2011. In the future, they will be offered to present or former employees of the Company or its affiliated companies for purchase. A total of 87,788 new shares were issued to employees of Group companies under the 2009 Matching Share Plan at the end of the vesting period from the capital increase in March 2011.

On January 31, 2012, the Board of Management approved a €667,427.84 increase in issued capital through the issue of 260,714 new shares by making partial use of authorized capital. The new shares are designated for employees of the Company and to support the 2010 Matching Share Plan; they carry dividend rights for 2011. As of December 31, 2011, 85,217 (December 31, 2010: 30,904) treasury shares were held at a carrying amount of €218,155.52 (December 31, 2010: €79,114.24).

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 our capital structure as well as to ensure effective risk management. Capital management includes both equity and debt components. Key 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.

The indicators changed as follows:

€m	**December 31, 2011**	December 31, 2010
Net debt	343.3	410.5
Equity attributable to shareholders of the parent company	1,041.1	864.4
Gearing	0.33	0.47
Equity ratio	45.8%	40.9%

SGL Group pursues active debt management as one of its capital management tools. The 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 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 maintaining and the utilization of guarantee credit lines.

Since 2004, SGL Group has commissioned the 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 Group's credit quality. At present, SGL Group has ratings of Ba2 from Moody's and BB from Standard & Poor's. The corporate bond has received an investment grade rating from S&P ("BBB-"), while the convertible bonds are rated "BB" by S&P. Moody's gives the corporate bond a Ba1 rating and the convertible bonds a Ba3 rating.

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.

The various pension arrangements for the employees of SGL Group in Germany were standardized on April 1, 2000. Postemployment benefit entitlements dating from the period before April 1, 2000, are not affected and the financial obligations arising under these pension plans remain within SGL Group, where they are covered by provisions. The basis of the modified pension scheme is the legally independent pension fund for employees of Hoechst Group VVaG, which is funded by employee and employer contributions. The contributions made by SGL Group to this pension fund are determined by a specific ratio to the contributions made to the fund by employees.

In the case of defined contribution plans, 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 is a defined benefit multi-employer plan. 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. A situation where this pension plan is underfunded cannot arise as the future employer contributions are to be assessed in such a way that prevents underfunding. If overfunding occurs, the contributions of the participating companies will be reduced accordingly. The contributions made by SGL Group to the pension fund (Penka I) are currently equivalent to 300% of the employee contributions (December 31, 2010: 300%). Effective April 1, 2009, the pension plan was changed for new beneficiaries from a defined benefit plan to a defined contribution plan. The employer contributions remain constant at 230% of the employee contributions. All obligations are fulfilled by making contribution payments to the pension fund (Penka II). The contribution payments made each year are recognized as operating expenses for defined contribution plans in the year concerned.

Most of the obligations with respect to current pension benefits and projected pension benefits in the European companies are covered by the provisions reported on the balance sheet. The North American subsidiaries have country-specific pension plans which are largely covered by pension funds. The provisions to be recognized are determined in accordance with IAS 19 and are measured on the basis of actuarial opinions. The amount of the provisions depends on the length of service with the Company as well as on the pensionable remuneration. The provisions are calculated using the projected unit credit method, which assumes an increasing service cost.

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:

Basis of calculation and parameters for pension provisions

	German Plans		US Plans	
%	**2011**	2010	**2011**	2010
Discount rate	4.75	5.00	4.75	5.25
Projected salary increase	2.50	2.50	3.00	3.00
Projected pension increase	2.00	1.75	–	–
Return on plan assets	–	–	7.00	7.50

In the USA, pension benefits are traditionally provided via a pension fund, in which 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. The range calculation is based on forecasts of long-term returns as well as historical market data on past returns. The assumed long-term return on plan assets of the North American pension plan was 7.0% in fiscal year 2011 (December 31, 2010: 7.5%).

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, 2011, 46.8% of the plan assets in the USA were invested in equities and interests in companies (December 31, 2010: 49.5%), 51.1% in fixed-interest securities (December 31, 2010: 44.8%) and 2.1% in cash (December 31, 2010: 5.7%). In certain companies in SGL Group, the provisions also cover amounts for post-employment healthcare and severance payments. The future benefit obligations 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 (8.05%/5.0%/2024) for beneficiaries of less than 65 years of age and (7.55%/5.0%/2024) for beneficiaries of more than 65 years of age. The assumed rates for 2010 were (8.05%/5.0%/2024) and (7.55%/5.0%/2024), respectively. An increase or decrease in the assumed growth rate for healthcare costs of 1%-point would have led to an increase (decline) in the present value of the defined benefit obligation of €2.4 million (€–2.0 million) and an increase (decline) in the service and interest cost of €0.1 million (€–0.1 million) as of the end of fiscal year 2011.

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.

The funded status for 2011 was as follows:

€m	Germany 2011	USA 2011	Other 2011	**Total 2011**
Present value of the defined benefit obligation at beginning of year	192.5	115.3	31.4	339.2
Service cost	5.4	1.1	1.0	7.5
Interest cost	9.3	5.6	1.4	16.3
Actuarial losses	13.9	12.7	1.0	27.6
Benefits paid	–8.6	–6.6	–1.8	–17.0
Plan amendments	0.2	0.0	0.0	0.2
Other changes	0.4	0.8	0.0	1.2
Currency differences	0.0	3.9	0.1	4.0
Present value of the defined benefit obligation at end of year [1]	**213.1**	**132.8**	**33.1**	**379.0**
Fair value of plan assets at beginning of year	16.7	71.4	9.0	97.1
Actual return on plan assets	0.5	3.5	–0.1	3.9
Employer contributions	3.6	3.6	1.3	8.5
Employee contributions	0.2	0.8	0.0	1.0
Benefits paid	–0.5	–6.6	–0.3	–7.4
Currency differences	0.0	2.4	0.1	2.5
Fair value of plan assets at end of year [2]	**20.5**	**75.1**	**10.0**	**105.6**
Funded status as of December 31	**192.6**	**57.7**	**23.1**	**273.4**
Past service cost not recognized	–0.1	–0.2	0.1	–0.2
Amount recognized	**192.5**	**57.5**	**23.2**	**273.2**
Termination benefits	0.0	1.4	4.1	5.5
Provisions for pensions and similar employee benefits	**192.5**	**58.9**	**27.3**	**278.7**

[1] Of which €26.6 million for post-retirement healthcare benefits
[2] This item includes assets of €3.7 million to cover pension entitlements recognized as other non-current assets

The funded status for 2010 was as follows:

€m	Germany 2010	USA 2010	Other 2010	**Total 2010**
Present value of the defined benefit obligation at beginning of year	180.8	100.1	25.7	306.6
Service cost	4.2	1.8	1.1	7.1
Interest cost	9.7	6.1	1.5	17.3
Actuarial losses	5.6	5.3	3.3	14.2
Benefits paid	–8.2	–6.7	–1.5	–16.4
Plan amendments	0.0	0.2	0.0	0.2
Other changes	0.4	0.7	0.0	1.1
Currency differences	0.0	7.8	1.3	9.1
Present value of the defined benefit obligation at end of year [1)]	**192.5**	**115.3**	**31.4**	**339.2**
Fair value of plan assets at beginning of year	16.8	58.8	6.9	82.5
Actual return on plan assets	0.3	8.1	0.6	9.0
Employer contributions	0.0	6.0	0.7	6.7
Employee contributions	0.2	0.7	0.0	0.9
Benefits paid	–0.6	–6.7	–0.2	–7.5
Currency differences	0.0	4.5	1.0	5.5
Fair value of plan assets at end of year [2)]	**16.7**	**71.4**	**9.0**	**97.1**
Funded status as of December 31	**175.8**	**43.9**	**22.4**	**242.1**
Past service cost not recognized	0.0	–0.2	0.0	–0.2
Amount recognized	**175.8**	**43.7**	**22.4**	**241.9**
Termination benefits	0.0	1.5	4.3	5.8
Provisions for pensions and similar employee benefits	**175.8**	**45.2**	**26.7**	**247.7**

[1)] Of which €23.6 million for post-retirement healthcare benefits
[2)] This item 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 2011	USA 2011	Other 2011	**Total 2011**	Total 2010
Actuarial gains (+)/losses (–)	–13.9	–12.7	–1.0	–27.6	–14.2
Actual return on plan assets	0.5	3.5	–0.1	3.9	9.0
Less expected return on plan assets	0.5	5.1	0.6	6.2	6.0
Gains (+)/losses (–) for the reporting year (gross) recognized in equity	**–13.9**	**–14.3**	**–1.7**	**–29.9**	**–11.2**
Tax effect	4.1	5.9	0.8	10.8	3.1
Gains (+)/losses (–) for the reporting year recognized in equity (net)	**–9.8**	**–8.4**	**–0.9**	**–19.1**	**–8.1**

The cumulative amount of actuarial gains and losses recognized in equity (other comprehensive income) in accordance with IAS 19.93a amounts to €96.6 million.

In fiscal year 2011, the present value of the defined benefit obligation increased due to a reduction in the discount rate for the domestic and foreign pension plans. Experience adjustments resulting from differences between actuarial assumptions and actual outcome had no influence on the present value of the defined benefit obligation in fiscal year 2011 (December 31, 2010: decrease of 1%). A change in the discount factor by +0.5%/–0.5% would lead to a change in the present value of the defined benefit obligation of –6.5%/+7.3%.

Changes in experience adjustments:

€m	**2011**	2010	2009	2008	2007
Present value of defined benefit obligation	379.0	339.2	306.6	283.4	275.8
Fair value of plan assets	105.6	97.1	82.5	72.1	72.2
Funded status (plan surplus/deficit)	273.4	242.1	224.1	211.3	203.6
Experience adjustments to plan liabilities	0.2	–3.0	1.6	–7.8	–2.0
Plan assets experience adjustments	–2.3	3.0	3.6	–12.2	–0.5

Pension provisions with a maturity of less than one year amounted to approximately €16.7 million (December 31, 2010: €17.0 million).

SGL Group has pension and healthcare obligations in the amount of €111.0 million (December 31, 2010: €95.2 million) arising from fund-financed pension plans. Pension obligations arising from non-fund-financed pension plans amounted to €268.0 million (December 31, 2010: €244.0 million). The actual return on plan assets in 2011 amounted to a total of €3.9 million (December 31, 2010: €9.0 million).

To cover the pension obligations to members of the Board of Management, the Company has entered into reinsurance policies with two large insurance companies. As of December 31, 2011, the asset value included in the pension provisions totaled €15.1 million (December 31, 2010: €11.5 million). In fiscal year 2011, one-off payments totaling €3.6 million were made to reinsurers (December 31, 2010: €0.0 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 32**.

The breakdown of pension expenses for 2011 and 2010 is as follows:

€m	Germany 2011	USA 2011	Other 2011	**Total 2011**
Service cost	5.4	1.1	1.0	7.5
Interest cost	9.3	5.6	1.4	16.3
Expected return on plan assets	–0.6	–5.0	–0.6	–6.2
Past service cost	0.2	0.1	0.0	0.3
Expenses for defined benefit plans	**14.3**	**1.8**	**1.8**	**17.9**
Expenses for defined contribution plans	–	–	–	5.6
Interest cost from severance payments	–	–	–	0.5
Pension expenses	**–**	**–**	**–**	**24.0**

€m	Germany 2010	USA 2010	Other 2010	**Total 2010**
Service cost	4.2	1.8	1.1	7.1
Interest cost	9.7	6.1	1.5	17.3
Expected return on plan assets	–0.3	–5.1	–0.6	–6.0
Past service cost	0.1	0.5	0.0	0.6
Income from plan curtailment	0.0	–0.3	0.0	–0.3
Expenses for defined benefit plans	**13.7**	**3.0**	**2.0**	**18.7**
Expenses for defined contribution plans	–	–	–	5.3
Interest cost from severance payments				0.3
Pension expenses	**–**	**–**	**–**	**24.3**

The total expense for pensions and other employee benefits, including interest expenses for termination benefits amounting to €0.5 million, was €16.8 million (December 31, 2010: €17.6 million). The amounts recognized in profit or loss for the defined

contribution plans in Germany came to €5.6 million (December 31, 2010: €5.3 million) in fiscal year 2011. Contributions to state plans amounted to €24.9 million in 2011 (December 31, 2010: €23.5 million). Employer contributions to U.S. plan assets in 2012 are estimated at €1.4 million (December 31, 2010: €1.6 million). As of December 31, 2011, the anticipated future pension benefit payments by SGL Group to its former employees or their surviving dependents were as follows (no significant changes compare to 2010):

Pension payments to employees:

Year	€m
Payable in 2012	16.7
Payable in 2013	18.3
Payable in 2014	19.1
Payable in 2015	19.9
Payable in 2016	20.7

25. OTHER PROVISIONS

€m	Taxes	Personnel expenses	Warranties, price reduction and guarantees	Other	**Total**
Balance as of January 1, 2011	3.9	57.2	10.3	18.7	90.1
Changes in scope of consolidation	0.2	0.2	0.0	7.8	8.2
Utilizations	–3.3	–38.0	–2.0	–17.6	–60.9
Releases	–0.3	–1.6	–2.6	–0.7	–5.2
Additions	3.0	40.6	5.8	6.0	55.4
Other changes/exchange differences	0.0	0.4	0.1	–0.1	0.4
Balance as of December 31, 2011	**3.5**	**58.8**	**11.6**	**14.1**	**88.0**
thereof with a maturity of up to one year	*(3.5)*	*(49.3)*	*(11.6)*	*(12.4)*	*(76.8)*
thereof with a maturity of more than one year	–	*(9.5)*	–	*(1.7)*	*(11.2)*

The provisions for taxes include amounts for tax risks relating to fiscal years that have not yet been fully assessed by the tax authorities.

Provisions for personnel expenses mainly comprise provisions for annual bonuses of €28.4 million (December 31, 2010: €24.3 million), provisions for anniversary benefits of €5.6 million (December 31, 2010: €5.6 million), provisions for partial retirement of €5.3 million (December 31, 2010: €5.3 million) and provisions for outstanding vacation days of €5.2 million (December 31, 2010: €4.9 million).

All warranties, price reductions and guarantees contain provisions for price reduction risks including bonuses, volume discounts and other reductions in price. Other provisions comprise provisions for outstanding invoices in the amount of €3.4 million (December 31, 2010: €6.4 million) and for legal fees in the amount of €5.1 million (December 31, 2010: €1.8 million).

26. LIABILITIES

€m	**Dec. 31, 2011**	Remaining maturity > 1 year	Dec. 31, 2010	Remaining maturity > 1 year
Bonds and interest-bearing loans				
Corporate bond	200.0	200.0	200.0	200.0
– nominal value of convertible bond	*282.6*		*390.0*	
– less IFRS equity component	*–71.7*		*–80.7*	
– plus interest cost under effective interest method	*50.3*		*36.4*	
Convertible bonds	261.2	261.2	345.7	345.7
Bank loans, overdrafts and other financial liabilities	102.0	93.5	104.6	73.6
Refinancing expenses	–6.6	–4.3	–7.9	–5.2
	556.6	**550.4**	**642.4**	**614.1**
Trade payables	**181.6**	**0.0**	**134.1**	**0.0**
Other financial liabilities				
Derivative financial instruments	16.2	0.7	5.5	0.0
Finance lease liabilities	19.9	18.7	19.9	18.7
Miscellaneous other financial liabilities	22.5	15.2	41.0	26.5
	58.6	**34.6**	**66.4**	**45.2**
Income tax payables	2.4	0.0	2.0	0.0
Miscellaneous other liabilities	45.6	1.3	45.0	2.6
	844.8	**586.3**	**889.9**	**661.9**

Bonds and interest-bearing loans

CORPORATE BOND

In 2007, the Company issued an eight-year floating-rate corporate bond with a nominal value of €200.0 million. The corporate bond has a coupon equal to the three-month EURIBOR plus a margin of 1.25% p. a. This represented an interest coupon of 5.3% p. a. as of the issue date and interest rate of 2.7% p. a. as of December 31, 2011 (December 31, 2010: 2.3% p. a.).

The issue price was 100% of the nominal amount. In the event of a change in ownership of the Company, the corporate bond immediately becomes due for repayment at a price of 101% of the nominal amount plus accumulated interest.

The terms of the corporate bond also include normal market provisions with regard to compliance with financial covenants (Senior Secured Indebtedness Leverage Ratio and Fixed Charge Cover Ratio) and restrictions. The corporate bond is admitted to trading on the Luxembourg Stock Exchange in the EuroMTF market.

As of December 31, 2011, the market value of the exchange-listed corporate bond was €196.5 million (December 31, 2010: €189.3 million).

CONVERTIBLE BONDS

The convertible bonds include two separate convertible bond issues. The unsecured convertible bond issued by SGL Carbon SE in 2007 in an original amount of €200.0 million (€50,000 each) matures in May 2013. The conversion price is €36.52 per share, and the coupon amounts to 0.75% p. a. In fiscal year 2011, bonds with a principal amount of €54.1 million were converted prior to maturity. Thus the outstanding volume of the bond was €145.9 million as of December 31, 2011.

In 2009, SGL Carbon SE issued another unsecured convertible bond with a term of seven years in a principal amount of €190.0 million. Bond holders have the option of returning the bond prior to maturity in 2014. Each bond was issued with a principal amount of €50,000. The conversion price is €29.39 and the coupon amounts to 3.5% p. a. The bondholders are entitled to terminate all or some of the bonds not converted or redeemed after five years effective June 30, 2014 ("put option"). In such case, SGL Group must redeem the notes concerned at face value plus interest. As a result of early conversions totaling €53.3 million, the outstanding volume of the bond was €136.7 million as of December 31, 2011.

Summary of convertible bonds:

€m	Volume of issue	Outstanding volume	Carrying amount as of Dec. 31, 2011	Market price as of Dec. 31, 2011	Coupon in % p. a.	Issue price
Convertible bond 2007/2013	200.0	145.9	136.4	154.2	0.750%	100.0%
Convertible bond 2009/2016	190.0	136.7	124.8	183.1	3.500%	100.0%
	390.0	**282.6**	**261.2**	**337.3**		

Please see **Note 3** ("Hybrid Financial Instruments") for a description of the accounting treatment for convertible bonds and their separation into an equity component and a liability component.

The liability component of the convertible bonds was recognized upon issue at the present value, taking into account a market interest rate and increases, as of each balance sheet date, by the interest element attributable to the relevant period on the basis of the internationally accepted effective interest method. The interest cost resulting from the difference between the coupon and the effective (market) interest rate amounted to €13.9 million, unchanged from the previous year.

SYNDICATED CREDIT LINE

In addition to the bonds, SGL Group also has a secured syndicated credit line totaling €200.0 million to be used for general corporate purposes. The credit line has equal ranking with the corporate bond. On February 23, 2011, the credit line, which was originally available until May 2012, was renewed prior to maturity at unchanged terms until the end of April 2015. The credit line is available to various SGL subsidiaries and can be drawn on in euros or in US dollars. The credit line had not been utilized as of the balance sheet date. In case of a change in ownership, the amounts drawn will become due for repayment. The agreed credit margin varies depending on the gearing of SGL Group during the term to maturity. The terms and conditions of the syndicated credit line include financing provisions in line with the market (net debt/EBITDA and senior secured debt/ EBITDA). The credit line was provided by SGL Group's core banks.

The corporate bond and syndicated credit line have equal ranking and are secured by shares and/or corporate guarantees from selected SGL subsidiaries.

The weighted average cash interest rate on financial liabilities in 2011 was 2.3% p. a., thus remaining unchanged from the previous year. Including the non-cash interest cost on the convertible bonds, the weighted average interest rate for 2011 was 4.5% p. a. (December 31, 2010: 4.2% p. a.). Bank loans, overdrafts and other financial liabilities amounted to €102.0 million as of December 31, 2011 (December 31, 2010: €104.6 million). Of this amount, €2.8 million (December 31, 2010: €1.8 million) was subject to fixed interest and €99.2 million (December 31, 2010: €102.8 million) was subject to variable interest rates.

Trade payables

Trade payables totaled €181.6 million as of December 31, 2011 (December 31, 2010: €134.1 million), €180.9 million of which was due to third parties (December 31, 2010: €133.8 million). As in 2010, the trade payables were due for payment within one year.

Other liabilities

As of December 31, 2011, other financial liabilities included liabilities from finance leases in the amount of €19.9 million (December 31, 2010: €19.9 million), mainly attributable to an agreement on a heritable building right. This line item also includes negative fair values relating to hedging instruments in the amount of €16.2 million as of December 31, 2011 (December 31, 2010: €5.5 million).

Miscellaneous other financial liabilities include the non-controlling interests in subsidiary partnerships classified as liabilities in a total amount of €15.2 million (December 31, 2010: €41.0 million). The decline is attributable to the purchase of additional shares in a subsidiary partnership as well as lower goodwill for two subsidiary partnerships.

Current income tax payables amounted to €2.4 million (December 31, 2010: €2.0 million) as of December 31, 2010.

Miscellaneous other liabilities totaled €45.6 million (December 31, 2010: €45.0 million) as of December 31, 2011 and included liabilities for payroll and church taxes of €20.8 million (December 31, 2010: €14.7 million), accrued interest of €4.5 million (December 31, 2010: €5.3 million), social security liabilities of €1.3 million (December 31, 2010: €1.6 million), other tax liabilities of €1.6 million (December 31, 2010: €4.2 million) and deferred income of €3.9 million (December 31, 2010: €7.4 million).

The following table shows all contractually agreed payments as of December 31, 2011 for repayments of principal and payment of interest on recognized financial liabilities, including derivative financial instruments.

€m	**2012**	2013	2014	2015	2016	More than five years
Non-derivative financial liabilities						
Corporate bond	5.9	5.2	5.3	202.3		
Convertible bonds	5.9	151.2	138.7			
Bank loans, overdrafts and other financial liabilities	12.3	6.0	18.9	33.4	44.9	0.2
Finance lease liabilities	1.3	0.9	0.9	0.9	0.9	80.0
Trade payables	181.6					
Miscellaneous other financial liabilities	7.3					15.2
Derivative financial liabilities	15.5	0.7				
Total	**229.8**	**164.0**	**163.8**	**236.6**	**45.8**	**95.4**

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 outflows in the event of an immediate cancellation of the underlying derivative contracts. The 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. Material changes compared to the prior year resulted from the partial conversion of convertible bonds.

Consolidated Cash Flow Statement Disclosures

27. CASH FLOW STATEMENT DISCLOSURES

The cash flow statement reports the changes in cash and cash equivalents at SGL Group resulting from cash inflows and outflows for the reporting year. Cash inflows and outflows are broken down separately by operating, investing and financing activities. A reconciliation to cash and cash equivalents as shown on the face of the balance sheet is also provided. Amounts in the cash flow statement attributable to foreign subsidiaries are translated at average exchange rates for the year, which approximate the historical rates on the transaction dates; cash and cash equivalents are translated at the closing rate, as on the face of the balance sheet.

Cash provided by operating activities

Net cash provided by operating activities reflects changes in working capital and other net assets as well as other cash-effective transactions. Net cash provided by operating activities amounted to €136.2 million (2010: €115.5 million) and included the use of cash of €61.0 million in connection with the increase in working capital (2010: €38.8 million), interest payments of €17.8 million (2010: €15.9 million), tax payments of €12.5 million (2010: €19.7 million) and payments under defined contribution pension plans and defined benefit pension plans of €31.1 million (2010: €28.4 million).

Cash used in investing activities

Net cash used in investing activities amounted to €169.3 million in fiscal year 2011 (2010: €153.8 million), primarily due to the purchase of property, plant and equipment and intangible assets for capital increases at companies accounted for using the equity method as well as for the payments related to the purchase of securities and shares in companies.

The payments for intangible assets and property, plant and equipment totaled €138.8 million (2010: €129.5 million) and included, among other things, payments related to the further build-up of the site in Banting (Malaysia), payments for capital expenditures at the site in Gardena, California (USA), payments for capacity expansion related to isostatic graphite and for the technology center in Meitingen as well as for the Sigraflex plant in Meitingen, which was damaged by fire.

In addition, the net cash used in investing activities in 2011 included the agreed residual amount of €4.2 million for the acquisition of the ASL companies, which were acquired as of January 1, 2011 and have been consolidated since that date (2010: €12.4 million). Payments for capital increases at joint ventures totaled €14.2 million in 2011 (2010: €18.0 million). These payments largely referred to planned capital increases of joint ventures with BMW, European Precursor GmbH and Benteler SGL for the production of carbon fibers and clutches.

Cash acquired from ASL, which was consolidated for the first time, amounted to €0.4 million. This amount was offset against outflows at ASL.

Cash used in financing activities

In fiscal year 2011, net cash used in financing activities amounted to a total of €10.7 million compared with net cash provided by financing activities of €18.0 million in 2010. The change is largely attributable to an increased repayment of debt (2011: €6.8 million; 2010: €0.1 million), payments in connection with the prolongation of the syndicated credit line (€2.1 million) as well as an installment payment (reported in other financing activities) for the change in ownership interests in a subsidiary in the amount of €7.2 million. In the previous year, this item included an inflow from additional capital contributed by a non-controlling shareholder in a subsidiary of SGL Group in the amount of €7.4 million.

Cash and cash equivalents reported in the cash flow statement correspond to cash and cash equivalents as reported in the balance sheet in the amount of €161.7 million (2010: €84.7 million). Cash funds in the broader sense include short-term term deposits with an original maturity of up to six months in the amount of €80 million (2010: €200.0 million). As of December 31, 2011, cash funds available to us for financing current operations, for future capital expenditures and for our growth amount to a total of €241.7 million (December 31, 2010: €284.7 million). The reduction in cash funds of €43.0 million in 2011 (2010: €17.6 million) mainly resulted from investing activities in the fiscal year under review. In 2011, there was a positive exchange-rate effect of €0.8 million (2010: €2.7 million) on the cash balance.

Other Disclosures

28. COMMITMENTS AND CONTINGENCIES

As of December 31, 2011, outstanding guarantee obligations amounted to €5.6 million (December 31, 2010: €5.7 million). Contingent liabilities relating to investments accounted for using the equity method amounted to €11.0 million (2010: €7.6 million). In addition, other financial commitments in connection with purchase orders for approved capital expenditure on property, plant and equipment amounted to €32.9 million as of December 31, 2011 (December 31, 2010: €47.1 million). These amounts are mainly earmarked for orders placed in connection with the new production site in Malaysia and the expansion of the capacities for isostatic graphite at the sites in Bonn and China. Some of these capital expenditure projects extend beyond one year.

SGL Group is maintaining individual guarantee credit lines for the Surface Technology business sold in 2005 until the planned phase-out date of the Business Unit. As of December 31, 2011, the utilization of the guarantee facility was reduced to €0.0 million (December 31, 2010: €0.3 million). The provision recognized in previous years was reversed in the year under review.

SGL Group secures the necessary raw materials for its production, especially for needle coke, by means of procurement agreements with key suppliers. These agreements normally have a term of 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 (e. g. defined parameters of the needle coke producer's raw material price).

A number of agreements to provide collateral were also signed with lenders in conjunction with the new financing carried out in 2007. In contrast to the refinancing carried out in 2004, these agreements have been restricted to share pledge agreements and/or corporate guarantees for a selected number of companies in the Group. 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 €68.2 million as of December 31, 2011 (December 31, 2010: €68.5 million). As of December 31, 2011, the future payments were as follows (the changes compared to the previous year were insignificant):

€m	2012	2013	2014	2015	2016	2017 and thereafter	**Total**
Operating leases	**13.0**	**6.7**	**5.1**	**4.8**	**4.7**	**33.9**	**68.2**
Finance leases	1.3	0.9	0.9	0.9	0.9	80.0	84.9
– discount included	–0.1	–0.1	–0.1	–0.2	–0.2	–64.3	–65.0
= Present value of finance leases	**1.2**	**0.8**	**0.8**	**0.7**	**0.7**	**15.7**	**19.9**

No payments from subleases were received in either 2010 or 2009. 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. In accordance with IAS 17, amended in 2010, a long-term contract regarding a heritable building right was accounted for as a finance lease. The land lease rate 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. The net carrying amount of finance leases, including the heritable building right, amounted to €20.2 million as of December 31, 2011 (December 31, 2010: €20.6 million). Expenses for rental and operating lease agreements totaled €37.5 million in 2010 (2010: €33.7 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 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.

29. RELATED-PARTY DISCLOSURES

SKion GmbH, Bad Homburg, holds a share of approx. 28% in SGL Carbon SE according to notifications pursuant to the German Securities Trading Act (WpHG). No material transactions were conducted with SKion GmbH in 2011.

In fiscal years 2011 and 2010, 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 28**). Please refer to **Note 9** and **Note 15** for information on joint ventures and associates.

The following table presents the volume of transactions with related companies included in SGL Group:

2011

€m	Income	Expenses	Receivables	Loans	Liabilities
Joint Ventures/Associates	36.8	–22.8	8.8	2.0	–1.7

2010

€m	Income	Expenses	Receivables	Loans	Liabilities
Joint Ventures/Associates	29.0	–5.3	10.9	0.7	–0.5

30. ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS

The following table shows the carrying amounts in accordance with the categories of IAS 39:

	Measurement category under IAS 39	**Carrying amount as of Dec. 31, 2011**	Amortized cost
Financial assets			
Cash and cash equivalents	1)	161.7	161.7
Time deposits	1)	80.0	80.0
Trade receivables	1)	275.3	275.3
Receivables from long-term construction contracts	1)	72.4	72.4
Available-for-sale financial assets	2)	22.5	
Derivative financial assets			
Derivatives without a hedge relationship [1]	3)	1.5	
Derivatives with a hedge relationship	n. a.		
Financial liabilities			
Corporate bond	4)	200.0	200.0
Convertible bonds	4)	261.2	261.2
Bank loans, overdrafts and other financial liabilities	4)	102.0	102.0
Refinancing expenses	4)	–6.6	–6.6
Finance lease liabilities	n. a.	19.9	
Trade payables	4)	181.6	181.6
Miscellaneous other financial liabilities	4)	22.5	22.5
Derivative financial liabilities			
Derivatives without a hedge relationship [2]	5)	9.8	
Derivatives with a hedge relationship	n. a.	6.4	
Thereof aggregated by measurement category in accordance with IAS 39			
1) Loans and receivables		589.4	589.4
2) Available-for-sale financial assets		22.5	
3) Financial assets held for trading		1.5	
4) Financial liabilities measured at amortized cost		760.7	760.7
5) Financial liabilities held for trading		9.8	

[1] Thereof €1.0 million (2010: €2.5 million), classified as cash flow hedges prior to the settlement of the hedged item or for hedging of intercompany loans in foreign currency
[2] Thereof €9.8 million (2010: €4.0 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

	Fair value through equity	Fair value through profit or loss	Carrying amount under IAS 17	Carrying amount as of Dec. 31, 2010	Amortized cost	Fair value through equity	Fair value through profit or loss	Carrying amount under IAS 17
				84.7	84.7			
				200.0	200.0			
				245.9	245.9			
				51.0	51.0			
	22.5			3.8		3.8		
		1.5		5.0			5.0	
				1.7		1.7		
				200.0	200.0			
				345.7	345.7			
				104.6	104.6			
				–7.9	–7.9			
			19.9	19.9				19.9
				134.1	134.1			
				41.0	41.0			
		9.8		4.0			4.0	
	6.4			1.5		1.5		
				581.6	581.6			
	22.5			3.8		3.8		
		1.5		5.0			5.0	
				817.5	817.5			
		9.8		4.0			4.0	

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 non-current financial assets on the basis of various parameters, such as the customer's credit rating. Since no impairment losses had to be recognized, the carrying amounts of these assets approximate their fair values. 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 fair values of currency contracts are determined using the SAP system on the basis of market data provided by an external service provider.

Interest-rate caps are measured using generally accepted option pricing models. The fair values of interest-rate caps are determined using a financial calculation model and market data provided by a renowned financial services provider.

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, 2011:

	Dec. 31, 2011			
€m	Level 1	Level 2	Level 3	**Total**
Available-for-sale financial assets	17.0	5.5	–	22.5
Derivative financial assets	–	1.5	–	1.5
Derivative financial liabilities	–	16.2	–	16.2

	Dec. 31, 2010			
€m	Level 1	Level 2	Level 3	**Total**
Available-for-sale financial assets	3.8	–	–	3.8
Derivative financial assets	–	6.7	–	6.7
Derivative financial liabilities	–	5.5	–	5.5

The levels of the fair value hierarchy and their application to the assets and liabilities are described in the following sections:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted market prices that are available either as directly (e. g. prices) or indirectly (e. g. derived from prices) observable market data.

Level 3: Inputs for assets and liabilities that are not based on observable market data.

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	**2011**	2010
Loans and receivables	3.1	4.5
Available-for-sale financial assets	0.9	0.0
Financial assets and financial liabilities held for trading	–12.3	–22.7
Financial liabilities measured at amortized cost	10.3	2.4

Net gains/losses for the “loans and receivables” measurement category include write-downs on trade receivables, reversals of write-downs and receipts with respect to trade receivables already derecognized, together with gains/losses on currency translation.

Net gains/losses for the “financial assets and liabilities held for trading” measurement category arise from the mark-to-market valuation of derivative interest-rate and 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. Economically speaking, the derivative financial assets and liabilities are always based on a hedged item.

Net gains/losses for the “financial liabilities measured at amortized cost” category mainly comprise the non-controlling shareholders’ share in the net profit/loss of subsidiary partnerships.

Interest income and expense are not included in net gains and losses, as they are already recognized as described in **Note 10**. For further information on write-downs, please refer to the overview of changes in write-downs on trade receivables in **Note 19**.

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 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. In order to assure financial stability, SGL Group has endeavored to put in place a balanced financing structure based on a combination of various financing components (including bank loans and capital market instruments).

As a result of the February 2011 extension of the syndicated credit line in the amount of €200 million until April 2015, the Company had sufficient liquidity reserves as of the balance sheet date. The main purpose of the syndicated credit line is to compensate for fluctuations in current assets during the year as well as to support further business growth. It can also be used as a bridge when financing instruments fall due.

In order to support the construction of the graphite electrode and cathode plant in Malaysia, the Company concluded an agreement with the financing banks on extending the maturity profile and on deferring payment until 2014 at nearly unchanged conditions.

In addition, the conversions performed as of the balance sheet date in the context of both convertible bonds issues (2007 and 2009) had a positive effect on SGL Group's indebtedness and the associated medium-term repayment obligations.

In order to adapt to the continuing positive business trend and the related capital expenditures, the Company will, as in the past, take precautionary financing measures to ensure financial stability as required.

As of the balance sheet date, freely available liquid funds amounted to €241.7 million (2010: €284.7 million), and undrawn credit line commitments amounted to €215.4 million (2010: €227.4 million). The free credit lines include the syndicated credit line in the amount of €200.0 million granted to SGL Group by its core banks.

SGL Group therefore has at its disposal an adequate liquidity reserve. Please refer to **Note 26** for information on the maturity of financial liabilities.

Credit risk (counterparty default risk)

Credit risk is the risk that a counterparty to a financial instrument will not be able to meet its payment obligations.

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 granting customers payment deadlines, 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 past years no significant defaults occurred.

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 credit management action where required.

SGL Group also has credit insurance in place that covers most of the trade receivables due from customers. After analyzing individual risks and country risks, the Group sometimes insists on cash in advance, letters of credit or the provision of collateral in connection with certain activities. In the event of default on insured receivables, the financial loss is reduced by existing collateral and/or insurance payments. The insurance recovery normally amounts to 90% of the default and includes a deductible of 10%.

The average days sales outstanding (DSO), excluding long-term construction contracts, was 51 days at the end of fiscal year 2011 (2010: 55 days). In fiscal year 2011, 73% (2010: 64%) of our receivables were insured on average. Please refer to **Note 19** for information 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 in earnings, equity or 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. As of the balance sheet date, the Group had currency forwards and interest-rate options in the form of interest-rate caps. 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 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 two years. The most significant currency risk of SGL Group from operating transactions results from potential exchange rate changes between the euro and the Polish zloty. To protect the operating business, the corresponding net currency position in euros was hedged to a large extent by way of currency forwards with average hedge rates of EUR/PLN 4.17 for 2012 and EUR/PLN 4.50 for 2013.

In addition, intercompany loans and balances are exposed to currency risk when the currencies of such loans or balances differ from the functional currency of the lending company and/or the borrowing company. Such intercompany loans are usually hedged on an individual basis using currency forwards. Intercompany foreign currency balances that are held at SGL Carbon SE, the Group holding company, to finance subsidiaries and that do not represent a so-called natural hedge for sales revenue or other transactions are regularly refinanced to intercompany loans and secured through currency forwards.

As of the balance sheet date, SGL Group was not exposed to any material currency-related cash flow risks, either in its operating business or in its financing activities. The following table shows the notional amounts and recognized fair values for currency derivatives as of December 31, 2011. 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**	
€m	Purchase Dec. 31, 2011	Sale Dec. 31, 2011	**Total Dec. 31, 2011**	Total Dec. 31, 2010	**Total Dec. 31, 2011**	Total Dec. 31, 2010
Forward contracts	**120.2**	**266.5**	**386.7**	**375.3**	**–14.2**	**–1.5**
USD	25.7	235.0	260.7	251.5	–7.3	–1.5
GBP	0.0	13.2	13.2	1.2	–0.5	0.0
PLN	91.1	0.0	91.1	100.0	–5.7	0.5
Remaining term to maturity < 1 year	*69.5*	*0.0*	*69.5*	*75.0*	*–5.0*	*0.6*
Remaining term to maturity > 1 year	*21.6*	*0.0*	*21.6*	*25.0*	*–0.7*	*–0.1*
JPY	2.0	16.8	18.8	22.6	–0.8	–0.5
Other	1.4	1.5	2.9	0.0	0.1	0.0

	Notional amounts in US$ million				**Fair values** in €m	
	Purchase Dec. 31, 2011	Sale Dec. 31, 2011	**Total Dec. 31, 2011**	Total Dec. 31, 2010	**Total Dec. 31, 2011**	Total Dec. 31, 2010
Forward contracts	**56.7**	**0.0**	**56.7**	**55.5**	**–1.0**	**0.2**
CAD	27.9	0.0	27.9	29.8	–0.4	0.8
GBP	28.8	0.0	28.8	21.0	–0.6	–0.6
JPY	0.0	0.0	0.0	4.7	0.0	0.0

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 US dollars. The residual maturity of all derivative financial instruments for hedging currency risks was no more than two years (2010: up to two years).

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 2012 and December 2012 or December 2013 for EUR/PLN and will be recognized in the income statement when realized. The maturity of hedges designated as cash flow hedges is matched with the maturity of the relevant hedged items. As of December 31, 2011, these hedges had positive fair values of €0 million (2010: €1.7 million) and negative fair values of €6.4 million (2010: €1.5 million).

Changes in the fair value of hedges assigned to intercompany loans as well as to hedged items already realized as of the balance sheet date and therefore no longer designated as cash flow hedges were recognized through profit or loss on the balance sheet date.

Positive market values amounted to €1.0 million (2010: €2.5 million); negative market values amounted to €9.8 million (2010: €4.0 million). The related amounts accumulated directly in equity as hedging reserves were reclassified to the income statement as soon as the hedged item was entered into. In fiscal year 2011, gains or losses resulting from changes in fair value of our currency forwards amounting to €0.8 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 as of 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 (principally, cash and cash equivalents, trade receivables, trade payables, interest-bearing financial liabilities and non-interest-bearing liabilities) in addition to the derivative hedging instruments used in the Group's operating activities. Specifically, these include cash and cash equivalents of €15.7 million (2010: €10.4 million), trade receivables of €133.0 million (2010: €75.3 million), trade payables of €60.7 million (2010: €17.5 million) and interest-bearing financial liabilities of €37.9 million (2010: €40.8 million). Furthermore, foreign currency effects from internal lending activities recognized in profit or loss or directly in equity, together with the corresponding derivative hedging instruments, are also included. It is assumed that the balance as of the reporting date is representative of the reporting period as a whole. Any 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, 2011 and December 31, 2010. The analysis is based on a hypothetical 10% increase in the value of the euro and the US 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**	
€m	**Dec. 31, 2011**	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010	**31.12. 2011**	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
USD	1.4233	1.4698	–4.1	–18.6	–4.4	–18.6	0.3	0.0
PLN	4.8585	4.3563	–5.3	2.6	1.3	2.7	–6.6	0.0
GBP	0.9188	0.9468	2.2	0.6	–0.1	–0.2	2.3	0.7
CAD	1.4537	1.4654	–0.6	–0.2	–0.6	–0.2	0.0	0.0
Other	–	–	0.2	–1.2	–0.8	–1.2	1.0	0.0

USD	**Hypothetical exchange rate**		**Change in fair value/equity**		**thereof: change in net profit/loss**		**thereof: change in hedging reserve**	
US$ million	**Dec. 31, 2011**	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010	**31.12. 2011**	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
GBP	0.7101	0.6442	–2.2	0.4	0.0	0.2	–2.2	0.2
CAD	1.1235	1.0030	–1.2	1.2	0.8	1.3	–2.0	–0.1
MYR	3.4903	3.0647	4.5	–5.0	4.5	–5.0	0.0	0.0
Other	–	–	1.2	2.1	1.2	2.1	0.0	0.0

The approximate effect of a hypothetical 10% decrease in the value of the euro and the US dollar against other currencies on the equity, profit or loss and 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 risk is managed using interest-rate derivatives as approved by the Board of Management. As of the balance sheet date, SGL Group had financial liabilities with a notional amount of €585.0 million (2010: €695.2 million). Of that amount, liabilities of €299.1 million (2010: €302.8 million) had a floating interest rate. The remaining liabilities of €285.9 million (2010: €392.4 million) had a fixed interest rate.

Those liabilities were partially offset by cash and cash equivalents as well as time deposits of €241.7 million (2010: €284.7 million).

The following table shows the interest-rate derivatives held by SGL Group as of the reporting date:

		Notional amounts		**Fair values**	
€m	Remaining maturity	**Dec. 31, 2011**	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
Derivate interest-rate instruments					
Interest-rate caps	<=1 year	160.0	0.0	0.0	0.0
	> 1 year	0.0	160.0	0.0	0.0
	> 3 years	150.0	150.0	0.5	2.5

As of the balance sheet date, SGL Group has interest hedges in the form of interest rate caps (interest-rate options) in the amount of €310.0 million. The interest rate caps entered into in 2007 in a notional value of €160 million and with a term of five years limit the risk of an interest rate increase subject to an upper cap of 5% p. a. The interest rate caps entered into in 2010 in a notional value of €150 million and with a term of five years limit the risk of an interest rate increase subject to an upper cap of 3% p. a.

Accordingly, there is a limited cash flow risk from the increase of the market interest level and, therefore, the variable reference interest rate of the interest-bearing financial liabilities. On the other hand, a drop in the rate of interest would result in a decrease in interest payments on floating-rate liabilities. This would cause a drop in the fair values of the interest-rate options (caps). Changes in the fair value of these interest-rate derivatives are recognized in net financing costs of SGL Group.

Sensitivity analyses in accordance with IFRS 7 have been carried out to quantify the interest-rate risks associated with the above financial liabilities and interest-rate derivatives. These analyses show the effect of the financial instruments on profit or loss and equity in the event of a parallel shift by 100 basis points upward (downward) in the entire yield curve as of the balance sheet date.

Changes in market interest rates can affect the fair values of fixed-interest primary financial liabilities and impact the corresponding carrying amounts if these liabilities are recognized at fair value. As both fixed-interest convertible bonds and the floating-rate corporate bond are recognized at amortized cost, these liabilities are not regarded as primary financial instruments subject to interest-rate risk.

However, changes in market interest rates do have an influence on interest payments from floating-rate financial instruments and thus on the income statement as the interest rate on these instruments is periodically adjusted to current market rates.

The following table presents a sensitivity analysis of the derivative financial instruments and the effects of changes in market rates on interest payments:

€m	**2011**	2010
Interest-rate caps	1.9	2.8
Floating-rate primary financial liabilities	–3.0	–3.0
Total	**–1.1**	**–0.2**

An assumed increase in interest rates of 100 basis points would cause a theoretical decrease in profit or loss from financial instruments of €1.1 million (2010: €0.2 million). An assumed decrease in interest rates of 100 basis points would result in a corresponding hypothetical increase in profit or loss of €2.4 million (2010: €1.3 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 as well as time deposits of €2.4 million (2010: €2.8 million). It is assumed that the hypothetical upward or downward change in the interest structure would have no effect on the fair values of currency derivatives.

31. SEGMENT REPORTING

For the purpose of company management, SGL Group is organized into Business Units based on product groups and has the following three reportable Business Areas:

- The Business Area Performance Products (PP) produces graphite electrodes and carbon products (electrodes, cathodes and furnace linings).
- The Business Area Graphite Materials & Systems (GMS) focuses on expanded graphites and products made of synthetic graphite for industrial applications, machine components, products for the semiconductor industry, composites and process technology.
- The Business Area Carbon Fibers & Composites (CFC) produces carbon fibers, carbon-fiber-based fabrics, composites and structural components.

Segment reporting is based on internal control and management within SGL Group. The definition of the individual segment data corresponds to that used for Group management. The performance of the segments is assessed by the management based on the operating result, cash generation and capital employed. However, Group financing (including financial income and expense) as well as income taxes are managed uniformly on a Group-wide basis and are not allocated to the individual Business Units.

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 product sales. 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. The Business Unit "Other" comprises companies that largely perform services for the other Business Units, such as SGL Carbon SE.

In 2011, the main non-cash expenses were additions to provision for restructuring measures of €3.6 million (2010: €3.1 million) and additions to the provision for warranties and discounts of €1.0 million (2010: €1.0 million) in the Business Segment PP. The net effect of reversal of impairment losses and impairment losses in the amount of €5.1 million is reported as non-cash income (2010: expense from the write-down of capitalized costs in the Business Segment CFC in the amount of €2.7 million).

Capital expenditure and depreciation/amortization relates to property, plant and equipment and intangible assets (excluding good-will). The consolidation adjustments item relates to the elimination of transactions between the Business Areas.

Disclosures relating to the Business Areas of SGL Group are shown below.

€m	PP	GMS	CFC	Other	Consoli-dation ad-justments	**SGL Group**
2011						
External sales revenue	845.7	468.7	220.2	5.6	0.0	1,540.2
Intersegment sales revenue	6.9	8.9	5.6	33.8	–55.2	0.0
Total sales revenue	**852.6**	**477.6**	**225.8**	**39.4**	**–55.2**	**1,540.2**
Operating profit/loss (EBIT) before reversal of impairment losses and impairment losses	143.3	84.0	–16.9	–50.0	0.0	160.4
Reversal of impairment losses and impairment losses	0.0	0.0	5.1	0.0	0.0	5.1
Operating profit/loss (EBIT) after reversal of impairment losses and impairment losses	143.3	84.0	–11.8	–50.0	0.0	165.5
Capital expenditure [1]	61.0	35.1	28.8	13.9	0.0	138.8
Changes in the scope of consolidation	0.0	0.0	16.5	0.0	0.0	16.5
Amortization/depreciation on intangible assets and property, plant and equipment	36.6	17.6	11.7	5.4	0.0	71.3
Working capital [2]	330.6	166.2	181.7	–4.6	0.0	673.9
Capital employed [3]	793.0	341.4	469.5	74.0	0.0	1,677.9
Cash generation [4]	118.2	43.5	–80.2	–56.9	0.0	24.6
Loss/income from equity accounted investments	–1.7	0.0	–30.9	0.0	0.0	–32.6
Equity accounted investments	2.0	0.0	43.1	0.0	0.0	45.1
2010						
External sales revenue	762.6	395.9	218.5	4.8	0.0	1,381.8
Intersegment sales revenue	4.2	7.1	3.0	40.7	–55.0	0.0
Total sales revenue	**766.8**	**403.0**	**221.5**	**45.5**	**–55.0**	**1,381.8**
Profit/loss from operations (EBIT)	144.1	36.9	–6.6	–46.0	0.0	128.4
Capital expenditure [1]	66.3	21.1	29.6	19.9	0.0	136.9
Amortization/depreciation of intangible assets and property, plant and equipment	33.5	18.0	11.4	3.5	0.0	66.4
Working capital [2]	329.9	143.2	135.6	–3.1	0.0	605.6
Capital employed [3]	775.4	301.5	378.8	60.7	0.0	1,516.4
Cash generation [4]	95.9	18.7	–55.8	–61.2	0.0	–2.4
Loss/income from equity accounted investments	–1.0	0.0	–10.9	0.0	0.0	–11.9
Equity accounted investments	3.3	0.0	56.5	0.0	0.0	59.8

[1] Defined as total of capital expenditure in intangible assets and property, plant and equipment
[2] Defined as total of inventories, non-current receivables from long-term construction contracts and trade receivables minus trade payables
[3] Defined as total of goodwill, other intangible assets, property, plant and equipment and working capital
[4] Defined as total of operating profit/loss (EBIT) before reversal of impairment losses and impairment losses plus amortization on intangible assets and depreciation on property, plant and equipment plus change in working capital minus capital expenditure

Information on geographical regions:

€m	Germany	Europe excluding Germany	North America	Asia	Other	**SGL Group**
2011						
Sales revenue (by destination)	286.4	385.8	347.0	404.9	116.1	1,540.2
Sales revenue (by company headquarters)	557.1	585.0	339.5	58.6		1,540.2
Capital expenditure	47.1	23.7	34.0	34.0		138.8
Non-current assets *	246.8	214.2	218.8	252.3	0.5	932.6
2010						
Sales revenue (by destination)	236.8	386.2	333.4	312.7	112.7	1,381.8
Sales revenue (by company headquarters)	484.1	542.7	314.4	40.6		1,381.8
Capital expenditure	40.1	18.0	36.0	42.8		136.9
Non-current assets *	253.8	198.7	187.5	227.0	0.5	867.5

* Non-current assets consist of other intangible assets, property, plant and equipment, equity accounted investments and other non-current assets (excluding financial assets)

32. MANAGEMENT AND EMPLOYEE PARTICIPATION SCHEMES

SGL Group currently has five different management and employee participation schemes:

Long-Term-Cash-Incentive-Plan (LTCI Plan)

Under the LTCI Plan, members of the Board of Management and selected senior managers are entitled to receive additional cash bonuses linked to specific performance targets. Since 2010, the participating members of the Board of Management and senior managers have been offered an LTCI Plan each year with a term of three years. Due to the new plan structures introduced in 2010, the participants were offered two LTCI plans in the first quarter of 2010: one plan with a regular term of three years and one interim LTCI plan with a term of two years. In 2011, another LTCI plan was offered with a term of three years.

A precondition for the payment of an LTCI bonus is the achievement of predefined minimum values. If the minimum value is achieved as of the end of the term of the relevant LTCI plan, 25% of the maximum bonus (minimum bonus) will be paid. If the target is fully achieved or exceeded as of the relevant end of the term, the maximum bonus will be paid. If the target achievement is between the minimum value and the target value as of the end of the term of the relevant LTCI plan, the relevant degree of target achievement (Z) is determined as a percentage by applying the following formula: Z= (actual value – minimum value)/(target – minimum value). Depending on their respective responsibilities, the Board of Management and the Supervisory Board will communicate the degree of target achievement and, on this basis, the amount of the relevant LTCI bonus, to the participants by March 31 of the fiscal year following the end of the term of the relevant LTCI plan.

The three LTCI plans currently outstanding are based on targets referring to average return on capital employed (ROCE), which is defined as the ratio of EBIT to average capital employed. Accordingly, the following targets apply for the individual plans:

%	Minimum bonus	Maximum bonus
Two-year plan 2010	7.0	9.0
Three-year plan 2010	7.5	10.5
Three-year plan 2011	8.0	11.0

The total volume of the LTCI plans introduced in 2010 and 2011 amounts to €3.9 million each (senior managers and members of the Board of Management). The two-year LTCI Plan 2010 will become due for payment in April 2012 after the Supervisory Board and the Board of Management have established that the targets have been achieved.

A total of 10% of the relevant LTCI bonus (before deduction of taxes and levies) must be used by the respective participant to acquire no-par-value shares of the Company, which must be held for a period of two years. Participants are not entitled to a payout of such partial amount. The Company will appoint a credit institution or a financial services provider to acquire – for the account of and in the name of the participant – the relevant number of no-par-value shares within a period of up to five trading days from the relevant payout date and to hold such shares for the participant for a period of two years. The participant may dispose of the no-par-value shares held in his/her name only after such period is expired.

The Company or the equity investment at which the participant is employed will make the necessary funds directly available to the appointed credit institution to acquire the no-par-value shares. Costs arising in connection with the acquisition or the custody of the no-par-value shares are borne by the Company or the equity investment.

Matching Share Plan

In March 2001, SGL Group launched the Matching Share Plan for members of the Board of Management and the next three management levels. Under the plan, participants may invest up to 50% of their annual bonuses in shares of the Company. If they hold the shares for at least two years, they receive the same number of shares (matching shares). Please see **Note 23** for details on the number of shares available under the Matching Share Plan.

In 2011, a total of 87,788 shares were created via a capital increase from authorized capital to service the entitlements of the participating executives from the 2009 Matching Share Plan.

In the year under review, the members of the Board of Management and 155 senior managers participated in the current Matching Share Plan, which runs until 2013, purchasing a total of 104,624 SGL shares from their taxed income at a price of €34.63 per share.

The determination of the market value on the grant date represents the basis of recognition in the financial statements. The market value of shares to be granted as part of the Matching Share Plan running until 2013 was €34.63 per share, calculated using the price of SGL shares on the purchase date. The expense recognized for the Matching Share Plan in 2011 was €2.6 million (2010: €2.3 million).

Stock Option Plan

The Stock Option Plan was approved by the Annual General Meeting on April 27, 2000. A maximum of 1,600,000 shares from conditional capital was to be used to support the plan.

The options have a term of ten years from the grant date and were issued from 2000 until the end of 2004. They could only be exercised after a two-year vesting period.

Options may be exercised during the exercise period only during predetermined exercise windows of 20 days each after the publication of the operating results, provided SGL Group has met its performance targets (increase in the total shareholder return on SGL Carbon SE shares by at least 15% compared to the exercise price) at the time the options are exercised. Following exercise, participants must retain shares in the Company having a value equivalent to a minimum of 15% of the gross proceeds for another twelve months. The terms of the Stock Option Plan also provide for protection against dilution.

The number of options granted and the respective exercise prices for members of the Board of Management and senior management members after dilution-related adjustment were therefore as follows:

- on July 3, 2000, a total of 234,500 options at an exercise price of €67.71
- on January 16, 2001, a total of 257,000 options at an exercise price of €53.08
- on January 16, 2002, a total of 261,000 options at an exercise price of €20.26
- on August 12, 2002, a total of 247,000 options at an exercise price of €12.91
- on January 16, 2003, a total of 258,500 options at an exercise price of €3.61
- on January 16, 2004, a total of 254,000 options at an exercise price of €8.69

A total of 1,512,000 options were granted under the Stock Option Plan. Of this amount, 627,000 options expired without being exercised when plan participants left their employment with SGL Group. In the 2011 fiscal year, a total of 108,200 options were exercised by participants: 30,750 options from 2002 at €20.26, 39,750 options from 2002 at €12.91, 17,500 options from 2003 at €3.61 and 20,200 options from 2004 at €8.69. In total, 832,450 options have been exercised under the stock option plan. A total of 52,550 options still remain outstanding.

Stock Appreciation Rights Plan (SAR Plan)

The SGL Group shareholders resolved on April 29, 2009, to introduce – after the end of the SAR Plan 2005 on December 31, 2009 – a new Stock Appreciation Rights Plan ("2010 SAR Plan") for the Board of Management and the next three management levels in line with the former 2005 SAR Plan. The SAR Plan is to be supported by a maximum of 2,100,000 new shares from 2010, while the SAR Plan applicable until 2009 is supported by a total of 1,600,000 new shares from conditional capital against contributions in kind (see **Note 23** for details).

The SARs may be issued at any time during the period until the end of 2014.

The Supervisory Board administers the plan for the members of the Board of Management. The Board of Management administers the SAR Plan for approximately 200 senior managers and executives in the Company and its subsidiaries.

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.

The SARs may only be granted to the participants within a period of up to ten stock market trading days after the end of the fiscal year or after SGL Carbon SE's published reporting dates. The base price is calculated on the basis of the average closing price of SGL Carbon SE shares in the XETRA trading system over the 20 stock market trading days immediately preceding the date on which the SAR is granted. The exercise price is calculated in the same way as the base price, except that the relevant 20 stock market trading days prior to the SAR exercise date are used. SARs have a term of up to ten years and SARs may not be exercised until the end of a vesting period of two years calculated from the grant date (holding period). SARs may then only be exercised during defined periods (exercise windows). The SARs expire if they are not exercised within this period.

Predetermined performance targets must be achieved to enable exercise. For 75% of the SARs granted, the performance target is the increase in total shareholder return (TSR) on SGL Carbon SE shares (absolute performance target). Accordingly, the absolute increase in the SGL Carbon SE share price between grant and exercise of the SARs must be at least 15%. The remaining 25% of the SARs may only be exercised if the performance of SGL Carbon SE shares is at least equivalent to that of the MDAX. The Company reserves the right to settle the appreciation through outstanding, repurchased SGL Carbon SE shares or cash, instead of issuing new shares. Finally, the participants must invest at least 15% of the gross receipts from the exercise of SARs in SGL Carbon SE shares and must hold these for a further period of twelve months.

The number of SARs granted and their respective base prices for members of the Board of Management and senior management members under the SAR Plan 2005–2009 were as follows:

- on January 14, 2005, a total of 608,100 SARs at a base price of €9.74
- on January 13, 2006, a total of 630,200 SARs at a base price of €14.51
- on January 15, 2007, a total of 668,700 SARs at a base price of €18.74
- on January 15, 2008, a total of 718,175 SARs at a base price of €34.98
- on October 30, 2008, a total of 20,750 SARs at a base price of €19.79
- on January 15, 2009, a total of 759,320 SARs at a base price of €22.08

Accordingly, a total of 3,405,245 SARs have been granted to date under the SAR Plan 2005, of which a total of 2,705,319 SARs have been exercised and 212,175 SARs have expired without being exercised as the individuals holding these SARs are no longer employed by the Group. At the end of the year under review, a total of 487,751 SARs remain outstanding.

The following number of SARs has been granted under the SAR Plan 2010 to members of the Board of Management and senior management members:

- on January 15, 2010, a total of 850,670 SARs at a base price of €21.98
- on January 14, 2011, a total of 820,953 SARs at a base price of €27.06
- on January 13, 2012, a total of 832,545 SARs at a base price of €39.50

Of the total number of SARs granted (2,504,168), 68,600 SARs expired without being exercised as the individuals holding these SARs are no longer employed by the Group.

The closing price of SGL shares was €22.42 on the first issue date (January 15, 2011), €28.39 on the second issue date (January 14, 2011) and €39.33 on the third issue date.

The total expense for SARs in fiscal year 2011 amounted to €9.3 million (2010: €6.7 million). The SARs were measured on the grant date on the basis of a Monte Carlo simulation, taking into account the market conditions described above (TSR increase and MDAX index). SGL Group-specific valuation parameters (such as dividends) were used and specific employee exercise behavior was assumed. For the SARs granted in 2010, we have assumed for valuation purposes that no dividend payment will be made. The measurement of the SARs granted in 2011 was based on the assumption of future dividend payments. The assumed risk-free zero interest rates were 3.14% for the 2011 SARs and 3.43% for the 2010 SARs. A volatility of 52.08% was calculated for the SAR tranche in 2011; the volatility calculated for the 2010 SAR tranche was 51.58%. The volatilities are calculated on the basis of daily XETRA closing prices for the SGL Carbon SE shares during the last five years. The fair value per issued SAR to be recognized for the expense from share-based payments required to be reported under IFRS amounted to €12.67 for the 2011 SARs and €10.87 for the 2010 SARs.

Bonus program for employees

All employees of the material German companies who are both included in and exempt from collective wage agreements receive an annual bonus, the amount of which is based on the achievement of corporate targets, personal performance and the amount of the individual fixed remuneration. The bonus is paid entirely in shares to non-exempt employees, and exempt employees receive 50% in shares (Bonus Shares). The goal is to enable all employees to share in the Company's success and in so doing provide each employee with a strong incentive to contribute to growth.

The bonus is determined based on the targets and the degree of target achievement of SGL Group and the respective Business Unit, the individual performance evaluation and Group targets for the non-exempt employees.

The following criteria apply: income before taxes at SGL Group level and operating profit (EBIT) and cash generation for the Business Unit. Additional components are individual target achievement and, for non-exempt employees, the degree of target achievement with regard to defined and agreed group targets as well as the individual performance evaluation.

The bonus is paid in the form of shares in March or April of the following year. For the bonus paid in shares, the bonus amount is divided by the determined daily price quotation on March 16 of the relevant year. If no trading of shares takes place on that date, the price on the next trading day will be used. The resulting rounded number of shares is transferred to the employee's custodian account. A total of 30% of the shares are blocked for one year; 70% can be sold immediately. A total of €9.9 million was expensed for the 2011 bonus plan in Germany (2010: €9.6 million).

The following table is an overview of the accounting method used for the various plans:

	Share-based payment within the meaning of IFRS 2	Applied rule to recognize as liabilities	Equity-settled or Cash-settled	Recognized liabilities for non equity-settled (in € thousand) **Dec. 31, 2011**	Dec. 31, 2010
LTCI Plan	No	IAS 19.7	n. a.	7,604	3,169
Matching Share Plan	Yes	IFRS 2/IFRIC 11	Equity settled	n. a.	n. a.
Stock Option Plan					
Tranche before IFRS 2 transition date according to IFRS 2.53, November 7, 2002					
All grants before transition date	No	no balance sheet effect until exercise of the option	n. a.	0	0
Tranche after IFRS 2 transition date according to IFRS 2.53, i. e. November 7, 2002					
Grant starting 2003	Yes	IFRS 2	Equity settled	n. a.	n. a.
SAR plans	Yes	IFRS 2	Equity settled	n. a.	n. a.
Bonus Program for Employees					
Bonus for exempt employees	Yes	IFRS 2/IFRIC 11	Equity settled	n. a.	n. a.
Bonus for non-exempt employees					
thereof 50% in cash used for bonus entitlement	No	IAS 19 (short-term employee benefit)	n. a.	2,868	2,702
thereof 50% in new shares of SGL Carbon SE used for bonus entitlement	Yes	IFRS 2/IFRIC 11	Equity-settled	n. a.	n. a.

n. a. = not applicable

Additional information on instruments granted:

	SAR Plan Number	SAR Plan Avge. price in €	Matching Share Plan Number	Matching Share Plan Avge. price in €	Stock option plan Number	Stock option plan Avge. price in €
Balance as of January 1, 2010	2,305,550	23.21	201,591	24.63	485,550	40.61
Additions	850,670	21.96	102,793	21.67	0	0.00
Expired/returned	−57,400	25.78	−9,719	21.53	−142,500	66.88
Exercised	−178,996	17.15	−63,684	37.65	−36,300	18.02
Balance as of December 31, 2010	**2,919,824**	**23.17**	**230,981**	**19.86**	**306,750**	**31.09**
Additions	820,953	27.06	104,624	34.63	0	0.00
Expired/returned	−56,575	24.09	−6,673	19.36	−146,000	53.08
Exercised	−1,593,428	23.75	−129,863	18.53	−108,200	12.71
Balance as of December 31, 2011	**2,090,774**	**24.19**	**199,069**	**28.45**	**52,550**	**10.57**
Range of exercise prices in €	9.74–34.98				3.61–20.26	
Expiration dates	Dec. 14/21		March 12/13		2012–2013	
Intrinsic value as of December 31, 2011 (in €m)	30.7		7.6		1.5	
Intrinsic value as of December 31, 2010 (in €m)	16.1		6.2		2.5	

The tranches from the Stock Option Plans from January and August 2002, 2003 and 2004 with an exercise price of €20.26, €12.91, €3.61 and €8.69, respectively, were in the money at the end of 2011; given the share price of €38.09 as of December 30, 2011, the SARs in these tranches have respective intrinsic values of €17.83, €25.18, €34.48 and €29.40, corresponding to a total value of €1.5 million. In 2011, a total of 108,200 options from the Stock Option Plan were exercised (2010: 36,300 options). The options were exercised during four trading windows in 2011 and 2010 in which the average share price in fiscal year 2011 was as follows: €36.15 (2010: €27.27) for the January 2002 Stock Option Plan, €38.69 (2010: €25.51) for the August 2002 Stock Option Plan, €42.35 (2010: €23.54) for the 2003 Stock Option Plan, €41.76 (2010: €28.75) for the 2004 Stock Option Plan, €36.89 (2010: €28.14) for the 2005 SAR Plan, €39.33 (2010: €28.76) for the 2006 SAR Plan as well as €37.23 (2010: €26.33) for the 2007 SAR Grant, €44.20 (2010: not yet exercisable) for the January 2008 SAR Grant and €36.91 (2010: €26.94) for the October 2008 SAR Grant. As of the balance sheet date, 487,751 SARs were exercisable at an average of €23.06 (2010: 761,909 SARs at €15.92) and 52,550 stock options at an average of €10.57 (2010: 164,250 stock options at €12.00).

The weighted average remaining maturity for the 2005 SAR plan is 5.5 years (2010: 6.75 years), 8.5 years for the 2010 SAR Plan (2010: 9 years), 0.7 years for the Matching Share Plan (2010: 0.7 years) and 1.0 years for the Stock Option Plan (2010: 2.0 years).

33. REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF SGL GROUP

Pursuant to section 120 (4) of the German Stock Corporation Act (Aktiengesetz – AktG), which was newly incorporated into the German Stock Corporation Act by way of the German Act on the Appropriateness of Executive Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) of July 31, 2009, the resolution approving the remuneration system for members of the Board of Management was presented to the Annual General Meeting. The resolution was passed with more than 97% of voting in favor. The remuneration system has not been modified since then.

The full Supervisory Board is responsible for determining the remuneration of the Board of Management. The Personnel Committee, consisting of Max Dietrich Kley (Chairman of the Supervisory Board), Josef Scherer (Deputy Chairman of the Supervisory Board) and Susanne Klatten (member of the Supervisory Board), makes suggestions and prepares the resolutions to be passed by the Supervisory Board.

The remuneration of the Board of Management of SGL Carbon SE is based on the Company's size and global activities, its economic and financial position, the amount and structure of remuneration paid at this level in comparable companies as well as the performance of the members of the Board of Management. The remuneration is set at a level which is competitive in the market for highly qualified executives and which provides an incentive for success in a high-performance culture.

The remuneration comprises four components: (i) basic remuneration, (ii) variable cash compensation, (iii) share-based payment and (iv) a pension.

The **basic remuneration** is paid monthly as a salary.

The **Variable Cash Compensation** comprises an annual bonus (60% of the Variable Cash Compensation) and a multi-year component (40% of the Variable Cash Compensation). A total of 10% of the pre-tax bonus under the Variable Cash Compensation must be invested in SGL Carbon SE shares, which are subject to a minimum lock-up period of 24 months.

Annual bonus

For each member of the Board of Management, a maximum bonus of not more than 120% has been defined. The maximum bonus is payable in the case of 100% target achievement. Payment of the bonus depends on achieving earnings before tax and free cash flow targets set by the Supervisory Board (weighted at 35% each in 2011 for a total of 70%) as well as an evaluation of the overall performance of the Board of Management conducted by the Supervisory Board (weighted at 30%). The Supervisory Board may review the appropriateness and the suitability of the defined targets and set new targets. The targets are based on the annual planning of the Company. In view of the overall evaluation of the performance of the Board of Management, the Supervisory Board determines an amount to be paid of between 0% and 100% of the target bonus amount defined for the performance of the Board of Management. The performance evaluation is based on evaluation criteria that are defined in advance. In 2011, these criteria were comprised of strategic and employee-specific development as well as the cost savings resulting from the SGL Excellence Initiative.

Multi-year component (Long-Term Cash Incentive Plan or LTCI Plan)

The multi-year component is determined based on the average attainment of annual return on capital employed (ROCE) targets within a two or three-year period. Target and threshold values of this multi-year approach are determined by the Supervisory Board on an annual basis. A total of 10% of the gross proceeds must be invested in SGL shares over an additional period of 24 months. (see **Note 32** for information on the LTCI Plan).

Share-based payment consists of stock appreciation rights (SAR Plan) granted under the terms of the 2010 Stock Appreciation Rights Plan approved by the Annual General Meeting of the Company on April 29, 2009. At the end of a two-year vesting period, the exercise of these SARs is contingent upon the achievement of defined performance targets. A total of 15% of the gross proceeds must remain invested in SGL shares over an additional period of twelve months (see **Note 32** for more information on the SAR Plan).

Furthermore, the members of the Board of Management can participate in the Company's **Matching Share Plan**, adopted by the Annual General Meeting held on April 27, 2000, and invest up to 50% of their annual bonuses in shares of the Company at the prevailing market price fixed during the last seven trading days in March. The shares are paid from the net income after tax of the individual Board of Management member. After a two-year holding period, each member of the Board of Management concerned is granted the same number of shares again. This additional financial benefit is taxed on the basis of the market price on the date the shares are allocated. (see **Note 32** for information on the Matching Share Plan).

In accordance with German Accounting Standard 17 (DRS 17), the disclosure of remuneration under share-based payments is based on the total amount of the equity instruments granted (SARs and Matching Shares) as of the grant date.

The basic remuneration and the variable remuneration paid to the Board of Management for 2011 and 2010 is set out below:

	Fixed components		**Variable components**			
	Basic remuneration		Annual bonus short-term		LTCI medium-term	
€ thousand	**2011**	2010	**2011**	2010	**2011**	2010
Robert J. Koehler	670	600	804	720	583	417
Theodore H. Breyer	500	450	600	540	389	278
Armin Bruch	440	400	528	480	389	278
Jürgen Muth	440	400	528	480	389	278
Dr. Gerd Wingefeld	440	400	528	480	389	278
Total	**2,490**	**2,250**	**2,988**	**2,700**	**2,139**	**1,529**

The annual bonus entitlement acquired in 2011 reflects the bonus provisions recognized as an expense in connection with the expected target achievement. The annual bonus for 2010 reflects the actual target achievement. The mid-term LTCI expense reflects the pro-rata provisions for fiscal year 2011 recognized as an expense in 2011 and 2010, assuming an expected full target achievement for the three parallel plans. A cash payment may be made for the first time in 2012 (see **Note 32**).

In 2011, the total notional remuneration recognized in respect of participation by the members of the Board of Management in the Matching Share Plan was €1,295 thousand (2010: €715 thousand). This corresponds to a price of €34.63 per share for the purchases of SGL shares by the members of the Board of Management from their taxed income. The extent to which this amount will actually materialize after the two-year holding period will depend on the level of the SGL share price in March 2013. The remuneration component may be higher or lower upon settlement in 2013. The calculated expense for the Matching Share Plan in fiscal year 2011 for Robert J. Koehler, Theodore H. Breyer, Armin Bruch, Jürgen Muth and Dr. Gerd Wingefeld was €360 thousand, €263 thousand, €240 thousand, €192 thousand and €240 thousand, respectively (2010: €216 thousand, €166 thousand, €119 thousand, €95 thousand, and €119 thousand, respectively).

A total of 180,000 SARs were granted to the members of the Board of Management in 2011 (2010: 180,000 SARs).

SAR Plan

	Granted SARs		SAR expense	
	2011 Number	2010 Number	**2011** € thousand	2010 € thousand
Robert J. Koehler	50,000	50,000	634	544
Theodore H. Breyer	40,000	40,000	507	435
Armin Bruch	30,000	30,000	380	326
Jürgen Muth	30,000	30,000	380	326
Dr. Gerd Wingefeld	30,000	30,000	380	326
Total	**180,000**	**180,000**	**2,281**	**1,957**

The base price of the SARs granted as of January 14, 2011, was €27.06 per SAR (SARs granted as of January 15, 2010: €21.96 per SAR). The calculation of the value of these SARs (based on a "Monte Carlo simulation" using valuation parameters specific to SGL Carbon) produced a figure of €12.67 per SAR for the SARs granted as of January 14, 2011 (January 15, 2010: €10.87 per SAR).

The imputed total value of SARs granted to the members of the Board of Management was therefore €2,281 thousand in 2011 and €1,957 thousand in 2010. The value of these SARs on the exercise date will differ from the calculated theoretical values and may be either higher or lower. As of December 31, 2011, the price of SGL shares was quoted at €38.09, resulting in an intrinsic value of €1,985 per SAR as of December 31, 2011 for the SARs granted as of January 14, 2011, compared to a total value of €2,281 thousand recognized as remuneration.

TOTAL REMUNERATION

The total remuneration for the Board of Management, including payments in kind, bonus entitlements and share-based components, amounted to €11,354 thousand in 2011 (2010: €9,306 thousand). Payments in kind comprise, for each Board member, the costs for company cars, social security charges and accident insurance.

RETIREMENT BENEFITS

The amount of the post-employment benefit commitment and the pension benefit depends on the number of terms of appointment and the number of years of service on the Board of Management, and it represents a percentage of the last fixed monthly salary. This percentage is 80% of the last fixed monthly salary received for the Chairman of the Board of Management, and it is not more than 70% of the last fixed monthly salary received for all other members of the Board of Management. The maximum entitlement has been earned by Robert J. Koehler and Theodore H. Breyer due to their having been members of the Board of Management for several years. The benefit entitlement for Board member Armin Bruch currently amounts to 50%. Board members Jürgen Muth and Gerd Wingefeld will earn an entitlement of 50% after the expiry of two terms of office.

	Pension commitments			
	Present value of DBO as of		Service cost	
€ thousand	**Dec. 31, 2011**	Dec. 31, 2010	**2011**	2010
Robert J. Koehler	7,002	8,163	0	0
Theodore H. Breyer	5,834	5,191	0	0
Armin Bruch	3,121	2,857	937	646
Jürgen Muth	2,328	1,434	502	390
Dr. Gerd Wingefeld	2,175	1,390	426	320
Total	**20,460**	**19,035**	**1,865**	**1,356**

On February 22, 2011, the Supervisory Board resolved to extend the employment contract of Robert J. Koehler until December 31, 2014. As a result of this extension of the term of office in 2011, the present value of the defined benefit obligation was reduced compared to 2010. The total pension expense is determined based on the service cost and the calculated additional interest cost. Total pension expense amounted to €2.8 million (2010: €2.4 million) for the active Board members in the year under review.

Pursuant to their employment contract, all Board members are subject to non-competition agreements applicable after the end of the employment contract. In return, this non-competition agreement has a two year term during which the Company pays a compensation in the amount of 60% of the previous remuneration (for the Board members Robert J. Koehler and Theodore H. Breyer, the agreement runs five years and provides for a compensation of 75% of the last remuneration). The company may, at any time, waive the non-competition clause.

The total remuneration for former members of the Board of Management, executive management and their surviving dependents amounted to €0.6 million in 2011 (2010: €0.6 million). Provisions of €13.8 million (December 31, 2010: €12.5 million) were recognized as of December 31, 2011 to cover pension obligations to former members of the executive management and their surviving dependents.

Additional Disclosures on Share-Based Payment Instruments in Fiscal Year 2011

STOCK OPTIONS

In fiscal year 2011, Theodore H. Breyer, exercised 48,000 stock options granted under the Stock Option Plan running from 2000 to 2004 at an average base price of €11.37 and an average share price of €40.76. In addition, 12,000 options held by Theodore H. Breyer and 20,000 options held by Robert J. Koehler, each with a weighted base price of €53.08, expired in 2011. Accordingly, all options granted from 2000 to 2004 were either exercised or expired as of year-end 2011.

SAR PLAN	Balance as of Jan. 1, 2011		Additions in 2011	
	Number of SARs	Base price in € (weighted)	Number of SARs	Base price in €
Robert J. Koehler	200,000	24.44	50,000	27.06
Theodore H. Breyer	190,000	20.42	40,000	27.06
Armin Bruch	64,500	21.86	30,000	27.06
Jürgen Muth	60,000	22.02	30,000	27.06
Dr. Gerd Wingefeld	64,500	21.86	30,000	27.06
Total	**579,000**	**22.30**	**180,000**	**27.06**

MATCHING SHARE PLAN	Balance as of Jan. 1, 2011		Acquired in 2011	Due in 2011	Balance as of Dec. 31, 2011	
	Number of matching shares rights	Average price as of the acquisition date	Number of matching shares rights	Number of matching shares rights	Number of matching shares rights	Average price as of the acquisition date
	Number	in €	Number	Number	Number	in €
Robert J. Koehler	27,581	19.66	10,395	17,614	20,362	28.29
Theodore H. Breyer	20,504	19.70	7,595	12,857	15,242	28.13
Armin Bruch	8,665	20.52	6,930	3,183	12,412	28.91
Jürgen Muth	7,868	20.28	5,545	3,482	9,931	28.91
Dr. Gerd Wingefeld	10,421	20.18	6,930	4,939	12,412	28.91
Total	**75,039**	**19.91**	**37,395**	**42,075**	**70,359**	**28.56**
Average price on acquisition date in €			34.63	18.53		
Share price on day of allocation in €				34.77		

	Exercise 2011			**Balance as of Dec. 31, 2011**			
	Number of SARs	Base price in € (weighted)	Share price in € (average)	Number of SARs	Base price in € (weighted)	Number of exercisable SARs	Base price in € (weighted)
	150,000	23.43	37.79	100,000	24.51	0	0
	150,000	18.91	39.05	80,000	24.51	0	0
	34,500	16.98	38.39	60,000	24.51	0	0
	30,000	16.56	38.38	60,000	24.51	0	0
	34,500	16.98	38.19	60,000	24.51	0	0
	399,000	**20.10**	**38.39**	**360,000**	**24.51**	**0**	**0**

None of the matching shares held as of December 31, 2011 in the private portfolio of the members of the Board of Management were exercisable, since the two-year holding period had not elapsed.

In 2011, the imputed total expense for the share-based payments to be recognized in accordance with IFRS 2 was €9.3 million for the SAR Plan (2010: €6.7 million) and €2.6 million for the Matching Share Plan (2010: €2.3 million). The share of this total expense attributable to the members of the Board of Management in 2011 and 2010 was as follows:

	Share in total SAR expense		**Share in total MSP expense**	
	2011	2010	**2011**	2010
Robert J. Koehler	6.3%	6.6%	11.0%	12.2%
Theodore H. Breyer	5.0%	4.8%	8.2%	8.9%
Armin Bruch	3.8%	4.1%	6.1%	3.2%
Jürgen Muth	3.8%	4.5%	5.0%	3.0%
Dr. Gerd Wingefeld	3.8%	4.1%	6.3%	4.0%
Total	**22.7%**	**24.1%**	**36.6%**	**31.3%**

SUPERVISORY BOARD REMUNERATION

In addition to the reimbursement of expenses, each member of the Supervisory Board receives fixed remuneration of €30 thousand payable after the end of the fiscal year. The Chairman of the Supervisory Board receives double this amount and the Deputy Chairman receives one-and-a-half times this amount. Each member of a Supervisory Board committee receives €2 thousand for each committee meeting attended. The chairmen of the Personnel Committee, Strategy Committee and Technology Committee each receive €3 thousand per meeting, and the chairman of the Audit Committee receives €5 thousand per meeting.

				Remuneration		
€ thousand	Member since	Age as of the date of release of the 2011 annual report	Period of service (appointed up to)	Basic remuneration	Additional remuneration	**Total**
Max Dietrich Kley, Chairman	2004[1]	72	GM 2013	60.0	15.8	75.8
Josef Scherer, Deputy Chairman	2003	55	GM 2013	45.0	10.8	55.8
Dr. Daniel Camus	2008	59	GM 2013	30.0	2.8	32.8
Edwin Eichler	2010	53	GM 2016	30.0	2.8	32.8
Helmut Jodl	2008	50	GM 2013	30.0	2.8	32.8
Susanne Klatten	2009	49	GM 2015	30.0	8.8	38.8
Dr. Ing. Hubert H. Lienhard	1996[2]	61	GM 2013	30.0	3.8	33.8
Michael Pfeiffer	2007	50	GM 2013	30.0	4.8	34.8
Marek Plata	2009	46	GM 2013	30.0	0.8	30.8
Andrew H. Simon	1998[3]	66	GM 2013	30.0	12.8	42.8
Stuart Skinner	2009	34	GM 2013	30.0	0.6	30.6
Heinz Will	2005	55	GM 2013	30.0	2.8	32.8
Total				**405.0**	**69.4**	**474.4**

[1] Also Chairman of the Personnel Committee
[2] Chairman of the Technology/Strategy Committee
[3] Chairman of the Audit Committee

Total wages and salaries for employee representatives in the Supervisory Board amounted to €256 thousand.

There were no significant changes compared to the previous year in relation to the disclosures made above.

34. "CHANGE IN CONTROL" AGREEMENT

The members of the Board of Management have the right to terminate their contract of employment in the event of a change in control, i. e. if (i) the Company is notified that a third party has gained 25% or more of the voting rights in the Company and providing that attendance at the most recent Annual General Meeting of the Company was below 50%, (ii) a third party, alone and/or together with voting rights attributable to the third party, holds at least 30% or, based on the attendance at the Annual General Meeting of the Company, the majority of voting rights in the Company, (iii) the Company as an independent company enters into a control agreement within the meaning of section 291 et seq. of the German Stock Corporation Act (AktG) or is taken over or (iv) SGL Carbon SE is merged with another company or changes its legal form. On exercising the special termination right, the resigning member of the Board of Management has the right to a severance payment equivalent to three years' income. In such cases, the annual salary is deemed to comprise the base salary plus the average annual bonus for the previous two years prior to the termination of the agreement. Forty-four senior executives have similar special termination rights. Seventeen of them would receive a severance payment equivalent to three years' income on exercising this right, and the rest would receive two years' income. Board of Management members or senior executives will not be entitled to these payments if they receive similar benefits from a third party in connection with the change in control.

35. AUDIT FEES

The following fees were incurred in the year under review for the services provided by the auditor of the consolidated financial statements in Germany:

€m	**2011**	2010
Audit fees	0.8	0.9
Other audit and valuation service	0.1	0.0
Tax consultancy services	0.1	0.1
Other services	0.1	0.2
Total	**1.1**	**1.2**

36. NET INCOME OF SGL CARBON SE

In 2011, SGL Carbon SE, as the parent company of SGL Group, reported a net income for the year of €3.6 million in accordance with the German Commercial Code (HGB).

The balance sheet profit totaled €20.0 million after a withdrawal of €8.8 million from revenue reserves and taking into account the retained profits of €7.6 million brought forward from the previous year.

The proposal on the appropriation of the balance sheet profit will be made in March 2012.

37. LIST OF COMPANIES PURSUANT TO SECTION 313 OF THE GERMAN COMMERCIAL CODE (HGB)

A. Consolidated companies			Interest in %	Held via
a)	**Germany**			
1	SGL Carbon SE	Wiesbaden		
2	SGL CARBON GmbH	Meitingen	100.0 [1]	1
3	Dr. Schnabel GmbH	Limburg	100.0 [1]	2
4	SGL CARBON Beteiligung GmbH	Wiesbaden	100.0 [1]	1
5	SGL TECHNOLOGIES GmbH	Meitingen	100.0 [1]	1
6	SGL epo GmbH	Willich	100.0 [1]	5
7	SGL Technologies Composites Holding GmbH	Meitingen	100.0 [1]	5
8	SGL TECHNOLOGIES Beteiligung GmbH	Meitingen	100.0 [1]	5
9	SGL Kümpers Verwaltungs-GmbH	Rheine	51.0	8
10	SGL Kümpers GmbH & Co. KG	Rheine	51.0	8
11	SGL TECHNOLOGIES Zweite Beteiligung GmbH	Meitingen	100.0	5
12	SGL Rotec GmbH & Co. KG	Lemwerder	74.9	11
13	SGL Rotec Verwaltungs- und Beteiligungs GmbH	Lemwerder	100.0	12
14	Rotec Immobilien GmbH	Lemwerder	100.0	12
15	FVT Verwaltungs- und Beteiligungs- GmbH	Lemwerder	100.0	12
16	SGL/A&R Immobiliengesellschaft Lemwerder mbH	Lemwerder	51.0	5
17	SGL/A&R Services Lemwerder GmbH	Lemwerder	100.0	16
18	SGL/A&R Real Estate Lemwerder GmbH & Co. KG	Lemwerder	100.0	17
19	Aviation Community Lemwerder GmbH	Lemwerder	100.0	17
b)	**Outside Germany**			
20	SGL CARBON Holding S.L.	La Coruña, Spain	100.0	4
21	SGL CARBON S.A.	La Coruña, Spain	99.9	20
22	SGL Gelter S.A.	Madrid, Spain	64.0	20
23	SGL CARBON S.p.A.	Mailand, Italy	99.8	20
24	SGL CARBON do Brasil Ltda.	Diadema, Brazil	100.0	20
25	SGL CARBON Sdn. Bhd.	Kuala Lumpur, Malaysia	100.0	20
26	SGL Carbon Holding GmbH	Steeg, Austria	100.0	1
27	SGL CARBON GmbH	Steeg, Austria	100.0	1
28	SGL Carbon Fibers Ltd.	Muir of Ord, United Kingdom	100.0	27
29	Project DnF	Halifax, United Kingdom	100.0	27
30	SGL CARBON Holdings B.V.	Rotterdam, Netherlands	100.0	4
31	SGL CARBON Polska S.A.	Racibórz, Poland	100.0	30
32	SGL Singapore PTE. Ltd.	Singapore	100.0	30

A. Consolidated companies		Interest in %	Held via
33 SGL CARBON Luxembourg S.A.	Luxembourg	100.0	1
34 SGL CARBON Holding S.A.S.	Paris, France	100.0	1
35 SGL CARBON S.A.S.	Passy (Chedde), France	100.0	34
36 SGL CARBON Technic S.A.S.	Saint-Martin d'Hères, France	100.0	34
37 SGL CARBON Ltd.	Alcester, United Kingdom	100.0	1
38 David Hart (Feckenham) Ltd.	Alcester, United Kingdom	100.0	37
39 GRAPHCO (UK) Ltd.	Alcester, United Kingdom	100.0	38
40 RK CARBON International Ltd.	Wilmslow, United Kingdom	100.0	5
41 SGL CARBON LLC	Charlotte, NC, USA	100.0	4
42 Quebec Inc.	Montreal, Quebec, Canada	100.0	41
43 SGL Technologies North America Corp.	Charlotte, NC, USA	100.0	41
44 HITCO CARBON COMPOSITES Inc.	Gardena, CA, USA	100.0	43
45 SGL TECHNIC Inc.	Valencia, CA, USA	100.0	43
46 SGL Carbon Fibers LLC	Evanston, WY, USA	100.0	43
47 SGL CARBON Technic LLC	Strongsville, OH, USA	100.0	41
48 SGL CANADA Inc.	Lachute, Quebec, Canada	100.0	1
49 SGL CARBON India Pvt. Ltd.	Maharashtra, India	100.0	1
50 SGL CARBON Far East Ltd.	Shanghai, China	100.0	1
51 SSGL CARBON Japan Ltd.	Tokyo, Japan	100.0	1
52 SGL CARBON Korea Ltd.	Seoul, Korea	70.0	1
53 SGL CARBON Asia-Pacific Sdn. Bhd.	Kuala Lumpur, Malaysia	100.0	1
54 NINGBO SSG Co. Ltd.	Ningbo, China	60.0	5
55 SGL Quanhai Carbon (Shanxi) Co.	Yangquan, China	80.0	4
56 SGL TOKAI Process Technology Pte.Ltd.	Singapore	51.0	1
57 SGL CARBON KARAHM Ltd.	Sangdaewon-Dong, Korea	50.9	56
58 SGL CARBON Graphite Technic Co. Ltd.	Shanghai, China	100.0	56
59 Graphite Chemical Engineering Co.	Yamanashi, Japan	100.0	56
60 SGL Process Technology OOO	Schachty, Russian Federation	100.0	2
61 SGL Hong Kong Ltd.	Hong Kong, China	100.0	1
B. Investments over 20%			
a) Germany			
62 European Precursor GmbH	Kehlheim	44.0	5
63 Benteler SGL Verwaltungs GmbH	Paderborn	50.0	7
64 Benteler SGL GmbH & Co. KG	Paderborn	50.0	7
65 SGL Automotive Carbon Fibers GmbH & Co. KG	Munich	51.0[2]	5

B. Investments over 20%		Interest in %	Held via
b) Outside Germany			
66 SGL Automotive Carbon Fibers LLC	Charlotte, NC, USA	51.0[2]	41
67 SGL TOKAI Carbon Limited	Shanghai, China	51.0[2]	1
68 Brembo SGL Carbon Ceramic Brakes S.p.A.	Stezzano, Italy	50.0	5
69 MRC-SGL Precursor Co. Ltd.	Tokyo, Japan	33.3	5

[1] Exemption in accordance with section 264 (3) of the HGB
[2] Non-controlling interest due to contractual details

38. DECLARATION PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The declaration of compliance with the German Corporate Governance Code prescribed by section 161 of the German Stock Corporation Act (AktG) has been submitted for SGL Carbon SE and made available to shareholders on the website of SGL Carbon SE.

39. EVENTS AFTER THE BALANCE SHEET DATE

Convertible bonds

In January and February 2012, holders of the Company's two convertible bonds converted further convertible bonds from the 2007/2013 tranche in a total volume of €0.35 million to 9,583 shares and convertible bonds from the 2009/2016 tranche in a total volume of €2.05 million to 69,751 shares. These shares carry dividend rights as of January 1, 2012.

Wiesbaden, February 29, 2012

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ADDITIONAL INFORMATION

Independent Auditors' Report

We have issued the following audit opinion on the consolidated financial statements as well as on the management report of SGL Carbon SE and SGL Group:

"We have audited the consolidated financial statements prepared by SGL Carbon SE, Wiesbaden, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity and the notes to the financial statements, together with the group management report, which is combined with the management report of SGL Carbon SE, for the fiscal year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS (International Financial Reporting Standards) as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the HGB ("Handelsgesetzbuch," German Commercial Code) is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit. In addition, we have been instructed to express an opinion as to whether the consolidated financial statements comply with the full IFRSs.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of our audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) of the HGB and the full IFRSs and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report, which is combined with the management report of SGL Carbon SE, is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Eschborn/Frankfurt am Main, February 29, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Turowski	von Seidel
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

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 principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, February 29, 2012

SGL Carbon SE

The Board of Management of SGL Group

Robert J. Koehler   Theodore H. Breyer   Armin Bruch

Jürgen Muth   Dr. Gerd Wingefeld

Corporate Bodies

Board of Management
(as of December 31, 2011)

ROBERT J. KOEHLER
Chief Executive Officer SGL CARBON SE

Responsible for:
- Corporate Development
- Corporate Communications
- Legal
- Management Development
- Internal Audit
- Asia

External board memberships:
- Benteler International AG, Salzburg, Austria[1)]
- Demag Cranes AG, Wetter/Ruhr (until September 23, 2011)
- Heidelberger Druckmaschinen AG, Heidelberg[1)] (Chairman since July 28, 2011)
- Klöckner & Co SE, Duisburg
- Lanxess AG, Leverkusen

Internal board memberships:
- SGL CARBON S.p.A., Milan, Italy
- SGL CARBON Sdn. Bhd., Kuala Lumpur, Malaysia
- SGL CARBON S.A., La Coruña, Spain

THEODORE H. BREYER
Deputy Chief Executive Officer SGL CARBON SE

Responsible for:
- Carbon Fibers & Composites
- Engineering
- Corporate Security and Environmental Protection, Safety and Health at work, Technical Audits
- Purchasing
- North and South America

Internal board memberships:
- Brembo SGL Carbon Ceramic Brakes S.p.A., Stezzano, Italy
- HITCO CARBON COMPOSITES Inc., Gardena, USA[1)]
- SGL CARBON LLC., Charlotte, USA

JÜRGEN MUTH
Chief Financial Officer SGL CARBON SE

Responsible for:
- Group Treasury
- Group Accounting
- Group Controlling
- Financial Reporting
- Human Resources
- Information Services
- Taxes

Internal board memberships:
- SGL CARBON GmbH, Meitingen
- SGL CARBON Holding S.L., La Coruña, Spain

ARMIN BRUCH

Responsible for:
- Performance Products
- SGL Excellence
- Corporate Marketing & Advertising
- Europe, Russia

External board memberships:
- SKW Stahl-Metallurgie Holding AG, Munich

Internal board memberships:
- SGL CARBON Polska S.A., Racibórz, Poland
- SGL CARBON Sdn. Bhd., Kuala Lumpur, Malaysia
- SGL TOKAI Carbon Ltd., Shanghai, China [1]
- SGL CARBON S.A., La Coruña, Spain

DR. GERD WINGEFELD

Responsible for:
- Graphite Materials & Systems
- Technology & Innovation

Internal board memberships:
- SGL TOKAI Process Technology Pte. Ltd., Singapore [1]
- SGL Quanhai Carbon (Shanxi) Co., Yangquan, China [1]
- SGL CARBON Far East Ltd., Shanghai, China
- SGL CARBON Japan Ltd., Tokyo, Japan [1]

[1] Chairman of the Supervisory Board
With memberships outside Germany, the respective country is mentioned

Supervisory Board
(as of December 31, 2011)

MAX DIETRICH KLEY
Chairman

former Deputy Chief Executive Officer BASF AG (now SE), Ludwigshafen

External board memberships:
- BASF SE, Ludwigshafen
- HeidelbergCement AG, Heidelberg

JOSEF SCHERER
Deputy Chairman

Works Council
SGL CARBON GmbH, Meitingen

DR. DANIEL CAMUS
Roland Berger Senior Advisor and former Member of Executive Committee (CFO) EDF, Electricité de France, Paris, France

External board memberships:
- Cameco Corp., Saskatoon, Canada
- Valéo SA, Paris, France
- Vivendi SA, Paris, France
- Morphosys AG, Munich

EDWIN EICHLER
Member of the Board of Management ThyssenKrupp AG and Chairman of the Board of Management of ThyssenKrupp Steel Europe AG, Duisburg

ThyssenKrupp board memberships:
- ThyssenKrupp Materials International GmbH, Düsseldorf [1)]
- ThyssenKrupp Nirosta GmbH, Krefeld [1)]
- ThyssenKrupp Steel Americas, LLC, Wilmington/Delaware, USA [1)]

External board memberships:
- ANSC-TKS Galvanizing Co., Ltd., Dalian/Liaoning Province, China [1)]
- Heidelberger Druckmaschinen AG, Heidelberg
- Hüttenwerke Krupp Mannesmann GmbH, Duisburg

HELMUT JODL
Works Council (full-time)
SGL CARBON GmbH, Meitingen

SUSANNE KLATTEN
Entrepreneur

External board memberships:
- ALTANA AG, Wesel
- BMW AG, Munich
- UnternehmerTUM GmbH, Munich [1)]

DR.-ING. HUBERT LIENHARD
Chairman of the Board of Management
Voith GmbH, Heidenheim

Voith-Internal board memberships:
- Voith Industrial Services, Stuttgart [2)]
- Voith Hydro Holding GmbH & Co. KG, Heidenheim [2)]
- Voith Paper Holding Verwaltungs GmbH & Co. KG, Heidenheim [2)]

External board memberships:
- EnBW AG, Karlsruhe
- Heraeus Holding GmbH, Hanau

MICHAEL PFEIFFER
IG Metall Labor Union Official Administrative Office, Augsburg

External board memberships:
- Fujitsu Technology Solutions GmbH, Munich

MAREK PLATA
Personnel and Administration Specialist
SGL CARBON Polska S.A., Nowy Sacz, Poland

ANDREW H. SIMON OBE MBA
Consultant and Supervisory Board Member
of various companies

External board memberships:
- BCA Osprey 1 Ltd, London, Great Britain
- Exova Group plc, London, Great Britain
- Icon Infrastructure Management Ltd, Guernsey, Great Britain
- Icon 1A GP Ltd, Guernsey, Great Britain
- Management Consulting Group plc, London, Great Britain
- Travis Perkins plc, Northampton, Great Britain
- Finning International Inc., Vancouver, Canada

STUART SKINNER
Team Leader Production
SGL CARBON Fibers Ltd., Muir of Ord, Great Britain

HEINZ WILL
Works Council (full-time)
SGL CARBON GmbH, Frankfurt

[1)] Chairman of the Supervisory Board
[2)] Chairman of the advisory committee
With memberships outside Germany, the respective country is mentioned

Glossary

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 and non current receivables from long-term construction contracts less trade payables.

CONVERTIBLE BOND
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 COMPLIANCE
Declaration of Compliance 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.

DERIVATIVE FINANCIAL INSTRUMENTS
Forward contracts whose value is derived from another existing (primary) market value. An example of a derivative currency option, in which the premium largely depends on the option price, the maturity of the option and the volatility of this currency.

DISTRIBUTABLE PROFIT CARRIED FORWARD
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 tax. EBIT is an important key performance indicator for assessing the operational profitability of companies.

EBITDA
Earnings before interest, tax, 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.

EQUITY METHOD
Method used in the consolidated financial statements for measuring and accounting for investments in which the Group is not the majority shareholder. 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

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.

GROSS PROFIT
Sales revenue less cost of sales.

HEDGING
Strategy to limit or eleminate 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 the IAS as endorsed by the European Union, 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.

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 group of banks (called a syndicate) who work together to provide funds for a single borrower. The main goal of syndicated lending is to spread the risk of a borrower default across multiple banks.

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 receivables from long-term construction contracts and trade receivables minus trade payables. This figure describes the current assets employed by a company in the short-term without creating a capital cost in the narrow sense. The lower the working capital, the better the liquidity position of a company.

Technical Glossary

CATHODES
Indispensible 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 µm, 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 Business Area 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 five 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

Is 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 m 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.

POLYMERS

The two polymer classes Thermosetting Resins and Thermoplastics are generally both deployable as matrix components of fiber composite materials. Common Thermosetting Resins are epoxy resins (aircraft components) and polyester resins (sports equipment). Phenolic resins are used preferentially for the production of carbon fiber reinforced carbon due to their high carbon yield. Thermoplastics still play a minor role in the fiber composite arena. Their advantage lies in a simple thermal molding of a Thermoplastics/carbon fiber compound.

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

A

AktG
German Stock Corporation Act (Aktiengesetz)

C

Cefic
European Chemical Industry Council
CFRP
Carbon Fiber Reinforced plastic
CSR
Corporate Social Responsibility

D

DAX
German stock index
DRS
German Accounting Standard

E

EHSA
Environment, Health, Safety, Audit Systems
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

M

MDAX
Mid-Cap-DAX

O

OECD
Organisation for Economic Cooperation and Development

R

REACH
Registration, Evaluation, Authorisation and Restriction of Chemicals
ROCE
Return on Capital Employed

S

SAR
Stock Appreciation Rights

V

VorstAG
Act on the Appropriateness of Management Board Remuneration

W

WpHG
German Securities Trading Act

FINANCIAL CALENDAR

MARCH 22, 2012

Annual Report 2011, Year-end press conference and analyst meeting,
Conference call for analysts and investors

MAY 3, 2012

Report on the first quarter 2012,
Conference call for analysts and investors

MAY 10, 2012

Annual general meeting

AUGUST 9, 2012

Interim financial reporting first half 2012,
Conference call for analysts and investors

NOVEMBER 8, 2012

Report on the first nine months 2012,
Conference call for analysts and investors

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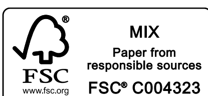

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FIVE-YEAR FINANCIAL SUMMARY

€m	Note	2011
Result of operations		
Sales revenue		1,540.2
thereof outside Germany		*81%*
thereof in Germany		*19%*
EBITDA	1)	231.7
Operating profit (EBIT)	1)	160.4
Profit/loss before tax	2)	83.7
Consolidated net profit/loss for the period	3)	73.2
Return on sales (ROS)	4)	10.4%
Return on capital employed (ROCE)	5) 6)	10.0%
Earnings per share, basic (in €)		1.09
Financial position		
Equity attributable to shareholders of the parent company		1,041.1
Total assets		2,271.3
Net debt		343.3
Equity ratio	7)	45.8%
Gearing ratio	8)	0.33
Other indicators		
Capital expenditure on property, plant and equipment and intangible assets		138.8
Depreciation and amortization		71.3
Working capital		673.9
Free cash flow	9)	–33.1
Number of employees (December 31)		6,447

1) Before reversal of impairment losses and impairment losses of €5.1 million in 2011 and impairment loss expense of €74.0 million in 2009
2) Adjustment in 2007, 2008, 2009 and 2010 by non-controlling interests in partnerships
3) Consolidated net profit/loss (attributable to shareholders of the parent company)
4) Ratio of EBIT (before reversal of impairment losses and impairment losses) to sales revenue
5) Ratio of EBIT (before reversal of impairment losses and impairment losses) to average capital employed
6) Average capital employed (= the sum of goodwill, intangible assets, property, plant and equipment and working capital at beginning of year and end of year)
7) Equity attributable to shareholders of the parent company to total assets
8) Net debt to equity attributable to shareholders of the parent company
9) Net cash provided by operating activities less net cash used in investing activities

2010	2009	2008	2007
1,381.8	1,225.8	1,611.5	1,373.0
83%	*80%*	*84%*	*85%*
17%	*20%*	*16%*	*15%*
194.8	171.6	361.1	307.7
128.4	111.0	306.4	258.4
73.2	–18.4	258.2	192.7
52.2	–60.8	189.3	133.5
9.3%	9.1%	19.0%	18.8%
9.0%	8.2%	25.4%	27.0%
0.80	–0.93	2.95	2.10
864.4	749.4	762.7	603.9
2,113.3	1,891.0	1,791.1	1,473.6
410.5	367.9	332.6	285.2
40.9%	39.6%	42.6%	41.0%
0.47	0.49	0.44	0.47
136.9	153.9	239.5	130.5
66.4	60.6	54.7	49.3
605.6	545.3	578.0	485.1
–38.3	–34.0	–35.9	–0.9
6,285	5,976	6,500	5,862

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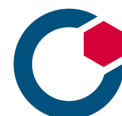

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