

**Broad Base. Best Solutions.**



**SGL GROUP**  
THE CARBON COMPANY

# **Annual Press Conference 2016**

## **Strategic realignment on schedule**

Frankfurt am Main  
March 23, 2016

Dr. Jürgen Köhler (CEO) | Dr. Michael Majerus (CFO)

# Agenda.



1. Review of the fiscal year 2015

2. Financials 2015

3. Outlook 2016

4. Strategy

# Summary of key figures.

## Non-recurring effects heavily weigh on earnings

**Sales** at €1.32 billion close to prior year level

**EBIT before non-recurring effects** improves to €32.6 million

- **CFM** achieves operational turnaround
- **GMS** contributes positively to Group EBIT
- **PP** below prior year EBIT level despite improvement in first three quarters

**Net result** at minus €295 million due to non-recurring effects related to graphite electrodes business (GE) and HITCO

**Excluding GE and HITCO related non-recurring effects** net loss improved to minus €47 million

# Strategic realignment is on track.

## We have a clear strategy



- We have **successfully completed** the cost savings program **SGL2015**, which was introduced in 2013
- We have **improved** our **maturity profile** with the refinancing of the convertible bond due 2016
- We have completed the divestment of **HITCO's** aerostructures business
- We have accelerated the **carve out** of the business unit Performance Products (PP) and the **adaption** of the **business model** for graphite electrodes to commodity markets
- We have developed and initiated **growth initiatives** for the business units Composites – Fibers & Materials (CFM) and Graphite Materials & Systems (GMS) until 2020 – and implementation is on track

**We have initiated and pursued  
the strategic realignment of SGL Group in 2015.**

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4. Mid term strategy

# Carbon Fibers & Materials.

## Positive earnings contribution for the first time



in €million	2015	2014
Sales revenue	327.3	296.4
EBIT before non-recurring charges*	9.3	-22.5
EBIT	8.8	-33.0

- **Sales revenue** increased by 10% (currency adjusted by 4%)
  - Higher sales from automotive and wind customers
  - Partially offset by lower sales from textile acrylic fibers, where pricing is based on acrylonitrile oil price development (no EBIT impact)
- **Recurring EBIT** with turnaround
  - Completion of ramp up and efficiency improvements at our joint venture with BMW Group, SGL ACF
  - Higher volumes and thus better capacity utilization in our carbon fiber facilities

# Graphite Materials & Systems.

## Sales and EBIT below 2014 due to big ticket order



in €million	2015	2014
Sales revenue	453.5	440.4
EBIT before non-recurring charges*	34.1	40.0
EBIT	28.9	38.8

- **Sales revenue** up 3% (currency adjusted down 4%)
  - Main reason for currency adjusted sales decline was non-recurring big ticket order from electronics industry in prior year
  - Partially compensated by higher sales from solar, semiconductor and LED industries and in our process technology business
  - Demand for graphite anode materials for lithium ion battery industry continued at healthy level
- **Recurring EBIT** declined 15%
  - Primarily due to lower capacity utilization from non-recurrence of prior year big ticket order
- **SGL2015 savings** €14.1 million

# Performance Products.

## Impacted by graphite electrodes business



in €million	2015	2014
Sales revenue	533.4	588.2
EBIT before non-recurring charges*	19.4	26.0
EBIT	-132.5	5.6

- **Sales revenue** minus 9% (currency adjusted minus 17%)
  - Impacted by volume and price decline in graphite electrodes
  - Only partly offset by improvements in remaining PP businesses with cathodes, furnace linings and carbon electrodes
- However, **EBIT\*** in the first nine months improved YoY due to savings related to raw materials and SGL2015 – renewed steel market weakness in fourth quarter 2015 dragged full year EBIT down to below prior year level.
- Renewed weakness in steel markets led to **significant non-recurring charges**
  - €73 million restructuring charges of which €63 million relate to recently announced closure of Frankfurt-Griesheim graphite electrode production facility
  - €79 million impairment losses on graphite electrode fixed and other intangible assets
- **SGL2015 savings** €20.2 million



## Improvements overshadowed by non-recurring effects

in €million	2015	2014
Sales revenue	1,322.9	1,335.6
EBIT before non-recurring charges	32.6	2.7
<b>Non-recurring charges</b>	<b>-160.9</b>	<b>-51.2</b>
EBIT	-128.3	-48.5
Results from investments accounted for At-Equity	0.5	-6.4
Net financing result	-54.3	-49.5
Results from continuing operations before income taxes	-182,1	-104,4
<b>Discontinued operations</b>	<b>-96.1</b>	<b>-119.2</b>
Consolidated net result attributable to the shareholders of the parent company	-295.0	-247.0

- **Recurring EBIT** improved, as forecasted
- Turnaround in result from **investments accounted for At-Equity** mainly due to Brembo SGL
- **Savings from cost savings program SGL2015** sum up to €45 million; overall savings since start in 2013 are up to €202 million at year's end
- **Net result** includes loss from discontinued operations totalling €96.1 million relating to HITCO

# Analysis of non-recurring effects.

## Clearly improved net results excluding one-off effects



in €million	2015	2014
EBIT before non-recurring charges	32.6	2.7
<b>Non-recurring charges</b>	<b>-160.9</b>	<b>-51.2</b>
<b>- thereof restructuring (€73 million GE related, e.g. closure Frankfurt Griesheim)</b>	<b>-82.0</b>	<b>-40.6</b>
<b>- thereof impairment (in 2015 related entirely to graphite electrodes)</b>	<b>-78.9</b>	<b>-10.6</b>
Net result continuing activities	-198.9	-127.8
<b>Net result discontinued activities (HITCO)</b>	<b>-96.1</b>	<b>-119.2</b>
<b>- thereof operational losses</b>	<b>-30.6</b>	<b>-36.7</b>
<b>- thereof impairment and disposal losses</b>	<b>-65.5</b>	<b>-82.5</b>
Consolidated net result attributable to the shareholders of the parent company	-295.0	-247.0

- GE related measures (mainly the closure of the production facility in Frankfurt Griesheim, Germany) and the GE fixed and other intangible asset impairment lead to €152 million of **non-recurring charges** in 2015
- Therefore, of the **total net loss** of €295 million in 2015, €248 million alone relate to a business that has been sold, and a business, where we are currently exploring “strategic options”
- In other words, **excluding HITCO and the graphite electrode business**, we would have been able to significantly reduce our net loss to €47 million, bringing us a big step forward to positive net results

# Balance sheet.

## More than sufficient liquidity despite deteriorated ratios



in €million	December 31,2015	December 31,2014
Equity ratio (in %)	15.6	26.2
Total liquidity	250.8	347.5
Net financial debt	534.2	389.9
Gearing (net debt/equity)	1.85	0.69

- **Equity ratio** declined mainly due to the net loss of €295 million
- Higher **net financial debt** reflects mainly the reduced liquidity
- **Liquidity** at end of 2015 sufficient to more than cover expected operational cash outflow in 2016
- €200 million **syndicated loan** available and undrawn
- Thanks to the successful refinancing of the 2009/2016 **convertible bond** in September 2015, no maturities of any of our financial debt instruments until January 2018

# Free cash flow.

## Positive excluding non recurring effects



Continuing operations in € million*	2015	2014
Cash flow from operating activities	-11.5	17.4
Free cash flow	-74.9	121.3

<b>Reported free cash flow</b>	<b>-75 million</b>
Unwinding of USD hedges (related to HITCO)	35 million
Tax settlement	35 million
SGL 2015 cash out	13 million
<b>"Recurring" free cash flow</b>	<b>8 million</b>

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# Business unit outlook 2016.

## Recurring EBIT\* improvements in CFM and GMS



### Composites – Fibers & Materials (CFM):

- Stable sales and strong EBIT (before non-recurring charges) improvement
- Higher demand from automotive industry to be offset by crude oil based pricing of textile acrylic fibers business (no EBIT impact)
- EBIT improvement based on higher volumes and cost savings

### Graphite Materials & Systems (GMS):

- Slight increase in sales and EBIT (before non-recurring charges)
- Sales to grow due to higher demand from solar, semiconductor and LED industry; continued high demand from lithium ion battery industry
- EBIT before non-recurring charges to increase more than proportionately to sales due to anticipated better capacity utilization and cost savings
- ROCE EBITDA should be close to our minimum 15 % target again

\*before non-recurring charges

# Business unit outlook 2016.

## PP with sharp declines



### **Performance Products (PP):**

- Substantial decrease in sales and negative EBIT (before non-recurring charges) contribution from graphite electrodes due to continued pricing pressure
- Cathodes, furnace linings and carbon electrode businesses with continued positive performance
- Overall PP sales with low double digit percentage decline and negative EBIT contribution in mid double digit million € amount

# Full year 2016 of SGL Group.



## Results will be heavily impacted by graphite electrodes

- Full year **Group sales** slightly lower due to substantial decline in GE prices
- **Group recurring EBITDA and EBIT:** substantial decrease solely due to negative EBIT contribution from graphite electrodes
- **Net result** to improve but remaining in negative territory
- **Capex** substantially below prior year level and thus again below the level of depreciation and amortization of approximately €83 million
- **Free cash flow:** expected on prior year level
  - Lower operational result and higher restructuring cash out (closure of graphite electrode production site in Frankfurt-Griesheim announced in February 2016)
  - Compensated by lower cash out for discontinued activities (HITCO)
- **ROCE** to deteriorate in line with EBIT and EBITDA development



# Agenda.



1. Review of the fiscal year 2015

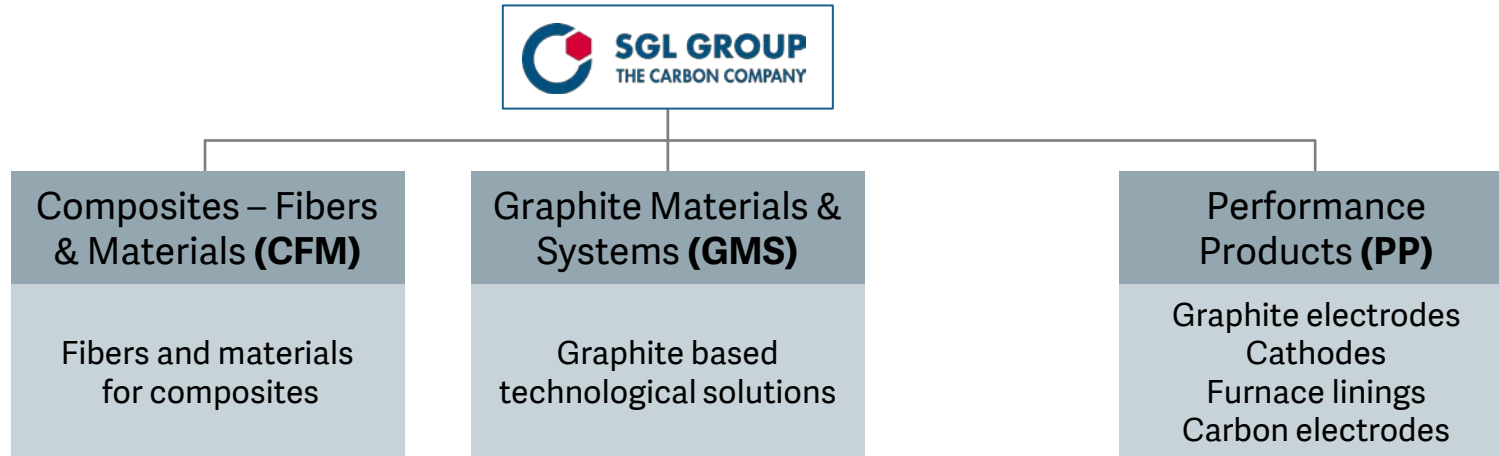
2. Financials 2015

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# Strategic Repositioning.

Foundation for sustainable profitable growth



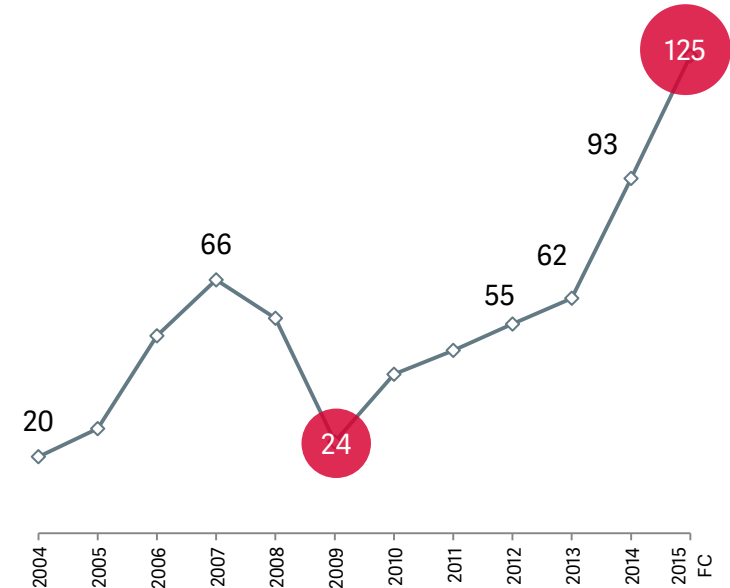
- We want to organically grow our **sales** by more than 50% to above €1.1 billion until 2020 with CFM and GMS
- Simultaneously, **EBITDA** will grow more than proportionately to sales with a **ROCE** of at least 15%
- **Legal separation of PP** is the prerequisite to flexibly exploit all strategic options
- At the same time we are **adjusting** the **graphite electrode business model** to commodity markets

# PP: Steel environment continues to be difficult.

## Recent stabilization but no near term recovery

- **Chinese steel overcapacities** exported overseas substantially reduced **electric arc steel production** in rest of world
- However Chinese exports seem to be **stabilizing at high year end 2015 levels** recently
- EU, USA and other countries have **introduced import duties** against Chinese steel and are exploring further measures
- Chinese government planning to **shut down** 100-150 million tons of **old steel capacity** in next five years

**Chinese steel exports**  
[in million tons]



Source: Worldsteel.org; SGL Group estimates

# PP: Long-term value of the business.

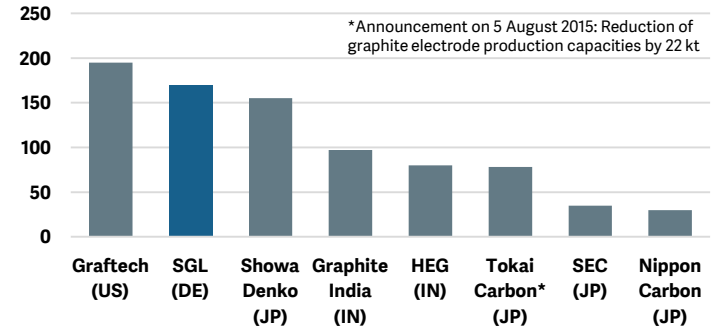
## Preparation for all strategic options

- Graphite electrodes are **essential** for the production of electric steel (steel scrap recycling)
- GE business of SGL Group is a **global market leader** and is the only producer with a manufacturing footprint on the **three major continents**
- Thanks to this leading market position and the adjusted business model, graphite electrode business of SGL Group will **more than proportionately benefit** from the recovery in electric steel markets
- **The increased steel scrap availability** will lead to significant long-term growth in graphite electrodes
- We will complete the legal separation of PP by mid 2016 – the **prerequisite** to flexibly execute on the **best strategic option**

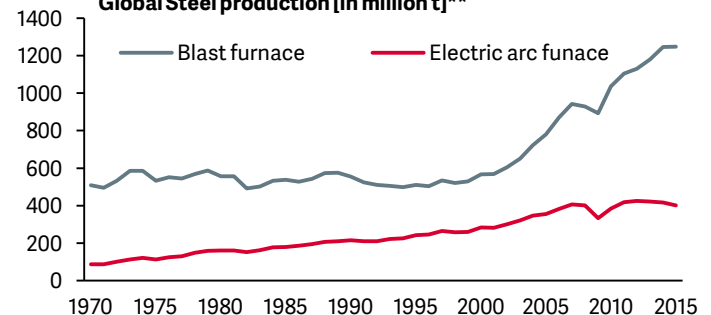


Market Position SGL Group in graphite electrodes\*

[2015 in kt, Status March 2016]



Global Steel production [in million t]\*\*



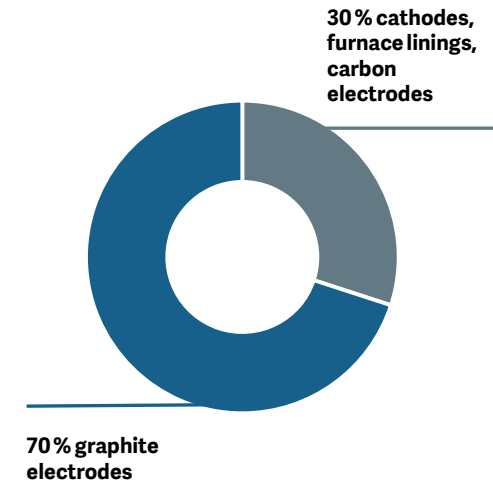
Sources: \* SGL Group estimates; \*\* WSD, IISI, own estimates

# PP: Broad product portfolio.

## Carve out within PP carve out

- Aside from graphite electrodes, PP also produces **cathodes**, **furnace linings** and **carbon electrodes**
  - **Cathodes** are required in aluminum production. Thanks to its low weight, demand for this lightweight metal is continuously growing for energy efficient applications. With its broad product portfolio, SGL Group can equip every aluminum smelter in the world
  - **Furnace linings** are used in blast furnaces for primary steel production and is a solid and profitable business
  - **Carbon electrodes** are used in melting processes of other metallurgical applications (silicon metal, phosphorous). This business also delivers positive returns
- To maximize our options for these profitable businesses, we have **carved** these out into a **legally separate** company within PP

### PP sales split [2015]



# PP: Status of the carve out and the strategic options.

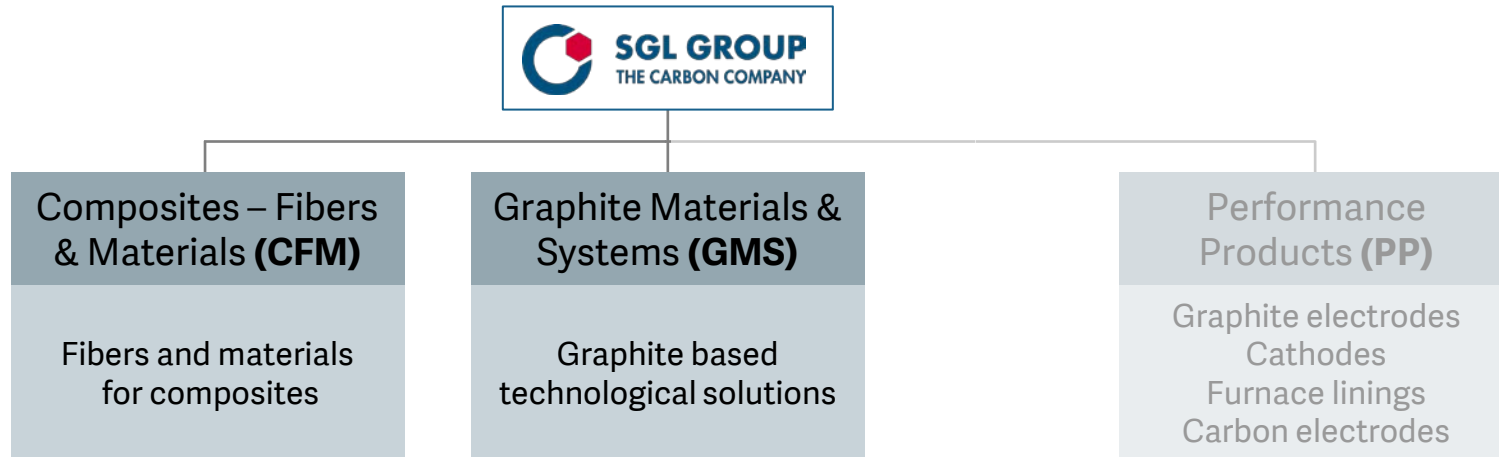


## We are well within our accelerated schedule

- Last autumn we announced that we want to **accelerate the PP carve out** and thus complete it by mid-2016
- Today, we already have the **legal and organizational concepts** for the new structure of PP
- The agreement on the **reconciliation of interests** (“Interessenausgleich”) was settled on March 10, 2016. This is a mandatory requirement for the transfer of employees to the new legal entity
- In the next weeks, approximately **1,900 employees globally** will be transferred into the new PP legal entity
- **The closure of Frankfurt-Griesheim** site and the adaptation of the business model will yield nearly **€30 million savings per annum from 2018** onwards – of which approximately half will already be effective from 2016 on
- We have set up a project group to analyze **potential strategic options**
  - We have mandated two investment banks, one legal advisor and an auditor to support the process
  - First discussions with both strategic and financial interested parties have taken place

# Growth strategy of SGL Group.

## Build on competences of CFM and GMS

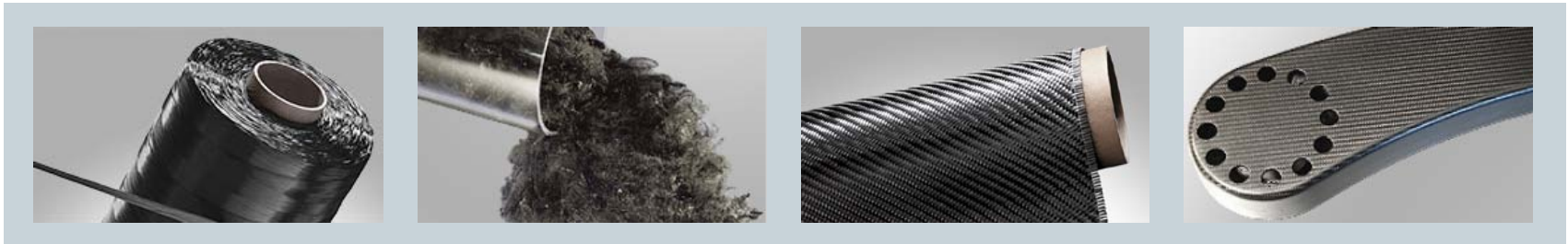


- We want to organically grow our **sales** by more than 50% to above €1.1 billion until 2020 with CFM and GMS.
- Simultaneously, **EBITDA** will grow more than proportionately to sales with a **ROCE** of at least 15%.
- **Legal separation of PP** is the prerequisite to flexibly exploit all strategic options.
- At the same time we are **adjusting** the **graphite electrode business model** to commodity markets.

# CFM: Composite Specialist.

## Solutions for future material mixes

- CFM is an **innovation leader** for composites and possesses comprehensive competence for fibers, materials and applications.
- CFM's materials are stronger and lighter. They save energy where mass is in motion. As a **lightweight specialist**, CFM benefits from the megatrend mobility and CO<sub>2</sub> reduction.
- CFM of SGL Group is the only European company that covers the **entire carbon fiber value chain**. This allows us to control quality and costs.





# CFM: Strong position in the automotive industry.

## Industry wide transfer of existing know how

- Automobile manufacturers have to design **lighter cars**, driven by **global regulations** limiting CO<sub>2</sub> emissions and the resulting trend towards alternative drive trains
  - In Europe, car manufacturers are required to reduce the average CO<sub>2</sub> emissions of their car fleet to below 75g/km until 2025 – this can only be done with lightweight construction
  - The high weight of hydrogen tanks or lithium ion batteries can be offset with lighter materials. This increases the reach of such vehicles
- CFM has an **innovation lead of several years** in lightweight technologies. Our competences, which until now were exclusively dedicated to BMW Group, can now be offered to the entire industry

### Automotive



#### Examples:

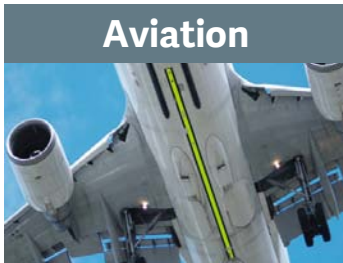
- **Composites in large-scale automotive production:** new BMW 7 series
- **Investment into the Lightweight and Applications Center in Meitingen (Germany),** e.g. for the simulation and production of prototypes and small scale series
- **Strengthen sales team** and initiate new projects with non-German car makers

# CFM: Expansion into other industries.

## Exploit material competence in aviation sector



- CFM will transfer its lightweight competence from the automotive industry **increasingly into the aviation sector** with a new generation of industrial carbon fibers
  - Our high tow carbon fibers provide better performance at the same high quality standard – at lower production costs
  - The surface of our carbon fibers bonds exceptionally well with other composite materials. They are easily employable where individual components need to be reinforced
- These materials show particular potential for **secondary structures** such as floor panels, skins, and landing gear doors



### Examples:

- **Dedicated development and marketing activities** for the aviation industry, particularly for commercial aircrafts
- **Serial delivery** to Airbus for its **A350** model

# GMS: Development partner for our customers.

## Graphite based solutions



- GMS is the **development partner – “enabler”** – of our customers for graphite based advanced technological solutions
- Offering products and solutions to **more than 35 industries**, the business unit is grounded on a broad base. GMS has leading market positions in many areas, **providing stability**
- GMS benefits from the megatrend energy supply and digitalization. GMS will continue to **widen its technological portfolio** and capture new regions



# GMS: Energy supply as growth driver.

## Reinforcement of leading position

- Our graphite solutions are used in energy applications. We participate in the **rising usage of new battery generations**
  - Our graphite anode materials are employed in lithium-ion-batteries, among others for electric cars. The market for alternative drive trains will grow strongly over the next years
- GMS is a globally leading development partner for **the solar and photovoltaic industry**
  - Our isostatic graphite is required in the value chain of the photovoltaic industry. Dynamic growth continues to be expected for this industry – approximately 12% for 2016\*



### Examples:

- Development of **next generation synthetic graphite anode materials** - higher storage capacity to increase range of electric cars
- Exploiting the **expanded isostatic graphite production center** in Bonn completed in 2014

# GMS: Digitization and graphite.

## LED and semiconductor industry drive demand

- GMS specializes in **surface coating technologies**. These are required in equipment for manufacturing polysilicon, LEDs, and semiconductors
  - Polysilicon demand for the semiconductor industry is expected to grow 11% per annum until 2017\*
  - Industry service provider „LED Insight“ expects annual growth of 10% for the LED industry due to the strong demand for lighting applications
- Due to increasing requirements regarding size, quality, and supplier reliability, GMS is a **dependable supplier** of key components for new generation polysilicon production equipment



### Examples:

- **Strengthening regional and application competences**
- Expanding **coating technologies and capacities**
- **Close cooperation** with our customers in the further development of purified surface coatings for the LED and the semiconductor industries

# Growth strategy of SGL Group is on track.

## 2016: Focusing on implementation of strategy



- With the **PP carve** out we are creating the prerequisite for strategic options and a sustainable future for SGL Group and the business unit
- The **carve out of the profitable business** with cathodes, furnace linings, and carbon electrodes in a separate legal entity within PP creates **additional options**
- With our **focus on CFM and GMS**, our portfolio is better balanced between markets and industries, thus reducing the volatility in our business
- We command the technologies and innovations to benefit from the **global megatrends mobility, energy, and digitalization**
- SGL Group fulfills all requirements to achieve the targets for 2020: committed **employees**, strong **market positions** and leading **technologies**

Thank you for your  
attention!

# Financial calendar 2016.



March 23, 2016	Year-end press conference, publication of annual financial statement
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May 12, 2016	Report on the first quarter 2016
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May 18, 2016	Annual General Meeting in Wiesbaden
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August 11, 2016	Report on the first half year 2016
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November 10, 2016	Report on the first nine months 2016
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**Important note:**

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

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