

# SGL Carbon Fibers Limited

## Report and Financial Statements

31 December 2012

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COMPANIES HOUSE

## SGL Carbon Fibers Limited

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### **Directors**

C W Hauswirth  
J Koehler  
J Park  
D Reuscher

### **Secretary**

Ledingham Chalmers LLP

### **Auditors**

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

### **Bankers**

HSBC  
PO Box 68  
130 New Street  
Birmingham B2 4JU

### **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  
Great North Road  
Muir of Ord  
Ross-Shire

Registered No. SC078081

## **Directors' report**

The directors present their report and financial statements for the year ended 31 December 2012.

### **Results and dividends**

The loss for the year after taxation amounted to £4,699,275 (2011 – profit of £183,912). The directors do not recommend a final dividend (2011 – £nil).

### **Principal activity 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 primarily in two market segments. Chopped Carbon Fibre is supplied to the Industrial Market for use as reinforcement in, or to add electrical conductivity to, moulding compounds for components of electronic devices. Spooled Carbon Fibre is supplied to the Wind Energy Market as the raw material to produce the composites needed for wind turbines.

The operational contribution to the year's result, before financing and exchange costs, worsened significantly, as turnover decreased by 29% as a result of the ongoing global recession and major project delays in the aerospace and wind energy industries.

### **Future developments**

In the longer term, the market outlook for Carbon Fibre remains one of considerable growth. The outlook for the shorter term, however, is for difficult trading conditions with pressure on sales prices due to over capacity in the Carbon Fibre market.

### **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.

## **Directors' report (continued)**

### **Principal risks and uncertainties (continued)**

#### **Financial risks (continued)**

##### ***Interest rate risk***

The group finances its operations through bank borrowings at floating rates based on both Base Rate and LIBOR. The group's policy is to borrow at the lowest rates for periods that do not carry excessive time premiums.

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.

#### **Directors**

The directors who served the company during the year were as follows:

C W Hauswirth  
J Koehler  
J Park  
D Reuscher

#### **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 expensed in the current year.

#### **Political and charitable donations**

During the year the company made charitable donations of £596 (2011 – £2,223).

#### **Policy and practice on payment of creditors**

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 2012, the company had an average of 58 days purchases outstanding in trade creditors (2011 – 85 days).

#### **Disclosure of information to the auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Directors' report (continued)

### Auditors

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

On behalf of the Board



J Koehler  
Director

18 April 2013



C W Hauswirth  
Director

18 April 2013

## Statement of directors' responsibilities

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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 financial statements of SGL Carbon Fibers Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

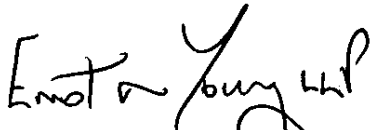
## Independent auditors' report

to the members of SGL Carbon Fibers Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Peter Mearns (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

Inverness

Date: 22/4/2013

## Profit and loss account

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
<b>Turnover</b>	2	41,468	58,281
Cost of sales		40,738	52,597
<b>Gross profit</b>		730	5,684
Distribution costs		755	1,082
Administrative expenses		5,475	6,013
<b>Operating loss</b>	3	(5,500)	(1,411)
Interest receivable and similar income	6	1,652	1,878
Interest payable and similar charges	7	(851)	(283)
<b>(Loss)/profit on ordinary activities before taxation</b>		(4,699)	184
Tax	8	-	-
<b>(Loss)/profit for the financial year</b>	17	(4,699)	184

All amounts relate to continuing activities.

## Statement of total recognised gains and losses

for the year ended 31 December 2012

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £4,699,275 in the year ended 31 December 2012 (2011 – profit of £183,912).

## Balance sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
<b>Fixed assets</b>			
Tangible assets	9	27,995	29,221
<b>Current assets</b>			
Stocks	10	30,188	20,575
Debtors	11	4,324	7,373
Cash at bank		42	33
		34,554	27,981
<b>Creditors: amounts falling due within one year</b>	12	38,581	28,411
<b>Net current liabilities</b>		(4,027)	(430)
<b>Total assets less current liabilities</b>		23,968	28,791
<b>Creditors: amounts falling due after one year</b>	13	118	227
<b>Accruals and deferred income</b>			
Deferred government grants	14	1,093	1,155
<b>Net assets</b>		22,757	27,409
<b>Capital and reserves</b>			
Called up share capital	16	620	620
Share premium account	17	20	20
Other reserves	17	316	269
Profit and loss account	17	21,801	26,500
<b>Shareholder's funds</b>	17	22,757	27,409

The financial statements of SGL Carbon Fibers Limited for the year ended 31 December 2012 were approved and authorised for issue on behalf of the board of directors by:



J Koehler  
Director

18 April 2013



C W Hauswirth  
Director

18 April 2013

## Notes to the financial statements

at 31 December 2012

### 1. Accounting policies

#### *Basis of preparation*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### *Going concern*

During the year ended 31 December 2012 the company made a loss of £4,699,275 and at the balance sheet date had net current liabilities of £4,027,758, including amounts owed to group companies of £30,676,308. 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 undertaking, SGL Technologies GmbH, and its ultimate parent undertaking, SGL Carbon SE, in order to meet its liabilities as they fall due.

SGL Carbon SE 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 SE were withdrawn.

#### *Statement of cash flows*

The directors have taken advantage of the exemption in FRS 1 (revised) from including a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its parent publishes group financial statements.

#### *Tangible fixed assets*

All fixed assets are initially recorded at cost.

As permitted by the transitional provisions of FRS 15 'Tangible Fixed Assets', the company has elected not to adopt a policy of revaluation of tangible fixed assets. The company will retain the book value of certain plant and machinery, previously revalued at 2 March 1995 and will not update that valuation.

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 and buildings	–	5 to 33 years
Plant and machinery	–	5 to 33 years
Fixtures and fittings	–	3 to 10 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 2012

### 1. Accounting policies (continued)

#### *Impairment of assets and impairment test*

The company assesses at each balance sheet date whether there are any indications that its tangible assets are impaired. If such an indication is identified, the recoverable amount is estimated in order to quantify the amount of the impairment loss. Impairment losses are recognised when the recoverable amount of the asset is lower than its carrying amount. 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 at first. If this amount is higher than the carrying amount, the asset's value in use will not be calculated. These values are determined using measurement methods based on discounted cash flows which are based on the company's five year plans. 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 attached to the asset or the company.

#### *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.

#### *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.

#### *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.

#### *Deferred taxation*

Deferred taxation 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 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, or 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.

## Notes to the financial statements

at 31 December 2012

### 1. Accounting policies (continued)

#### *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.

#### *Leasing and hire purchase commitments*

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the income and expenditure account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

#### *Pensions*

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.

#### *Share-based payments*

The company issues equity settled share based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. This is measured by the full share price of the parent undertaking, SGL Carbon SE, on grant date. The fair value of each award is recognised as an expense over the vesting period on a straight line basis.

#### *Derivatives*

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

### 2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2012 £000	2011 £000
Europe	23,811	34,339
United States of America	14,084	17,332
Other	3,573	6,610
	<u>41,468</u>	<u>58,281</u>

## Notes to the financial statements

at 31 December 2012

### 3. Operating profit

This is stated after charging/(crediting):

	2012 £000	2011 £000
Auditors' remuneration – audit services	61	86
– non-audit services	2	22
Depreciation of owned fixed assets	2,480	1,240
Net gain on foreign currency translation	(1,509)	(1,878)
Government grants released re fixed assets	(63)	(63)
Operating lease rentals – plant and machinery	624	416

### 4. Directors' remuneration

	2012 £000	2011 £000
Remuneration	249	272
Value of company pension contributions to money purchase schemes	7	7
	No.	No.
Members of money purchase pension schemes	1	1

The highest paid director received remuneration of £156,100 (2011 – £140,160).

Contributions amounting to £7,109 (2011 - £nil) were paid to a money purchase pension scheme in respect of the highest paid director.

## Notes to the financial statements

at 31 December 2012

### 5. Staff costs

	2012	2011
	£000	£000
Wages and salaries	7,482	7,752
Social security costs	766	786
Other pension costs	282	262
Redundancy costs	200	—
	<u>8,730</u>	<u>8,800</u>

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

	No.	No.
Administrative staff	63	64
Production staff	185	190
	<u>248</u>	<u>254</u>

### 6. Interest receivable and similar income

	2012	2011
	£000	£000
Bank interest receivable	—	—
Exchange gains	1,652	1,878
	<u>1,652</u>	<u>1,878</u>

### 7. Interest payable and similar charges

	2012	2011
	£000	£000
Bank interest payable	—	—
Interest on loans from group companies	834	327
Finance Lease interest	17	19
Interest capitalised on investment projects	—	(63)
	<u>851</u>	<u>283</u>

## Notes to the financial statements

at 31 December 2012

### 8. Tax

(a) Tax on (loss)/profit on ordinary activities

The tax charge is made up as follows:

	2012 £000	2011 £000
<b>Current tax:</b>		
UK corporation tax on the (loss)/profit for the year	-	-
Adjustments in respect of previous years	-	-
Total current tax (note 9(b))	-	-
Tax on (loss)/profit on ordinary activities	-	-

(b) Factors affecting the current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%). The differences are explained below:

	2012 £000	2011 £000
(Loss)/profit on ordinary activities before tax	(4,699)	184
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 – 26.5%)	(1,151)	49
<b>Effects of:</b>		
Expenses not deductible for tax purposes	145	-
Non taxable income	-	(63)
Group relief	-	116
Capital allowances in advance of depreciation	513	(103)
Tax losses	443	-
Other short term timing differences	50	1
Current tax for the year (note 9(a))	-	-

(c) Deferred tax

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

	2012 £000	2011 £000
Capital allowances in advance of depreciation	6,621	6,681
Tax losses available	10,968	11,470
Short term timing differences	54	8
	17,643	18,159

## Notes to the financial statements

at 31 December 2012

### 9. Tangible fixed assets

	<i>Freehold land and buildings £000</i>	<i>Plant machinery and vehicles £000</i>	<i>Fixtures and fittings £000</i>	<i>Total £000</i>
Cost:				
At 1 January 2012	14,245	77,648	1,026	92,919
Additions	61	1,305	67	1,433
Transfer from group company	-	-	-	-
Disposals	(4)	(1,080)	(122)	(1,206)
At 31 December 2012	14,302	77,873	971	93,146
Depreciation:				
At 1 January 2012	4,961	58,050	687	63,698
Provided during the year	559	1,842	141	2,542
Transfer from group company	-	-	-	-
Released on disposal	(3)	(967)	(119)	(1,089)
At 31 December 2012	5,517	58,925	709	65,151
Net book value:				
At 31 December 2012	8,785	18,948	262	27,995
At 1 January 2012	9,284	19,598	339	29,221

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:

	<i>£000</i>
Cost:	
At 1 January 2012 and 31 December 2012	2,899
Cumulative depreciation based on cost:	
At 1 January 2012 and 31 December 2012	2,899

### 10. Stocks

	<i>2012 £000</i>	<i>2011 £000</i>
Raw materials	14,548	11,308
Finished goods	15,640	9,267
	30,188	20,575

## Notes to the financial statements

at 31 December 2012

### 11. Debtors

	2012	2011
	£000	£000
Trade debtors	2,383	3,545
Amounts owed by group undertakings	1,203	2,626
Other debtors	513	1,015
Prepayments and accrued income	225	187
	<u>4,324</u>	<u>7,373</u>

### 12. Creditors: amounts falling due within one year

	2012	2011
	£000	£000
Bank overdraft	-	-
Trade creditors	6,477	12,285
Amounts owed to group undertakings	30,676	14,443
Other taxation and social security costs	345	316
Obligations under finance leases and hire purchase contracts (see note 15)	109	103
Accruals and deferred income	974	1,264
	<u>38,581</u>	<u>28,411</u>

### 13. Creditors: amounts falling due after one year

	2012	2011
	£000	£000
Obligations under finance leases and hire purchase contracts (see note 15)	<u>118</u>	<u>227</u>

### 14. Accruals and deferred income

	<i>Deferred government grants</i>	
	2012	2011
	£000	£000
At 1 January	1,155	1,218
Additions during the year	-	-
Released during the year	(62)	(63)
At 31 December	<u>1,093</u>	<u>1,155</u>

## Notes to the financial statements

at 31 December 2012

### 15. Obligations under leases and hire purchase contracts

	2012	2011
<i>Amounts payable:</i>	<i>£000</i>	<i>£000</i>
Within one year (see note 12)	109	103
In two to five years (see note 13)	118	227
	<u>227</u>	<u>330</u>

### 16. Issued share capital

	No.	2012 £000	No.	2011 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	620,000	<u>620</u>	620,000	<u>620</u>

### 17. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital</i> <i>£000</i>	<i>Share premium account</i> <i>£000</i>	<i>Other reserves</i> <i>£000</i>	<i>Profit and loss account</i> <i>£000</i>	<i>Total shareholders' funds</i> <i>£000</i>
At 1 January 2011	620	20	238	26,316	27,194
Profit for the year	-	-	-	184	184
Share-based payments	-	-	31	-	31
At 1 January 2012	620	20	269	26,500	27,409
Loss for the year	-	-	-	(4,699)	(4,699)
Share-based payments	-	-	47	-	47
At 31 December 2012	<u>620</u>	<u>20</u>	<u>316</u>	<u>21,801</u>	<u>22,757</u>

### 18. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £775,000 (2011 – £1,279,000).

### 19. Share-based payments

#### *Matching shares plan*

Management Group I to Management Group III employees may elect to buy SGL Carbon SE shares from their Annual Bonus Plan and hold them for purposes of the Matching Shares Plan. Employees that have held such shares for two years are eligible to receive matching shares from SGL Carbon SE without cash payment. The exercise price of the options is equal to the estimated market price of the shares on the date of grant.

## Notes to the financial statements

at 31 December 2012

### 19. Share-based payments (continued)

#### *SAR plan 2005*

Under the SAR Plan 2005, SGL Carbon SE grants stock appreciation rights (SARs) to its Management Group I to Management Group III employees. These employees will be eligible to receive the amount of stock appreciation from the current share price on grant date to the exercise price, which is the current share price on execution date. This stock appreciation is settled by shares. The vesting period is two years and the term of the SARs is ten years.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2012 is £46,715.

### 20. Derivative financial instruments

The company enters into forward foreign exchange contracts to hedge the cash flow risk relating to the value of forecast sales which are denominated in foreign currencies. The risk hedged relates to the changes in foreign exchange rate of the forecast sales value. The fair value of these hedges as at 31 December 2012 is a net liability of £560,856 (2011 – net asset of £652,523).

### 21. Other financial commitments

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below:

	2012		2011	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	211	34	156	109
In two to five years	87	17	86	34
	<u>298</u>	<u>51</u>	<u>242</u>	<u>143</u>

### 22. 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 certain borrowings of the SGL Carbon SE group of companies. At 31 December 2012, the outstanding borrowings of the group were €775.8 million (2011 – €556.6 million).

The company has received notification from the Health & Safety Executive (HSE) that it intends to bring a prosecution in relation to a workplace accident which occurred in February 2011. No date has yet been set for the hearing and at this stage it is not possible to quantify the value of any fine which may be imposed hence no provision has been made in these financial statements.

### 23. Related party transactions

The company is a wholly owned subsidiary of SGL Carbon SE, the group financial statements 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 SE Group.

## **Notes to the financial statements**

**at 31 December 2012**

### **24. Ultimate parent undertaking and controlling party**

The company is a subsidiary undertaking of SGL Carbon GmbH, incorporated in Germany.

The largest group in which the results of the company are consolidated is that headed by SGL Carbon SE. The group financial statements are available to the public and may be obtained from SGL Group, Soehnleinstrasse 8, 65201 Wiesbaden, Germany.