

Annual Report 2008



Graphit Kropfmühl AG

A Member of
AMG

AMG Advanced Metallurgical Group NV.

GRAPHIT KROPFMÜHL AG - Financial Highlights

Group		2004	2005	2006	2007	2008	Change
Total sales	euro mill.	73.0	70.8	75.3	83.1	90.5	8.9 %
Foreign-country share of total sales	in %	43.7	38.7	36.6	36.7	36.1	
Gross profit ¹	euro mill.	9.7	9.0	10.4	13.0	15.2	16.9 %
EBITDA ¹	euro mill.	9.0	6.2	5.8	7.8	9.7	24.4 %
EBIT ¹	euro mill.	5.3	3.1	2.9	5.0	7.0	40.0 %
EBT	euro mill.	3.0	1.3	1.4	3.2	4.8	50.0 %
Consolidated earnings for the year	euro mill.	2.6	0.5	2.5 ²	1.9	3.5	84.2 %
Cashflow from ordinary business activities	euro mill.	4.5	3.0	4.9	4.3	4.4	2.3 %
Investments	euro mill.	1.8	1.5	1.8	4.3	7.1	65.1 %
Balance sheet total	euro mill.	62.1	61.8	59.4	61.1	70.9	11.6 %
Stockholders equity	euro mill.	17.2	17.9	19.3	21.0	23.8	13.3 %
Equity ratio	in %	27.7	29.0	32.3	34.3	33.6	
Net debt	euro mill.	21.3	20.8	17.5	17.1	19.3	13.0 %
Employees (31 December)		913	699	666	714	600	- 16.0 %
Profitability		2004	2005	2006	2007	2008	Change
EBITDA margin	in %	12.3	8.8	7.7	9.3	10.7	
EBIT margin	in %	7.3	4.4	3.9	6.1	7.7	
Return on sales	in %	3.6	0.7	3.3	2.3	3.9	
Return on equity	in %	15.1	2.8	12.8	9.0	14.7	
Silicon-metal segment		2004	2005	2006	2007	2008	Change
Sales	euro mill.	43.8	45.2	48.5	54.0	61.0	13.0 %
Segment share of total sales	in %	60.0	63.8	64.4	65.0	67.4	
EBITDA ¹	euro mill.	1.5	2.2	3.2	4.2	7.0	66.7 %
EBIT ¹	euro mill.	0.5	1.3	2.4	3.3	6.0	81.8 %
EBT	euro mill.	- 0.4	0.5	1.6	2.6	5.3	> 100.0 %
Employees (31 December)		126	120	110	107	108	0.9 %
Graphite segment		2004	2005	2006	2007	2008	Change
Sales	euro mill.	29.2	25.6	26.8	29.1	29.5	1.4 %
Segment share of total sales	in %	40.0	36.2	35.6	35.0	32.6	
EBITDA ¹	euro mill.	7.5	4.0	2.6	3.6	2.7	- 25.0 %
EBIT ¹	euro mill.	4.8	1.8	0.5	1.7	1.0	- 41.2 %
EBT	euro mill.	3.4	0.8	- 0.2	0.6	- 0.5	not stated
Employees (31 December)		787	579	556	607	492	- 18.9 %
Share		2004	2005	2006	2007	2008	Change
Earnings	in euro	0.89	0.18	0.86	0.66	1.21	83.3 %
Cashflow from ordinary business activities	in euro	1.55	1.03	1.69	1.49	1.52	2.0 %
Dividend	in euro	0.15	0.20	0.00	0.00	0.00 ³	0.0 %







¹ Earnings ratios before restructuring measures, previous year's figures adapted to uniform group accounting principles

² Tax refund claims: euro 1.1 million in 2006

³ Proposal



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Letter to our shareholders

Martin Ebeling



Hans-Detlef Antel



Achim Carstanjen



Dear shareholders,

We all look back on an eventful year 2008. The most important event for our company and for you as shareholders of Graphit Kropfmühl Aktiengesellschaft surely was the change of the majority shareholder of Graphit Kropfmühl Aktiengesellschaft in March last year.

Take-over by AMG Advanced Metallurgical Group N.V., Amsterdam
AMG Invest GmbH, Munich, a 100 % subsidiary of AMG Advanced Metallurgical Group N.V., Amsterdam, took over the shares of the previous majority shareholder Quantum Unternehmensbeteiligung GmbH & Co., Hamburg, and in a following voluntary public tender offer furthermore acquired additional shares, so that AMG's share in our company currently amounts to a total of 79.52 %.

We welcome the strong position of AMG as an internationally oriented industrial investor, and we believe that both sides can profit from this commitment. With their majority interest in Timminco Ltd., Canada, AMG provides excellent know-how in the field of metallurgical silicon and furthermore has extensive experience in special niche markets.

Successful fiscal year 2008 despite a somewhat bleak economic situation
The development of the global economy, which experienced an abrupt and drastic loss of growth dynamics, was of equal importance, but in a negative sense. This will also affect the business activities of the Graphit Kropfmühl group. In the course of the year the financial crisis gradually intensified and had its preliminary climax in autumn. Following the crash of some major banks and the threatening collapse of the international financial market that only could be averted by government intervention, the effects of this financial crises now also have arrived in the real economy.

Despite this adverse situation the Graphit Kropfmühl group experienced a highly successful development in fiscal year 2008. Compared to the previous year total sales increased by 8.9 % to EUR 90.5 million, the adjusted earnings (EBITDA before restructuring expenses) even clearly increased by 24.4 % to EUR 9.7 million. Consolidated earnings increased from EUR 1.9 million to EUR 3.5 million.

Silicon-metal segment

The course of business in the silicon-metal segment was highly satisfying. Sales increased by 13.0 % to EUR 61.0 million. The earnings (EBIT) of this segment grew disproportionately high and amount to EUR 6.0 million after EUR 3.3 million in the previous year. In the year 2008 we continued with the implementation of our proven strategy for the silicon-metal segment and made investments in sustained prof-

itable growth. Among others we built an additional dust extraction system at the beginning of the year, and we furthermore started the conversion of a silicon furnace where a new transformer and a closed electrode system reduces the specific power input and at the same time increases the capacity.

Graphite segment

With EUR 29.5 million, sales in the graphite segment only are slightly higher than in the previous year. In November and December we were hit unexpectedly hard by the economic downturn, and we were not able to keep up the growth figures of the first nine months. Especially the development in the European automotive industry, where we provide sub-suppliers with our products, and the slump of the US economy, resulted in strongly declining sales in the fourth quarter.

The procurement and securing of raw materials has always been and still is one of the most important subjects in this segment. In the course of the year procurement prices have clearly increased due to growing regulatory governmental action in China and to production limitations during the Olympic Games. We furthermore had to deal with the matter of maintaining raw material supplies from crisis-ridden Zimbabwe, which also caused noticeable expenses, and the continuous increase in the purchase prices for oil, energy, and basic chemicals also must be kept in mind.

To countervail increasing energy prices and to further expand our capacities we made investments in new production technologies and energy-saving measures in 2008.

Strategic focus remains unchanged

In 2008 we maintained our strategic course and made target-oriented investments that allow us to utilise cost-saving potentials and to continue the growth course of the Graphit Kropfmühl group in the medium and long term. The major part of these investments of EUR 7.1 million altogether could be covered from the operative cashflow.

With an equity ratio of 33.6 % we feel that we are well prepared for the future. Especially due to the weaker development in November and December, combined with the utilisation of payment terms we grant our customers, our net debt clearly increased to EUR 19.3 million. The insolvency of a large automobile sub-supplier, to whom the graphite segment made deliveries, also demonstrates the tight situation in individual branches. We secured the financing of our investments at an early time and thus also obtained low-interest loans from the federal German Kreditanstalt für Wiederaufbau (KfW), which complement our existing contractually agreed credit facilities of approximately EUR 13.4 million with various regional and internationally operating credit institutions. From today's view we thus have a reasonable basis for the further development of our company.

In the current fiscal year the still smouldering financial and economic crisis will have a strong influence also on our business activities. At the moment it is not yet possible to make any reliable forecasts about the business development, because it essentially depends on the future course of the financial and economic crisis and on the implementation and effectiveness of the resolved economic stimulus packages. In view of the current situation, however, we altogether rather expect a decreasing business volume.

Letter to our shareholders

Investor Relations

We continued our open communication policy also in the year 2008. With our interim reports, four ad-hoc messages, eight press releases, and with our participation in analyst meetings we continuously informed you, dear shareholders, the interested public, and the financial community about the current business development and future prospects of the group. The increase of the share price to more than EUR 24 that was caused by the take-over by AMG could not be maintained in the course of the year. The GK share, however, went through October's turbulences on the stock markets clearly better than the overall market, and ended the year with a closing price of EUR 17.40, which compared to the previous year is a plus of 32.9 %.

Address of thanks to our employees

We sincerely thank all our employees for their successful work in the year 2008. With their commitment they decisively contributed to the common success of the Graphit Kropfmühl group. We furthermore wish to thank all the shareholders, customers, and partners of the Graphit Kropfmühl group for their cooperation and their confidence in us.



Martin Ebeling
Chairman of the Board of Directors



Hans-Detlef Antel
Member of the Board of Directors



Achim Carstanjen
Member of the Board of Directors



Dear shareholders,

In fiscal year 2008 the Supervisory Board supervised and in an advisory function accompanied the work of the Board of Directors. For this purpose the Supervisory Board regularly obtained information about the current course of business and the earnings and financial position, about business planning, the further strategic development, and upcoming investments. The extensive written and verbal reports of the Board of Directors, which always and in a timely manner provided us with information about the economic situation of the company and its subsidiaries, formed the basis for this. Furthermore, the chairman of the Supervisory Board regularly and personally exchanged information with the chairman of the Board of Directors. The Supervisory Board was directly involved in all the decisions that were of fundamental importance for the company. If decisions or measures under the law or under the articles of association required the approval of the Supervisory Board, we inspected and passed the draft resolutions in our meetings.

Meetings and main subjects

In 2008 the Supervisory Board convened in nine meetings which were held on 15 January, 6 March, 17 April, 7 May, 3 July, 25 September, 7 November, and 16 December. Two meetings were held on 3 July, and the meeting on 7 May was held as a telephone conference. All members of the Supervisory Board attended more than half of the Supervisory Board meetings. Furthermore, the resolution concerning the business plan 2008 – 2011 and the approval of the annual financial statements for 2007 were passed in a written procedure. The meetings regularly were attended by the members of the Board of Directors.

The personnel committee, which as in the previous years had been established by the Supervisory Board in office until the end of 5 May 2008, held two meetings. Additional committees were not established, neither by this Supervisory Board, nor by the Supervisory Board in office as from 6 May 2008 or as from 3 July 2008.

The reports and draft resolutions of the Board of Directors were discussed openly and intensively in the Supervisory Board meetings. In the meetings we regularly dealt with the sales and earnings position of the group as well as with the operative development in the segments. The agenda also included the annual financial statements and the auditing of the annual financial statements, the budget planning, and the financial, investment, and personnel planning for the fiscal year 2009, the mid-term plan 2010 – 2012, as well as the further development of Corporate Governance, of risk management, and of compliance.

In the last year our work again also especially focused on the strategic orientation of the two segments silicon-metal and graphite. The Supervisory Board fully supported the Board of Directors both in its restructuring measures so far and in its future plans. The Board of Directors and the Supervisory Board especially discussed the further development of raw material procurement inclusive of possible mining

activities. Starting from 2009, graphite mining operations at the Kropfmühl plant will be started again. We also intensively discussed cooperation possibilities within the AMG Advanced Metallurgical Group N.V. ("AMG") and identified common business fields, which resulted in several subjects that were prepared in project groups and were submitted to the Supervisory Board for decision. The agenda furthermore included various investments such as a new micronizing system, investments in waste heat recovery at the Kropfmühl plant, and in the conversion of a silicon furnace at RW silicium GmbH. In order to avoid possible conflicts of interests, the Supervisory Board member Dr. Michael Witzel abstained from voting in the vote concerning the awarding of legal consultancy contracts to the Lovells LLP law office in Munich.

Corporate Governance

The further development of Corporate Governance is of great importance for Graphit Kropfmühl Aktiengesellschaft and is regularly discussed in the Supervisory Board meetings. In a detailed Corporate Governance report that is part of the annual report, the Board of Directors and the Supervisory Board together report about Corporate Governance in the Graphit Kropfmühl group. This report also explains the essential items concerning the Supervisory Board. On 16 December 2008 the Supervisory Board and the Board of Directors updated the common declaration of conformity according to § 161 AktG (German Stock Corporation Act) and made it permanently available to the public on the Graphit Kropfmühl website.

Annual and consolidated financial statements

The consolidated financial statements of the Graphit Kropfmühl group were prepared according to the International Financial Reporting Standards (IFRS). The individual financial statements again were prepared according to the regulations of the German Commercial Code (HGB). The auditor, the Ernst & Young AG auditing company, performed an audit of the consolidated financial statements and of the annual financial statements of Graphit Kropfmühl Aktiengesellschaft. In his report the auditor explained the principles of auditing and declared that the respective accounting principles were fully observed. He issued an unqualified audit opinion both for the annual and the consolidated financial statements. In the last fiscal year the services rendered by the Ernst & Young AG apart from auditing also included the reviewing of the interim reports for the second and third quarter.

The annual financial statements and the management report, the consolidated financial statements and the group management report, as well as the auditing reports of the auditor were made available to all the members of the Supervisory Board in due time before the meeting dealing with the approval of the balance sheet on 4 March 2009. At this balance sheet meeting, in the presence of and following a report by the auditor, the documents were discussed in detail, and the auditor was available for questioning and for supplementary information.

We performed our own examination of the annual financial statements, the management report, the proposal for balance sheet profit appropriation, as well as the consolidated financial statements and the group management report, and we agreed with the result of the auditor without any objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Board of Directors. The annual financial statements for the fiscal year 2008 are hereby confirmed. We go along with the Board of Director's proposal for the appropriation of the balance sheet profit.

Dependent company report

The report on the relationships with affiliated companies according to § 312 AktG that was prepared by the Board of Directors and reviewed by the auditor received the auditor's unqualified opinion, stating that the data in the report are correct, that in the legal transactions shown in the report the service of Graphit Kropfmühl Aktiengesellschaft was not inappropriately high or possible disadvantages were balanced, and that in the measures mentioned in the report there are no circumstances indicating any essentially different assessment than the one provided by the Board of Directors. We also performed our own examination of this report, and following the final result of our examination we do not have any objections to the final declaration of the Board of Directors and agree with the auditor's result.

Changes in the Board of Directors

In the Supervisory Board meeting on 15 January 2008, Mr. Achim Carstanjen was appointed as a member of the Board of Directors with effect from 1 February 2008. Mr. Carstanjen has been working in the company since 1 July 2006 and has been managing the graphite segment of Graphit Kropfmühl Aktiengesellschaft since 1 January 2007. His appointment to the Board of Directors at first was limited in time until 31 January 2009, but was extended until 31 July 2011 with a resolution of 3 July 2008.

Changes in the Supervisory Board

The shareholder structure of Graphit Kropfmühl Aktiengesellschaft changed significantly with the completion of the takeover of the shares held by Quantum Unternehmensbeteiligung GmbH & Co. and their partners by AMG Invest GmbH, a 100 % subsidiary of AMG. On 22 April 2008 AMG Invest GmbH reported that at that time they held 74.06 % of the voting rights (2,132,829 voting rights). On 31 December 2008 the proportion of voting rights held by AMG Invest GmbH was 79.52 %.

In connection with this shareholder change, Dr. Thomas Guth, chairman of the Supervisory Board, Frank Nörenberg, first deputy chairman of the Supervisory Board, Harald Schröder, second deputy chairman of the Supervisory Board, and Dr. Herbert Knahl, who represented the shareholder side, resigned from their Supervisory Board positions with effect from the end of 5 May 2008.

On 23 April 2008 the Board of Directors and the new major shareholder AMG Invest GmbH filed an application with the county court Munich, commercial register, for the appointment by court of four Supervisory Board members in accordance with § 104 art. 2 AktG (German Stock Corporation Act) with effect from 6 May 2008 until the end of the Annual General Meeting on 3 July 2008, and suggested Mr. Rainer Grohe, Mr. Klaus Josef Lutz, Dr. Heinz Schimmelbusch, and Dr. Michael Witzel for this appointment. With its resolution of 30 April 2008 the county court Munich in accordance with the application appointed Mr. Rainer Grohe, Mr. Klaus Josef Lutz, Dr. Heinz Schimmelbusch, and Dr. Michael Witzel as Supervisory Board members.


In the constituent Supervisory Board meeting of 7 May 2008, Dr. Heinz Schimmelbusch was elected chairman of the Supervisory Board. Dr. Michael Witzel was elected to the position of first deputy chairman of the Supervisory Board, and Mr. Rainer Grohe to the position of second deputy chairman.

The Annual General Meeting on 3 July 2008 elected the Supervisory Board members Dr. Heinz Schimmelbusch, Dr. Michael Witzel, Mr. Rainer Grohe, and Mr. Klaus Josef Lutz for a term of five years. The employees again elected Mr. Peter Fesl, and Mr. Manfred Kneidinger, who substituted Mr. Gottfried Lang, to the Supervisory Board. In the constituent Supervisory Board meeting of 3 July 2008, Dr. Heinz Schimmelbusch was elected chairman of the Supervisory Board, Dr. Michael Witzel was elected to the position of first deputy chairman of the Supervisory Board, and Mr. Rainer Grohe to the position of second deputy chairman.

We sincerely thank the Board of Directors and all employees for their commitment and their successful work in fiscal year 2008.

Kropfmühl, 4 March 2009

For the Supervisory Board



Dr. Heinz Schimmelbusch
Chairman of the Supervisory Board

Responsible and transparent corporate management and control always is the basis for all the decision and control processes in all the segments of Graphit Kropfmühl Aktiengesellschaft. All managerial activities always focus on the sustained increase of corporate value. The objective is a continuous further development of corporate governance. This way Graphit Kropfmühl intends to further strengthen the confidence shown in us by shareholders, business partners, employees, and by the interested public.

On 16 December 2008 the Board of Directors and the Supervisory Board signed the declaration of conformity concerning the recommendations of the "Government Commission on the German Corporate Governance Code" according to § 161 of the German Stock Corporation Act and published this declaration on the internet on the company's website. In retrospect it can be stated that last year there were no negative deviations from the 2007 declaration. With one exception, which upon appropriate consideration was resolved due to special corporate-specific conditions, Graphit Kropfmühl in the future also complies with the additional recommendations of the new code version of 6 June 2008. This current declaration of conformity is printed at the end of this corporate governance report and will be updated as required at www.gk-graphite.com.

Shareholders and Annual General Meeting

At the Annual General Meeting the shareholders exercise their rights and their voting right. Graphit Kropfmühl publishes all the documents and information concerning the Annual General Meeting, including the agenda and the annual report, on the company's website. Possible counter-motions and statements of the Board of Directors also are published there. As in the previous years there were no counter-motions in 2008.

The Annual General Meeting on 3 July 2008 was attended by 82 % of the voting capital. In all the agenda items the approximately 110 shareholders accepted the administration's proposals for resolution with majorities of more than 99 %. Essential agenda items were the elections of Rainer Grohe, Klaus Josef Lutz, Dr. Heinz Schimmelbusch, and Dr. Michael Witzel as members of the Supervisory Board. As a result of the presence of the new major shareholder AMG they replaced the previous capital side representatives in the Supervisory Board. Other items on the agenda were the discharge of the Board of Directors and the Supervisory Board, the choosing of the auditor, and the presentation of the annual financial statements and the consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft. After the Annual General Meeting the detailed voting results were published on the website together with the presentation and the speech of the Board of Directors.

Cooperation of the Board of Directors and the Supervisory Board

The Board of Directors and the Supervisory Board closely and trustingly cooperate to the best interest of the company. The Board of Directors develops the strategic orientation of the group, coordinates it with the Supervisory Board, and is responsible for the corresponding implementation of individual measures. The Board of Directors regularly, in a timely manner, and comprehensively informs the Supervisory Board about all the subjects that are relevant for the company, especially matters of planning, of the current business development and risk situation, and of risk management and compliance. Last year the Supervisory Board was informed by way of detailed reports of the Chairman of the Board of Directors in nine Supervisory Board meetings, and through continuous close contact with the Chairman of the Supervisory Board also between the dates of the individual meetings. For further information on the cooperation of Board of Directors and Supervisory Board please refer to the report of the Supervisory Board on page 5.

Board of Directors

On 31 December 2008 the Board of Directors of Graphit Kropfmühl Aktiengesellschaft invariably comprised three members. The rules of procedure regulate the cooperation of the members of the Board of

Directors and the allocation of duties. As Chairman of the Board of Directors, Martin Ebeling is responsible for the fields of strategy development, finances, and Investor Relations. Hans-Detlef Antel is responsible for the silicon-metal segment, and Achim Carstanjen for the graphite segment. In the last fiscal year there were no conflicts of interest that would require immediate disclosure to the Supervisory Board. Invariably the members of the Board of Directors did not have any supervisory board or comparable mandates at third-party companies.

The tasks of the Board of Directors include the determining of the strategic orientation of the company and the managing of the company. The Board of Directors furthermore has to ensure that statutory regulations and company-internal guidelines are observed. Within the meaning of good corporate governance the Board of Directors furthermore makes sure that risks in the company are responsibly dealt with. The basis for this is an appropriate risk management with an integrated controlling system. For details on Graphit Kropfmühl's risk management please refer to the risk report as of page 27.

Supervisory Board

The Supervisory Board of Graphit Kropfmühl Aktiengesellschaft has six members. Four shareholder representatives are elected by the Annual General Meeting, two employee representatives by the employees in accordance with the German codetermination act. The Supervisory Board established its own rules of procedure and formed a personnel committee from its members. The Supervisory Board in regular intervals examines the efficiency of its work. The results thereof contribute to the continuous optimisation of the Supervisory Board work. There were no conflicts of interests. The report of the Supervisory Board as of page 5 contains detailed information about the main focuses of the individual Supervisory Board meetings and of the committee.

In connection with the introduction of the new major shareholder AMG there were some changes on the shareholder side in the year under review. With effect from the end of 5 May 2008 the previous representatives Dr. Thomas Guth, chairman, Frank Nörenberg, deputy chairman, Harald Schröder, deputy chairman, and Dr. Herbert Knahl resigned from their positions. In the Annual General Meeting on 3 July 2008 the shareholders elected Rainer Grohe, Klaus Josef Lutz, Dr. Heinz Schimmelbusch, and Dr. Michael Witzel, who by resolution of the county court Munich already had been appointed to the Supervisory Board since 6 May 2008, as new Supervisory Board members. The employees furthermore elected Manfred Kneidinger as a new employee representative to the Supervisory Board. He replaced Gottfried Lang. In the constituent Supervisory Board meeting following the Annual General Meeting, the Supervisory Board elected Dr. Heinz Schimmelbusch as chairman of the Supervisory Board, and Dr. Michael Witzel and Rainer Grohe as deputy chairmen of the Supervisory Board.

Compensation report

The following compensation report at the same time is part of the group management report and was reviewed by the auditor.

Compensation of the Board of Directors

The Supervisory Board determines the total compensation and the compensation structure of the members of the Board of Directors and regularly reviews it for compliance with market standards and for appropriateness. The compensation of the Board of Directors takes into account the size and the economic and financial position of the group.

The annual total compensation of the members of the Board of Directors comprises performance-related and non-performance-related components. The non-performance-related component essentially is a fixed compensation that is paid as a monthly salary. The performance-related component is made in the form of a bonus, the amount of which is determined by the achieving of individual targets. For the

Corporate governance report

chairman of the Board of Directors, Martin Ebeling, the consolidated EBIT is the decisive figure, for the board member Hans-Detlef Antel the EBIT of the subsidiary RW silicium GmbH is the decisive figure, and for the board member Achim Carstanjen the EBIT of the graphite segment. As a rule the performance-related component is paid in May of the following year. There furthermore also are additional benefits for the members of the Board of Directors in the form of company car use and contributions to pension, health, and long term care insurance.

Compensation of the Board of Directors in TEUR	Fixed component	Variable component	Additional benefits	Total
Martin Ebeling	144	273	19	436
Hans-Detlef Antel	144	264	18	426
Achim Carstanjen*	145	33	16	194
Total	433	570	53	1,056

* Member of the Board of Directors since 1 February 2008

The compensation of the Board of Directors exclusively comprises the above-mentioned components. There are no compensation components with a long-term incentive effect, no stock option programs, and no separate agreements concerning the retirement of a member of the Board of Directors.

The members of the Board of Directors furthermore have identical pension commitments comprising old-age pension, disability pension, and widow's pension. The members of the Board of Directors will receive old-age pension in the amount of 50 % of the fixed gross salary, if they retire after completion of their 65th year. The determination basis is the gross salary that was paid in the last year before retirement. If a member of the Board of Directors retires before completion of his 65th year, a percentage will be deducted per year from the above-mentioned determination basis.

In a disability case the members of the Board of Directors will receive disability pension, the determination basis of which and applicable deductions upon occurrence of the insured event are the same as for old age pension. The widow's pension is calculated as a percentage of the old-age or disability pension that the respective member of the Board of Directors is entitled to.

Pension commitments of the Board of Directors in TEUR	Current service cost 2008	Defined benefit obligation (DBO) 31 Dec. 2008	Pension claim* 31 Dec. 2008
Martin Ebeling	71	744	72
Hans-Detlef Antel	27	737	72
Achim Carstanjen	42	100	63
Total	140	1,581	207

* Claim after supposed completion of the 65th year

The pension regulations for former members of the Board of Directors and their surviving dependants are the same as for the active Board of Directors. In the current fiscal year an amount of TEUR 141 was paid for pensions; the amount of the defined benefit obligation (DBO) of former members of the Board of Directors is TEUR 1,759.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is determined in § 17 of the articles of association resolved by the Annual General Meeting. The compensation structure takes into consideration the responsibility

and the scope of work of the Supervisory Board members. The articles of association provide a compensation of euro 10,000 for every member, of euro 30,000 for the chairman, and euro 15,000 for the deputy chairmen.

Because of the change during the year due to the resignation of Dr. Guth, Mr. Nörenberg, Mr. Schröder, and Dr. Knahl, the Supervisory Board compensations were distributed to old and new Supervisory Board members on the basis of full months.

Compensation of the Supervisory Board in TEUR	Position	Total
Dr. Heinz Schimmelbusch	Member since 6 May 2008, chairman since 7 May 2008	20.0
Dr. Thomas Guth	Chairman until 5 May 2008	10.0
Dr. Michael Witzel	Member since 6 May 2008, deputy chairman since 7 May 2008	10.0
Rainer Grohe	Member since 6 May 2008, deputy chairman since 7 May 2008	10.0
Frank Nörenberg	Deputy chairman until 5 May 2008	5.0
Harald Schröder	Deputy chairman until 5 May 2008	5.0
Klaus Josef Lutz	Member since 6 May 2008	6.8
Dr. Herbert Knahl	Member until 5 May 2008	3.2
Peter Fesl	Member – employee representative	10.0
Manfred Kneidinger	Member since 3 July 2008 employee representative	5.0
Gottfried Lang	Member until 3 July 2008 employee representative	5.0
Total		90.0

The members of the Supervisory Board are entitled to the full reimbursement of their expenses in connection with their work, especially travel expenses. They do not receive any additional compensation such as e.g. attendance fees.

Transparency

Graphit Kropfmühl regularly and promptly informs shareholders, analysts, shareholder associations, journalists, and the interested public about the situation and the development of the company. The basic principle of transparent communication is that all the market participants should be treated the same way. A central medium for information distribution is the extensive Investor Relations sector of our website at www.gk-graphite.com where we among others provide all the publications such as interim and annual reports, company presentations, as well as press releases and ad-hoc messages for viewing and for downloading. Insider information relating to the company or to financial instruments of the company is immediately published by Graphit Kropfmühl in accordance with the regulations of § 15 of the German Securities Trading Act (WpHG). In the last fiscal year Graphit Kropfmühl published four ad-hoc messages and eight press releases.

Accounting and auditing

The consolidated financial statements of the Graphit Kropfmühl group are prepared according to the principles of the International Financial Reporting Standards (IFRS), and the individual financial statements of Graphit Kropfmühl AG on the basis of the German Commercial Code (HGB). The annual financial statements and the consolidated financial statements were audited by the Ernst & Young AG auditing company, who in the Annual General Meeting 2008 for the first time were appointed as auditors and group auditors by the shareholders. Before making the proposal, the Supervisory Board obtained a declaration from the auditor concerning the business, financial, personal, and other relationships to the company, and made sure of its independence. There were no conflicts of interests.

Declaration of conformity

Declaration of the Board of Directors and the Supervisory Board of Graphit Kropfmühl Aktiengesellschaft acc. to § 161 of the German Stock Corporation Act (AktG) concerning the recommendations of the "Government Commission on the German Corporate Governance Code"

The Board of Directors and the Supervisory Board of Graphit Kropfmühl Aktiengesellschaft hereby make the following declaration of conformity acc. to § 161 of the German Stock Corporation Act (AktG) concerning the recommendations of the "Government Commission on the German Corporate Governance Code":

1. Since making the last declaration of conformity on 13 December 2007, Graphit Kropfmühl Aktiengesellschaft has complied with the recommendations of the German Corporate Governance Code in its version of 14 June 2007, published in the official section of the electronic Federal Gazette (Bundesanzeiger) on 20 July 2007, with the following deviations:
 - The Board of Directors does not arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions (code 2.3.3 clause 3).
 - The company has effected a D&O insurance for the Board of Directors and the Supervisory Board without agreeing a deductible (code 3.8 para. 2).
 - Age limits for the members of the Board of Directors and the Supervisory Board have not been established (code 5.1.2 para. 2 clause 3 and code 5.4.1 clause 2).
 - The Supervisory Board has not established an audit committee (code 5.3.2).
 - The Supervisory Board has not formed a nomination committee (code 5.3.3).
 - The members of the Supervisory Board do not receive performance-related compensation (code 5.4.7 para. 2 clause 1 in the version of 14 June 2007 = code 5.4.6 para. 2 clause 1 in the version of 6 June 2008).
 - The ownership of shares in the company or of related financial instruments by members of the Board of Directors and the Supervisory Board is not shown in the corporate governance report (code 6.6).
2. In the future Graphit Kropfmühl Aktiengesellschaft will comply with the recommendations of the German Corporate Governance Code in its version of 6 June 2008, published in the official section of the electronic Federal Gazette (Bundesanzeiger) on 8 August 2008, with the deviations mentioned under no. 1 and with the following deviation:
 - In the conclusion of contracts for the Board of Directors it is not agreed that payments to a member of the Board of Directors in case of premature termination of his position as a member of the Board of Directors without serious cause do not exceed the value of two years' compensation inclusive of additional benefits (severance payment cap), and do not compensate more than the remaining term of the contract (code 4.2.3 para. 4 clause 1).

Kropfmühl, 16 December 2008

The Supervisory Board

The Board of Directors

Stock markets with clear price losses

After clear price increases in the last five years the stock markets experienced distinct price losses all over the world in 2008. The collapse of the US market for risky real-estate financings resulted in an unprecedented strain of the international capital markets. Finally governments were forced to launch comprehensive liquidity and guarantee programs for credit institutions in order to stabilise the economic system. In parallel to the immense uncertainty on the capital markets the economic development abruptly declined in all the important economic areas in the second half of the year, and according to research institutes we are facing a global recession in 2009. This development resulted in great uncertainty among market participants and in a correspondingly sharp decline in prices on the capital markets.

The DAX index closed the year that was characterised by high volatility at a level of 4,810.20 points. On an annual comparison this is a decline of 40.4 %. The DAX reached its highest level on 2 January with 7,949.11 points, and its lowest level on 21 November with 4,127.41 points. With 46.1 % the SDAX index that is relevant for small-cap companies and closed the year at 2,800.73 points experienced an even stronger decline.

Against the trend the share price increased by 32.9 %

As in the previous year the price development of the Graphit Kropfmühl share was detached from the SDAX development. In an extremely weak capital market environment the share price clearly increased, driven by a highly positive operative development and by the change in the shareholder structure with the introduction of the new major shareholder.

After a restrained start into the year 2008 with a yearly low of euro 11.04 on 17 March, the share price abruptly increased following the announcement of the new major shareholder AMG Invest GmbH. Supported by an essential improvement of the operative earnings situation due to the great demand for silicon-metal and graphite products, the positive price trend continued until the middle of the year. The yearly high was reached on 17 July with euro 24.40. Until the end of the year the weak capital market development also had an influence on the price trend of the Graphit Kropfmühl share. Due to our own positive business development, however, the share clearly left the SDAX behind also in this period of time, and in total the share reached a price increase of 32.9 % to euro 17.40.

Financial ratios per share in euro	2008	2007	2006
End-of-year price	17.40	13.09	12.40
Yearly high	24.40	16.37	15.30
Yearly low	11.04	12.82	10.50
Number of shares	2,880,000	2,880,000	2,880,000
Capital stock in euro million	8.64	8.64	8.64
Market capitalisation in euro million	51.0	37.7	35.7
Earnings per share	1.21	0.66	0.86
Cashflow per share	1.52	1.49	1.69
Dividend per share	0.00*	0.00	0.00

* proposal

Dividend passed to strengthen the equity

Despite the excellent balance sheet profit the Board of Directors and the Supervisory Board suggest not to distribute a dividend for fiscal year 2008. The common objective of all the shareholders must be to further strengthen the company's equity. This especially is true in view of the insecure business development in 2009 that is characterised by the general economic situation.

Investor Relations

AMG as new major shareholder

With a contract of 18 March 2008 the previous long-time major shareholder Quantum Unternehmensbeteiligung GmbH & Co. sold its shares to AMG Invest GmbH, a 100 % subsidiary of AMG Advanced Metallurgical Group N.V., Amsterdam. When this transaction was completed, AMG initially held 62.3 % of the shares. After the conclusion of the public tender offer for the purchase of all the shares of Graphit Kropfmühl AG, this interest increased to 79.52 %.

On 28 March 2008 the voting share proportion of Josef Foidl fell below the thresholds of 5 % and 3 %, so that the total remaining 20.48 % of the voting rights are to be assigned to widely spread shareholdings.

The new major shareholder AMG provides Graphit Kropfmühl with new growth perspectives. As an important manufacturer and provider of metallurgical and non-metallurgical high-quality products AMG also provides an excellent platform for the expansion of the silicon and graphite segments.

Transparent communication

Last year we also continued our policy of promptly and comprehensively informing institutional investors, analysts, representatives of economic newspapers, and private shareholders about the economic development of our company. For this purpose we used annual and interim reports as well as continuous press releases and, if necessary, ad-hoc messages. Personal contact with investors and analysts continued to be of special importance and therefore received special attention. In 2008 we also took part in important investor conferences, among others the Munich Small und Mid Cap conferences in April and September. Last year Graphit Kropfmühl was continuously analysed by UniCredit Markets & Investment Banking.

Apart from the direct dialogue at the Annual General Meeting, communication with private shareholders especially focused on the providing of current information in the Investor Relations sector of our website, where annual and interim reports, press releases and ad-hoc messages, as well as current presentations are available to shareholders and to the interested public. The financial calendar, analyst studies, comprehensive information about the Annual General Meeting, the declaration of conformity with the German Corporate Governance Code, and all the facts on the Graphit Kropfmühl share also can be found at www.gk-graphite.com.

In fiscal year 2009 we will continue this transparent communication with our shareholders, potential investors, and multipliers. We will maintain equal treatment of all the target groups and provide prompt and comprehensive information about the current business development of Graphit Kropfmühl AG.

Key data of the Graphit Kropfmühl share	
ISIN	DE0005896005
Security identification number	589600
Stock market abbreviation	GKR
Market segment	Regulated market (Prime Standard)

Economic environment

General economic development

After an excellent start the economy experienced an increasing downturn in 2008. After a clear increase of the gross domestic product (GDP) in Germany and in the euro region in the first quarter, there already was a slight decrease in the second and third quarter. In the fourth quarter this downturn development further accelerated.

The serious crisis on the international financial markets, which had its start in the 2007 collapse of the so-called sub-prime mortgage market in the USA, increasingly also affected the real economy in the course of the year 2008. So far this crisis saw its climax in the third quarter with the collapse of several internationally acting major banks. A breakdown of the global financial system could be averted by way of government intervention in the form of capital provision and guarantees in almost all the industrial nations. Nevertheless the financing conditions have clearly worsened due to a lack of willingness among banks to lend each other money on the short term. Central banks in industrial nations responded to this economic downturn with interest rate reductions. After a last increase to 4.25 % in July, the European Central Bank (ECB) several times decreased the prime rate, for the last time in January 2009 to 2.0 %. The US Federal Reserve Bank (Fed) also decreased its prime rate in several steps to a historic low of 0 - 0.25 %. These effects, however, so far have only become noticeable in a weakened form, because on the other side the risk premiums on interests for companies have significantly increased since October.

Yet the GDP in Germany still increased by 1.5 % in the year 2008. Germany thus performed better than for example the euro region or the US economy, where the GDP grew by 1.2 % and 1.4 %, respectively. The reason for this is an above-average export ratio of the German economy compared to other European countries. Especially at the beginning of the year the German economy profited from a disproportionately high growth of the global economy that was borne by the development in threshold countries such as China, Russia, or the Latin America region.

Report of the Board of Directors

We reached our forecast concerning the development of sales that we made at the beginning of the year. In the total year we were able to increase the total sales by 8.9 % to EUR 90.5 million. Especially in the last quarter, however, the increasing downturn of the global economy also affected our company, and the growth rates of the first nine months could no longer be maintained.

The achieved sales growth in the amount of EUR 7.4 million essentially was borne by the silicon-metal segment with a proportion of EUR 7.0 million. In the graphite segment the growth rates of the first nine months could not be maintained after a drop of business in November and December, when we had to put up with significant declines in sales especially in America and Asia. Business in the main sales market of Germany/Austria/Switzerland (D/A/CH) also was indirectly affected by the crisis in the automobile industry, so that the graphite segment only could make a contribution of EUR 0.4 million to the increase of group sales.

Last year both segments altogether profited from a further increasing demand for high-quality products, which also was reflected in increased average prices in both segments. Especially the chemical industry made a considerable contribution to this development. In this sector, silicon and graphite are important raw materials that are used in building material chemistry for energy cost reduction, and in the field of renewable energies. The price increases on the selling side were necessary to compensate the higher purchase prices for our raw materials which in the wake of global raw material exchanges – where especially crude oil and energy prices are worth mentioning – also clearly increased.

The earnings ratios of the group increased disproportionately. Earnings before interest, taxes, depreciation and amortisation, and restructuring measures (adjusted EBITDA) amounted to EUR 9.7 million after EUR 7.8 million in the previous year and thus increased by 24.4 %. Earnings before interest, taxes and restructuring measures (adjusted EBIT) increased by 40.0 % to EUR 7.0 million.

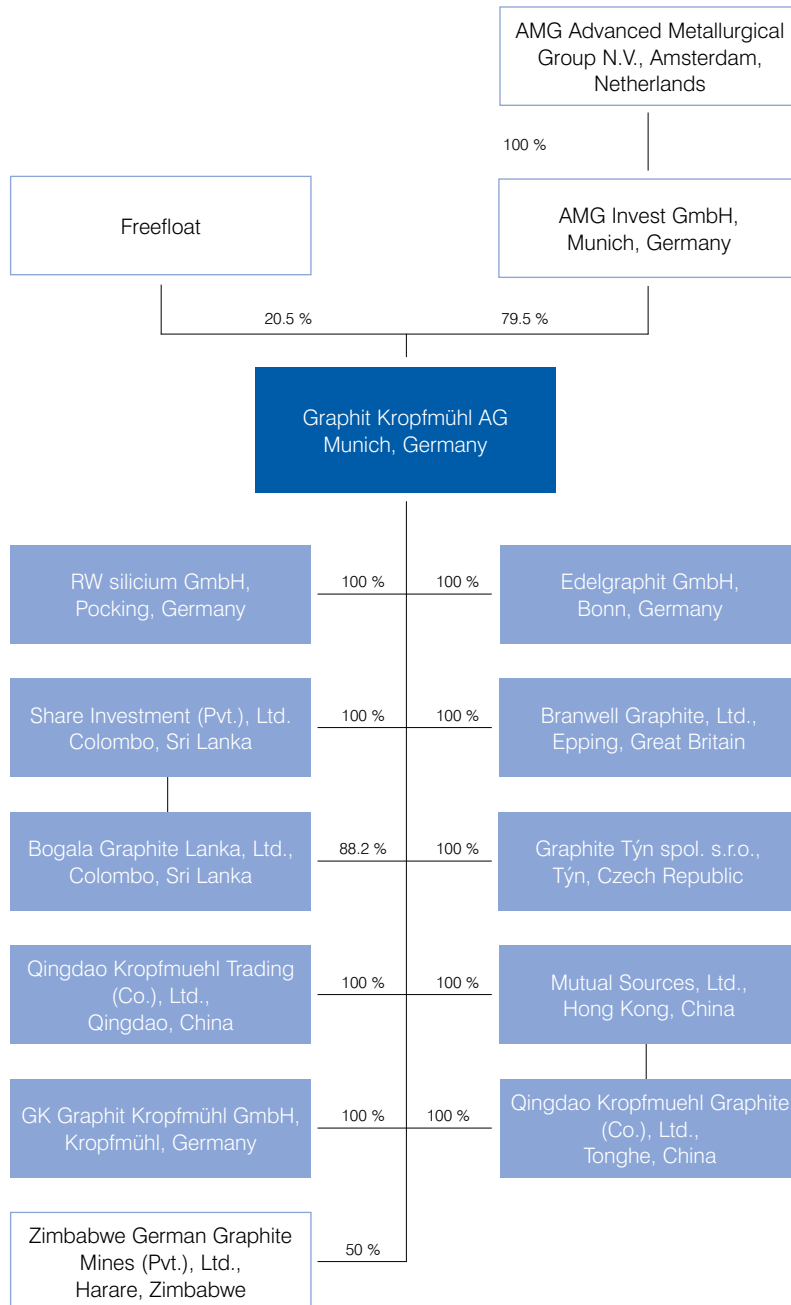
In the last fiscal year we responded to cost increases with target-oriented investments of EUR 7.1 million altogether. A major part of the investments was made in technologies that clearly reduce energy consumption in the production of silicon-metal and in the refining of graphite. In silicon-metal production, for example, this is achieved by a closed electrode system in combination with a new cooling system, which reduces the specific energy consumption and at the same time increases the capacity. We expect that the clear correction of the crude oil and energy prices at the end of the year 2008 will be put into perspective in the medium term, and that our investments in future-oriented technologies will pay off.

Group structure

The Graphit Kropfmühl group is the only German manufacturer of silicon-metal and a leading specialist for the refining of natural graphite. In addition to the German plants in Kropfmühl, Wedel, Bonn, and Pocking, the group has other plants in Great Britain, in the Czech Republic, in China, Sri Lanka, and Zimbabwe.

The operative business of the Graphit Kropfmühl group comprises the two segments graphite and silicon-metal. The silicon-metal segment contributes approximately 67 % to the consolidated sales, the graphite segment approximately 33 %.

In March 2008, AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands, announced that they, through AMG Invest GmbH, Munich, had acquired a majority in our company by taking over the shares of Quantum Unternehmensbeteiligung GmbH & Co., Hamburg. This takeover was subject to the approval of the German Federal Cartel Office, which gave its approval on 17 April 2008. In the course of a public tender offer AMG Invest GmbH acquired additional shares in our company. On 19 June 2008 the AMG group reported that at the end of the bid process they held 79.52 % of the shares in our company. Since the fulfilling of all the prerequisites, the financial statements of the Graphit Kropfmühl group are integrated in the consolidated financial statements of the AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands.



Silicon-metal

The silicon-metal segment comprises the company RW silicium GmbH in Pocking. This Bavarian company that is located near Passau is the only German producer of silicon-metal. In this segment we concentrate on the production and marketing of metallurgical silicon and of the by-product that is created in production, a very fine silicon dioxide.

We especially supply the chemical industry and the aluminium industry. While the chemical industry primarily uses silicon-metal for the production of silicones, the aluminium-processing industry needs our products for casting applications, among others for the production of high-strength, light-weight vehicle components.

The by-product that is marketed under the name of RW-filler due to its structure and its high thermal resistance is in great demand as a filling material and additive for fibre-cement products. The RW-filler furthermore is used in thermal insulation materials and in ceramic and fireproof products.

The silicon-metal segment has its main sales markets in Germany and in neighbouring German-speaking countries. This area is combined in the reporting region of Germany/Austria/Switzerland (D/A/CH), where we reach approximately 87 % of the total sales.

Graphite

The graphite segment in addition to Graphit Kropfmühl AG also comprises the subsidiaries Edelgraphit GmbH, GK Graphit Kropfmühl GmbH, Bogala Graphite Lanka, Ltd., Share Investment (Pvt.), Ltd., Branwell Graphite, Ltd., Graphite Týn spol. s.r.o., Mutual Sources, Ltd., and the Chinese companies Qingdao Kropfmuehl Graphite (Co.), Ltd. and Qingdao Kropfmuehl Trading (Co.), Ltd. The graphite segment also manages the participations in Zimbabwe German Graphite Mines (Pvt.), Ltd. However, due to the lack of influence on the business and financial policy, this company is not included in the scope of consolidation.

The graphite segment covers the complete value-added chain in the refining of natural graphite. Starting with mining operations through to processing and finally refining in most varied specifications, the Graphit Kropfmühl group offers a comprehensive product portfolio. Our main focus, however, lies on the production and marketing of so-called high-quality graphite products with purities of up to 99.99 % carbon. In 2008 we also made further investments in micronising capacities.

Graphite is needed in many fields of every-day life. Based on a great variety of properties we can cover a very large spectrum of applications. Extremely high thermal resistance, electrical and thermal conductivity, and resistance to chemicals only are some of the features that allow applications in alkali-manganese and state-of-the-art lithium batteries, in the fireproof sector of the steel and iron industry, and in lubricants and release agents.

The main sales region lies in German-speaking European countries (D/A/CH), which accounts for approximately 53 % of the total sales.

Control system

The Graphit Kropfmühl group is controlled in close coordination by the Board of Directors and by the responsible management personnel in the operative companies. In a comprehensive planning process detailed short-term planning calculations are prepared for all the companies in the group. Furthermore, medium-term planning calculations are used to review and, if necessary, adapt the implementation and effectiveness of strategic measures. Within the scope of monthly reporting the short-term planning calculation is checked for plan/actual deviations by the controlling department. This procedure makes it possible to detect deviations and, after comprehensive analysis, to take corresponding countermeasures.

Both in the consolidated financial statements of the group and segments and on the level of the individual companies, control and analysis is performed by way of classic financial and profitability ratios. Total sales, gross profit, EBITDA and EBIT, and the corresponding productivity and sales ratios form the basis of all the decisions.

Research and development

In our line of business, continuous research and development are of fundamental importance for continued growth and future success. We only can strengthen our market position in the long term and open up new fields of application by further developing the technology of our products and by optimising our production processes. Our research and development department had 12 employees last year (previous year: 11). We also closely cooperate with our customers, with universities and research institutes such as for example the Fraunhofer Institute.

In the last fiscal year the main focus of our research and development work in the graphite segment again was on the development of high-quality graphite products. In the silicon-metal segment we concentrated on the further optimisation and rationalisation of operating processes, which for example includes the use of more energy-efficient processes in our furnaces.

Investments

In fiscal year 2008 the Graphit Kropfmühl group made investments in the amount of EUR 7.1 million, which is 65.1 % more than in the previous year. The net investment activity (after deduction of achieved sales proceeds) increased by EUR 2.4 million to EUR 6.6 million.

With EUR 4.1 million about 58 % of the total investments were made in the silicon-metal segment, where we among others invested in technologies that allow us to reduce the specific power consumption and at the same time increase the production capacities.

In the graphite segment we made investments of EUR 3.0 million. Compared to the previous year expenses thus increased by EUR 1.2 million or 67 %. The major part was invested in the expansion of micronising capacities at the Kropfmühl plant. By using efficient micronising technology we are able to significantly reduce energy consumption. We also further advanced the development of our graphite deposit in Sri Lanka.

Employees

On 31 December 2008 the Graphit Kropfmühl group had 600 employees (without apprentices). Compared to the reporting date of the previous year the number of employees decreased by 114. In the graphite segment we responded to the drop in business and clearly reduced the production quantity at our mine in Sri Lanka. By way of a severance payment program the staff in Sri Lanka could be reduced by 120 employees in December. Within the scope of this program the staff will be further reduced by 80 persons in the first quarter of 2009. The relocation of a production line from Great Britain to the Czech Republic will result in a further adaptation in the number of employees.

The graphite segment altogether had 492 employees on 31 December 2008, and the silicon-metal segment 108 employees.

Because of the international orientation of our business operations the major part of our employees (62 %) works in foreign countries, 226 persons (38 %) were employed at our domestic plants.

Employees classified by their function	2008	2007	Change
Production	512	625	- 18.1 %
Research and development	12	11	9.1 %
Sales and marketing	32	32	0.0 %
Administration and other fields	44	46	- 4.3 %
Total	600	714	- 16.0 %

To ensure the high quality of our products and guarantee the implementation of our strategy we attach greatest importance to the qualification of our employees. In internal training programs and individual external qualification measures we advance the expert competence and the acquisition of know-how of our employees. Furthermore we attach special importance to the training of our own junior staff both in production and in administration professions. On 31 December 2008 we had ten apprentices at our plants in Kropfmühl and Pocking (31 December 2007: eight apprentices).

Personnel expenses amounted to EUR 15.4 million and are classified as follows.

in euro million	2008	2007	Change
Wages and salaries	13.0	11.6	12.1 %
Restructuring expenses (severance payments)	0.4	0.0	100.0 %
Social security contributions and expenses for pensions and welfare	2.0	2.5	- 20.0 %
Total	15.4	14.1	9.2 %

Social responsibility

We are aware of our responsibility to our employees and to the regions in which the Graphit Kropfmühl group is operating. We attach great importance to the best possible implementation of European standards for working conditions, safety at work, and quality in all our companies.

In Germany and at our international locations we furthermore are involved in various social areas. By way of a foundation we, for example, support cultural and social projects in the area around our Kropfmühl parent plant. We assist selected local associations that are strongly committed to the care of young people. In Zimbabwe we meet our responsibility to this crisis-ridden region by supporting two schools. Within the scope of our possibilities we provide equipment for the school buildings, and also teaching materials, clothes, and supplies for about 400 pupils.

Quality management, safety, and environmental protection

Our ISO 9001:2000 certified quality management system covers the continuous quality inspection of our products and production processes. In accordance with our strategy of profit-margin-oriented growth through the concentration on high-quality products, we are continuously and purposefully improving our processes and our technical and organisational procedures. We installed a company suggestion system through which we encourage all our employees to identify improvement potentials in their working environment. The information thus gained is used for the continuous further development of our quality management system.

In the field of occupational safety we continued to improve our standards both in Germany and at our international locations also in the last fiscal year. Within the scope of occupational safety we periodically inspect our working processes and processing systems, make sure that employees are equipped with protective work clothing, and optimise workplaces under health aspects. We additionally help to prevent accidents by way of regular training on site and by communicating "best practice".

Responsibility for our environment is a central aspect of our value system. Our objective is to reduce waste and emissions, or to completely avoid them wherever possible. For this purpose we regularly inspect the environmental compatibility and efficiency of our production processes and make sure that we employ state-of-the-art systems for waste-water and waste-air cleaning. At our mining plants we ensure best possible deposit utilisation and minimum-loss processing and refining. We thus ensure a careful utilisation of the resources that are available to us. We fulfil all the environmental regulations that concern us, and our Kropfmühl plant participates in the regional "Umweltpakt Bayern" initiative.

Strategy

In the silicon-metal segment we will continue to use all the possibilities of rationalising our production processes, which especially includes the conversion of our furnaces. In 2008 we started the optimisation of one furnace, and this measure will be finished in April 2009. New electrode systems will allow longer service and maintenance intervals, which will reduce downtimes and maintenance expenses. Provided that our expectations concerning this new system are confirmed in the near future, we will continue converting the other furnaces in the following years.

Our objective still is to reach the highest-possible production capacity utilisation in the silicon-metal segment in order to produce at lowest-possible costs under the prevailing general conditions.

In the graphite segment we continue to concentrate on the expansion of the high-quality graphite sector. Highest flexibility will be required to meet the requirements of our customers also in the future, and to permanently respond to developments in our sales markets. Our research and development sector guarantees that the graphite segment is fit for the future. In close cooperation with our customers we adapt existing products and develop new ones, always trying to find the optimal solution or to open up new fields of application for graphite.

Earnings performance

Group

The Graphit Kropfmühl group closed the fiscal year 2008 with clearly increased sales and earnings. The escalating financial crisis with its subsequent effects on the real economy, however, influenced the group's business development in the last quarter. The growth rates that we had achieved until 30 September could no longer be maintained due to the drop in sales in the last two months.

With consolidated sales of EUR 90.5 million our expectations and forecasts were fulfilled even in this difficult environment. The increase of EUR 7.4 million or 8.9 % primarily was borne by the silicon-metal segment with EUR 7.0 million. The graphite-segment contributed EUR 0.4 million.

The regional classification shows a differentiated picture. While we achieved clear increases in our domestic markets, which for both segments primarily comprise German-speaking Europe, we had to put up with a clear sales drop in the USA. In Europe we achieved a total growth of approximately EUR 8.2 million to EUR 84.5 million, which compared to the previous year is an increase of 10.7 %. In the Asia/Pacific area we achieved a sales increase of approximately EUR 0.5 million. In the USA, however, sales figures decreased by EUR 1.3 million or 44.8 %. Due to the weak dollar during the year, with exchange rates of up to 1.60 USD/EUR, especially the graphite segment had to put up with clear decreases that were even more accelerated by the general economic development in the USA.

The positive sales development also is reflected in the earnings ratios. The group's gross profit increased by EUR 2.2 million to EUR 15.2 million. The gross profit margin improved from 15.6 % to 16.8 %.

With EUR 9.7 million the selling expenses, general administration expenses, and other operating expenses in fiscal year 2008 were EUR 0.8 million higher than in the previous year. Apart from increased personnel expenses this is primarily due to increased legal and consultancy expenses arising from defined projects for the inspection of synergy effects with the AMG group. The other operating income amounts to a total of EUR 1.4 million after EUR 0.9 million in the previous year. This item essentially includes the income from the disposal of non-current assets, the reversal of accruals, and the reversal of investment subsidies.

Earnings before interest, taxes, depreciation and amortisation, and restructuring measures (adjusted EBITDA) improved by 24.4 % to EUR 9.7 million in the last fiscal year. As in the previous year, regular depreciation and amortisation amounted to EUR 2.7 million. In the previous year this item additionally contained EUR 0.4 million of impairment losses on tangible assets due to restructuring measures.

Earnings before interest, taxes, and restructuring measures (adjusted EBIT) increased by 40.0 % to EUR 7.0 million. The EBIT margin for the last fiscal year is 7.7 % and thus is higher than the figure of the previous year (6.1 %). The financial result is EUR - 1.8 million. Compared to the year 2007 financing expenses thus increased by EUR 0.4 million. This is due to higher interest percentages in the pension obligations, to an interest rate derivative that must be recognised acc. to IAS 39, and to a net inflow of EUR 2.7 million from financing activities. Despite earnings before tax (EBT) that were EUR 1.6 million higher, income taxes only were slightly higher than in the previous year. The effects of the corporate tax reform 2008 in Germany, which means about 10 % less taxes for companies, became noticeable for us here.

The consolidated earnings attributable to shareholders of Graphit Kropfmühl amount to EUR 3.5 million and are clearly higher than in the previous year (EUR 1.9 million). Earnings per share increased from EUR 0.66 to EUR 1.21.

Silicon-metal segment

In the year 2008 we reached total sales of EUR 61.0 million in the silicon-metal segment, which means that this segment contributed 67.4 % to the group sales. Due to the sales increase of EUR 7.0 million which compared to the graphite segment is disproportionately high, the share in the group sales increased by another 2.4 % .

In 2008 silicon-metal sales decreased by approximately 1,330 t to 28,311 t . With 18,488 t (previous year: 18,245 t) the chemical industry again was the major customer for silicon-metal. With 9,823 t sales to the aluminium industry clearly were lower than in the previous year. In 2007, 11,395 t were sold here. The sold quantity of so-called secondary silicon-metal amounted to 3,893 t, which also is less than the previous year's figure of 4,215 t.

The price development for silicon-metal was highly satisfying in 2008. On an annual average prices increased by approximately 20 % compared to the previous year. Despite the economic downturn prices remained at a stable level at the end of the year. The price adjustment was necessary to compensate the strongly increased prices for our raw materials and for energy.

The marketing of the silicon dioxide that is created in the production process has become an important part of the business operations of the silicon-metal segment. Under the product name of "RW filler" this material is sold to customers in the fireproof, fibre-cement, and building materials industries. In the total year a volume of 17,528 t (previous year: 17,481 t) of the standard quality grade, and 2,623 t (previous year: 2,664 t) of quality grade "Q1" could be sold. Prices here could be moderately adjusted upwards, and the average price of the "Q1" grade still was more than 50 % higher than the price for the standard grade.

German-speaking Europe still is the most important region for the silicon-metal segment. Especially the borderland between Germany and Austria, where the production plant is located, offers many advantages with respect to the transport cost situation, because on the procurement side it lies close to the suppliers of quartz, and on the marketing side it lies close to our customers both of the chemical and aluminium industries.

In the Germany/Austria/Switzerland region (D/A/CH) 2008 sales amounted to EUR 52.7 million. As in the previous year this is a share of approximately 87 % of the total segment sales. In other European countries we reached sales of EUR 7.6 million, which is a growth of approximately 5.6 % compared to the previous year.

In the selling expenses the energy costs are the most important cost factor. Compared to the previous year electricity costs increased significantly. Prices for reducing agents and coal also have increased considerably. We only can counteract these price increases with rationalisation measures and target-oriented investments in energy-efficient technologies.

Altogether the earnings ratios of the silicon-metal segment clearly improved last year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased to EUR 7.0 million, which is a growth of EUR 2.8 million. As a result of our high investment activities depreciation on tangible assets clearly increased. After considering depreciations of EUR 1.0 million (previous year: EUR 0.8 million) the EBIT is EUR 6.0 million, after EUR 3.3 million in the previous year. The EBIT margin increased from 6.2 % to 9.8 %.

The financial result of the silicon-metal segment slightly improved compared to the previous year and amounted to EUR 0.7 million. Earnings before tax amounted to EUR 5.3 million, which is twice as high as in the previous year.

Graphite segment

The development of the graphite segment clearly is influenced by the decreasing dynamics of the economy in the course of the year. In the first months of 2008 an exceptionally great demand resulted in a temporary unavailability of various graphite grades on the market and in a drastic price increase for such grades. Freight rates also drastically increased and reached historically high levels. In this market phase Graphit Kropfmühl demonstrated its position as a reliable partner and always supplied its customers according to agreements. In the field of high-quality graphite products we were able to acquire new customers and strengthen existing customer contacts.

The fourth quarter of 2008, and especially the months of November and December, however, were characterised by a distinct drop of sales. Especially our customers from the automotive sector noticeably changed their order patterns. As a result the graphite segment, after a good start with sales that developed as expected, could not reach the set sales target for the total year. The achieved total sales of EUR 29.5 million just were not sufficient to reach the intended jump to over EUR 30 million.

The development in the sales area of America, where we made 5 % of the segment sales, was influenced by the weakness of the US dollar in 2008. Dollar exchange rates rose as high as 1.60 USD/EUR, which in combination with a rise in freight costs resulted in strongly increasing purchase prices for our customers, which for us meant that we had to put up with distinct losses. In the Germany/Austria/Switzerland region (D/A/CH), which contributed 53 % to the segment sales, a growth of 8.7 % was reached in the total year. Sales in other European countries (28.6 % of segment sales) were slightly higher than in the previous year. Segment sales in the Asia / Pacific region (12.5 % of segment sales) were at the level of the previous year.

We responded to the decreasing demand with purposeful measures and correspondingly adapted our capacities. In China we backed out of the unprofitable commodity business and sold our mine, which emphasises our concentration on the high-profit-margin field of high-quality graphite products. Due to the difficult political and economic situation we strengthened our support for our mine in crisis-ridden Zimbabwe, and these support expenses exceeded both the previous year's level and our plans. The expenses were rated as incidental acquisition costs and allocated to the cost of sales. In the fourth quarter we promptly adapted the output of our mine in Sri Lanka to the changed demand. For cost reasons we also relocated a production line from Great Britain to our Czech plant by the end of the year. These measures resulted in a considerable staff reduction and thus in corresponding considerable short-term non-recurring expenses that had to be paid. For severance payments already made and still to be made, a total amount of EUR 0.4 million is recorded in the financial statements. In the medium term these measures should contribute to noticeable cost savings.

Due to extraordinary expenses and to the weak fourth quarter, earnings before interest, taxes, depreciation and amortisation, and restructuring measures (adjusted EBITDA) remained behind the previous year's figures and reached EUR 2.7 million after EUR 3.6 million in the previous year. The EBITDA margin was 9.2 % and thus did not reach the intended yield target of 12 %. Regular depreciation and amortisation amounted to EUR 1.7 million after EUR 1.9 million in the year 2007. In the previous year non-recurring impairment expenses according to IAS 36 in the amount of EUR 0.4 million were additionally necessary.

With EUR 1.0 million the adjusted EBIT of the graphite segment remained behind the previous year's figure of EUR 1.7 million. The EBIT margin was 3.3 % and thus also was lower than in the previous year. The financing costs assignable to the graphite segment amounted to EUR 1.1 million. The increase of EUR 0.5 million is due to the higher use of liabilities to banks near the end of the year, and a market value change of a derivative financial instrument that must be recognised acc. to IAS 39. Earnings before tax thus amount to EUR - 0.5 million after EUR 0.6 million in the previous year.

The number of employees decreased from 607 at the end of 2007 to 492 on 31 December 2008. The reduction of production volumes on Sri Lanka will lead to another reduction of 80 employees in the first quarter of 2009.

Asset position

The balance sheet total on 31 December 2008 amounted to EUR 70.9 million, which compared to the previous year is an increase of 16.0 %.

On the assets side the non-current assets increased by 13.0 % or EUR 4.5 million to EUR 39.2 million. With investments of EUR 7.1 million and regular depreciations of EUR 2.7 million, the increase of property, plant and equipment amounted to EUR 4.4 million. Deferred tax assets increased by EUR 0.1 million, essentially due to the effects of market value changes in our exchange rate and interest rate hedging instruments.

Current assets on the balance sheet date amounted to EUR 31.7 million, which is EUR 5.3 million more than in the previous year. This rise essentially is due to the increase of inventories. Long-term purchase commitments and clearly increased acquisition prices on the acquisition side, and shiftings and cancellations on the selling side, resulted in an increase of EUR 5.9 million to EUR 20.2 million. Due to the drop in sales in the last quarter the carrying amount of trade receivables decreased by EUR 0.5 million to EUR 8.2 million. In 2008 German tax authorities for the first time started the proportional payment of corporate tax credits. In fiscal year 2008 we furthermore received capitalised tax credits from previous years, so that taxes receivables decreased by EUR 0.4 million to EUR 1.1 million. Other current assets

and other current financial assets were slightly above the previous year's level on the balance sheet date. Cash and cash equivalents increased by EUR 0.3 million to EUR 0.9 million. The development of cash and cash equivalents is explained in detail under the financial position and is indirectly determined in the cashflow statement, which is part of the annual financial statements.

The stockholders equity increased by EUR 2.8 million to EUR 23.8 million, which was essentially due to the consolidated earnings for the year. Furthermore there also were negative effects from currency conversion and from the valuation of the financial derivatives. The development of the stockholders equity is shown in the statement of changes in equity that is part of the consolidated financial statements. Due to the increase of the balance sheet total the consolidated equity ratio decreased to 33.6 %. On the balance sheet date 2007 the equity ratio was 34.3 %.

Non-current liabilities increased by EUR 1.5 million to EUR 22.5 million on 31 December 2008. For financing our ambitious investment projects that are necessary as a response to the future requirements the Graphit Kropfmühl group will have to meet, we raised net long-term bank loans of EUR 0.9 million in fiscal year 2008. In total the medium- and long-term proportion of liabilities to banks amounts to EUR 8.3 million. In the first quarter of 2009 we furthermore expect the payout of a further instalment of EUR 1.1 million from a KfW loan. While liabilities for pensions increased by EUR 0.3 million to EUR 8.6 million, an amount of EUR 0.1 million was used for a measure from the provision for recultivation. For securing future outflows for variable interest-rate bank liabilities we concluded several interest rate hedgings, so-called interest rate swaps, with different credit institutions. The most recent interest rate steps of the European Central Bank resulted in market value changes that led to an increase of other non-current financial liabilities to EUR 0.8 million. Deferred tax liabilities and the long-term proportion of the government grants, however, each decreased by EUR 0.1 million. The development and composition of deferred taxes is explained in detail in the notes to the consolidated financial statements.

Current liabilities amounted to EUR 24.6 million and thus were 28.8 % higher than in the previous year. Apart from an increase in current liabilities to banks of EUR 1.7 million, which primarily resulted from the utilisation of granted credit facilities, trade payables also increased by EUR 3.2 million to EUR 9.2 million. Compared to the previous year, current taxes payable doubled to EUR 0.8 million. These essentially are domestic payment obligations that result from the earnings of the year 2008.

Financial position

The inflow from operating activities amounted to EUR 4.3 million in fiscal year 2008. The clear increase of inventories resulted in an additional capital lock-up of EUR 6.2 million. This was in part counter-financed by an increase of current liabilities and by the decrease of receivables and other current assets. After interest and income tax payments of EUR 1.8 million altogether in the year 2008, the result compared to the previous year is a constant operative outflow.

The outflow for investment activities clearly increased in 2008. On the one side there were investments in the amount of EUR 7.1 million (previous year: EUR 4.3 million), on the other side there was income from the disposal of non-current assets in the amount of EUR 0.5 million, which primarily resulted from the sale of our graphite mine in China. Compared to the year 2007 the total outflow for investment activities increased by EUR 2.4 million to EUR 6.6 million.

The total of non-current loans raised in 2008 for the financing of our investments amounts to EUR 5.4 million. We raised loans from the KfW bank with a total volume of EUR 2.4 million, which were granted at more favourable terms for promoting our investments in more energy-efficient technologies, and another loan for follow-up financing of a loan the fixed-interest period of which had expired. Non-current

loans were paid back with EUR 4.6 million. Furthermore we raised current time loans within the scope of current credit facilities in the amount of EUR 1.8 million, so that from financing activities there was a total inflow of EUR 2.7 million (previous year: outflow of EUR 0.9 million). Compared to the previous year the net debt increased by EUR 2.2 million and amounted to EUR 19.3 million on 31 December 2008.

Adjusted for exchange-rate related changes, cash and cash equivalents increased by EUR 0.3 million and amounted to EUR 0.9 million on the balance sheet date, after EUR 0.5 million on 31 December 2007.

Supplementary report

There were no special operative or structural changes or business transactions with an essential influence on the asset, financial, and earnings position after the end of the fiscal year 2008.

Compensation report

The compensation of the Board of Directors contains non-performance-related and performance-related components that depend on the tasks, performance, and the economic success of the company. The members of the Supervisory Board, in addition to the reimbursement of their expenses, receive a fixed compensation, and do not receive any performance-related component. There are no additional indemnification agreements of the parent company with the members of the Board of Directors or with employees for the case of a takeover offer. For details on board compensation, please refer to the compensation report that is contained in the corporate governance report (page 9) and to the notes (page 78). This compensation report was reviewed by the auditor and is part of the group management report.

Disclosures in accordance with § 315 art. 4 HGB (German Commercial Code)

Composition of the capital stock

On 31 December 2008 the capital stock of the Graphit Kropfmühl Aktiengesellschaft was unchanged and consisted of 2,880,000 non-par share certificates made out to bearer. Every share holds a calculated amount of euro 3.00 of the capital stock.

Transfer and voting right limitations

According to § 23 of the articles of association, each share entitles the holder to one vote. The Board of Directors of Graphit Kropfmühl Aktiengesellschaft has no knowledge of limitations relating to the voting rights or the transfer of shares, even if they may arise from agreements between shareholders. In accordance with the statutory regulations and the articles of association, the shareholders exercise their rights, especially their voting right, in the Annual General Meeting.

Voting right control and shares with special rights

The Board of Directors has no knowledge of any voting right control for the case that employees hold an interest in the capital of Graphit Kropfmühl Aktiengesellschaft and do not directly exercise their control rights. There also are no shares with special rights that would confer any control authority.

Capital interests

On the balance sheet date of 31 December 2008 AMG Invest GmbH, Munich, held 79.52 %. Other direct or indirect interests in the capital that exceed 10 % of the voting rights are not known.

Provisions of the articles of association concerning the appointment and replacement of members of the Board of Directors and alterations of the articles of association

The appointment and dismissal of members of the Board of Directors is regulated by the provisions of § 84 and § 85 of the German Stock Corporation Act (AktG). According to these provisions the Supervi-

sory Board may appoint individual members of the Board of Directors for a maximum period of five years. A repeated appointment or a renewal of the term of office, again for a maximum of five years, by way of a new Supervisory Board resolution, is allowed. § 7 of the articles of association in addition states that the Board of Directors consists of one or several persons, and that the number of the members of the Board of Directors is resolved by the Supervisory Board.

Every alteration of the articles of association as a rule always requires a resolution by the Annual General Meeting (§179 art. 1 clause 1 AktG). The Supervisory Board has the right to alter the articles of association if such alterations only refer to the version. Resolutions of the Annual General Meeting require the simple majority of the given votes, unless a higher majority is required under the law or the articles of association (§ 133 art. 1 AktG).

Authority of the Board of Directors to issue or repurchase shares

Authorised capital

According to the resolution of the Annual General Meeting of 1 July 2004 the Board of Directors is authorised, with the approval of the Supervisory Board, to increase the capital stock in the time until 30 June 2009 once or several times, but to a maximum total amount of euro 4,320,000 by issuing new shares against cash or non-cash contribution. The Board of Directors in addition has the right to exclude the statutory purchase right of the shareholders in certain cases that are stated in § 4 no. 1 of the articles of association.

Contingent capital I

With the resolution of the Annual General Meeting of 1 July 2004 the capital stock furthermore is conditionally increased by up to euro 4,320,000. The conditional capital increase will only become final, if the owners of convertible bonds or option bonds that are issued by the company until 30 June 2009 on account of the authorisation given by the Annual General Meeting of 1 July 2004, make use of their conversion or option right, and if the company does not use other implementation forms for servicing.

Participating rights

On account of the resolution of the Annual General Meeting of 29 June 2005, the Board of Directors furthermore is authorised, with the approval of the Supervisory Board, to once or several times issue participating rights with a term of up to 15 years and a total nominal amount of euro 10,000,000 until 28 June 2010. According to the resolution of the Annual General Meeting of 29 June 2005 the Board of Directors is authorised to exclude the statutory purchase right of the shareholders under certain circumstances. For information about the individual circumstances and the form of the participating rights, please visit www.gk-graphite.com.

Essential agreements under the condition of a change of control

At present there are no essential agreements of Graphit Kropfmühl Aktiengesellschaft that are under the condition of a change of control as a result of a takeover bid.

Indemnification agreements

There are no agreements with the members of the Board of Directors and with management personnel concerning the monetary indemnification in case of a change of control or a takeover of the company.

Risk report

The Graphit Kropfmühl group's risk policy is oriented at the corporate management's targets of sustained corporate value increase. In addition to the achieving of financial target yields, the management of chances and risks also is of great importance here. For this purpose the Board of Directors has implemented a risk management system that allows detailed risk analysis and assessment in the run-up of important strategic and operative decisions.

The risk management system comprises an integrated planning, monitoring, and controlling system that is continuously further developed and adapted to changed conditions. The persons in charge of risk management at all the levels of the group identify possible risks, assess the probabilities of occurrence and the potential damage amount, and check effective counter-measures. The Board of Directors is informed about the results of risk management in regular reports, which guarantees that especially risks endangering the existence of the group are identified at an early time and counter-measures can be taken. New risks or the occurrence of existing risks furthermore are directly reported to the Board of Directors also outside the regular risk reports. The Board of Directors timely and continuously informs the Supervisory Board about essential risks. In the last fiscal year the risk management system, in the process of quality management system certification, was checked for its function and efficiency and for its continuous further development and integration in the business processes, both by the TÜV Management Service GmbH of the TÜV Süddeutschland, and by the auditor.

General economic and industry-specific risks

The general economic development in Germany and on the other relevant markets has an influence on the success of the Graphit Kropfmühl group's business operations. By way of regional diversification of our production sites and sales markets we are with limitations able to compensate economic fluctuations in individual market sectors in their effect on the whole group. The continuous observation of the most important economic early indicators allows us to respond to changes in time. However, we too depend on major global economic changes.

Company strategy risks

In order to secure future growth, open up further sales markets, and thus secure the long-term success of the Graphit Kropfmühl group, we are continuously working at the further development of our products and the optimisation of our production processes, and we seize business opportunities that the market offers. Both research and development and acquisitions play a decisive role here. The uncertainty concerning the success of such measures involves risks which we minimise by way of purposeful project controlling. All the investment as well as research and development projects are intensively monitored both in the run-up of the decision and during the project running time. Monitoring focuses on the observance of the budget, the probability of occurrence of the original forecasts, and the arising of new financial or process-technology risks.

Operating risks

In the operating risks, the supply risk, the market risk, and the quality risk are of special importance for Graphit Kropfmühl. The supply risk essentially means that the raw materials and the energy that are required in the production process are not available at all, are not available in a sufficient quantity, are available at a price that was not calculated, or are not available in the required quality. In the graphite segment we avoid a great part of these risks by way of participations in graphite mines in Asia and Africa. We secured the raw material supply from Africa by way of our participation in Zimbabwe German Graphite Mines. Despite our 50 % interest we have no decisive influence on the business and financial policy of the company due to the political situation in Zimbabwe. Because of this politically and economically insecure situation this participation – which has been written off in the balance sheet – is subject to an increased operating risk with respect to raw material supply. Still any mining and export limitations for Zimbabwe graphite would not endanger the group's overall raw material supply. For the additional securing of our graphite supply we have decided to put our graphite mine in Germany into operation again starting from 2009. In the silicon-metal segment we have long-standing relationships with our wide-ranging network of suppliers and thus secure the supply of quartzes for silicon-metal production. This prevents problems that might arise from the loss of a supplier. We reduce possible price risks by way of continuous comparisons with other suppliers from whom Graphit Kropfmühl also purchases raw materials.

For reducing the market risk we closely cooperate with our customers and with research institutes. This allows us to recognise new market trends at an early time, and to adapt our products to the respective market and customer requirements. We are thus able to not only bind existing customers, but also to open up new sales markets for our products. In both business segments we have medium-term supply agreements with some financially strong enterprises. Still we are subject to macroeconomic risks that may result from fluctuating demand figures in our markets.

The quality of our products and production processes is one of the decisive success factors for the Graphit Kropfmühl group. In order to be able to meet the increasing requirements of our customers we continuously check and optimise the quality of our procedures, production control processes, and end products. Our quality management system is certified acc. to DIN EN ISO 9001:2000.

Personnel risks

Motivated, committed, and highly qualified employees decisively contribute to the success of the Graphit Kropfmühl group. Possible risks involve a high fluctuation and the loss of expert and management personnel to competitor companies, combined with a loss of know-how. We counter these risks by way of various personnel binding and developing measures, using both material and immaterial incentive systems. We furthermore safeguard against a general absence risk by means of corresponding deputy regulations.

IT risks

IT risks for example may involve the risk resulting from insufficient data protection against third party access, or from the failure of computer systems and networks. With regular investments we always make sure that our hardware and software are state-of-the-art, and we furthermore employ backup systems, antivirus software and access control software, as well as suitable encryption systems.

Financial risks

We safeguard against possible financial risks such as liquidity, interest, and foreign currency risks by way of our comprehensive financial management comprising cash management, long-term liquidity planning and controlling, and the cooperation with outside creditors. There were standing financing commitments in a sufficient amount from several German credit institutions. Because of the international orientation of its business operations the Graphit Kropfmühl group is exposed to foreign currency risks in individual business transactions, which primarily result from changes in the exchange rate relations between euro and US dollar. These risks are hedged by employing derivative financial instruments such as currency forwards, interest rate swaps, or interest rate caps.

Other risks

Possible other risks that might arise in connection with our business as the operator of several graphite mines for example involve environmental, fire, and explosion risks. We minimise these risks by way of continuous improvements and optimisations of our production processes and our technical equipment. Of course we also comply with all the environmental regulations and fire protection measures that are relevant for us. The efficiency and appropriateness of our high safety standards is permanently checked.

Legal risks

In addition to a great number of safety precautions Graphit Kropfmühl furthermore has insurance contracts to safeguard against possible liability risks or damage cases. None of the companies of the Graphit Kropfmühl group are involved in any legal or arbitration proceedings which, according to today's assessment, could have a considerable influence on the earnings, financial, and asset position of the group.

Total risk

In fiscal year 2008 the risk situation of the Graphit Kropfmühl group did not change in any considerable manner compared to the previous year. At present there are no known risks that individually or in their entirety could endanger the existence of the group.

Outlook

Forward-looking statements

Forward-looking statements about the risks and opportunities of the future development of the company contain statements and events that lie in the future, not in the past. Forward-looking statements thus are based on today's expectations and on certain assumptions, and they therefore involve a number of risks and uncertainties. A variety of factors, many of which are outside the influence of the Graphit Kropfmühl group, may have the effect that the actual results, successes, and performances may essentially – both positively and negatively – deviate from those that are considered to be expected here. Such uncertainties especially, among others, are due to the following factors: Changes of the general economic and commercial situation, introduction of competing business fields by other companies, lacking acceptance of new business fields, unexpected bad-debt loss from major customers. Under the stated circumstances the prospective development of the company for the next fiscal years with its essential opportunities and risks supplementary to the risk report is assessed as follows.

General economic situation

In the course of the year 2008 the economic prospects for fiscal year 2009 have clearly worsened. For example, the internationally approved ifo Institute for Economic Research in its last economic forecast of 11 December 2008 expects that in 2009 Germany will go through a deep recession with a 2.2 % drop of the gross domestic product compared to the year 2008. Already at an earlier time the RWI Economic Research Institute in Essen had revised its forecast to a drop of 2.0 %.

It is thus expected that Germany will be hit much harder than for example the European or US economic regions, where drops of 1.3 % and 1.0 %, respectively, are expected.

As an export country, Germany strongly depends on the development of the global economy. However, the slowdown of the global economy at present not only affects the established economic regions in North America, Europe, and Asia. It is generally expected that the emerging regions in Latin America, Central and Eastern Europe, as well as China and India will be affected by the economic downturn, and will not be able to maintain the resistance they showed in past weak phases with in part two-digit growth rates.

Counteracting factors, such as the comprehensive economic stimulus programs in Germany and in other economic regions, an easing of the bank crisis and thus a starting of the inter-bank market, which as a consequence would lead to the passing on of lowered reference interest rates to the economy and to consumers, could clearly ease the downturn. However, we only expect noticeable positive effects in the course of the second half year 2009.

Course of business and earnings position

The current economic crisis has a noticeable effect on both segments. At present it is very difficult to make any statements concerning the course of business, and any such statements are tainted with great uncertainty. In the first half year of 2009 we expect a weak demand for our products. The further course of business can not yet be sufficiently predicted at present, because it essentially depends on the future course of the financial and economic crisis, and on the implementation and effectiveness of the resolved economic stimulus programs. In the current situation, however, we altogether expect a rather declining business volume.

We will continue to meet this development with capacity adaptations. In the first quarter of 2009 these measures already will lead to a further staff reduction in the graphite segment by 80 employees in Asia. For the time being we will furthermore limit investments to an absolutely necessary level.

We expect that the decreasing business volume will be reflected in the sales and earnings figures of the Graphit Kropfmühl group. In the total year 2009 it will no longer be possible to reach the previous year's sales and earnings figures.

Munich, 12 February 2009

Graphit Kropfmühl Aktiengesellschaft
München

The Board of Directors

Martin Ebeling

Hans-Detlef Antel

Achim Carstanjen



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Consolidated financial statements

Consolidated Balance Sheet as at 31 December 2008
Graphit Kropfmühl Aktiengesellschaft, München

ASSETS

	Notes no.	31 Dec. 2008 in EUR	31 Dec. 2007 in TEUR
Non-Current assets			
Intangible assets	(8)	6,410,835.84	6,450
Goodwill		6,065,473.91	6,070
Other intangible assets		345,361.93	380
Property, plant and equipment	(9)	32,494,917.63	28,049
Land and buildings		14,958,180.82	14,329
Machinery and technical equipment		12,508,895.27	10,288
Other assets, factory and office equipment		1,907,881.76	1,219
Construction in progress		3,119,959.78	2,213
Deferred tax assets	(30)	140,374.14	15
Other financial assets	(13)	170,066.31	193
		39,216,193.92	34,707
Current assets			
Inventories	(11)	20,159,131.54	14,265
Trade receivables	(12)	8,217,369.07	8,745
Other financial assets	(13)	114,452.00	104
Taxes receivable	(14)	1,137,302.39	1,583
Other current assets	(15)	1,180,032.77	1,223
Cash and cash equivalents		908,845.03	508
		31,717,132.80	26,428
		70,933,326.72	61,135

Consolidated financial statements

STOCKHOLDERS EQUITY AND LIABILITIES

	Notes no.	31 Dec. 2008 in EUR	31 Dec. 2007 in TEUR
Equity	(16)		
Capital stock		8,640,000.00	8,640
Additional paid-in capital		5,568,290.09	5,568
Capital reserves		9,592,922.03	6,666
Minority interests		38,899.34	133
		23,840,111.46	21,007
Non-current liabilities			
Pension obligations	(17)	8,571,129.90	8,332
Non-current provisions	(18)	3,840,736.11	3,927
Long term bank-debt		8,317,035.50	7,491
Government grants		209,257.00	337
Deferred tax liabilities	(30)	733,485.03	820
Other financial liabilities	(19)	798,648.87	141
		22,470,292.41	21,048
Current liabilities			
Short-term bank debt		11,940,627.42	10,208
Trade payables		9,192,959.58	6,037
Provisions for warranty and restructuring costs	(20)	312,057.88	132
Government grants		127,207.00	127
Other financial liabilities	(19)	1,419,606.27	1,235
Current taxes payable	(21)	832,477.33	402
Other liabilities	(22)	797,987.37	939
		24,622,922.85	19,080
		70,933,326.72	61,135

Consolidated financial statements

Consolidated profit and loss statement from 1 January to 31 December 2008
Graphit Kropfmühl Aktiengesellschaft, München

	Notes no.	2008 EUR	2007 TEUR
Turnover	(23)	90,455,719.52	83,134
Cost of sales		- 75,261,329.35	- 70,157
Gross profit		15,194,390.17	12,977
Selling, general and administrative expenses	(24)	- 9,658,616.31	- 8,859
Restructuring and asset impairment expenses		- 405,405.52	- 450
Other income	(25)	1,440,417.57	928
Operating profit (EBIT)		6,570,785.91	4,596
Net finance costs	(29)	- 1,755,248.82	- 1,390
Profit before income tax		4,815,537.09	3,206
Income tax expense	(30)	- 1,396,535.04	- 1,279
Profit for the year		3,419,002.05	1,927
thereof attributable to:			
Minority interest	(31)	- 75,000.05	32
Shareholders of the company		3,494,002.10	1,895

Consolidated financial statements

Consolidated cashflow statement from 1 January to 31 December 2008
Graphit Kropfmühl Aktiengesellschaft, München

		2008 in TEUR	2007 in TEUR
I.	Cashflow from operating activities		
1.	Profit for the period	3,494	1,895
	Adjustments to reconcile profit to net cashflow:		
2.	Depreciation on property, plant and equipment	2,620	2,802
3.	Amortisation of intangible assets	96	307
4.	Gain on sale or disposal of property, plant and equipment	- 453	- 14
5.	Other changes in non-current assets and liabilities	1,179	501
6.	Change in inventories	- 6,220	- 1,157
7.	Change in trade receivables	374	- 1,179
8.	Change in other receivables	418	445
9.	Change in trade payables, provisions and other liabilities	3,818	1,220
10.	Payment of environmental costs	- 86	- 75
11.	Payment of pension liabilities	- 463	- 352
12.	Change in government grants	- 128	- 127
13.	Other non-cash profit and loss items	- 259	19
	Cashflow from operating activities	4,390	4,285
II.	Cashflow from investing activities		
1.	Acquisition of property, plant and equipment	- 7,054	- 4,212
2.	Acquisition of intangible assets	- 61	- 43
3.	Proceeds from sale of property, plant and equipment	467	40
4.	Other changes in non-current assets	12	23
	Cashflow used in investing activities	- 6,636	- 4,192
III.	Cashflow from financing activities		
1.	Proceeds from issuance of debt	5,447	2,500
2.	Repayment of borrowings	- 4,605	- 3,020
3.	Proceeds / Repayment from short-term debt	1,838	- 363
	Cashflow from (used in) financing activities	2,680	- 883
IV.	Cash and cash equivalents		
1.	Net increase (decrease) in cash and cash equivalents	434	- 790
2.	Effect of exchange rate fluctuations on cash held	- 33	51
3.	Cash and cash equivalents at the beginning of the period	508	1,247
V.	Cash and cash equivalents at the end of the period	909	508

Consolidated financial statements

Consolidated statement of changes in equity
Graphit Kropfmühl Aktiengesellschaft, München

in TEUR	Capital Stock	Additional paid-in capital	Other capital reserves	
Balance at 31 December 2006	8,640	5,568	2,120	
Foreign currency translation	0	0	- 165	
Gain (Loss) of Cashflow hedges	0	0	8	
Income tax on income and expenses recognized directly in equity	0	0	- 1	
Changes in the scope of consolidation	0	0	- 37	
Net income recognized directly in equity	0	0	- 195	
Profit for the year	0	0	0	
Total of income and expense for the year	0	0	- 195	
Balance at 31 December 2007	8,640	5,568	1,925	
Balance at 31 December 2007	8,640	5,568	1,925	
Foreign currency translation	0	0	- 218	
Gain (Loss) of Cashflow hedges	0	0	- 465	
Income tax on income and expenses recognized directly in equity	0	0	129	
Changes in the scope of consolidation	0	0	- 13	
Net income recognized directly in equity	0	0	- 567	
Profit for the year	0	0	0	
Total of income and expense for the year	0	0	- 567	
Balance at 31 December 2008	8,640	5,568	1,358	

Consolidated financial statements

Capital reserves		Generated consolidated stockholders equity	Total	Equity attributable to shareholders of the parent	Minority interests	Total equity
Other changes in equity						
Foreign currency translation	Fair value financial instruments					
653	8	2,846	4,966	19,174	116	19,290
- 165	0	0	- 165	- 165	- 15	- 180
0	8	0	8	8	0	8
0	- 1	0	- 1	- 1	0	- 1
0	0	0	- 37	- 37	0	- 37
- 165	7	0	- 195	- 195	- 15	- 210
0	0	1,895	1,895	1,895	32	1,927
- 165	7	1,895	1,700	1,700	17	1,717
488	15	4,741	6,666	20,874	133	21,007
488	15	4,741	6,666	20,874	133	21,007
- 218	0	0	- 218	- 218	3	- 215
0	- 465	0	- 465	- 465	0	- 465
0	129	0	129	129	0	129
0	0	0	- 13	- 13	- 22	- 35
- 218	- 336	0	- 567	- 567	- 19	- 586
0	0	3,494	3,494	3,494	- 75	3,419
- 218	- 336	3,494	2,927	2,927	- 94	2,833
270	- 321	8,235	9,593	23,801	39	23,840

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Segment reporting as at 31 December 2008
Graphit Kropfmühl Aktiengesellschaft, München

in TEUR	Silicon-metal		Graphite		Transition		Group	
	2008	2007	2008	2007	2008	2007	2008	2007
Turnover from external customers	60,953	54,000	29,570	29,197	- 67	- 63	90,456	83,134
DACH	52,730	46,323	15,662	14,403			68,392	60,726
thereof Germany	43,879	39,918	13,924	12,749			57,803	52,667
Other European countries	7,641	7,221	8,430	8,362			16,071	15,583
America	59	425	1,548	2,451			1,607	2,876
Aisa / Pacific	511	0	3,692	3,742			4,203	3,742
Rest of the world	12	31	171	176			183	207
Intersegment turnover	0	0	67	63	- 67	- 63	0	0
Gross profit	8,308	5,219	6,886	7,758			15,194	12,977
EBITDA	7,010	4,200	2,277	3,104			9,287	7,304
Depreciation and amortisation	1,013	839	1,703	1,869			2,716	2,708
EBIT	5,997	3,361	574	1,235			6,571	4,596
Asset impairment expenses IAS 36	0	0	0	401			0	401
Finance costs	- 684	- 769	- 1,071	- 620	0	0	- 1,755	- 1,389
Interest income	70	11	109	193	- 74	- 81	105	123
Interest expenses	- 754	- 780	- 1,180	- 813	74	81	- 1,860	- 1,512
EBT	5,313	2,593	- 497	613			4,816	3,206
Segment assets	34,364	27,350	43,693	38,411	- 7,124	- 4,626	70,933	61,135
Aquisition of non-current assets	4,059	2,420	3,056	1,835			7,115	4,255
Non-current assets	19,868	16,822	19,208	17,470			39,076	34,292
DACH	19,868	16,822	6,705	5,022			26,573	21,844
thereof Germany	19,868	16,822	6,705	5,022			26,573	21,844
Other European countries	0	0	4,828	4,860			4,828	4,860
Asia / Pacific	0	0	7,675	7,588			7,675	7,588

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Notes to the consolidated financial statements for fiscal year 2008
Graphit Kropfmühl Aktiengesellschaft, München

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I. General notes

The registered office of Graphit Kropfmühl Aktiengesellschaft, which is listed in the commercial register of the Amtsgericht München (county court Munich) under HRB 41043, is in Munich, Germany. The company's business premises are located in 94051 Hauzenberg, Langheinrichstraße 1. The business activities of Graphit Kropfmühl Aktiengesellschaft and its subsidiaries comprise the fields of mining, processing, and refining of graphite, and the production of silicon-metal.

AMG Invest GmbH holds 79.52 % of our company's shares. The annual financial statements of our company are integrated in the consolidated financial statements of AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands, as the top parent company. The Board of Directors released the consolidated financial statements for publication on 12 February 2009.

(1) Accounting principles

The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft, Munich, of 31 December 2008 were prepared in accordance with § 315 a HGB (German commercial code) taking into consideration all the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, applicable on the balance sheet date, and all the binding interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for the last fiscal year as applicable in the EU.

The parent company's declaration relating to the Corporate Governance Code that is required according to § 161 of the German Stock Corporation Act (AktG) was made and has been made accessible to the shareholders.

For the profit and loss statement, cost of sales type of accounting is used. The currency used in the group is the euro (EUR). Unless stated otherwise, all amounts are given in thousands of euros (TEUR).

These consolidated financial statements relate to the fiscal year 2008 (1 January to 31 December).

(2) Scope of consolidation

In the course of full consolidation the following subsidiaries at home and abroad were included in the consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft (in addition to the parent company):

Company	Location	Interest held
Edelgraphit GmbH	Bonn	100.0 %
GK Graphit Kropfmühl GmbH	Kropfmühl	100.0 %
RW silicium GmbH	Pocking	100.0 %
Branwell Graphite, Ltd.	Epping, Great Britain	100.0 %
Graphite Týn spol. s.r.o.	Týn, Czech Republic	100.0 %
Mutual Sources, Ltd.	Hong Kong, People's Republic of China	100.0 %
Bogala Graphite Lanka, Ltd.	Colombo, Sri Lanka	88.2 %
Share Investment (Pvt.), Ltd.	Colombo, Sri Lanka	100.0 %
Qingdao Kropfmuehl Graphite Co., Ltd.	Tonghe, People's Republic of China	100.0 %
Qingdao Kropfmuehl Trading Co., Ltd.	Qingdao, People's Republic of China	100.0 %

The annual financial statements of the parent company and of the subsidiaries are prepared for the same date as the consolidated financial statements (31 December 2008).

One company was not consolidated according to the equity method because for political reasons no decisive influence can be exerted on the business and financial policy of the company.

(3) Consolidation methods

The financial statements of subsidiaries at home and abroad that are included in consolidation are prepared according to uniform accounting and valuation methods.

Capital consolidation was performed according to the purchase method by offsetting the purchase costs of company acquisition against the proportional newly valued equity of the subsidiary. Initial consolidation always was performed at the moment of purchase. Under aspects of materiality and economic efficiency, the moment of first integration in the consolidated financial statements also was in part taken as initial consolidation moment. After 31 March 2004 the accountable assets and liabilities of the subsidiaries were calculated with their full fair values irrespective of the amount of minority interests in mergers.

An active difference from capital consolidation remaining after stating the purchased assets and liabilities was recognised as goodwill. Negative differences were recognised in a manner affecting the income in the year of acquisition.

Contrary to the treatment of successive interest acquisitions up to 31 December 2005 with already existing control of the subsidiary, these are shown as a transaction between the owners as from 1 January 2006.

Starting from fiscal year 2005, the recognised goodwill is no longer regularly depreciated. The impairment of goodwill is assessed at least once every year on the basis of impairment calculations to determine the recoverable fair value or value in use (impairment test). For the purpose of impairment testing, goodwill is assigned to cash-generating units. If the recoverable amount is lower than the carrying amount of a cash-generating unit, the goodwill of this unit is depreciated to the higher amount of net selling price less costs to sell and value in use.

Group-internal balances, transactions, and expenses are fully eliminated. Receivables and payables between the companies integrated in the consolidated financial statements, and expenses and income between consolidated companies, were set off against each other. An elimination of interim results was not required.

(4) Accounting and valuation principles

The financial statements of Graphit Kropfmühl Aktiengesellschaft and of the subsidiaries are prepared in accordance with standard accounting and valuation principles. If the national financial statements of consolidated companies use essentially different methods, adjustments are made in the corresponding items.

Purchased **intangible assets** except goodwill are recorded at acquisition costs and are regularly depreciated on a straight-line basis over their economic useful life. Goodwill is not regularly depreciated, but is subject every year, or when there are indicators for a loss of value, to an impairment test.

Development costs for self-generated intangible assets were recorded at acquisition or production costs, if the production of these processes probably will yield economic return. The acquisition or production costs include all the costs directly allocatable to the development process, as well as adequate and necessary parts of development-related overheads.

Research costs are included as current expenses in the selling expenses, general administration expenses, and other expenses.

Property, plant and equipment is valued at purchasing or production costs, less the ordinary straight-line depreciations according to the standard useful life.

If consolidated companies act as lessees within the scope of operating leasing relationships, the leasing rates are directly recorded as expenses in the profit and loss statement.

If special events or market trends indicate a correction of the estimated useful life or a loss of value, the impairment of the recorded carrying amount of fixed assets is tested (impairment test).

The regular depreciations of fixed assets are assigned to the respective functional fields. Impairment losses according to IAS 36 are stated under the restructuring expenses and impairment losses.

Inventories are valued at average purchase or production costs. The latter include direct material and production costs as well as production-related material and production overheads. Interest on borrowed capital is not shown. If there are inventory risks resulting from quality defects or reduced usability, adjustments were made to the lower net proceeds of sale.

Receivables and **other assets**, except the derivative financial instruments, are recorded at continuous acquisition costs. Recognizable risks are taken into account by way of value adjustments. Foreign currency receivables are translated at the closing rate, and resulting gains or losses are recognised in the income statement.

Deferred taxes result from temporary differences between IFRS and tax balances of the individual companies. In addition, deferred taxes from loss brought forward must be recorded, if it is to be expected that these can be used taxwise. Deferred taxes from consolidation processes were not required. Deferral is performed on the basis of the tax rates applicable under the current legal situation at the time of prospective realisation. Deferred tax assets are offset against deferred tax liabilities, if the tax creditors are identical and the maturities are matching. Deferred taxes on temporary differences not recognised in the income statement are shown in the equity.

Minority interests includes the part of the earnings for the year and of the subsidiaries' net assets that is allocatable to interests that are not directly held by the parent company or indirectly by the parent company through other subsidiaries. Losses of a subsidiary that are allocatable to minority interests basically are only to be recorded under the adjustment item if it does not become negative due to this, or a negative balance does not increase. The exceeding amount and any other loss allocatable to minority interests basically must be set off against the majority interest in the consolidated equity.

Government grants are only shown if there is adequate security that the conditions related to them are fulfilled and the subsidies are granted. They are treated in a manner affecting the income and are basically calculated in those periods in which the expenses that are to be compensated with the government grants are accrued.

Provisions are rated at the value that is the best possible estimate of the expense required for fulfilling the present obligation on the balance sheet date. Pension obligations are calculated according to the projected unit credit method as per IAS 19, which takes into account not only the pensions and acquired expectancies known on the accounting date, but also the future expected increases in salaries and pensions. The calculation is based on actuarial expertises taking into consideration the biometric calculation bases. Actuarial gains and losses are only recognised in the income statement, if they exceed 10 % of the amount of obligation ("corridor rule"). In this case they are distributed over the future average remaining period of service of the employees.

Liabilities are rated at their fair value when recorded for the first time. In the following periods liabilities, except for derivative financial instruments, are valued at continuous acquisition costs. Foreign currency liabilities are converted at the closing rate, and a resulting profit or loss is recognised in the income statement.

Derivative financial instruments are shown in the balance sheet as assets or liabilities. The group uses derivative financial instruments for limiting interest rate and currency risks. The derivatives used in the group (interest rate derivatives, currency forwards) must be shown in the balance sheet at their fair value. The fair values of interest rate derivatives are determined from the market values calculated by the respective credit institution, the fair values of currency forwards are calculated on the basis of closing rates. Derivatives that exclusively serve to secure variable-interest rate liabilities and future expected transactions are valued in accordance with the regulations of cashflow-hedge accounting. The unrealized profit or loss resulting from the valuation of derivatives at market prices for the time being are shown in the equity (group reserves) in a manner not affecting the income. When the underlying transaction affects the income, profit or loss from the derivative is shown in the profit and loss statement like the underlying transaction. Market value changes of derivative financial instruments to which no underlying transaction is assigned, or possible ineffective parts of derivative financial instruments, are immediately recognised in the profit and loss statement. There were interest rate derivatives and currency forwards on the balance sheet date. On the previous year's balance sheet date there only were interest rate derivatives.

Contingent liabilities are possible liabilities to third parties or current liabilities for which an outflow of resources is improbable or the amount of which cannot be reliably determined. Contingent liabilities basically are not shown in the balance sheet. The liability volumes of contingent liabilities shown in the notes correspond with the liability volume on the balance sheet date.

Sales and other operating income basically are recorded only when the service has been rendered or the goods or products have been delivered, i.e. when the risk has passed to the customer.

The **cost of sales** comprise all the expenses that can be directly assigned to the services sold in an accounting period. This includes the production costs and the directly assignable selling expenses (direct selling expenses). A decrease in work in progress and finished-goods inventories leads to an increase, an increase of inventories leads to a reduction of the cost of sales.

Selling expenses, administration expenses, and other expenses show all the expenses that cannot be allocated to the cost of sales. In addition to personnel expenses and depreciations, this item essentially comprises material expenses from the selling and administration sectors.

Financial expenses are recorded on an accrual basis and booked directly in a manner affecting the income.

In the preparation of the consolidated financial statements according to IFRS the management has to make assumptions and estimations which have an effect on the valuation of the assets and liabilities shown in the balance sheet.

When applying accounting and valuation methods, **discretionary decisions** have to be taken especially in the valuation of the accruals for pensions, because there are different possibilities of recording actuarial gains and losses. The discount factor also is an essential estimator in the accruals for pensions: An increase or decrease of this discount factor by 0.25 % would decrease the pension obligation of the plans in Germany by EUR 0.6 million, or increase them by EUR 0.6 million, respectively. The explanations on the accounting and valuation principles describe the decisions made in the Graphit Kropfmühl group with regard to these items.

Furthermore, the impairment test for goodwill is based on future-related key assumptions. From today's point of view, changes of these key assumptions will not lead to an exceeding of the carrying amounts of cash-generating units over their recoverable amount, and thus to an adjustment of the carrying amounts in the next fiscal year.

All the assumptions and estimations are based on the conditions and assessments on the balance sheet date. Moreover, the future development of the economic environment presumed to be realistic at this time was taken into account with regard to the expected future business development. If the development of these general economic conditions should differ from such assumptions, the actual amounts may differ from the estimated values. In such cases the assumptions and, if necessary, the carrying amounts of the respective assets and liabilities will be adjusted.

At the time of preparation of the consolidated financial statements an essential change of the basic assumptions and estimations is not to be assumed, so that from today's point of view no essential adjustment of the carrying amounts of the accounted assets and liabilities is to be expected in fiscal year 2009.

(5) Comparative information

For the sake of improved transparency of the uniform group reporting standards the Graphit Kropfmühl group has changed the reporting of the below-mentioned positions in the balance sheet and in the profit and loss statement. For guaranteeing the comparability of the annual financial statements of 2008 with the previous year we correspondingly adapted the figures of the previous year.

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	new 2007	until 2007	Reclassification
Balance sheet			
Financial assets	0	82	- 82
Inventories	14,265	14,590	- 325
Other financial assets	104	175	- 71
Other current assets	1,223	777	446
Non-current liabilities			
Pension obligations	8,332	0	8,332
Non-current provisions	0	12,259	- 12,259
Other non-current accruals	3,927	0	3,927
Government grants	337	0	337
Other financial liabilities	141	595	- 454
Current liabilities			
Other current provisions	0	2,175	- 2,175
Trade payables	6,037	5,775	262
Provisions for warranty and restructuring expenses	132	0	132
Government grants	127	0	127
Other financial liabilities	1,235	0	1,235
Other current liabilities	939	435	504
Profit and loss statement			
Cost of sales	- 70,157	- 68,754	- 1,403
Selling, administration, and other expenses	- 8,859	0	- 8,859
Selling expenses	0	- 3,890	3,890
General administration expenses	0	- 5,419	5,419
Restructuring and asset impairment expenses	- 450	0	- 450
Other operating expenses	0	- 1,255	1,255
Financial income	0	125	- 125
Financial expenses	0	- 1,663	1,663
Net finance costs	- 1,390	0	- 1,390

Advance payments, which in the previous year still were contained in the inventories, from the start of the reporting year are shown under the other current assets. The adaptation of the corresponding previous year's figures resulted in a reduction of inventories and an increase of other current assets by TEUR 325. The reason for this reclassification is a more appropriate description of the contents of this item.

The non-current provisions item that was shown in the previous year contained both pension obligations and other non-current provisions. To provide separate information on the accruals for pensions and thus a transparent presentation of non-current provisions, the non-current provisions were reclassified to the pension obligation and other non-current provisions.

Consolidated financial statements

For improved transparency the government grants was shown separately in accordance with its term. Previously this item was contained in the other financial liabilities.

Amounts recorded under provisions in the previous year that were carried as liabilities due to existing contractual obligations as from the reporting year are assigned to the corresponding items in the current liabilities. In the previous year this resulted in reclassifications from the other current provisions to trade payables (TEUR 262), other financial liabilities (TEUR 1,235), accruals for warranty and restructuring expenses (TEUR 132), and other current liabilities (TEUR 504).

The cost of sales item contains all the costs directly attributable to the sales. Direct selling expenses, which comprise freight costs and sales commissions, were assigned to the cost of sales. For the previous year this resulted in a reclassification of TEUR 2,196 from the selling expenses to the cost of sales.

As from the reporting year, research and development expenses are recorded in the other operating expenses. In the previous year research and development expenses in the amount of TEUR 793 were contained in the cost of sales. The amount was correspondingly reclassified.

Restructuring asset and impairment expenses are shown separately as from the reporting year. In the previous year these were included in the other operating expenses. They were reclassified in their full amount (TEUR 450).

The items selling expenses, general administration expenses, and other operating expenses, which were shown in the previous year, were combined for the sake of improved clarity in the profit and loss statement. These expenses are described in detail under notes no. (24).

In the previous year the financial expenses contained foreign exchange losses in the amount of TEUR 148. For the sake of improved allocation by cause we showed foreign exchange losses, as far as they originate from operative transactions, in the other operating expenses. This resulted in a corresponding reclassification of foreign exchange losses in the amount of TEUR 148 in the previous year's figures. Furthermore, no differentiated presentation of financial income and financial expenses is used any more for improved clarity in the profit and loss statement. The corresponding information is provided in notes no. (29).

Due to the above-mentioned changes in presentation, minor modifications were made in the presentation of the cashflow. As a result the previous year's figures change as follows:

	new 2007	until 2007	Reclassification
Cashflow from operating activities	4,285	4,278	7
Cashflow from investing activities	- 4,192	- 4,215	23
Cashflow from financing activities	- 883	- 853	- 30

(6) Contents and effects of new or amended standards and interpretations

The International Accounting Standards Board (IASB) has introduced a number of amendments in the existing standards and some new standards and interpretations that are mandatory for the consolidated financial statements as from 1 January 2008.

Standard / interpretation	Mandatory as from	Adopted by the EU commission
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions	1 Mar. 2007	Yes
IFRIC 12 Service Concession Arrangements	1 Jan. 2008	No

Furthermore the group applied the following IFRS standard ahead of time as from 1 January 2008:

Standard / interpretation	Mandatory as from	Adopted by the EU commission
IFRS 8 Operating Segments	1 Jan. 2009	Yes

The application of these standards and interpretations had no effects on the presentation on the net assets, financial position and results of operations of the group. IFRS 8, however, leads to additional reportings.

The essential effects of these changes are as follows:

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

According to this interpretation arrangements under which employees are granted rights to equity instruments of a company must be accounted as share-based payment transactions with compensation through equity instruments, even if the company acquires the instruments from a third person, or if the shareholders provide the required equity instruments. The group has not issued any instruments that fall under the scope of application of this interpretation.

IFRIC 12 Service Concession Arrangements

The IFRIC published IFRIC 12 in November 2006. The interpretation regulates the accounting of service concession arrangements for the operator with respect to obligations entered and rights granted. Since no company in the group holds any concessions, this interpretation has no effect on the group.

IFRS 8 Operating Segments

The IASB published IFRS 8 in November 2006. With its coming into effect, IFRS 8 replaces IAS 14 Segment Reporting (IAS 14). The group adopted this change ahead of time on 1 January 2008. According to the group the operating segments identified in the group according to IFRS 8 are the same as the business segments previously identified according to IAS 14. Information according to IFRS 8 inclusive of adapted comparison information is shown in note (34).

In addition to the standards and interpretations that are mandatory for the consolidated financial statements of 31 December 2008 there also are other new standards and interpretations which are not yet mandatory for fiscal years that started on 1 January 2008 and have not yet been applied in the financial statements of the Graphit Kropfmühl group:

Consolidated financial statements

Standard / interpretation	Mandatory as from	Adopted by the EU commission
IAS 1 Presentation of Financial Statements – Capital Disclosures (revised)	1 January 2009	Yes
IFRS 1 and IAS 27 Costs of investments in subsidiaries, joint ventures, or associated companies on first-time adoption	1 January 2009	Yes
IAS 23 Borrowing Costs (revised)	1 January 2009	Yes
IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation	1 January 2009	Yes
IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items	1 July 2009	Yes
IFRS 2 Share-based Payment	1 January 2009	Yes
IFRIC 13 Customer Loyalty Programmes	1 July 2008	Yes
IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 July 2008	Yes
IFRIC 15 Agreements for the Construction of Real Estate	1 January 2009	No
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	1 October 2008	No
IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009	No
IFRIC 18 Transfers of Assets from Customers	1 July 2009	No

IAS 1 Presentation of Financial Statements (revised)

The revised standard was published in September 2007 and must for the first time be used for fiscal years starting on or after 1 January 2009. The standard demands separate representations for changes in equity that result from transactions with the shareholders in their function as equity suppliers, and for other changes in equity. The statement of changes in equity comprises all the details on transactions with shareholders, whereas all the other changes in equity are shown in one single line. Furthermore the standard introduces a statement of the comprehensive income for the period where all the recorded income components are shown either in one single list or in two connected lists. The group has not yet decided whether it will show the total comprehensive income in one or in two lists.

Amendments relating to IFRS 1 and IAS 27

The amendments relating to IFRS 1 and IAS 27 were published in May 2008 and must for the first time be used in the reporting period starting on or after 1 January 2009. The amendments of IFRS 1 allow a company to determine the costs of investments in subsidiaries, joint ventures, and associated companies in its IFRS opening balance sheet also by using the amounts shown according to previously used accounting regulations, or by using the fair value as replacement for the acquisition costs (deemed cost). The amendments of IAS 27 solely relate to the separate individual financial statements of a parent company, and they especially specify that all the dividends of subsidiaries, joint ventures, and associated companies must be recognised in the separate individual financial statements. The transitional regulations basically provide prospective application. The amendments of these standards will have no effect on the group's asset, financial, and earnings position, because the group has not issued any such instruments.

IAS 23 Borrowing Costs (revised)

In April 2007 the IASB published a revised version of IAS 23. The revised IAS 23 demands a capitalisation of borrowing costs that are directly attributable to the purchase, construction, or production of a qualifying asset. Previously the Graphit Kropfmühl group recognised borrowing costs in the period in which they were accrued. The future application is not expected to have any essential influences on the asset, financial, and earnings position.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation

These amendments of IAS 32 and IAS 1 were published in February 2008 and must for the first time be used for fiscal years starting on or after 1 January 2009. To a limited extent the amendments allow exceptions that permit a classification of puttable financial instruments as equity, if they meet certain criteria. The amendments of these standards will have no effect on the asset, financial, and earnings position of the group, because the group has not issued any such instruments.

IAS 39 Financial Instruments: Recognition and Measurement – Qualifying Items

These amendments of IAS 39 were published in August 2008 and must for the first time be used for fiscal years starting on or after 1 July 2009. The amendment specifies how the principles for the recognition of hedging relationships contained in IAS 39 are to be used for the designation of a one-sided risk in an underlying transaction and for the designation of inflation risks as underlying transaction. It is made clear that it is permissible to designate as underlying transaction only a part of the change of the time value or of the cashflow fluctuations of a financial instrument. The group expects that the amendment will not have any effects on the group's asset, financial, and earnings position.

IFRS 2 Share-based Payment

In January 2008 the IASB published an amendment of IFRS 2 that more precisely defines vesting conditions and regulates the accounting of effective cancellations. Since there are no share-based payments in the Graphit Kropfmühl group, this will not have any effects on the group's asset, financial, and earnings position.

IFRIC 13 Customer Loyalty Programs

The IFRIC published this IFRIC 13 in June 2007. According to this interpretation loyalty award credits for customers must be accounted as a separate component of the selling activities within the scope of which they were granted. A part of the time value of the received consideration is assigned to the award entitlements and is deferred. Since the Graphit Kropfmühl group until now has not established any long-term customer loyalty programs, no effects on the asset, financial, and earnings position are to be expected from this interpretation.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC interpretation 14 provides guidelines for the determination of limits placed by IAS 19 Employee Benefits on the amount of a surplus in a pension plan that can be recognised as an asset. The application of this interpretation is not expected to have any influence on the group's asset, financial, and earnings position, because the pension commitments in the Graphit Kropfmühl group exclusively are accrual-financed.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC interpretation 15 was published in July 2008 and must for the first time be used for fiscal years starting on or after 1 January 2009. This interpretation must be used retrospectively. It makes clear when and how income from the disposal of a real estate unit and related expenses are to be recognised, if a project developer and a purchaser make an agreement prior to the completion of the real estate. The interpretation furthermore provides guidance as to whether an agreement falls under IAS 11 or under IAS 18. IFRIC 15 will have no effects on the consolidated financial statements, because the group is not involved in such business operations.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was published in July 2008 and must for the first time be used for fiscal years starting on or after 1 October 2008. The interpretation must be used prospectively. IFRIC 16 provides guidelines for the accounting of hedges of a net investment. The interpretation provides guidelines for the identification of foreign currency risks that can be hedged within the scope of a net investment, which group companies can hold the hedging instruments for hedging the net investment, and how a company must determine the foreign currency profit or loss from the net investment and the hedging instrument that must be reclassified when the net investment is sold. At present the group is assessing which accounting and valuation method should be used for reclassification in case of a sale of the net investment.

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 17 will have no effects on the consolidated financial statements because a distribution of non-cash assets is not to be expected in the group.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 will have no effects on the consolidated financial statements because the group does not perform any such business transactions.

Amendments to IFRS 2008

In May 2008 the International Accounting Standards Board (IASB) within the scope of its annual updates, the objective of which is to tighten the international accounting standards and make them easier to understand, published amendments to the International Financial Reporting Standards. These comprise a number of changes in the standards and consist of two parts, the first of which results in accounting changes for presentation, recognition and measurement purposes, whereas part II comprises terminology and editorial changes.

The amendments were adopted by the EU commission on 23 January 2009 and are mandatory as from 1 January 2009 or 1 July 2009.

Since a great number of these changes only were of an editorial nature or related to standards that are not applicable in the Graphit Kropfmühl group, we do not expect any essential effects on the presentation of net assets, financial position and results of operations from these changes of standards and interpretations.

(7) Currency conversion

The financial statements of foreign subsidiaries are converted according to the functional currency concept. This means that all the subsidiaries are classified as economically independent.

Therefore the translation of financial statements prepared in foreign currencies was performed according to the modified closing rate method. All the balance sheet items except the equity were converted at the average exchange rate on the balance sheet date, and expenses and income as well as the earnings for the year were converted at the annual average exchange rate. Equity items are rated with the historical exchange rates at the time of initial consolidation.

A currency conversion difference resulting from the translation of the annual financial statements of foreign subsidiaries is recorded as a special item in the equity with no effect on income, and is continued until deconsolidation of the subsidiary. The conversion differences recorded in the fiscal year, and a transition of the item from the beginning to the end of the fiscal year, are shown in the statement of changes in equity.

Currency conversion differences resulting from individual foreign currency transactions and from the valuation of foreign currency receivables and payables at closing rate, are recognised in the profit and loss statement. In fiscal year 2008 these resulted in foreign currency losses of TEUR 235 (previous year: TEUR 148).

Important exchange rates

in Euro	Currency	Closing rate on 31 December			Average rate		
		2008	2007	Change	2008	2007	Change
China	1 CNY	0.1053	0.0930	13.2 %	0.0978	0.0956	2.3 %
Great Britain	1 GBP	1.0499	1.3596	- 22.8 %	1.2558	1.4613	- 14.1 %
Hong Kong	1 HKD	0.0927	0.0871	6.4 %	0.0873	0.0935	- 6.6 %
Sri Lanka	1000 LKR	6.3300	6.2510	1.3 %	6.3200	6.6400	- 4.8 %
Czech Republic	1 CZK	0.0372	0.0377	- 1.3 %	0.0400	0.0360	11.1 %
USA	1 USD	0.7185	0.6794	5.8 %	0.6799	0.7297	- 6.8 %

II. Notes to the consolidated balance sheet

(8) Intangible assets

	Goodwill	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at 1 Jan. 2007	6,058	621	1,239	7,918
Exchange rate differences	12	0	0	12
Additions	0	0	43	43
Disposals	0	0	0	0
Transfers	0	0	0	0
Acquisition costs at 31 Dec. 2007	6,070	621	1,282	7,973
Exchange rate differences	- 5	0	1	- 4
Additions	0	0	61	61
Disposals	0	0	0	0
Transfers	0	0	0	0
Acquisition costs at 31 Dec. 2008	6,065	621	1,344	8,030
Accum. amortisation at 1 Jan. 2007	0	218	998	1,216
Exchange rate differences	0	0	0	0
Additions	0	63	244	307
Disposals	0	0	0	0
Transfers	0	0	0	0
Accum. amortisation at 31 Dec. 2007	0	281	1,242	1,523
Exchange rate differences	0	0	1	1
Additions	0	63	33	96
Disposals	0	0	0	0
Transfers	0	0	0	0
Accum. amortisation at 31 Dec. 2008	0	344	1,276	1,620
Net carrying amounts at 1 Jan. 2008	6,070	340	40	6,450
Net carrying amounts at 31 Dec. 2008	6,065	277	68	6,410

In accordance with the rules of IAS 36, existing goodwill undergoes an impairment test at least once every year. For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs). In the Graphit Kropfmühl group the "graphite" and "silicon-metal" segments are understood to be such CGUs. The respective carrying amount of the segments is compared to the recoverable amount, the value in use is used as the recoverable amount. The value in use is the cash value of the estimated future cashflows that can be expected from the continued use of a CGU. The forecasts refer to a detailed planning period of 4 years (2009 to 2012) – which is in line with the standardised planning system of the Graphit Kropfmühl group – and a subsequent constant yield on the basis of the last year of the detailed planning period. The planning of the future cashflows especially is based on assump-

tions about the development of the selling and purchasing markets in the respective segment. The company anticipated the expected price and sales development of the next four years. If there are fixed price agreements for the planning period, these were taken into consideration. As for the rest, past experience and industry forecasts were used as a basis. The EBIT development of the graphite segment was planned with customary growth rates until 2012. In the EBIT of the silicon-metal segment efficiency increases were taken into consideration. This leads to an EBIT increase in fiscal year 2011. On the other hand there will be increasing energy costs starting from fiscal year 2012. In both segments the growth after the detailed planning period was considered with an average of 0.5 % (previous year: 1.0 %) in the discount rate. As discount rates before tax, 16.5 % (previous year: 12.6 %) were used in the graphite CGU, and 10.3 % (previous year: 13.6 %) in the silicon-metal CGU.

As in the previous year the performance of the impairment test did not lead to any impairment loss in the last fiscal year.

On the balance sheet date the goodwill values were as follows:

	2008	2007	Change
Graphite	6,065	6,070	- 0.1 %
Silicon-metal	0	0	0.0 %
Total	6,065	6,070	- 0.1 %

The change compared to the previous year is due to exchange rate effects.

In addition to the goodwill, the intangible assets position contains internally generated intangible assets of TEUR 277 (previous year: TEUR 340) and other intangible assets in the amount of TEUR 68 (previous year: TEUR 40).

As in the previous year, no development costs were recorded in the internally generated intangible assets in fiscal year 2008. Development costs are regularly amortised on a straight-line basis over a useful life of 10 years. As in the previous year the regular amortisation in fiscal year 2008 amounted to TEUR 63. There were no impairment losses acc. to IAS 36 in the year 2008.

In fiscal year 2008 research and development costs of TEUR 831 (previous year: TEUR 793) were recognised as expenses in the profit and loss statement. Research and development costs are included in the other operating expenses.

The other intangible assets essentially include software which is amortised on a straight-line basis over five years. In fiscal year 2008 the regular amortisation amounted to TEUR 33 (previous year: TEUR 244) and, as in the previous year, is recorded in the general administration expenses.

The amortisation on intangible assets is contained in the following positions of the profit and loss statement:

	2008	2007	Change
Cost of sales	0	63	- 100.0 %
Selling, administration, and other expenses	96	244	- 60.7 %
Total	96	307	- 68.8 %

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(9) Property, plant and equipment

	Land and buildings	Technical equipment and machinery	Other assets, factory and office equipment	Advance payments and construction in progress	Total
Acquisition costs at 1 Jan. 2007	22,702	42,508	7,746	909	73,865
Exchange rate differences	- 86	- 126	- 57	- 52	- 321
Additions	113	1,313	470	2,316	4,212
Disposals	0	- 49	- 203	0	- 252
Transfers	216	740	4	- 960	0
Acquisition costs at 31 Dec. 2007	22,945	44,386	7,960	2,213	77,504
Exchange rate differences	20	36	20	2	78
Additions	941	2,328	860	2,925	7,054
Disposals	- 650	- 250	- 265	0	- 1,165
Transfers	203	1,753	64	- 2,020	0
Acquisition costs at 31 Dec. 2008	23,459	48,253	8,639	3,120	83,471
Accum. depreciations at 1 Jan. 2007	7,826	32,614	6,587	0	47,027
Exchange rate differences	- 26	- 80	- 42	0	- 148
Additions	816	1,612	374	0	2,802
Disposals	0	- 48	- 178	0	- 226
Transfers	0	0	0	0	0
Accum. depreciations at 31 Dec. 2007	8,616	34,098	6,741	0	49,455
Exchange rate differences	- 7	35	22	0	50
Additions	540	1,769	311	0	2,620
Disposals	- 648	- 238	- 263	0	- 1,149
Transfers	0	80	- 80	0	0
Accum. depreciations at 31 Dec. 2008	8,501	35,744	6,731	0	50,976
Net carrying amounts at 1 Jan. 2008	14,329	10,288	1,219	2,213	28,049
Net carrying amounts at 31 Dec. 2008	14,958	12,509	1,908	3,120	32,495

The regular depreciations on property, plant and equipment are based on the following useful life periods:

Years	2008	2007
Land and buildings	10 – 50	10 – 50
Technical equipment and machinery	4 – 20	4 – 20
Other assets, factory and office equipment	3 – 15	3 – 15

The impairment tests that were performed resulted in the following impairment expenses in the following periods as per IAS 36:

	2008	2007
Land and buildings	0	289
Technical equipment and machinery	0	70
Other assets, factory and office equipment	0	42
Total	0	401

In 2007 the production of commodity graphite products in China was stopped. As a result of this decision the value in use of various buildings, technical equipment and machinery was TEUR 0. The recoverable amount less costs to sell also was determined with TEUR 0, because the required disassembly and transport expenses would have exceeded the recoverable net selling value. Altogether this resulted in impairment expenses of TEUR 273 in 2007.

Furthermore, a building in Kropfmühl had to be depreciated in 2007 because the local approving authority prohibited a private use as a residential building and a commercial use is not possible because of the room structure. The expenses considered amounted to TEUR 128.

The impairment expenses 2007 were shown under the "restructuring expenses and impairment losses" position.

At the beginning of 2008 we resolved that due to the changed market situation in China the graphite deposit in Yunshan should no longer be used as a strategic reserve. The discontinuation of mining operations at the Yunshan mine already had been resolved in 2006. Because of the market situation at that time it had not been possible to sell the assets connected to the mine. Based on the resolution the sale of the graphite deposit inclusive of processing equipment was once again examined at the beginning of 2008. In the course of the year a purchase contract was concluded with an interested buyer, which included the agreement of essential advance payments. Until the conclusion of this complex selling process, which essentially required the obtaining of extensive approvals from authorities, these advance payments were classified as current assets. After these approvals had been granted, the sales proceeds of TEUR 350 were recorded in the other operating income.

In the property, plant and equipment, land and buildings are encumbered by mortgages in the amount of TEUR 8,114 (previous year: TEUR 7,161). As in the previous year the carrying amount of the mortgaged land and buildings is TEUR 7,242. Technical equipment and machinery with a carrying amount of TEUR 1,711 are pledged as security in an amount of TEUR 1,570 (previous year: TEUR 0).

The "land and buildings" position contains the mine in Sri Lanka.

At the initial consolidation time of our participation in Bogala Graphite Lanka, Ltd. the deposit in Sri Lanka was identified as an asset and was assigned to the land and buildings position. At the acquisition date the deposit was quantified by way of a geological expertise and was depreciated on a straight-line basis over its expected useful life. The useful life of the deposit is reviewed in regular intervals by way of new expertises. On 31 December 2007 a geological expertise of the mine was prepared that shows the useful life of the mine with still 17 years until 2025. Until fiscal year 2006 the expected useful life had been until the year 2031. Starting from the year 2007 the depreciation period was therefore correspondingly adapted. The depreciation shown in the cost of sales amounts to TEUR 179 in 2008 (previous year: TEUR 180).

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At 31 December 2007 the valuation was checked by way of an impairment test. In this test the value in use of the graphite deposit was determined, and the present value determined thereof was compared to the carrying amount. At 31 December 2008 the impairment test did not lead to any impairment expenses. The remaining carrying amount of the graphite deposit on 31 December 2008 was TEUR 2,915 (previous year: TEUR 3,094).

At 31 December 2008 the contractual obligations for the purchase of technical equipment and machinery amounted to TEUR 3,447 (previous year: TEUR 1,538).

For assets leased under operating-leasing-contracts, payments of TEUR 190 (previous year: TEUR 173) were made in the current year and were recognised as expenses.

(10) Financial assets

The financial assets contain the participation in Zimbabwe German Graphite Mines (Pvt.), Ltd. Acquisition costs amounted to TEUR 350. Due to the economic and political situation in Zimbabwe the amount stated was fully depreciated in previous years.

(11) Inventories

	2008	2007	Change
Graphite segment:			
Raw materials and consumables	6,743	5,254	28.3 %
Work in progress	1,156	865	33.6 %
Finished goods	3,803	3,339	13.9 %
Total for the graphite segment	11,702	9,458	23.7 %
Silicon-metal segment:			
Raw materials and consumables	5,502	3,918	40.4 %
Work in progress	15	14	7.1 %
Finished goods	2,940	875	> 100.0 %
Total for the silicon-metal segment	8,457	4,807	75.9 %
Total	20,159	14,265	41.3 %

The carrying amounts of the inventories rated at their net realisable value amount to TEUR 2,506 (previous year: TEUR 282). The amount of write-down of inventories recognised as expenses is TEUR 336 (previous year: TEUR 156).

(12) Trade receivables

The carrying amounts of the trade receivables correspond with the fair values to be used. Value adjustments in the amount of TEUR 336 (previous year: TEUR 405) were taken into consideration here.

(13) Other financial assets

	2008	2007	Change
Granted loans (non-current)	170	193	- 11.9 %
Granted loans (current)	56	50	12.0 %
Financial derivatives	0	30	- 100.0 %
Other financial receivables	59	24	> 100.0 %
Total	285	297	- 4.0 %

The derivative financial instruments are recorded at their fair value.

(14) Taxes receivable

	2008	2007	Change
Tax refund claims in Germany	1,108	1,583	- 30.0 %
Tax refund claims in foreign countries	29	0	100.0 %
Total	1,137	1,583	- 28.2 %

(15) Other current assets

	2008	2007	Change
Other tax refund claims	514	520	- 1.2 %
Refund claims from the professional association	85	95	- 10.5 %
Advance payments on inventories	281	325	- 13.5 %
Prepaid expenses	161	149	8.1 %
Creditors with debit balances	64	27	> 100.0 %
Other assets	75	107	70.1 %
Total	1,180	1,223	- 3,5 %

(16) Equity

The development of the equity in the last fiscal year and in the previous year is shown in the consolidated statement of changes in equity.

The capital stock of the parent company is TEUR 8,640, which is divided into 2,880,000 non-par individual share certificates. The shares are made out to bearer. All shares have been issued, the capital stock is paid in completely.

In addition there is an authorized capital from the year 2004 of up to TEUR 4,320, which may be utilised until 30 June 2009.

Moreover, there is a contingent capital I of up to TEUR 4,320 for the redemption of conversion or option rights which can be issued up to a figure of TEUR 40,000 until 30 September 2009 in utilisation of the authorisation given by the annual general meeting on 1 July 2004.

The additional paid-in capital in the amount of TEUR 5,568 results from the agio achieved from the capital increase in 1997. It has not changed compared to the previous year.

The statutory reserve and the additional paid-in capital of the parent company together are higher than the tenth part of the capital stock (§ 150 art. 2 AktG – German Stock Corporation Act).

(17) Pension obligations

Accruals for pensions are formed for obligations resulting from expectancies and from ongoing benefits to former employees of the Graphit Kropfmühl group and their surviving dependants. The company pension schemes in the group are accrual-financed, the pension plans are service-oriented. Especially for the employees of consolidated companies in Germany there is a company pension scheme on the basis of service-oriented ("defined benefit") pension commitments which regularly are based on the duration of employment and the payment of the employees, and are accrual-financed.

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The net liability for defined benefit obligations to be formed are determined according to IAS 19, valuation is made on the basis of actuarial expertises. The defined benefit obligation is calculated according to the so-called "projected-unit-credit method". Apart from the biometric basis and the current long-term capital market interest rates, this method also takes into account assumptions about future expected increases in salaries and pensions. In Germany, the actuarial tables 2005 G by Prof. Dr. Klaus Heubeck are used as the biometric basis.

The following valuation assumptions are used:

	Germany		Sri Lanka	
	2008	2007	2008	2007
Discount rate	6.0 %	5.3 %	12.0 %	12.0 %
Future salary increases	3.0 %	2.5 %	9.0 %	9.0 %
Pension trend	2.0 %	1.8 %	0.0 %	0.0 %
Employee turnover rate	0.0 %	0.0 %	5.0 %	5.0 %

Taking into account the respective calculation bases, the situation of accrual-financed pension obligations is as follows:

	2008	2007	2006	2005	2004
Pension obligation at 1 January	9,306	9,094	8,939	7,567	6,884
Current service cost	275	241	297	317	202
Interest cost	479	397	434	444	415
Actuarial gains (-) and losses (+)	- 409	- 52	- 207	897	406
Currency adjustment	0	- 22	- 32	21	- 19
Pension payments made	- 463	- 352	- 337	- 307	- 321
Pension obligation at 31 December	9,188	9,306	9,094	8,939	7,567
Adjustment amount due to actuarial gains (+) and losses (-)	- 617	- 974	- 1,059	- 1,303	- 405
Balance-sheet net obligation at 31 December	8,571	8,332	8,035	7,636	7,162

The total pension obligation at 31 December 2008 is not covered by plan assets.

The so-called corridor rule is applied for determining pension expenses. Actuarial gains or losses resulting from the deviation between actually occurred values compared to the assumptions on which calculation is based, and which result from the change of actuarial assumptions, are not considered here, if they do not exceed 10 % of the scope of obligation. The amount exceeding this corridor is distributed over the average remaining service time of the employees.

For the Graphit Kropfmühl group the pensions schemes resulted in pension expenses of TEUR 758 (previous year: TEUR 671), which comprise the following components:

	2008	2007
Current service cost	275	241
Interest cost	479	397
Realised actuarial gain (-) / loss (+)	4	33
Pension expenses	758	671

The current service cost are mainly recognised in the selling, administration, and other expenses. Interest costs are shown in the financial expenses.

The total of defined contribution pension plans comprises the total of employer's contributions to the pension insurance that must be paid according to the law in Germany. The payment of contributions does not lead to any other obligations for the Graphit Kropfmühl group. In 2008 the total of statutory pension insurance contributions was TEUR 859 (previous year: TEUR 840).

(18) Other non-current provisions

	2008	2007	Change
Recultivation obligation	3,820	3,906	- 2.2 %
Other non-current provisions	21	21	0.0 %
Total	3,841	3,927	- 2.2 %

Recultivation obligation

On 29 November 2001 the Supervisory Board of the parent company originally had resolved to continue operations in the Kropfmühl mine until 31 December 2007.

Because of uncertainties in the future procurement of graphite concentrates from China and Norway an application was filed on 25 July 2007 for a further prolongation of the mining operation and a corresponding extension of the main operation plan until 31 December 2008. With its decision of 4 December 2007 the government of Upper Bavaria granted this application. For securing our graphite supplies we decided in 2008 to put our mine in Germany into operation again starting from 2009.

For the upcoming underground and surface restoration work the company formed provisions in the previous years, of which an amount of TEUR 86 (previous year: TEUR 75) was used for one measure in the year under review.

In the fiscal year the accrual was recalculated in accordance with the interest rate development. Elapsed time resulted in an increase of the accrual by TEUR 176. Another increase of TEUR 20 resulted from the change of the interest rate. The moment of the expected performance of the measure was postponed to future fiscal years, which resulted in a decrease of the accrual by TEUR 497. A new estimate of the expected restructuring expenses had an opposite effect.

Other non-current provisions

In the previous year the other non-current provisions decreased due to a currency difference in the amount of TEUR 1. In 2008 there was no change.

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(19) Other financial liabilities

	2008	2007	Change
Financial derivatives	635	10	> 100.0 %
Wages and salaries	34	59	- 42.4 %
Deferred contractual obligations to employees	964	924	4.3 %
Financial statement expenses	281	207	35.7 %
Other financial liabilities	304	176	72.7 %
Total	2,218	1,376	61.2 %

The deferred contractual obligations to employees essentially contain obligations under the performance-related compensation of the management of the Graphit Kropfmühl group. The item furthermore contains deferred obligations under partial retirement contracts.

(20) Accruals for guarantees and restructuring expenses

	Guarantees	Restructuring expenses	Total
At 1 January 2007	122	0	122
Currency differences, changes in the scope of consolidation	0	0	0
Utilisation	0	0	0
Reversal	2	0	2
Addition	12	0	12
At 31 December 2007	132	0	132
Currency differences, changes in the scope of consolidation	- 1	0	- 1
Utilisation	0	0	0
Reversal	8	0	8
Addition	10	179	189
At 31 December 2008	133	179	312

The restructuring expenses are obligations carried as liabilities that become due within the scope of the severance payment program.

(21) Current taxes payable

	2008	2007	Change
Tax liabilities in Germany	830	306	> 100.0 %
Tax liabilities in foreign countries	2	96	- 97.9 %
Total	832	402	> 100.0 %

(22) Other current liabilities

	2008	2007	Change
Other tax liabilities	129	125	3.2 %
Liabilities for social security	54	60	- 10.0 %
Remaining holiday entitlements of employees	166	177	- 6.2 %
Received advance payments on orders	131	60	> 100.0 %
Professional association	187	412	- 54.6 %
Supervisory Board compensations	56	0	100.0 %
Other current liabilities	75	105	- 28.6 %
Total	798	939	- 15.0 %

III. Notes to the consolidated profit and loss statement

(23) Total sales

For the composition of total sales please refer to the segment reporting.

(24) Selling, administration, and other expenses

	2008	2007	Change
Selling expenses	1,800	1,694	6.3 %
General administration expenses	6,352	5,419	17.2 %
Other operating expenses	1,507	1,746	- 13.7 %
Total	9,659	8,859	9.0 %

(25) Other operating income

The other operating income essentially contains income from the disposal of non-current assets in the amount of TEUR 463, income from the reversal of accruals in the amount of TEUR 209, income from letting and leasing in the amount of TEUR 157, income from unused amounts of value adjustments on receivables in the amount of TEUR 177, and income from the reversal of government grants in the amount of TEUR 127. In the previous year this position essentially contained income from insurance refunds in the amount of TEUR 224, income from letting and leasing in the amount of TEUR 141, and income from the reversal of an investment subsidy in the amount of TEUR 127.

(26) Material expenses

	2008	2007	Change
Expenses for raw materials and consumables, and for goods purchased	30,640	26,931	13.8 %
Expenses for services purchased	29,257	25,698	13.9 %
Material expenses	59,897	52,629	13.8 %

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(27) Personnel expenses

	2008	2007	Change
Wages and salaries	13,402	11,600	15.5 %
Social security contributions and expenses for pensions and welfare	2,025	2,495	- 18.8 %
Personnel expenses	15,427	14,095	9.5 %

(28) Number of employees

On the balance sheet date the number of persons employed (without apprentices) was:

	2008	2007	Change
Employees working in production	512	625	- 18.1 %
Employees working in sales and marketing	32	32	0.0 %
Employees working in administration / research and development	56	57	- 1.8 %
Total	600	714	- 16.0 %

(29) Net finance costs

	2008	2007	Change
Other interests and similar income	105	123	- 14.6 %
Market value changes of derivate financial instruments	- 190	0	- 100.0 %
Interests from pension obligations	- 479	- 397	- 20.7 %
Other interests and similar expenses	- 1,191	- 1,116	- 6.7 %
Financial income	- 1,755	- 1,390	- 26.3 %

(30) Income tax expense

Income taxes include taxes paid or due in the individual countries, and deferred taxes.

Income taxes are composed as follows:

	2008	2007	Change
National taxes	1,412	1,264	11.7 %
Foreign country taxes	49	192	- 74.5 %
Deferred tax expenses	38	16	> 100.0 %
Deferred tax income	- 102	- 193	- 47.2 %
Total	1,397	1,279	9.2 %

The current taxes of the fiscal year contain payments of tax arrears for previous years in the amount of TEUR 1 (previous year: TEUR 152).

With the passing of the law on accompanying tax measures for the introduction of the European Company and for the modification of other tax regulations (German law SEStEG) the previous regulation of making the refund of resting corporation tax credits dependent on future dividend distributions was abolished.

The amount of the determined corporation tax credit acc. to § 37 KStG (German corporation tax law) was TEUR 1,382 on 31 December 2006.

Under the new regulation, the corporation tax credit in the amount determined at 31 December 2006 will be paid out independently of distributions in the future. Refunding is done in equal amounts over a period of ten years. Irrespective of the corporation tax assessment, the refund date will be the 30 September of every year. The first of these partial payments was made in 2008.

This regulation resulted in a recognition of the corporation tax credit on 31 December 2006 at present value. With an interest rate of 3.75 % (previous year: 3.75 %) the present value on 31 December 2008 was determined to be TEUR 1,039 (previous year: TEUR 1,135). The difference resulting from the discount effect in the amount of TEUR 42 was assigned to the financial income as interest income.

The determination of the mathematical national income tax expenses is based on a tax rate of 27.2 % (previous year: 36.67 %). The national tax rate is based on the corporation tax rate of 15.0 % applicable for the tax period 2008, plus a solidarity surcharge of 5.5 %, and on an average trade tax rate of 325.0 %. The tax rates applied to current taxes in foreign countries vary between 15.0 % and 28.2 %.

Reconciliation

Deferred taxes are determined on the basis of the tax rates expected at the realisation time in the individual countries (Germany and foreign countries). The tax rates are between 15.0 % and 28.2 %.

Deferred taxes result from the following future tax reliefs or burdens:

	Assets		Liabilities	
	2008	2007	2008	2007
Tax loss carried forward	0	0	- 109	- 94
Fixed assets	10	15	1,260	1,312
Inventories	1	4	0	0
Receivables and other assets	0	0	0	0
Accruals for pensions	0	0	- 412	- 449
Other accruals	8	- 4	- 6	46
Other liabilities	121	0	0	5
Total	140	15	733	820

Of the deferred taxes, deferred tax assets in the amount of TEUR 129 (previous year: deferred tax liabilities of TEUR 5) were directly recognised in the equity.

The listed income taxes of the year 2008 in the amount of TEUR 1,397 deviate by TEUR 65 from the calculated tax expenses of TEUR 1,332. The reconciliation between calculated and listed income tax expenses is shown in the table below:

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	2008	2007
Earnings before income tax	4,816	3,206
Calculated tax expenses	1,332	1,176
Tax increase due to non-tax-deductible expenses	121	74
Tax decrease due to tax-free income	- 244	- 178
Tax increase due to non-tax-effective consolidation entries	11	0
Tax increase due to loss carried forward for which no deferred tax assets were recorded in the current period	85	168
Tax decrease from the utilisation of previously not recorded loss carried forward	0	- 16
Taxes from prior years	1	152
Tax effect of domestic trade tax	45	53
Effects from tax rate changes on deferred taxes	0	- 142
Effects of deviating foreign-country tax rates	46	- 8
Listed income tax	1,397	1,279

For tax loss carry-forwards of foreign subsidiaries in the amount of TEUR 719 (previous year: TEUR 375), no deferred tax asset refund claims were shown in the balance sheet, as the utilisation of which seems insecure from today's point of view.

(31) Minority interests

Minority interests in the earnings for the period are as follows:

	2008	2007	Change
Proportion of profit of minority shareholders	0	32	- 100.0 %
Proportion of loss of minority shareholders	- 75	0	100.0 %
Minority interests	- 75	32	not stated

IV. Other notes

(32) Cashflow statement

Cash and cash equivalents are listed as funds.

The cashflow from ordinary business activities is derived indirectly from the consolidated earnings for the year attributable to the shareholders of Graphit Kropfmühl Aktiengesellschaft. The consolidated earnings for the year attributable to the shareholders of Graphit Kropfmühl Aktiengesellschaft of TEUR 3,494 (previous year: TEUR 1,895) are adjusted for essential non-cash expenses and income. Taking into consideration the changes in the working-capital, the resulting cashflow from operating activities is TEUR 4,390 (previous year: TEUR 4,285).

In the cashflow statement the following cashflows are contained in the cashflow from operating activities, but are not separately shown there:

	2008	2007	Change
Interest received	61	79	- 22.8 %
Interest paid	- 1,228	- 1,089	12.8 %
Income tax paid	- 1,054	- 1,262	- 16.5 %
Income tax refunded	516	2	> 100.0 %
Total	- 1,705	- 2,270	- 24.9 %

The cashflow from investing activities as outflow shows the additions of TEUR 7,115 (previous year: TEUR 4,255), and as inflow the income from the disposal of fixed assets of TEUR 467 (previous year: TEUR 40). Approximately 80 % of the total investment amount is allocated to expansion and rationalisation investments. On balance, the resulting cashflow from investing activities amounts to TEUR - 6.635 (previous year: TEUR - 4.192).

The cashflow from financing activities of TEUR 2.680 (previous year: TEUR - 883) shows the flow of funds from the repayment and raising of loans.

The total result shows a change of cash and cash equivalents of TEUR 434 (previous year: TEUR - 790). Adjusted for exchange-rate fluctuations and consolidation-scope related changes of TEUR - 33 (previous year: TEUR 51) the resulting cash and cash equivalents at the end of the period amount to TEUR 909 (previous year: TEUR 508).

(33) Capital control

The primary target of capital control of Graphit Kropfmühl Aktiengesellschaft is to guarantee that the company for supporting its business operations and for maximising the shareholder value maintains a high credit rating and a good equity ratio.

Graphit Kropfmühl Aktiengesellschaft controls its capital structure and makes adaptations taking into consideration any changes of the general economic conditions. For maintaining or adapting the capital structure the company can perform adaptations of the dividend payments to shareholders, or raise outside capital. At 31 December 2008 and 31 December 2007 there were no changes in the targets, guidelines, and procedures.

Graphit Kropfmühl Aktiengesellschaft monitors its capital by way of a debt ratio that is equal to the relation of net financial liabilities to the total of equity plus net financial liabilities. According to inter-group guidelines the thus-defined debt ratio must be less than 70 %. Net financial liabilities comprise interest-bearing loans, trade payables, and other liabilities less cash and cash equivalents.

Debt ratio	31 Dec. 2008	31 Dec. 2007
Financial liabilities	22,476	19,075
Trade payables	9,193	6,037
Less cash and cash equivalents	- 909	- 508
Net financial liabilities	30,760	24,604
Total equity	23,840	21,007
Equity plus net financial liabilities	54,600	45,611
Debt ratio	56.3 %	53.9 %

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(34) Additional information on financial instruments

	Carrying amount	Amount recognized in the balance sheet acc. to IAS 39			Fair value
		Amor-tized cost	Fair value recog-nized in equity	Fair value reco-gnized in profit or loss	
At 31 December 2008					
ASSETS					
Loans and receivables					
Cash and cash equivalents	909	909			909
Trade receivables	8,217	8,217			8,217
Other non-derivative financial assets	285	285			285
LIABILITIES					
Loans and receivables					
Liabilities to banks	20,258	20,258			19,760
Trade accounts payable	9,193	9,193			9,193
Non-derivative financial assets	1,584	1,584			1,584
Financial liabilities measured at fair value					
Financial instruments available for sale					
Derivatives without hedge relationship	190			190	190
Derivatives with hedge relationship	444		444		444
At 31 December 2007					
ASSETS					
Loans and receivables					
Cash and cash equivalents	508	508			508
Trade receivables	8,745	8,745			8,745
Other non-derivative financial assets	267	267			267
Derivatives with hedge relationship	30		30		30
LIABILITIES					
Loans and receivables					
Liabilities to banks	17,699	17,699			17,331
Trade accounts payable	6,037	6,037			6,037
Non-derivative financial assets	1,366	1,366			1,366
Derivatives with hedge relationship	10		10		10

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For positions with a remaining life of less than one year the market value is equal to the carrying amount. For non-current positions, especially liabilities to banks, the market value was determined by way of a simplified DCF model. Customary interest rates were used for future interest and redemption payments.

For measuring the fair values of interest rate derivatives we used the mark-to-market valuations of the issuing banks. For determining the fair values of currency derivatives (currency forwards) the purchase rate was compared with the closing rate of the hedged currency.

Financial assets

	Carrying amount = max. credit risk	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods		
			less than 30 days	between 31 and 90 days	more than 90 days
At 31 December 2008					
Trade receivables	8,217	6,628	1,134	241	80
Loans granted	226	226	0	0	0
Other financial assets	59	59	0	0	0
Financial derivatives	0	0	0	0	0
Total	8,502	6,913	1,134	241	80
At 31 December 2007					
Trade receivables	8,745	7,402	989	280	19
Loans granted	243	243	0	0	0
Other financial assets	24	24	0	0	0
Financial derivatives	30	30	0	0	0
Total	9,042	7,699	989	280	19

As in the previous year there are no indications on the balance sheet date that debtors with respect to existing neither impaired nor past due financial assets will not meet their payment obligations.

Loan amounts of TEUR 135 (previous year: TEUR 170) in the other financial assets are secured by way of guarantees of the city of Hauzenberg.

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The value adjustments of trade receivables developed as follows:

	2008	2007
At 1 January	343	222
Exchange rate differences	- 24	- 4
Addition to value adjustments	127	228
Utilisation	- 110	- 102
Reversal	0	- 1
At 31 December	336	343

Liquidity risk

The table below shows the Graphit Kropfmühl group's contractually agreed interest and redemption payments of non-derivative financial liabilities and of derivative financial instruments at their fair value:

At 31 December 2008	Carrying amount	Contractually agreed cash flows	2009	2010	2011	2012	2013	later
Fixed rate loans from banks ¹	9,735	9,763	293	1,629	1,854	1,854	1,495	2,638
Current time loans and bank overdrafts	10,523	10,600	10,600	0	0	0	0	0
Interest payments		1,891	477	416	330	243	156	269
Pension obligation ²	8,571	5,649	424	436	448	530	550	3,261
Trade accounts payable	9,192	9,192	9,192	0	0	0	0	0
Currency forwards	22	22	22	0	0	0	0	0
Other financial derivatives	612	776	170	178	159	134	89	46
Finance lease liabilities	72	72	19	17	17	18	1	0
Other financial liabilities	1,512	1,727	1,454	31	31	60	60	91
Operative lease liabilities		417	184	142	69	20	2	0
Non-cancellable purchase obligation		17,857	17,857	0	0	0	0	0
Total	19,981	57,966	40,692	2,849	2,908	2,859	2,353	6,305

At 31 December 2007	Carrying amount	Contractually agreed cash flows	2008	2009	2010	2011	2012	later
Fixed rate loans from banks ¹	8,874	8,874	1,441	1,552	1,408	1,408	1,408	1,657
Floating rate loans from banks	1,271	1,271	1,271	0	0	0	0	0
Current time loans and bank overdrafts	7,554	7,554	7,554	0	0	0	0	0
Interest payments		1,491	487	335	264	190	117	98
Pension obligation ²	8,332	5,276	395	423	445	456	536	3,021
Trade accounts payable	6,037	6,037	6,037	0	0	0	0	0
Currency forwards	10	4	- 1	2	1	1	1	0
Other financial derivatives	0	0	0	0	0	0	0	0
Finance lease liabilities	42	42	14	14	14	0	0	0
Other financial liabilities	1,324	1,354	1,010	67	72	53	34	118
Operative lease liabilities		409	195	145	53	16	0	0
Non-cancellable purchase obligation		7,904	7,904	0	0	0	0	0
Total	15,745	40,216	26,307	2,538	2,257	2,124	2,096	4,894

1) In part floating rate agreements were made for long-term loans from banks. Corresponding interest rate swaps were concluded for these credit contracts, so that these liabilities in their entirety are classified as fixed-rate liabilities. The table above shows all the financial instruments existing on 31 December for which payments were already contractually agreed. The variable interest payments under the financial instruments were calculated on 31 December 2008 on the basis of the reference interest rates published by the German Federal Bank. Financial liabilities that can be repaid at any time were assigned to the earliest time period.

2) The contractually agreed cashflows with regard to accruals for pensions relate to cashflows up to and including 2018. Cashflows after 2018 are not included.

For minimising the liquidity risk the Graphit Kropfmühl group in addition to cash resources especially has short-term credit facilities available. The parent company has credit lines with several regionally and internationally operating German banks with a total volume of TEUR 11,000. Individual subsidiaries furthermore have their own credit facilities with an aggregated total volume of TEUR 2,400.

(35) Risk management and derivative financial instruments

Principles of risk management

Because of its business activities the Graphit Kropfmühl group in particular is exposed to interest rate and exchange rate fluctuations on the capital markets, which may involve risks for its assets, liabilities, and planned transactions.

The aim of the Graphit Kropfmühl group's risk management is to exclude or limit these risks that result from operating activities, financial transactions, and investments.

For this purpose the group uses currency forwards and interest rate swaps. These exclusively serve for hedging purposes. Derivative financial instruments are not held or issued for speculation purposes.

The business partners for these hedges exclusively are renowned credit institutions whose credit status is continuously checked by leading rating agencies, which minimizes the risk of non-fulfilment of contractual obligations of the contracting parties (credit risk).

Currency risks

Currency risks may result from investments, financing measures, and from operating activities.

Foreign currency risks are secured as far as they have an influence on the group's cashflows. Foreign currency risks that have no influence on the group's cashflows (especially risks from the conversion of the annual financial statements of foreign-country consolidated companies into the group's accounting currency) are not secured.

In the investment field it is especially the acquisition and selling of participations in foreign-country companies that involves currency risks. No participations in foreign-country companies were acquired or sold in 2008.

Currency fluctuations in the financing field essentially are due to financial liabilities in foreign currencies. In this respect there were no items of importance in 2008.

The operative field involves currency risks both on the purchasing and on the selling side. Whereas most of the group activities are made in their respective functional currency, in the Graphit Kropfmühl group this especially affects the purchase of goods in USD currency.

For the purchasing market this risk is fully and for the selling market generally secured by currency forwards.

The applied hedging horizon as a rule does not exceed a period of twelve months.

The currency forwards are of the cashflow-hedge category.

There were two currency forwards on the balance sheet date. On 31 December 2007 there were no currency forwards.

All currency forwards are effective with respect to hedging, which is why the market value of these currency forwards is mirrored in the equity.

For the presentation of currency risks, IFRS 7 requires sensitivity analyses that show the effects that hypothetical changes of relevant risk variables may have on the earnings and on the equity. The periodic effects are determined by referring the hypothetical changes of the risk variables to the balance of financial instruments on the balance sheet date. This is based on the assumption that the balance on the balance sheet date is representative for the fiscal year.

However, since essential financial instruments in the Graphit Kropfmühl group are either directly nominated in the functional currency or are transferred to the functional currency by using derivatives, exchange rate changes in this regard have no effect on the earnings or the equity.

Interest rate risks

Apart from Sri Lanka and Great Britain, the Graphit Kropfmühl group is exposed to interest rate risks primarily in the euro zone.

To reduce interest rate fluctuations in the euro zone to a minimum, the Graphit Kropfmühl group uses interest rate derivatives.

Interest rate change risks in Sri Lanka and Great Britain so far are excluded from this hedging.

The interest rate derivatives that are nominated exclusively in euro comprise five fixed-rate-payer swaps and serve for hedging the interest rate change risks of liabilities.

While one interest rate swap serves for securing short-term time loans, three others are intended to minimise the interest rate change risk of long-term loans. The fifth interest rate swap originally was intended for a financing project in 2009. Due to the financial crisis this financing project was stopped.

Except for the last-mentioned business the interest rate derivatives are recognized as cashflow-hedge.

These cashflow-hedges have a high congruence between basic and hedge business, which is why the market value is mirrored in the equity. For the interest rate swap without hedge accounting the difference from the market value was recognised in the income statement as interest expenses (TEUR 190).

On the balance sheet date, the group had the following interest rate derivatives, classified by their remaining maturity and expressed in their nominal volume:

	Mature within 1 year		Mature in 1 to 5 years		Mature in more than 5 years		Total	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Fixed-rate-payer	2,734	1,653	7,881	6,437	1,800	1,081	12,415	9,171
Nominal volume	2,734	1,653	7,881	6,437	1,800	1,081	12,415	9,171

The market values of the interest rate derivatives are as follows:

	Nominal amount		Market value		Shown in the equity	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Fixed-rate-payer	12,415	9,171	- 612	20	- 422	20
Interest rate cap	0	0	0	0	0	0
Total	12,415	9,171	- 612	20	- 424	20

The sensitivity analyses required by IFRS show the effects that changes of the market interest rates have on interest rate payments, interest yield, interest expenses, other parts of the earnings, and on the equity.

If the interest rate level in the short-term loans on 31 December 2008 had been 1 % higher (lower), the interest rate expenses would have been TEUR 84 (31 December 2007: TEUR 84) higher (lower).

(36) Earnings per share

On the accounting date, as in the previous year, Graphit Kropfmühl Aktiengesellschaft does not hold any potentially diluting equity instruments. The earnings per share therefore represent the undiluted earnings per share and are determined as follows:

	2008	2007
Profit for the year attributable to shareholders of the company (in EUR)	3,494,002.10	1,894,861.67
Number of shares	2,880,000	2,880,000
Earnings per share (in EUR)	1.21	0.66
Dividend per share (in EUR)	0.00	0.00

(37) Segment reporting

In November 2006 the IASB published IFRS 8, Operating Segments, which replaced IAS 14, Segment Reporting. IFRS 8 demands that companies provide financial and descriptive information about their reportable segments. Reportable operating segments are components of a company or combinations of operating segments that meet certain criteria. Furthermore, separate financial information must be available for these segments, which is regularly reviewed by the company management to assess the business success and to decide how to distribute resources. IFRS 8 is mandatory for fiscal years starting on or after 1 January 2009. The Graphit Kropfmühl group resolved an earlier adoption of IFRS 8 in the annual financial statements of 2008.

Description of segments

The **silicon-metal** segment comprises the operating activities of the RW silicium GmbH subsidiary. This company is the only German manufacturer of silicon-metal. Business operations comprise the production and marketing of metallurgical silicon and of the by-product that is created in the production of silicon-metal, a very fine silicon dioxide. Products are primarily sold to companies in the chemical and aluminium industries.

The **graphite** segment covers the complete value-added chain in the refining of natural graphite. Starting with mining operations, processing and finally refining, the Graphit Kropfmühl group offers a comprehensive product portfolio. Our main focus lies on the production and marketing of so-called high-quality graphite products with purities of up to 99.99 % carbon.

In addition to Graphit Kropfmühl Aktiengesellschaft the graphite segment also comprises the subsidiaries Edelgraphit GmbH, GK Graphit Kropfmühl GmbH, Bogala Graphite Lanka, Ltd., Share Investment (Pvt.), Ltd., Branwell Graphite, Ltd., Graphite Týn spol. s.r.o., Mutual Sources, Ltd., and the Chinese companies Qingdao Kropfmuehl Graphite (Co.), Ltd., and Qingdao Kropfmuehl Trading (Co.), Ltd.

Based on graphite's great variety of properties the graphite segment supplies its products to companies in the most varied fields of application. Among others, the products of the graphite segment are supplied to manufacturers of alkali-manganese and lithium-ion batteries, and to companies operating in the fireproof sector of the steel and iron industry. Manufacturers of lubricants and release agents also are customers of this segment.

Operating segments are divided in line with the Board of Director's business allocation plan. Each of the two segments is managed by a responsible member of the Board of Directors. The director of the silicon-metal segment at the same time is manager of the RW silicium GmbH subsidiary. The director of the graphite segment directly governs the respective managements of the subsidiaries.

The Board of Directors is informed by way of regular reports. On the basis of these reports the Board of Directors assesses the business success and decides how the available resources are to be distributed. Apart from sales, gross profit, EBITDA and EBIT these decisions also are based on corresponding productivity and sales ratios.

The total sales are analysed according to geographic aspects that are defined by customer locations and are established by the management. Regions are classified as follows:

DACH	Germany, Austria, Switzerland
Other European countries	Western and Eastern Europe, without the countries of the DACH region
America	North America (USA, Canada), Central and South America
Asia / Pacific	Asia incl. Australia and New Zealand
Rest of the world	All countries not included in other regions, especially Africa

Earnings ratios

The gross profit contains the cost of sales attributable to the segments. These especially comprise material and personnel expenses, regular depreciations, and inventory changes that are attributable to production. The EBIT contains no interest and tax positions. Restructuring expenses and non-recurring impairment expenses acc. to IAS 36 are adjusted. The reported EBT except for income taxes contains all expenses and income attributable to the operating segments.

Other notes

The segment assets comprise all the non-current and current assets of an operating segment. Deviating from the regulations of IAS 14, this also contains income taxes receivable and interest-bearing assets.

Additions to non-current assets and regular depreciation and amortisation refer to the properties, plants and other equipment and intangible assets contained in the segments.

In accordance with IFRS 8.33b the non-current assets contain no claims from financial instruments resulting from positive market values and no deferred tax assets. Assignment to geographic regions is performed according to the locations of the subsidiaries, using the same classification that also is used for the classification of sales.

Inter-segment transaction are accounted at standard market conditions.

Information about important customers

IFRS 8.34 demands a description of the degree of dependency on important customers. The limit criterion is the exceeding of a 10 % proportion of a company's external sales by one customer. A group of companies that are jointly managed must be regarded as a single customer.

As in the previous year this limit is exceeded by one customer in the silicon-metal segment.

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(38) Contingent liabilities

The following contingent liabilities existed on the consolidated balance sheet date:

	2008	2007	Change
Liabilities on guarantees	0	1,023	not stated
Liabilities under warranties	248	252	- 1.6 %
Total	248	1,275	- 80.6 %

(39) Rental and leasing contracts

Rental and leasing contracts for tangible assets that fulfil the prerequisites of operating-leasing contracts (technical equipment and machinery as well as buildings) as a rule have a term of 3 to 5 years. The contracts expire when the contract term is over without any lease renewal or purchase options.

The total rental and leasing obligations are mature as follows:

	Mature within 1 year		Mature in 2 to 5 years		Mature in more than 5 years	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Leasing obligations	184	195	233	214	0	0

(40) Related party disclosures

Companies and persons are considered to be closely related if one of the parties directly or indirectly has the possibility to dominate the other party or to exert a decisive influence on its financial and business policy.

In fiscal year 2008 the Board of Directors had the following members:

- Martin Ebeling, Wedel, chairman
- Hans-Detlef Antel, Ruhstorf
- Achim Carstanjen, Passau (as from 1 February 2008)

On 31 December 2008 the members of the Board of Directors held the following number of shares:

Name	2008	2007
Martin Ebeling	0	0
Hans-Detlef Antel	0	400
Achim Carstanjen	0	0

In the last fiscal year the Supervisory Board had the following members:

- Dr. Thomas Guth, Berlin, managing director of SALOMON OPPENHEIM GmbH, until 5 May 2008, chairman until 5 May 2008
- Dr. Heinz Schimmelbusch, Wayne PA, United States of America, Chief Executive Officer (CEO) of AMG Advanced Metallurgical Group N.V., Amsterdam as from 6 May 2008, chairman as from 7 May 2008
- Frank Nörenberg, Hamburg, lawyer, until 5 May 2008, first deputy chairman until 5 May 2008
- Dr. Michael Witzel, Munich, lawyer, as from 6 May 2008, first deputy chairman as from 7 May 2008

- Harald Schröder, Hamburg, auditor,
until 5 May 2008, second deputy chairman until 5 May 2008
- Rainer Grohe, Otterstadt, former Executive Director of Galileo Joint Undertaking,
as from 6 May 2008, second deputy chairman as from 7 May 2008
- Dr. Herbert Knahl, Berlin, businessman, until 5 May 2008
- Klaus Josef Lutz, Munich, chairman of the management board of BayWa Aktiengesellschaft,
as from 6 May 2008
- Gottfried Lang, Kropfmühl, white-collar-worker, employee representative, until 3 July 2008
- Manfred Kneidinger, Kropfmühl, white-collar worker, employee representative, as from 3 July 2008
- Peter Fesl, Kropfmühl, blue-collar-worker, employee representative

On 31 December 2008 the following additional memberships in Supervisory Boards and other controlling bodies existed within the meaning of § 125 art. 1 clause 3 AktG:

Name	Position as	Company
Dr. Heinz Schimmelbusch	Chief Executive Officer	AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands Safeguard International Fund L. P., Wayne, PA, United States of America Timminco Limited, Toronto, Canada
	Chairman of the Supervisory Board	PFW Aerospace AG, Speyer Allied Resource Corporation, Wayne, PA., United States of America
	Member of the Board of Directors	Open Joint Stock Company Mining and Metallurgical Company Norilsk Nickel, Dudinka Krasnoyarsk Territory, Russia (until 26 December 2008)
Dr. Michael Witzel	Chairman of the Supervisory Board	Eramon AG, Gersthofen
	Member of the Supervisory Board	BMG Capital AG, Frankfurt Loewe AG, Kronach PFW Aerospace AG, Speyer
	Member of the Advisory Board	A-P-Stiftung gGmbH, Speyer
Rainer Grohe	Member of the Supervisory Board	K+S Kali+Salz AG, Kassel Norddeutsche Affinerie AG, Hamburg PFW Aerospace AG, Speyer
Klaus Josef Lutz	Chairman of the Board of Directors	BayWa Aktiengesellschaft, Munich
	Member of the Supervisory Board	MAN Nutzfahrzeuge AG, Munich BRVG GmbH, Munich DRWZ, Frankfurt Eramon AG, Gersthofen Raiffeisen- und Volksbank Touristik, Munich VK Mühlen, Hamburg RWA Raiffeisen Ware Austria AG, Vienna, Austria „UNSER LAGERHAUS“ WARENHANDELS-GESELLSCHAFT m.b.H., Klagenfurt, Austria

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On 31 December 2008 the members of the Supervisory Board held the following number of shares:

Name	Directly	Indirectly	Total
Dr. Heinz Schimmelbusch	0	0	0
Dr. Michael Witzel	0	0	0
Klaus-Josef Lutz	0	0	0
Rainer Grohe	0	0	0
Manfred Kneidinger	10	0	10
Peter Fesl	10	0	10
Total	20	0	20

The table below shows service relationships to related companies and persons in the year 2008:

Person	Position	Company	Amount of transaction	Liabilities
Dr. Michael Witzel	Partner	Lovells LLP	138	0
Frank Nörenberg Harald Schröder	Partner Partner	Nörenberg – Schröder	45	0
Total			183	0

The amount of transactions shows the scope of supplies and services accounted or deferred in the respective fiscal year, or the closing date status of receivables and liabilities.

The service relationships to related companies and persons were non-essential in the year 2008 and were of minor importance for the presentation of net assets, financial position and results of operations.

(41) Compensation of Supervisory Board and Board of Directors

The Graphit Kropfmühl group's key management compensation figures that have to be disclosed in accordance with IAS 24.16 relate to the members of the current Board of Directors and the Supervisory Board.

The members of the current Board of Directors received the following compensation:

	2008	2007	Change
Short-term benefits	1,046	614	70.4 %
Post-employment benefits	140	102	37.3 %
Total	1,186	716	65.6 %

Current service cost resulting from the pension obligations is shown as post-employment benefits.

The compensation of the Supervisory Board for fiscal year 2008 amounted to TEUR 90 (previous year: TEUR 90) and only contained short-term benefits.

The total compensation of former members of the Board of Directors and their surviving dependants amounted to TEUR 141 (previous year: TEUR 150).

The pension commitments ("Defined Benefit Obligations") for former members of the Board of Directors and their surviving dependants amounted to TEUR 1,759 (previous year: TEUR 1,932).

(42) Events after the balance sheet date

There were no events after the balance sheet date that would require reporting here.

(43) Auditing fees

For the services rendered in fiscal year 2008 by the auditor of the consolidated financial statements, Ernst & Young AG, auditing company, tax advisory company, Mannheim, (previous year: Dr. Fritz Kesel & Partner OHG, auditing company, Munich), the following fees were recorded as expenses:

	2008	2007
Auditing	185	154
Reviewing of interim financial statements	62	0
Other certification and valuation services	200	0
Tax advisory services	0	16
Other services rendered for the parent company or for subsidiaries	0	19
Total	447	189

The auditing fees contain the fees for auditing of the consolidated financial statements, for auditing of the financial statements of Graphit Kropfmühl Aktiengesellschaft, RW silicium GmbH, Edelgraphit GmbH, and Bogala Graphite Lanka, Ltd, Colombo, Sri Lanka. Other certification and valuation services comprise the fees for services in connection with potential transactions.

(44) List of interests / participations acc. to § 313 Abs. 4 HGB

Affiliated companies that are included in the consolidated financial statements:

Company	Domicile	Interest held
Edelgraphit GmbH	Bonn	100.0 %
GK Graphit Kropfmühl GmbH	Hauzenberg	100.0 %
RW silicium GmbH	Pocking	100.0 %
Branwell Graphite, Ltd.	Epping, Great Britain	100.0 %
Graphite Týn spol. s.r.o.	Týn, Czech Republic	100.0 %
Mutual Sources, Ltd.	Hong Kong, People's Republic of China	100.0 %
Bogala Graphite Lanka, Ltd.	Colombo, Sri Lanka	88.2 %
Qingdao Kropfmuehl Graphite Co., Ltd.	Tonghe, People's Republic of China	100.0 %
Qingdao Kropfmuehl Trading Co., Ltd.	Qingdao, People's Republic of China	100.0 %
Share Investments (Pvt.), Ltd.	Colombo, Sri Lanka	100.0 %

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Participations:

Not included in the consolidated financial statements as an associated company acc. to IAS 28, because for political reasons no decisive influence can be exerted on the business and financial policy of the company:

Company	Domicile	Interest held
Zimbabwe German Graphite Mines (Pvt.), Ltd.	Harare, Zimbabwe	50.0 %

The list of interests/participations of the company within the meaning of German Commercial Code provisions is deposited at the Amtsgericht München (county court Munich) under HRB 41043.

(45) Declaration according to § 161 of the German Stock Corporation Act (AktG)

The Board of Directors and the Supervisory Board have made the declaration of conformity relating to the Corporate Governance Code that is required according to § 161 of the German Stock Corporation Act (AktG) on 16 December 2008 and have made this declaration permanently accessible to the shareholders through the internet on 22 December 2008.

(46) Responsibility statement

To the best of our knowledge and in accordance with the IFRS as applicable in the EU and the additionally applicable commercial law regulations according to § 315 a art. 1 HGB (German commercial code) the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Munich, 12 February 2009

Graphit Kropfmühl Aktiengesellschaft
München

The Board of Directors

Martin Ebeling

Hans-Detlef Antel

Achim Carstanjen

Audit Opinion

We have issued the following opinion in German language on the consolidated financial statements and the group management report, both of which were prepared in the German language. We have not issued an opinion on the English version of the consolidated financial statements and the group management report. In case of any doubt, the German version of the consolidated financial statements and the group management report shall prevail:

"We have audited the consolidated financial statements prepared by Graphit Kropfmühl Aktiengesellschaft, Munich, comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity, the statement of segment reporting and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2008 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Mannheim, 12 February 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Fluck
(Auditor)

Kuhn
(Auditor)

Financial calendar and contact

Dates

3-months report 2009	13 May 2009
Annual General Meeting, Munich	10 June 2009
6-month report 2009	12 August 2009
German Equity Forum, Frankfurt	9 - 11 November 2009
9-month report 2009	11 November 2009

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This annual report also is available in German language. Both the German and the English version of the annual report are available for downloading on the internet at www.gk-graphite.com under "Investor Relations / Annual Reports".

The individual financial statements of the Graphit Kropfmühl Aktiengesellschaft are available on the internet at www.gk-graphite.com under "Investor Relations / Annual General Meeting / Annual General Meeting 2009" or for inspection at our office in Kropfmühl.



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