SGL Carbon Fibers Limited

SC

Company Number 78081

Report and Financial Statements

31 December 2007

Registered No 78081

Directors

L Hill
D J Pichler
J D Pritchard
J Verdenhalven
B Kottmann

Secretary

Ledingham Chalmers

Auditors

Ernst & Young LLP
Barony House
Stoneyfield Business Park
Stoneyfield
Inverness
IV2 7PA

Bankers

Bank of Scotland
High Street
Beauly
Inverness shire
IV4 7BS

Solicitors

Ledingham Chalmers
Johnstone House
52 54 Rose Street
Aberdeen
AB10 1HA

Hammonds
Trinity Court
16 John Dalton Street
Manchester
M60 8HS

Registered office

Muir of Ord Industrial Estate
Ross Shire

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends

The profit for the year amounted to £3,750,325 The directors do not recommend the payment of any dividends

Principal activities and review of the business

The principal activity of the company during the year was the manufacture and sale of oxidized PAN fibre and carbon fibre The company's oxidized PAN fibre products are used as a substrate by manufacturers of carbon aircraft brakes and in a variety of other industrial non woven and other textile applications The company's carbon fibre products are used in a variety of industrial applications mostly in chopped form as reinforcement in, or to add electrical conductivity to, moulding compounds for components of electronic devices The company changed its name from SGL Technic Limited to SGL Carbon Fibers Limited on 12th December 2007

Performance continued to improve in 2007 with continued strong demand for carbon fibre Turnover fell by 4% to £31 4m compared to £32 7m in 2006 Operating profit increased by 187% to £4 24m from £1 47m in 2006 Profit Before Tax increased to £3 75m compared to £0 1m in 2006

Future developments

The outlook for 2008 is for continued growth and improved results A number of major capital projects are in progress and these will secure both additional capacity and a secure supply of raw material This will ensure that the company is able to maintain market share in a fast growing market

Research and development

The company does research and development in order to improve its operations and product portfolio for the future The directors take an active role in selecting, directing and monitoring progress on all research and development projects All research and development costs are expenses in the current period

Directors' statement as to disclosure of information to auditors

The directors who are members of the board at the time of approving the directors' report are listed on page 1 So far as each of the directors is aware at the time the report is approved, each of the directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Principal risks and uncertainties

The principal risks and uncertainties facing the group are broadly grouped as follows

- Competitive Risks – The Group faces competition from other companies in all our market sectors The Group policy is to maintain our high levels of customer service and to build upon strong supplier relationships
- Financial Risks – These risks can be sub divided as follows
    - Liquidity Risk – The Group policy is to ensure that sufficient liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably Liquidity is achieved by overdraft and other long term bank facilities
    - Interest rate Risk – The Group finances its operations through bank borrowings at floating rates based on both Base Rate and LIBOR The Groups policy is to borrow at the lowest rates for periods that do not carry excessive time premiums

Directors' report

- Credit Risk – The Group policy is to minimise exposure to losses of defaulting customers Credit terms are only granted to customers who satisfy credit worthiness procedures and in certain market sectors where appropriate credit insurance can be obtained Credit limits are reviewed by finance department staff on a regular basis in conjunction the debt ageing and collection history

- Currency Risk – The group policy is to reduce currency exposure for particular projects by using the same currency for purchasing and selling the materials Where this is not possible and values are significant, forward contracts are agreed with our bank

Charitable donations

During the year the company made charitable donations of £ 27,051 (2007 £7,055), principally to local branches of national charities

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all terms and conditions have been complied with

At 31 December 2007, the company had an average of 44 days purchases outstanding in trade creditors

Auditors

A resolution to re appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the board

Director

3 September 2008

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of SGL Carbon Fibers Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 20 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report
to the members of SGL Technic Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Registered Auditor
Inverness

3/9/2008

Profit and loss account

for the year ended 31 December 2007

	Notes	*2007* *£000*	*2006* *£000*
Turnover	2	31,406	32,697
Cost of sales		22,491	26,231
Gross profit		8,915	6,466
Distribution costs		652	710
Administrative expenses		4,012	4,289
Operating profit/(loss)	3	4,251	1,467
Bank interest receivable	6	53	25
Interest payable and similar charges	7	(554)	(1,386)
		(501)	(1,361)
Profit on ordinary activities before taxation		3,750	106
Tax on loss on ordinary activities	8	0	(175)
Profit for the financial year transferred from reserves		3,750	281

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £3,750,325 attributable to the shareholder for the year ended 31 December 2007 (2006 – £280,928)

Balance sheet
at 31 December 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Tangible assets	9	29,749	19,377
Current assets			
Stocks	10	7,680	5,785
Debtors	11	10,399	7,541
Cash at bank		1,710	1,826
		19,789	15,152
Creditors. amounts falling due within one year	12	40,078	28,686
Net current liabilities		(20,289)	(13,534)
Total assets less current liabilities		9,460	5,843
Accruals and deferred income			
Deferred government grants	13	400	533
		9,060	5,310
Capital and reserves			
Called up share capital	17	620	620
Share premium account	18	20	20
Revaluation reserve	18		
Other reserves	18	266	266
Profit and loss account	18	8,154	4,404
Equity shareholder's funds	18	9,060	5,310

Director

3 September 2008

Notes to the financial statements
at 31 December 2007

1 Accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain fixed assets The financial statements are prepared in accordance with applicable accounting standards

Going concern

During the year ended 31 December 2007 the company made a profit before tax of £3,744,172, and at the balance sheet date had net current liabilities of £20,288,760, including amounts owed to its intermediate parent company, SGL Technologies GmbH, of £12,400,000 Financial projections indicate that the company will become increasingly profitable in future but will require short term support in undertaking capital expenditure plans Therefore, the company relies on support from its intermediate parent company, SGL Technologies GmbH, and its ultimate parent company, SGL Carbon AG, in order to meet its liabilities as they fall due

SGL Carbon AG has confirmed to the directors that this support will continue to be provided for the foreseeable future and on this basis, and all other available information, they consider that it is appropriate to prepare the financial statements on the going concern basis The financial statements do not contain any adjustments that would result if the financial support of SGL Carbon AG were withdrawn

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements

Related parties transactions
The company is a wholly owned subsidiary of SGL Carbon AG, the consolidated accounts of which are publicly available Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the SGL Carbon AG group

Research and development
Expenditure on research and development is written off against profits in the year in which it is incurred unless the expenditure relates to a proven product for which a commercial market exists in which case the costs are capitalised

Fixed assets
All fixed assets are initially recorded at cost

Depreciation
Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows

Freehold land & buildings	25 years
Plant & machinery	10 years
Fixtures & fittings	4 to 5 years
Motor vehicles	5 years

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve

Notes to the financial statements
at 31 December 2007

1. Accounting policies (continued)

Government grants
Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate

Stocks
Stocks are stated at the lower of cost and net realisable value Cost includes all costs incurred in bringing each product to its present location and condition, as follows

Raw materials, consumables and goods for resale	purchase cost on a first in, first out basis
Work in progress and finished goods	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Operating lease agreements
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Notes to the financial statements
at 31 December 2007

1. Accounting policies (continued)
Pension costs

The company makes discretionary contributions to individual employee personal pension plans The amount charged against profits represents the contributions payable to those schemes in respect of the accounting period

2. Turnover
Turnover represents the amounts derived from the provision of goods and services to customers, less value added tax

An analysis of turnover by geographical market is given below

	2007 £000	2006 £000
Europe	20,145	21,989
United States of America	5,403	3,368
Other	5,858	7,340
	31,406	32,697

3. Operating profit/(loss)
This is stated after charging/(crediting)

		2007 £000	2006 £000
Auditors' remuneration	audit services	56	35
	non audit services		
Depreciation of owned fixed assets		2,279	2,389
Operating lease rentals	plant and machinery	135	110
Net profit on foreign currency translation		(2,246)	(322)
Government grants released re fixed assets		(127)	(133)

Notes to the financial statements
at 31 December 2007

4. Staff costs

	2007	*2006*
	£000	*£000*
Wages and salaries	6,396	5,298
Social security costs	625	576
Other pension costs	144	110
	7,165	5,984

The monthly average number of employees during the year was as follows

	2007	*2006*
	No	*No*
Production staff	167	128
Administrative staff	83	72
	250	200

5. Directors' emoluments

	2007	*2006*
	£000	*£000*
Emoluments	394	377
Value of company pension contributions to money purchase schemes	15	14

	2007	*2006*
	No	*No*
Members of money purchase pension schemes	2	2

The amounts in respect of the highest paid director are as follows

	2007	*2006*
	£000	*£000*
Emoluments	204	193

The emoluments of the highest paid director were paid by a fellow subsidiary undertaking and recharged to the company

6 Interest receivable

	2007	*2006*
	£000	*£000*
Bank interest receivable	53	25

Notes to the financial statements
at 31 December 2007

7. Interest payable and similar charges

	2007 £000	2006 £000
Bank interest payable	28	11
Interest on loans from group companies	517	1,393
Hedging costs	9	(18)
	554	1,386

8. Taxation on ordinary activities

(a) Tax on loss on ordinary activities

The tax credit is made up as follows

	2007 £000	2006 £000
Current tax		
UK corporation tax		(150)
Adjustments in respect of previous period		(25)
Total current tax (note 8(b))		(175)

(b) Factors affecting current tax credit

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2006 30%)

The differences are reconciled below

	2007 £000	2006 £000
Profit/(Loss) on ordinary activities before tax	3,750	106
Loss on ordinary activities by rate of tax	1,125	32
Expenses not deductible for tax purposes	(22)	13
Group relief	60	
Capital allowances in advance of depreciation	(1,616)	(682)
Adjustments in respect of previous period		(25)
Tax losses	437	471
Other short term timing differences	16	16
Total current tax (note 8(a))		(175)

(c) Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows

	2007 £000	2006 £000
Capital allowances in advance of depreciation	(805)	189
Tax losses available	7,750	8,338
Short term timing differences	30	16
	6,975	8,543

Notes to the financial statements
at 31 December 2007

9 Tangible fixed assets

	Freehold Land & Buildings £000	*Plant, Machinery & Vehicles £000*	*Fixtures & Fittings £000*	*Total £000*
Cost				
At 1 January 2007	12,157	24,976	1,233	38,366
Additions	88	11,596	104	11,788
At 31 December 2007	12,245	36,572	1,337	50,154
Depreciation				
At 1 January 2007	2,499	15,297	1,193	18,989
Provided during the year	469	928	19	1,416
At 31 December 2007	2,968	16,225	1,212	20,405
Net book value				
At 31 December 2007	9,277	20,347	125	29,749
At 1 January 2007	9,658	9,679	40	19,377

Certain items of plant and machinery were revalued at 2 March 1995, using the net current replacement cost method of valuation This revaluation was carried out by the directors

On the historical cost basis, certain fixed assets would have been included as follows

	£000
Cost	
At 1 January 2007 and 31 December 2007	2,899
Cumulative depreciation based on cost	
At 1 January 2007 and 31 December 2007	2,899

Notes to the financial statements
at 31 December 2007

10. Stocks

	2007 £000	2006 £000
Raw materials	4,983	4,484
Finished goods	2,697	1,301
	7,680	5,785

11. Debtors

	2007 £000	2006 £000
Trade debtors	4,960	4,670
Amounts owed by group undertakings	1,575	1,456
Other debtors	2,061	979
Prepayments and accrued income	1,804	436
	10,400	7,541

12. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Bank overdraft		–
Trade creditors	5,383	4,300
Amounts owed to group undertakings	33,582	22,859
Other taxation and social security	251	180
Accruals and deferred income	862	1,347
	40,078	28,686

13. Accruals and deferred income

	Deferred government grants	
	2007 £000	2006 £000
Balance as at 1 January	533	666
Released during the year	(133)	(133)
Balance as at 31 December	400	533

Notes to the financial statements
at 31 December 2007

14. Commitments under operating leases
At 31 December 2007 the company had annual commitments under non cancellable operating leases as set out below

		2007		*2006*
	Land and buildings £000	*Other £000*	*Land and buildings £000*	*Other £000*
Operating leases which expire				
Within one year	86	32	71	66
In two to five years		99	94	36
	86	131	165	102

15. Contingent liability
The company is party to a guarantee, supported by fixed and floating charges over the assets of the company, to Deutsche Bank Luxembourg in respect of borrowings of the SGL Carbon AG group of companies At 31 December 2007, the outstanding borrowings of the group were Euros 359 6 million

16. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8

17. Share capital

		Authorised
	2007 £000	*2006 £000*
Ordinary shares of £1 each	1,120	1,120

		Allotted, called up and fully paid		
		2007		*2006*
	No	*£000*	*No*	*£000*
Ordinary shares of £1 each	620,000	620	620,000	620

Notes to the financial statements
at 31 December 2007

18. Reconciliation of shareholder's funds and movement on reserves

	Share capital £000	*Share premium account £000*	*Revaluation reserve £000*	*Other reserves £000*	*Profit and loss account £000*	*Total share holders' funds £000*
At 1 January 2006	620	20		266	(34,677)	(33,771)
Profit for the year	–	–	–	–	281	281
Other movements						
transfer to/from						
revaluation reserve	–	–		–		–
Group debt forgiven					38,800	38,800
At 31 December 2006	620	20		266	4,404	5,310
Profit for the year						
Other movements						
transfer to/from						
revaluation reserve					3,750	3,750
At 31 December 2007	620	20		266	8,154	9,060

19. Capital commitments
Amounts contracted for but not provided in the financial statements amounted to £2,094,234 (2006 £420,918)

20 Ultimate parent company
The company is a subsidiary undertaking of SGL Carbon AG, incorporated in Germany

The largest group in which the results of the company are consolidated is that headed by SGL Carbon AG The consolidated accounts are available to the public and may be obtained from SGL Carbon Group, Rheingaustrasse 182, 65203 Wiesbaden, Germany