SC
Registered No. 78081

SGL Carbon Fibers Limited

Report and Financial Statements

31 December 2008

Registered No: 78081

Directors

J K Becker	(appointed 11 November 2008)
C W Hauswirth	(appointed 31 December 2008)
J Koehler	(appointed 26 January 2009)
J Verdenhalven	
L Hill	
D J Pichler	
B Kottmann	(resigned 11 November 2008)
J D Pritchard	(resigned 31 December 2008)

Secretary

Ledingham Chalmers LLP

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 2008.

Results and dividends

The net loss for the year amounted to £1,629,142 (2007: £3,750,325 profit). The directors do not recommend the payment of any dividends (2007: £nil).

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 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 Caron Fibre is supplied to the Wind Energy Market as the raw material to produce the composites needed for wind turbines.

The operational contribution to profit, before financing and exchange costs, improved by 276%, as the operation increased turnover by 4.5% whilst maintaining a flat cost position. Net income decreased 143% due to net financing costs of £1,983,476 (2007: £500,931) and foreign exchange effects of £3,687,537 expense (2007: £2,246,482 income).

Future developments

The outlook for 2009 is not positive. The company expects market pressure on prices and volumes. 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.

Directors' report (continued)

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.
  - *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 £40,501 (2007: £27,051), 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 2008, the company had an average of 106 days purchases outstanding in trade creditors (2007: 44 days).

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

J Verdenhalven
Director

C. Hausworth
Director

Date: 27/08/08

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 are 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 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 proper accounting records that 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22. 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 Carbon Fibers Limited (continued)

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 2008 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

Ernst & Young LLP
Register Auditor
Inverness

Date: 28/10/2009

Profit and loss account
for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover	2	32,821	31,406
Cost of sales		26,008	22,491
Gross profit		6,813	8,915
Distribution costs		763	652
Administrative expenses		5,696	4,012
Operating profit	3	354	4,251
Bank interest receivable	6	42	53
Interest payable and similar charges	7	(2,026)	(554)
		(1,984)	(501)
Profit on ordinary activities before taxation		(1,630)	3,750
Tax on profit (loss) on ordinary activities	8	-	–
Profit for the financial year transferred from reserves		(1,630)	3,750

Statement of total recognised gains and losses
for the year ended 31 December 2008

There are no recognised gains or losses other than the loss of £1,629,142 attributable to the shareholder for the year ended 31 December 2008 (2007: £3,750,325).

Balance sheet
at 31 December 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Tangible assets	9	58,409	29,749
Current assets			
Stocks	10	16,689	7,680
Debtors	11	7,471	10,399
Cash at bank		2,386	1,710
		26,546	19,789
Creditors: amounts falling due within one year	12	76,035	40,078
Net current liabilities		(49,490)	(20,289)
Total assets less current liabilities		8,919	9,460
Accruals and deferred income			
Deferred government grants	13	1,522	400
		7,397	9,060
Capital and reserves			
Called up share capital	14	620	620
Share premium account	15	20	20
Other reserves	15	233	266
Profit and loss account	15	6,524	8,154
Equity shareholder's funds	15	7,397	9,060

Approved by the Board

J. Verdenhalven
Director

Date: 10/22/09

C. Hauswirth
Director
21/10/09

Notes to the financial statements
at 31 December 2008

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 2008 the company made a loss before tax of £1,629,142, and at the balance sheet date had net current liabilities of £49,490,893, including amounts owed to group companies of £63,416,639. 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 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.

Cash flow statement
The directors have taken advantage of the exemption in FRS 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 SE, the consolidated 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.

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 2008

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.

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.

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 2008

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:

	2008	*2007*
	£000	*£000*
Europe	19,469	20,145
United States of America	3,943	5,403
Other	9,409	5,858
	32,821	31,406

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

	2008	*2007*
	£000	*£000*
Auditors' remuneration - audit services	88	56
- non-audit services	-	–
Depreciation of owned fixed assets	1,649	2,279
Operating lease rentals - plant and machinery	852	135
Net profit on foreign currency translation	3,688	(2,246)
Government grants released re fixed assets	(133)	(127)

Notes to the financial statements

at 31 December 2008

4. Staff costs

	2008	*2007*
	£000	*£000*
Wages and salaries	7,125	6,396
Social security costs	743	625
Other pension costs	174	144
	8,042	7,165

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

	2008	*2007*
	No.	*No.*
Production staff	204	167
Administrative staff	76	83
	280	250

5. Directors' emoluments

	2008	*2007*
	£000	*£000*
Emoluments	186	394
Value of company pension contributions to money purchase schemes	15	15

	2008	*2007*
	No.	*No.*
Members of money purchase pension schemes	2	2

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

	2008	*2007*
	£000	*£000*
Emoluments	-	204

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

6. Interest receivable

	2008	*2007*
	£000	*£000*
Bank interest receivable	42	53

Notes to the financial statements
at 31 December 2008

7. Interest payable and similar charges

	2008 *£000*	*2007* *£000*
Bank interest payable	55	28
Interest on loans from group companies	1,971	517
Hedging costs		9
	2,026	554

8. Taxation on ordinary activities
(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2008 *£000*	*2007* *£000*
Current tax:		
UK corporation tax	-	–
Adjustments in respect of previous period	-	–
Total current tax (note 8(b))	-	–

(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 28.5% (2007:30%).

The differences are reconciled below:

	2008 *£000*	*2007* *£000*
Profit on ordinary activities before tax	(1.630)	3,750
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(464)	1,125
Effects of:		
Expenses not deductible for tax purposes	(36)	(22)
Group relief	435	60
Capital allowances in advance of depreciation	(1,663)	(1,616)
Tax losses	1,713	437
Other short term timing differences	15	16
Total current tax (note 8(a))	–	–

Notes to the financial statements
at 31 December 2008

8. Taxation on ordinary activities (continued)
(c) Deferred tax

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

	2008	*2007*
	£000	*£000*
Capital allowances in advance of depreciation	(3,102)	(805)
Tax losses available	10,141	7,750
Short term timing differences	16	30
	7,055	6,975

9. Tangible fixed assets

	Freehold land & buildings	*Plant, machinery & vehicles*	*Fixtures & fittings*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 1 January 2008	12,245	36,572	1,337	50,154
Additions	399	29,718	192	30,309
At 31 December 2008	12,644	66,920	1,529	80,463
Depreciation:				
At 1 January 2008	2,968	16,225	1,212	20,405
Provided during the year	476	1,121	52	1,649
At 31 December 2008	3,444	17,346	1,264	22,054
Net book value:				
At 31 December 2008	9,200	48,944	265	58,409
At 1 January 2008	9,277	20,347	125	29,749

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 2008 and 31 December 2008	2,899
Cumulative depreciation based on cost:	
At 1 January 2008 and 31 December 2008	2,899

Notes to the financial statements
at 31 December 2008

10. Stocks

	2008	*2007*
	£000	*£000*
Raw materials	6,727	4,983
Finished goods	9,962	2,697
	16,689	7,680

11. Debtors

	2008	*2007*
	£000	*£000*
Trade debtors	4,081	4,960
Amounts owed by group undertakings	1,531	1,575
Other debtors	1,405	2,061
Prepayments and accrued income	454	1,804
	7,471	10,400

12. Creditors: amounts falling due within one year

	2008	*2007*
	£000	*£000*
Bank overdraft	-	–
Trade creditors	9,567	5,383
Amounts owed to group undertakings	64,947	33,582
Other taxation and social security	334	251
Accruals and deferred income	1,187	862
	76,035	40,078

13. Accruals and deferred income

	Deferred government grants	
	2008	*2007*
	£000	*£000*
Balance as at 1 January	400	533
Additions during the year	1,255	-
Released during the year	(133)	(133)
Balance as at 31 December	1,522	400

Notes to the financial statements
at 31 December 2008

14. Share capital

		Authorised
	2008	*2007*
	£000	*£000*
Ordinary shares of £1 each	1,120	1,120

		Allotted, called up and fully paid		
		2008		*2007*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	620,000	620	620,000	620

15. 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 31 December 2006	620	20	-	266	4,404	5,310
Profit for the year	–	–	–	–	3,750	3,750
At 31 December 2007	620	20	-	266	8,154	9,060
Loss for the year					(1,630)	(1,630)
Share based payment	-	-	-	(33)	-	(33)
At 31 December 2008	620	20		233	6,524	7,397

16. Operating lease commitments

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as set out below:

		2008		*2007*
	Land and buildings £000	*Other £000*	*Land and buildings £000*	*Other £000*
Operating leases which expire:				
Within one year	234	13	86	32
In two to five years	242	209	–	99
	476	222	86	131

17. 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 2008, the outstanding borrowings of the group were Euros 408.9 million (2007: Euros 359.6 million).

Notes to the financial statements
at 31 December 2008

18. 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.
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 2008 is £74,011.

19. Related party transactions
No transactions with related parties were undertaken such as are required to be disclosed under FRS 8.

20. Capital commitments
Amounts contracted for but not provided in the financial statements amounted to £91,617 (2007: £2,094,234).

21. 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 2008 is a net liability of £190,195.

22. Ultimate parent company
The company is a subsidiary undertaking of SGL Carbon SE, incorporated in Germany.

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