

Annual Report 2009



**Graphit Kropfmühl AG**



A Member of  
AMG Advanced Metallurgical Group N.V.

## GRAPHIT KROPFMÜHL AG – Financial Highlights

Group		2005	2006	2007	2008	2009	Change
Total sales	euro million	70.8	75.3	83.1	90.5	84.6	- 6.5 %
Foreign-country share of total sales	in %	38.7	36.6	36.7	36.1	24.6	
Gross profit <sup>1</sup>	euro million	9.0	10.4	13.0	15.2	8.7	- 42.8 %
EBITDA <sup>1</sup>	euro million	5.8	5.4	7.4	9.2	4.2	- 54.3 %
EBIT <sup>1</sup>	euro million	2.7	2.5	4.6	6.5	1.1	- 83.1 %
EBT	euro million	1.3	1.4	3.2	4.8	- 0.6	not stated
Consolidated earnings for the year	euro million	0.5	2.5 <sup>2</sup>	1.9	3.5	- 0.9	not stated
Cashflow from ordinary business activities	euro million	3.0	4.9	4.3	4.4	5.7	29.5 %
Investments	euro million	1.5	1.8	4.3	7.1	5.2	- 26.8 %
Balance sheet total	euro million	61.8	59.4	61.1	70.9	68.8	- 3.0 %
Stockholders equity	euro million	17.9	19.3	21.0	23.8	22.8	- 4.2 %
Equity ratio	in %	29.0	32.3	34.3	33.6	33.1	
Net debt	euro million	20.8	17.5	17.1	19.3	18.9	- 2.1 %
Employees (31 December)		699	666	714	600	477	- 20.5 %
Profitability		2005	2006	2007	2008	2009	Change
EBITDA margin	in %	8.2	7.2	8.9	10.2	5.0	
EBIT margin	in %	3.8	3.3	5.5	7.2	1.3	
Return on sales	in %	0.7	3.3	2.3	3.9	- 0.1	
Return on equity	in %	2.8	12.8	9.0	14.7	- 3.9	
Silicon-metal segment		2005	2006	2007	2008	2009	Change
Sales	euro million	45.2	48.5	54.0	61.0	60.5	- 0.8 %
Segment share of total sales	in %	63.8	64.4	65.0	67.4	71.5	
EBITDA <sup>1</sup>	euro million	2.0	3.0	4.0	6.8	4.2	- 38.2 %
EBIT <sup>1</sup>	euro million	1.1	2.2	3.1	5.8	2.8	- 50.9 %
EBT	euro million	0.5	1.6	2.6	5.3	2.1	- 60.4 %
Employees (31 December)		120	110	107	108	106	- 1.9 %
Graphite segment		2005	2006	2007	2008	2009	Change
Sales	euro million	25.6	26.8	29.1	29.5	24.1	- 18.3 %
Segment share of total sales	in %	36.2	35.6	35.0	32.6	28.5	
EBITDA <sup>1</sup>	euro million	3.8	2.4	3.4	2.4	0.0	- 100.0 %
EBIT <sup>1</sup>	euro million	1.6	0.3	1.5	1.0	- 1.7	not stated
EBT	euro million	0.8	- 0.2	0.6	- 0.7	- 2.7	not stated
Employees (31 December)		579	556	607	492	371	- 24.6 %
Share		2005	2006	2007	2008	2009	Change
Earnings	euro	0.18	0.86	0.66	1.21	- 0.32	not stated
Cashflow from ordinary business activities	euro	1.03	1.69	1.49	1.52	1.97	29.6 %
Dividend	euro	0.20	0.00	0.00	0.00	0.00 <sup>3</sup>	0.0 %







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

<sup>2</sup> Tax refund claims: euro 1.1 million in 2006

<sup>3</sup> Proposal



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## Letter to our shareholders

Martin Ebeling



Hans-Detlef Antel



Dear shareholders,

It became apparent already in the 4th quarter of 2008 that the year 2009 would be an extremely difficult year for the Graphit Kropfmühl group.

We, too, could not avoid being influenced by the development of the general economic environment, because our main sales markets and fields of application were severely affected by the economic crisis.

Compared to the overall raw material market, however, the decrease in turnover with 6.5 % still was relatively moderate.

### Securing liquidity had top priority in 2009

Because of the banking crisis and the resulting credit situation, our top priority for 2009 was to secure sufficient liquidity. With measures taken in time we were able to secure our financial requirements and increase the operative cashflow. As a result the net debt was reduced in the last fiscal year.

Our second objective was the realisation of already initiated restructuring and rationalisation projects. These projects, among others including the start-up of a new electrode system in the silicon-metal segment, personnel reductions, and the production relocation of a company in the graphite segment from Great Britain to the Czech Republic, were successfully completed.

In 2009 these measures were an additional burden on the earnings. Even adjusted for restructuring expenses, the earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) are rather low with EUR 4.2 million. We are working intensively to ensure that turnover and earnings will increase again in 2010, but we will still have to live with market-related weaknesses in the current fiscal year.

### Silicon-metal segment braved the economic environment

While the silicon-metal segment only had to put up with a decrease in turnover of 0.8 % to EUR 60.5 million, turnover in the graphite segment dropped by 18.3 % to only EUR 24.1 million.

Group turnover amounted to EUR 84.6 million, which means a decrease of 6.5 %.

The highest drops were experienced outside Germany, for example in America with 70 %. Classified by branches we were especially affected by decreasing figures in the automobile supply industry, whereas turnover in the chemical industry even increased.

No easing of the energy and raw material situation

The situation on the energy and raw materials markets hardly eased despite the economic crisis. Capacities were adapted to the decreasing demand, and prices already increased again in the 2nd half year of 2009.

For us this confirms that we are on the right track with our rationalisation projects in energy-saving technologies and with our programs to secure raw material supplies. We will continue to give priority to these areas.

Graphite business depends on development work

While the silicon-metal segment is characterised by rationalisation measures, the graphite segment highly depends on new applications. Graphite has been successfully established in energy-saving insulation materials of the building chemistry sector, and this field offers further interesting fields of application which we develop together with our customers. The use of graphite in the field of nuclear waste disposal is a highly interesting project in the medium term. At present this project still is in its development and test phase, but it shows that again and again there are new possible applications for graphite, which we intend to market successfully.

Our developments of graphite-based dispersions also have already shown some initial success in new sales areas: Development work therefore is and always will remain the core of our graphite business, combined with innovative production technology and excellent customer service.

Investor Relations: Positive feedback to equity forum

In addition to our ad-hoc messages and press releases we also provided you, dear shareholders, with comprehensive information in our interim reports also in the last year. Our participation in the equity forum in November 2009 was very well received by attending analysts.

The shareholder structure has slightly changed since the end of fiscal year 2009. Apart from AMG Advanced Metallurgical Group N.V. with 79.52 % there now is another shareholder who reported to us that he exceeded the 3 % threshold. In January, UBS Global Asset Management (Deutschland) GmbH, Frankfurt, reported a shareholding of 3.09 %.

In the last fiscal year the price development of the Graphit Kropfmühl share remained behind the general capital market trend. The share reached its yearly high already in January 2009 with EUR 17.50. The weak stock market environment at the beginning of the year clearly influenced the performance of the Graphit Kropfmühl share. The price losses that had already been observed since the middle of 2008 continued until the middle of 2009. The yearly low was reached in July 2009 with EUR 10.89. Following a stabilisation at a low level in the last fiscal year, the share price is now beginning to show an upward trend since the beginning of the new fiscal year.

## Letter to our shareholders

A strong team also in difficult times

With their commitment and dedication our employees made a decisive contribution that allowed us to cope with the year 2009 in a difficult economic environment. At some plants we had to use the instrument of short-time work, and some employees accepted voluntary salary cuts, to adapt personnel expenses to the under-utilisation of capacities. Cooperation among the teams and the constructive collaboration of our works council members in difficult decisions both were excellent.

We therefore express our most sincere thanks for their confidence, their commitment, and for the excellent cooperation.

We also sincerely thank all the shareholders, customers, and partners of the Graphit Kropfmühl group.



Martin Ebeling  
Chief Executive Officer



Hans-Detlef Antel  
Managing Director



Dear shareholders,

In fiscal year 2009 the Supervisory Board supervised and in an advisory function accompanied the work of the Management Board. 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. Our work was based on comprehensive written and verbal reports of the Management Board, which always and in a timely manner provided us with information about the economic situation of the company and its subsidiaries. Any deviations of the course of business from the set plans were individually explained. Furthermore, the chairman of the Supervisory Board regularly and personally exchanged information with the Chief Executive Officer. 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 examined and passed the respective draft resolutions in our meetings.

#### Meetings and main subjects

In 2009 the Supervisory Board held five meetings on 4 March, 27 April, 10 June, 27 October, and 15 December, which were attended by all the Supervisory Board members. Furthermore, the resolution concerning the change of management of Edelgraphit GmbH was passed in a written procedure. The meetings regularly were attended by the members of the Management Board.

The Supervisory Board did not form any committees in fiscal year 2009.

The reports, especially the monthly management reports, and the draft resolutions of the Management Board were discussed openly and intensively in the Supervisory Board meetings. In our meetings we also regularly dealt with the sales and earnings position of the group as well as with the operative development in the segments. The agenda furthermore 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 2010, the mid-term plan 2011 – 2012, as well as the further development of Corporate Governance, of risk management, and of compliance.

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 Management Board both in its measures to adapt to the global economic development and in its future plans. The Management Board and the Supervisory Board particularly discussed the further development of raw material procurement inclusive of possible mining activities in South America, Africa, and Asia, and various mid-term projects such as the securing of energy supplies, among others by way of alternative power sup-

ply from renewable energies. These discussions resulted in several subjects that were prepared in project groups and were submitted to the Supervisory Board for information and decision purposes.

The Supervisory Board responded to the global economic crisis with an intensified dialog with the Management Board concerning the changed situation and the measures to be taken. Discussions especially focused on the adaptation of the forecast 2009, on the effects of governmental economic stimulus packages on the company, on the adapted controlling of cashflow and working capital, and on various cost-reduction measures such as personnel reductions and the decreasing of output quantities in Sri Lanka, the introduction of short-time work, the reduction of inventories, and the waiving of a designated sponsor. Furthermore, the Supervisory Board accompanied the Management Board in the negotiations with banks concerning the financing of the company, which were quite difficult due to the economic crisis.

Discussions furthermore dealt with the effects of the new law on the appropriateness of Management Board remuneration (German VorstAG) on existing Management Board contracts.

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 outstanding 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 Management Board 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 18 December 2009 the Supervisory Board and the Management Board updated the common declaration of conformity according to § 161 AktG (German Stock Corporation Act). On 30 December 2009 this declaration of conformity was made 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 GmbH, auditing company in Mannheim, 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 GmbH, auditing company in Mannheim apart from auditing of the annual financial statements also included the reviewing of the interim reports for the first and second quarter.

The annual financial statements and the management report, the consolidated financial statements and the group management report, the auditing reports of the auditor, and the Management Board's proposal for the appropriation of the balance sheet profit were made available to all the members of the Supervisory Board in due time before the balance sheet meeting on 12 March 2010. 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 Management Board's proposal for balance sheet profit appropriation, as well as the consolidated finan-



cial statements and the group management report, and we agreed with the result of the auditor. Based on the final result of our examination we did not raise any objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Management Board. The annual financial statements are hereby adopted. We go along with the Management Board's proposal for the appropriation of the balance sheet profit.

### Dependent company report

The report on relations with affiliated companies according to § 312 AktG that was prepared by the Management Board and reviewed by the Ernst & Young GmbH, auditing company, Mannheim, received the following auditor's opinion: Having conducted a proper audit and appraisal, we hereby confirm first that the actual data in the report are correct, second that in the legal transactions shown in the report the service of the company was not inappropriately high, third that in the measures mentioned in the report there are no circumstances indicating any essentially different appraisal than the one provided by the Management Board.

The Management Board's dependent company report and the respective auditor's report were made available to all the members of the Supervisory Board in due time before the balance sheet meeting on 12 March 2010. At this balance sheet meeting, in the presence of and following a report by the auditor, the reports were discussed in detail, and the auditor was available for questioning and for supplementary information.

We performed our own examination of the dependent company report and of the respective auditor's opinion, and we agreed with the Management Board's dependent company report and with the result of the respective auditor's opinion on this report. Based on the final result of our examination we did not raise any objections against the Management Board's declaration concerning the relations with affiliated companies at the end of the report.

### Changes in the Management Board

On 12 March 2010 Mr. Achim Carstanjen at his own request and in agreement with the Supervisory Board resigned from his position as Management Board member. The Chief Executive Officer, Mr. Martin Ebeling, assumed management responsibility for the graphite segment.

### Changes in the Supervisory Board

On 10 June 2009, Mr. Rainer Grohe was elected first deputy chairman of the Supervisory Board, and Dr. Michael Witzel second deputy chairman of the Supervisory Board, for the period from the end of the Annual General Meeting 2009 until the end of the Annual General Meeting 2010.

We sincerely thank the Management Board and all our employees for their commitment and for their successful work in fiscal year 2009.

Kropfmühl, 12 March 2010

For the Supervisory Board



Dr. Heinz Schimmelbusch  
Chairman of the Supervisory Board

## Declaration on Corporate Governance

Responsible and transparent corporate management and control is the basis for all the decision and control processes in all segments of the Graphit Kropfmühl group. In this statement the Management Board - at the same time also for the Supervisory Board - reports on Corporate Governance in accordance with section 3.10 of the German Corporate Governance Code and with § 289a art. 1 of the German Commercial Code (HGB).

### **Declaration of conformity acc. to § 161 of the German Stock Corporation Act**

In fiscal year 2009 the Management Board and the Supervisory Board in regular intervals discussed Corporate Governance matters. On 18 December 2009 the Management Board and the Supervisory Board signed the declaration of conformity according to § 161 of the German Stock Corporation Act concerning the recommendations of the Government Commission on the German Corporate Governance Code. On 30 December 2009 this declaration of conformity was published and thus made permanently available on the internet on the company's website. If required, the declaration of conformity will be updated at [www.gk-graphite.com](http://www.gk-graphite.com).

The wording of the current declaration of conformity is as follows:

"The Management Board and the Supervisory Board of Graphit Kropfmühl Aktiengesellschaft hereby make the following declaration of conformity according to § 161 of the German Stock Corporation Act concerning the recommendations of the "Government Commission on the German Corporate Governance Code":

1. Since making the last declaration of conformity on 16 December 2008, Graphit Kropfmühl Aktiengesellschaft has complied 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 following deviations:
  - The Management Board does not arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions (code 2.3.3 clause 3). According to experience only very few shareholders use this possibility of voting right representation.
  - The company has effected a D&O insurance for the Management Board and the Supervisory Board without agreeing a deductible (code 3.8 clause 2). On an international level it is not usual to agree a deductible. Furthermore, when it comes to hiring board members the company wants to remain competitive compared to other companies which so far in most cases have not agreed any deductible. For the Management Board members a deductible will be agreed in due time according to the regulations in the law on the appropriateness of Management Board remuneration (VorstAG).
  - For the conclusion of new Management Board contracts or the extension of Management Board contracts it is, for the purpose of avoiding unequal treatment of Management Board contracts, not agreed that payments to a Management Board member in case of premature termination of his position as a Management Board member 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). Furthermore, Management Board contracts in the company usually are concluded or extended only for a term of three years, which means that introducing the above-mentioned limitations is not required also against this background.
  - Age limits for Management Board and Supervisory Board members have not been established (code 5.1.2 para. 2 clause 3 and code 5.4.1 clause 2). The freedom of choosing board members should not be restricted by general age limits.

- The Supervisory Board has not established an audit committee (code 5.3.2). Because of the company's structure it is not necessary to establish such a committee.
  - The Supervisory Board has not formed a nomination committee (code 5.3.3). Because of the company's shareholder structure it is not necessary to form such a committee.
  - The members of the Supervisory Board do not receive performance-related compensation (code 5.4.6 para. 2 clause 1). It does not seem necessary to provide a variable compensation instrument for the Supervisory Board members to perform their work.
  - The ownership of shares in the company or of related financial instruments by members of the Management Board and the Supervisory Board is not shown in the corporate governance report (code 6.6). The administrative efforts for reviewing these data should be avoided.
2. In the future Graphit Kropfmühl Aktiengesellschaft will comply with the recommendations of the German Corporate Governance Code in its version of 18 June 2009, published in the official section of the electronic Federal Gazette (Bundesanzeiger) on 5 August 2009, with the deviations mentioned under no. 1.

Kropfmühl, 18 December 2009

The Supervisory Board

The Management Board"

### Corporate Governance report

All the corporate activities of Management Board and Supervisory Board of Graphit Kropfmühl Aktiengesellschaft always focus on the sustained increase of our corporate value. For this, the continuous further development of Corporate Governance is of outstanding importance. This way Graphit Kropfmühl Aktiengesellschaft intends to further strengthen the confidence shown in us by shareholders, business partners, employees, and by the interested public.

#### Code of conduct

Lawful and ethical conduct is the basis for any actions of Management Board, Supervisory Board, and employees of the Graphit Kropfmühl group and for their business success. To guarantee consistent exemplary behaviour within the Graphit Kropfmühl group we prepared a code of conduct that is equally mandatory for the management and for the employees of the Graphit Kropfmühl group. This code of conduct is published on the company's website.

#### Management Board

In fiscal year 2009 the Management Board of Graphit Kropfmühl Aktiengesellschaft comprised Mr. Martin Ebeling, Mr. Achim Carstanjen (up to his release on 15 December 2009), and Mr. Hans-Detlef Antel. The Management Board did not form any committees in fiscal year 2009.

The rules of procedure for the Management Board established by the Supervisory Board regulate the cooperation of the Management Board members and the allocation of duties. As Chief Executive Officer, Mr. Martin Ebeling is responsible for the fields of strategy development, finances, Investor Relations, and for the graphite segment. Up to his release on 15 December 2009, Mr. Achim Carstanjen had managing responsibility for the graphite segment. Mr. Hans-Detlef Antel is responsible for the silicon-metal segment. In the last fiscal year there were no conflicts of interest that would require immediate disclosure to the Supervisory Board. Invariably the Management Board members did not have any supervisory board or comparable mandates outside the Graphit Kropfmühl group.

## Declaration on Corporate Governance

The tasks of the Management Board include the determining of the strategic orientation of the company and the managing of the company. The Management Board furthermore has to ensure that statutory regulations and company-internal guidelines are observed. Within the meaning of good Corporate Governance the Management Board 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 32 of the annual report.

### Supervisory Board

In accordance with the articles of association the Supervisory Board of Graphit Kropfmühl Aktiengesellschaft has six members. Four shareholder representatives are elected by the Annual General Meeting, two representatives are elected by the employees in accordance with the German one-third participation act. In fiscal year 2009 the Supervisory Board did not form any committees. The Supervisory Board established its own rules of procedure. The Supervisory Board in regular intervals examines the efficiency of its work to guarantee continuous optimisation. There were no conflicts of interests.

The Supervisory Board advises and supervises the Management Board in its company management activities. The Supervisory Board always is involved in questions concerning the strategic orientation of the Graphit Kropfmühl group and in any decisions that are of fundamental importance for the company. For detailed information on the work of the Supervisory Board and on the main subjects of the individual Supervisory Board meetings please refer to the Report of the Supervisory Board starting on page 5 of this annual report.

### Cooperation of Management Board and Supervisory Board

Management Board and Supervisory Board closely and trustingly cooperate to the best interest of the company. The Management Board develops the strategic orientation of the Graphit Kropfmühl group, coordinates it with the Supervisory Board, and is responsible for the corresponding implementation of individual measures. The Management Board 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. The rules of procedure for the Management Board stipulate that important business transactions are subject to the approval of the Supervisory Board.

In fiscal year 2009 the Supervisory Board was informed by way of detailed reports of the Management Board members in five Supervisory Board meetings, and through continuous close contact of the Chief Executive Officer with the Chairman of the Supervisory Board between the dates of the individual meetings. For further information on the cooperation of Management Board and Supervisory Board please refer to the Report of the Supervisory Board on page 5 of this annual report.

### Compensation report

The following report on the compensation of Management Board and Supervisory Board members and on the principles of the company's compensation system at the same time is part of the Group Management Report and was reviewed by the auditor of the consolidated financial statements.

### Compensation of the Management Board

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

## Declaration on Corporate Governance

The annual total compensation of the Management Board members comprises non-performance-related and 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 Chief Executive Officer Martin Ebeling, the consolidated EBIT is the decisive figure, for the Management Board member Hans-Detlef Antel the EBIT of the RW silicium GmbH subsidiary is the decisive figure, and for the released Management 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 Management Board members in the form of company car use and contributions to pension, health, and long term care insurance.

in TEUR	Fixed component	Variable component	Additional benefits	Total
Martin Ebeling	137	25	20	182
Hans-Detlef Antel	143	112	21	276
Achim Carstanjen*	321	39	45	405
Total	601	176	86	863

\*) Management Board member (released on 15 December 2009)

The Management Board compensation 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 Management Board member. Starting from 2010 a compensation component with long-term incentive effect is planned to be established. We are presently preparing this system. The Management Board compensation for Achim Carstanjen contains future contractually due compensation claims through accruals in the amount of TEUR 249.

The Management Board members furthermore have identical pension commitments comprising old-age pension, disability pension, and widow's pension. The Management Board members will receive old-age pension in the amount of 50 % of the fixed gross salary, if they retire after completion of their 60th respectively 65th year. The determination basis is the gross salary that was paid in the last year before retirement. If a Management Board member retires before completion of his 60th respectively 65th year, a percentage will be deducted per year from the above-mentioned determination basis.

In a disability case the Management Board members 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 Management Board member is entitled to.

in TEUR	Current service cost 2009	Defined benefit obligation (DBO) 31 Dec. 2009	Pension claim* 31 Dec. 2009
Martin Ebeling	75	854	72
Hans-Detlef Antel	28	788	72
Achim Carstanjen	41	139	17
Total	144	1.781	161

\*) Claim after supposed completion of the 60th respectively 65th year

## Declaration on Corporate Governance

The pension regulations for former members of the Management Board and their surviving dependants are the same as for the active Management Board. 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 Management Board was TEUR 1,766.

### 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.

The table below shows the Supervisory Board compensation figures:

Member	Position	Compensation in TEUR
Dr. Heinz Schimmelbusch	Chairman	30
Dr. Michael Witzel	Deputy chairman	15
Rainer Grohe	Deputy chairman	15
Klaus Josef Lutz	Member	10
Peter Fesl	Member – employee representative	10
Manfred Kneidinger	Member – employee representative	10
Total		90

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.

### Shareholders and Annual General Meeting

The shareholders exercise their co-determination rights, controlling rights, and voting rights at the Annual General Meeting of the company. Graphit Kropfmühl Aktiengesellschaft 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 Management Board also are published there.

The company's Annual General Meeting on 10 June 2009 was attended by 82 % of the voting capital. In all the agenda items the approximately 110 attending or represented shareholders accepted the administration's proposals for resolution with majorities of more than 99 %. Essential agenda items were the resolution on the appropriation of the balance sheet profit, the approval of the actions of the Management Board and the Supervisory Board, the choosing of the auditor, and the cancellation of the existing authorised capital acc. to § 4 of the articles of association and the creation of a new authorised capital along with an amendment of the articles of association. After the Annual General Meeting the detailed voting results were published on the company's website together with the presentation and the speech of the Chief Executive Officer.

### Transparency

Graphit Kropfmühl Aktiengesellschaft regularly and promptly informs shareholders, shareholder associations, analysts, 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 equally. A central medium for information distribution is the extensive Investor Relations sector at [www.gk-graphite.com](http://www.gk-graphite.com), where among others we 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 Aktiengesellschaft in accordance with the regulations of § 15 of the German Securities Trading Act (WpHG). In the last fiscal year Graphit Kropfmühl Aktiengesellschaft published two ad-hoc messages and five press releases. The dates of essential regular publications (including the annual report and interim reports) and the date of the company's Annual General Meeting are published sufficiently in advance in a "financial calendar" on the company's website.

### Accounting and auditing

The individual financial statements of Graphit Kropfmühl Aktiengesellschaft are prepared on the basis of the German Commercial Code (HGB), and the consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft are prepared according to the principles of the International Financial Reporting Standards (IFRS). The annual financial statements and the consolidated financial statements were audited by the Ernst & Young GmbH, auditing company of Mannheim, which in the Annual General Meeting 2009 was appointed as auditor and group auditor 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.

## Investor Relations

In the last fiscal year the price development of the Graphit Kropfmühl share remained behind the general trend of the capital market. Already on 21 January 2009 the share reached its yearly high with euro 17.50. The weak development on the capital market clearly influenced the performance of the Graphit Kropfmühl share. The price losses that had already been observed since the middle of 2008 continued until the middle of 2009. The yearly low was reached on 7 July 2009 with euro 10.89. In the last half year the price stabilised at a low level. Compared to the previous year the share suffered a drop of 32.1 % to euro 11.81.

Financial ratios per share in euro	2009	2008	2007
End-of-year price	11.81	17.40	13.09
Yearly high	17.50	24.40	16.37
Yearly low	10.89	11.04	12.82
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	34.0	50.1	37.7
Earnings per share	- 0.32	1.21	0.66
Cashflow per share	1.97	1.52	1.49
Dividend per share	0.00*	0.00	0.00

\* Proposal

### Dividend passed to strengthen liquidity

Considering the course of business in 2009, and in view of the uncertain situation in 2010, the primary objective is to secure liquidity. For this reason the Supervisory Board and the Management Board think it is the right decision not to distribute a dividend for fiscal year 2009. This also supports the necessary strengthening of the equity.

### Shareholder structure

The shareholder structure remained unchanged in the last fiscal year. With a share of 79.52 %, AMG Invest GmbH, a 100 % subsidiary of AMG Advanced Metallurgical Group N.V., Amsterdam, remained the biggest single shareholder in the reporting period.

On 20 January 2010, UBS Global Asset Management (Germany) GmbH, Frankfurt, exceeded the level of 3 % of the shares and on this day held 3.09 %.

The remaining 17.39 % of the total 2,880,000 shares are assigned to widely spread shareholdings.

### 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 our 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 November 2009 we presented our company at the German Equity Forum in Frankfurt. Until the middle of last year Graphit Kropfmühl Aktiengesellschaft was continuously analysed by UniCredit Markets & Investment-banking. For cost reasons we did no longer use a designated sponsor as from 1 July 2009.



Communication with private shareholders, apart from the direct dialogue at the Annual General Meeting, especially focused on the providing of current information in the Investor Relations sector of our website, where our 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](http://www.gk-graphite.com).

In fiscal year 2010 we will of course 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 Aktiengesellschaft.

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

In the year 2009 the global economy experienced the worst recession since World War II. Triggered by the financial and real estate crisis in the USA, global effects on the economic development were noticeable already in the year 2008. Growth figures stagnated, and the 2nd quarter of 2008 saw the beginning of a negative development that greatly accelerated until the end of the year 2008 and resulted in a decrease of the gross domestic product (GDP) in the euro region of more than 3 % compared to the closing quarter of 2007.

The first quarter of 2009 was strongly influenced by a feeling of uncertainty on the markets. Industrial production in the euro region experienced a severe drop of more than 15 % compared to the previous year's quarter, the GDP on comparison dropped by more than 4 %. This development continued in the second quarter of 2009, even though in this period economic early indicators suggested a recovery of the economic environment. The downward trend was stopped in the third quarter, and compared to the low level of the previous quarters industrial production and GDP in the euro region slightly increased again.

Private consumption only experienced a slight decrease (- 0.9 %) and had a supporting effect in the full year 2009. Industrial production in the euro region, however, dropped by 15 % compared to 2008, which in total resulted in a drop of the GDP of almost 4 %.

The field of plant engineering, which has a key position in German economy, was especially affected. Compared to the previous year, gross fixed investments in plant and equipment dropped by 20 % in Germany, whereas construction activity only experienced a moderate decrease. Private consumer spending in Germany even was slightly higher than in the previous year, because employment figures could be kept almost constant by way of measures such as short-time work. At the same time economic stimulus programs, which resulted in increased government expenditure, prevented an even more drastic drop. Altogether, the gross domestic product in Germany still dropped by almost 5 % in the year 2009.

In other industrial countries such as the USA and Japan the development was similar in 2009. These countries also experienced a drop of the GDP of 2.6 % and 5.6 %, respectively. The development in the emerging regions of Asia again turned out to be relatively stable. With a GDP growth of 8 % and 6 %, China (including Hong Kong) and India cushioned the clear drop in Russia (8 %) and in other emerging countries of Asia and Latin America. Brazil stood out against the negative environment and in the full year still reached zero growth according to the Ministry of Foreign Affairs. Altogether, the global economy diminished by 2.5 % in terms of GDP in 2009.

#### Report of the Management Board

The Graphit Kropfmühl group could not avoid being influenced by the development of the economic environment, and group turnover decreased by 6.5 % or EUR 5.9 million to EUR 84.6 million.

The silicon-metal segment clearly was less affected by the recession than the graphite segment. Whereas the graphite segment compared to the previous year suffered a decrease in turnover of about 18 %, the silicon-metal segment until the end of the year was able to almost completely compensate the decreasing turnover figures of the first quarters.

The table below shows the development of turnover in both segments in 2009.

External turnover in TEUR	Q I	Q II	Q III	Q IV	Total
Silicon-metal	12,799	14,516	17,104	16,074	60,493
Change compared to the previous year (%)	- 11.4 %	- 9.9 %	5.6 %	13.2 %	- 0.8 %
Graphite	5,288	5,562	6,622	6,589	24,061
Change compared to the previous year (%)	- 33.6 %	- 33.1 %	- 15.5 %	22.2 %	- 18.4 %
Group	18,087	20,078	23,726	22,663	84,554
Change compared to the previous year (%)	- 19.3 %	- 17.8 %	- 1.3 %	15.7 %	- 6.5 %

This development was supported by a strong trend on our domestic market (D/A/CH), where altogether we were able to defy the negative trend and in the group reached a slight growth of 1.5 % despite the decreasing total market. This in turn was based on a distinct growth in Germany, where we reached a growth of turnover of 10 %. In other European countries, however, we had to put up with a drop of 36 %, in America turnover dropped by almost 70 %. In the Asia / Pacific region turnover figures decreased by 10 %. In the "rest of the world" we reached a distinct growth of turnover which, however, still is at a low level.

In both segments the chemical industry proved to be a reliable customer. As a supplier for the silicone-producing chemical industry the silicon-metal segment increased its sales figures, and the same applies to the graphite segment which provides special products for the building materials chemical industry. Customers from other industry sectors, especially steel producers and all the sectors related to the automobile industry, clearly reduced their purchase quantities.

The decrease of earnings could not be prevented despite various cost reduction measures. At our affiliated company Bogala Graphite Lanka Plc., Sri Lanka, we already started a restructuring program in the previous year. As a result of this program the personnel capacities in our mine were adapted to the changed market situation, and the number of employees was reduced by more than 220 to 185 since November 2008. For this measure an amount of TEUR 142 again had to be considered as restructuring expenses in 2009. The relocation of the remaining production line from Great Britain to the Czech Republic was completed in the 2nd quarter of 2009. The workforce was correspondingly adapted, and business activities in Great Britain were reorganised. With this step we even more geared our operations to the requirements of our customers. In Germany we increasingly used the instrument of short-time work starting from the 2nd quarter, with the aim of keeping valuable employee know-how and of matching our structural expenses to our capacity utilisation.

The earnings before interest, taxes, depreciation and amortization adjusted for restructuring expenses (adjusted EBITDA) amount to EUR 4.2 million for fiscal year 2009. Compared to the previous year this means a drop of more than 50 %. The earnings before interest, taxes and restructuring expenses (adjusted EBIT) with EUR 1.1 million clearly remain behind the previous year's figure of EUR 6.5 million.

We reached our objective of securing the liquidity of our company despite a difficult financial and economical environment. Compared to the previous year the operating cashflow in the group again increased by EUR 1.3 million to EUR 5.7 million. We used this cashflow to reduce short-term bank drawings within the scope of credit lines and thus to increase flexibility with respect to short-term developments. At the same time we managed to secure our investments in the long term by taking up new loans, in part within government economic stimulus programs. Altogether, our net debt with banks decreased by EUR 0.5 million in the fiscal year.

In its meeting of 27 October 2009 the Supervisory Board resolved to extend the contract with the Chief Executive Officer, Mr. Martin Ebeling, for another three years (until 31 December 2012), with the intention of guaranteeing continuity in corporate management.

On 15 December 2009 the Management Board member Mr. Achim Carstanjen was released from his position. Up to this day Mr. Carstanjen had been responsible for the graphite segment. He was released from his position because of differing opinions concerning the strategic development of the company. Management responsibility for the graphite segment was transferred to the Chief Executive Officer, Mr. Ebeling.

### Group structure

The Graphit Kropfmühl group is a regionally operating, globally oriented raw material group primarily focussing on the fields of silicon-metal and natural graphite. In both these business segments the group has a successful history covering many decades.

In the silicon-metal segment the first furnaces were put into operation in Pocking more than 60 years ago. In the beginning the company there produced ferrosilicon, a material used in the steel industry. In the course of further development production step by step was changed to silicon-metal, which today is produced in four furnaces there. Furthermore, continuous investments were made in environmental protection measures with the aim of reducing emissions by way of improved exhaust-air treatment. With the marketing of microsilica, a very fine silicon dioxide, that is obtained in this process, these measures provided another business area in this segment.

The graphite segment has a background know-how that has been accumulated in more than 140 years. At the Kropfmühl location industrial graphite mining operations were started in 1870, and already in 1916 the company was converted into a stock corporation. Development in this segment is characterised by continuous innovations. In the mid-1950ies a refining plant was put into operation that allowed percentage purities of 99.98 %. The company later acquired a participation in Zimbabwe which until now has been part of the raw material supply in this segment, established micronising capacities, acquired a participation in another mine on Sri Lanka, and started building up operations in China. Our research and development work furthermore guarantees the permanent optimisation of our product range. Hand in hand with our customers we frequently develop specific customised solutions.

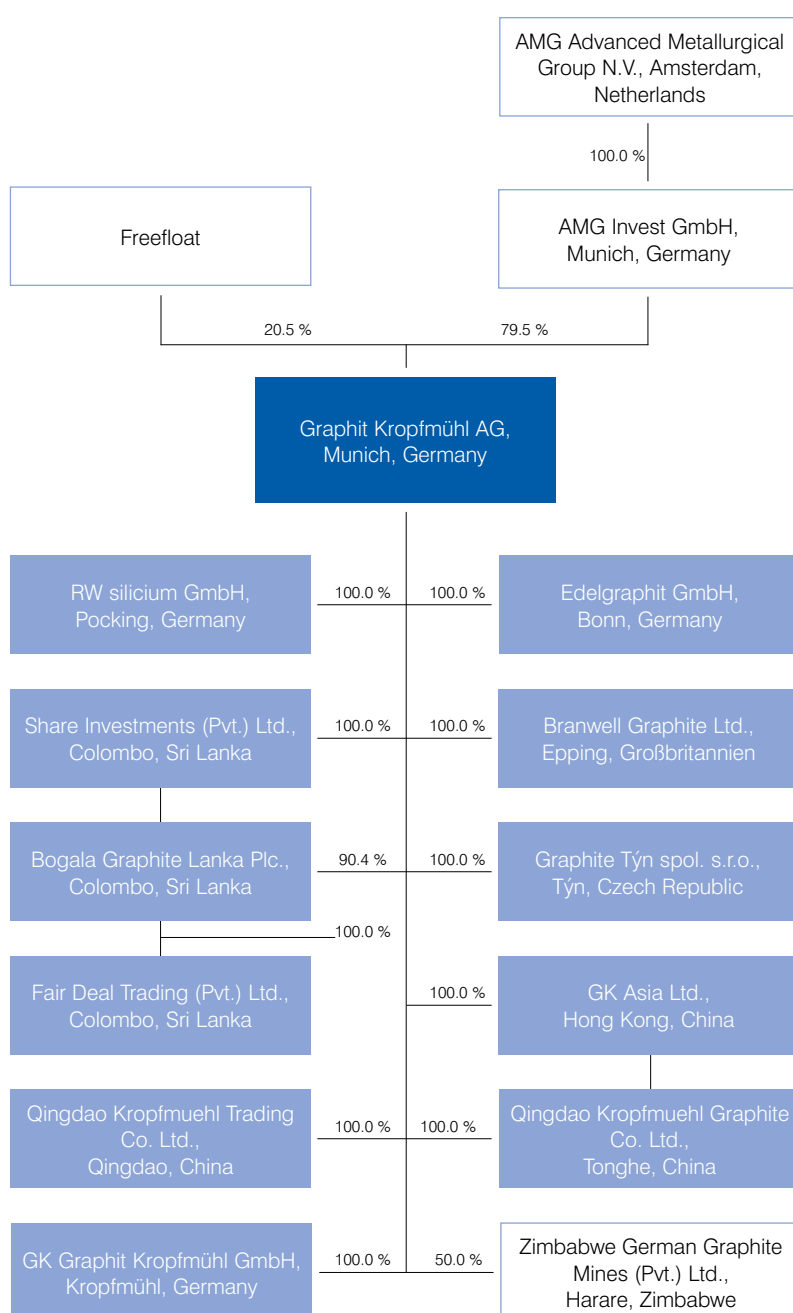
Today the Graphit Kropfmühl group comprises 13 companies, including the non-consolidated participation in Zimbabwe. In addition to the production capacities at the German plants in Kropfmühl, Wedel, Bonn, and Pocking, the group has other plants in the Czech Republic, China, Sri Lanka, and Zimbabwe. Our distribution company in Great Britain, commercial agents that are distributed all over the world, and the marketing network of our majority shareholder AMG Advanced Metallurgical Group N. V. guarantee that we are always close to our customers.

The group is managed by the Management Board. In addition to the Chief Executive Officer, who also has managing responsibility for the graphite segment, the Managing Director of the silicon-metal segment also is a member of the Management Board. The Management Board acts in close coordination and in a constant dialog with the Supervisory Board, which accompanies and supervises the work of the Management Board.

The managers of the individual affiliated companies directly report to the Management Board. Clear responsibilities and short communication routes thus guarantee fast and flexible decision-making.

In the year 2008 the majority of Graphit Kropfmühl Aktiengesellschaft shares was acquired by AMG Advanced Metallurgical Group N. V., which indirectly through AMG Invest GmbH holds 79.5 % of the shares of our company. The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft will be integrated in the consolidated financial statements of AMG Advanced Metallurgical Group N. V., Amsterdam, Netherlands.

On 21 January 2010 UBS Global Asset Management (Deutschland) GmbH informed us that their proportion of voting rights exceeded 3 % on 20 January 2010 and now is 3.09 %. In the following chart this proportion was assigned to the free float.



Business operations are combined in two reportable segments.

### Silicon-metal

The silicon-metal segment comprises the participation in the only German producer of silicon-metal, RW silicium GmbH. In fiscal year 2009 this segment with EUR 60.5 million contributed about 71.5 % to the group turnover.

The major part of the income in this segment is generated from the sale of silicon-metal. The sale of microsilica, an extremely fine silicon dioxide that is sold under the name of "RW filler", and the sale of other by-products also contributed to the segment turnover.

Production capacities are located near the German-Austrian border and thus in close vicinity to our main customers, companies in the chemical and aluminium industries.

The chemical industry primarily processes our silicon-metal into silicones. In aluminium production, silicon-metal is needed as an additive that makes aluminium castable, among others for the production of high-strength yet still light-weight vehicle components.

RW filler is a by-product of silicon-metal production and is in great demand as a filling material and additive for fibre-cement products. RW filler furthermore is used in the production of ceramic and fire-proof products and in thermal insulation materials.

With more than 90 % the major part of segment turnover is generated in the German-speaking region (D/A/CH). The close vicinity to our customers for us has the advantage of clearly reduced transport costs compared to our competitors. For the same reason, however, sales markets outside Europe are only of minor importance for us.

### Graphite

This segment comprises all our graphite operations. In addition to Graphit Kropfmühl Aktiengesellschaft, this segment includes the participations in Edelgraphit GmbH, GK Graphit Kropfmühl GmbH, Bogala Graphite Lanka Plc., Branwell Graphite Ltd., Graphite Tyn spol. s.r.o., GK Asia Ltd. (former Mutual Sources Ltd.), Qingdao Kropfmuehl Graphite Co. Ltd., Qingdao Kropfmuehl Trading Co. Ltd., Share Investments (Pvt.) Ltd., and an indirect participation in a logistics service provider in Sri Lanka, Fair Deal Trading (Pvt.) Ltd., which was acquired in fiscal year 2009. The participation in Zimbabwe German Graphite Mines (Pvt.) Ltd. also is managed in this segment, but is not included in the scope of consolidation because no influence can be exerted on the business and financial policy of the company.

Graphite is a raw material that is needed in many fields of every-day life, often without the user being aware of it. Apart from the most familiar use in pencils, graphite due to its great variety of unique properties also covers an extremely wide spectrum of other applications. Properties such as extreme thermal resistance, electrical and thermal conductivity, resistance to chemicals, and outstanding lubrication properties due to the crystalline structure among others allow the use of graphite in the fireproof sector of the steel and iron industry, in carbon brushes, battery systems, brake and friction linings, and in lubricants and separating agents. Our graphite products furthermore are used in the field of building chemistry as additives to thermal insulation materials.

Our value creation chain covers the mining, processing, and refining of graphite, which as a raw material is then supplied to the processing industries. Our operations concentrate on applications that require so-called high-quality graphite grades, which are characterised by high degrees of purity and by specifically customised properties according to the customer's demands. The further processing into lubri-

cants and separating agents, which in the field of forging or as descaling agents are directly supplied to the respective industries, also is gaining even more importance for us.

German-speaking Europe (D/A/CH) also is the major sales market of the graphite segment. About 54 % of the 2009 turnover in the amount of EUR 24.2 million were generated in this region.

### Controlling system

The Management Board controls the development of the group in close coordination with the responsible persons of the operative companies. Based on the individual reporting units, the success of controlling is regularly examined by way of the consolidated financial statements of the segments and of the group.

Within the scope of an annual planning process we prepare detailed short-term planning calculations. In a medium-term planning process, which covers another two business years, we examine whether the development lies within the strategic guidelines and whether these measures show the expected success. The assumptions on which the strategic orientation is based are regularly reviewed, and measures or strategy are adapted, if necessary.

The planning calculations are examined and analysed in the monthly reporting system. Any deviations from the plans are thus quickly detected. The efficiency of the measures to counteract such deviations is reviewed in recurring forecast calculations.

Controlling across all levels is performed by way of uniform key data, making use of standard financial and profitability key figures. Apart from the reaching of turnover key figures, earnings targets are reviewed on the basis of gross profit, EBITDA, and EBIT. Sales and production analyses in addition to regional aspects also are performed on the basis of criteria that are defined by the applications of our products. For balance sheet and liquidity analyses we use equity ratio, net debt, and inventory key data.

Short-term planning and reviewing of cashflows is performed in recurring planning calculations that are used to set off incoming and outgoing payments against each other and to adapt cashflows in the group.

### Research and development

In both segments research and development is of outstanding importance for us. Providing constant quality throughout the life cycle of our products, and ensuring continuous further development and new developments is what distinguishes us from competitors in developing and threshold countries, and what thus secures the economic future of the Graphit Kropfmühl group.

In a common project with the major customer of the silicon-metal segment we plan to further increase quality by using six-sigma methods.

In this business segment one main focus furthermore lies on the constant improvement of energy efficiency. Expenses for electricity are the decisive cost factor in the production process, and we can only counter electricity price increases with continuous rationalisation measures. In the fiscal year under review we started up a new type of electrode system at one of our furnaces, which reduces the specific energy input in relation to the output quantity. At the same time this measure results in an increase of the production quantity.

In both segments we are engaged in the process of using process heat in order to further reduce the input of primary energy and thus also reduce exhaust gas emissions.

In the graphite segment we benefit from the necessity of clearly reducing primary energy demand because of the expected shortage of fossil fuels. Especially in the field of building chemistry we cooperate with several well-known producers who use the insulation properties of graphite in their products. Another main focus lies on the development of lubricants and separating agents, with the objective of extending our value creation in this product segment.

In cooperation with companies of the AMG group we have started a project that deals with the disposal of nuclear waste. In cooperation with these companies we are developing special graphite products which are expected to generate first sales starting from 2012.

Our research and development team comprises 11 employees (previous year: 12 employees). If necessary, additional capacities are added from other departments. As in the previous year, total expenses for research and development in fiscal year 2009 amounted to approx. EUR 0.8 million.

### Investments

In the year 2009 investment activities in the group were characterised by our primary objective of securing the liquidity and thus the solvency of all the companies in the group.

We thoroughly scrutinised all our investment projects. New investment only were approved if they had the highest probability of amortising within an appropriate time. Furthermore, we restricted replacement investments to an absolutely necessary limit.

Investments in property, plant and equipment amounted to EUR 5.0 million in 2009. Compared to the previous year this is a clear decrease of EUR 2.0 million.

The major part of investments already were made in the first half year. In both segments we concluded projects that had already been started in 2008.

With EUR 4.0 million, about 80 % of all the investments were allocated to the silicon-metal segment. As planned, we concluded the conversion of a furnace in the 2nd quarter. This furnace was equipped with a closed electrode system.

In the graphite segment we started up a production line in the Czech Republic also in the 2nd quarter. In the course of our rationalisation measures this production line had been relocated from Great Britain. In the 4th quarter we started the installation of another micronising facility at the Kropfmühl plant, which allows us to cover the additional demand of the chemical industry. This investment has a total volume of EUR 1.7 million, advance payments already made and services rendered were recorded as construction in progress.

### Employees

On 31 December 2009 the Graphit Kropfmühl group in total had 477 employees. Compared to the previous year the number of employees thus decreased by another 123.

This development primarily is related to staff reductions in Sri Lanka, where in a restructuring program the workforce was reduced by more than 220 people since November 2008. On 31 December 2009 the remaining number of employees there was 185. This considerable staff reduction was necessary as a response to the drastically reduced sales figures. As a result of the relocation of the production line from Great Britain to the Czech Republic and the corresponding re-orientation of activities in Great Britain we will further adapt the workforce there in the beginning of 2010. In Germany the instrument of short-time work allowed us to prevent a loss of valuable know-how, and the number of employees in Germany only showed a slight decrease.



Due to the above-described measures the proportion of employees in foreign countries again showed a clear decrease. About 56 % were employed in foreign countries.

The silicon-metal segment had 106 employees (previous year: 108 employees) on 31 December 2009. In the graphite segment the number of employees was 371, after 492 on 31 December 2008.

Employees classified by their function	2009	2008	Change
Production	400	512	- 21.9 %
Research and development	11	12	- 8.3 %
Sales and marketing	24	32	- 25.0 %
Administration and other fields	42	44	- 4.5 %
Total	477	600	- 20.5 %

Personnel expenses in fiscal year 2009 are classified as follows:

in euro million	2009	2008	Change
Wages and salaries	10.9	13.0	- 16.2 %
Restructuring expenses (severance payments)	0.1	0.4	- 75.0 %
Social security contributions and expenses for pensions and welfare	3.0	2.5	20.0 %
Total	14.0	15.9	- 11.9 %

### Social responsibility

We are well 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 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" (Bavarian Environmental Pact) initiative.

### Strategy

Our fundamental strategic orientation has not changed. Sustained and profitable growth is our objective in both segments. With our consistent focussing on high-quality and high-profit-margin products in both segments we should be able to reach this objective.

In China we sold our mine in the year 2008 and concentrated on the marketing of high-quality graphite in the world's biggest market. Compared to China's total demand, this segment at present still is relatively small, but will soon become ever more important as a result of technology transfer to Asia. At the same time, global dependency on raw materials from China is increasing, because domestic consumption is strongly rising due to the still comparatively high growth rates. We are constantly investigating new raw material sources to reduce our dependency. At present we are evaluating deposits in Africa and in South America. In Brazil, we intend to open up a new graphite deposit in the year 2010 in a joint venture with local partners.

Cooperation with the AMG group also provides chances for future developments. The most advanced project here deals with the disposal of nuclear waste.

The graphite segment furthermore is extending the value creation chain into special fields of application. First GK lubricants and separating agents have been tested by the users and have been established on the market. We intend to increasingly offer and sell these products also in emerging economic regions, and we are establishing corresponding marketing capacities for this purpose.

### Earnings position

#### Silicon-metal segment

In this segment we reached a turnover of EUR 60.5 million. In light of the general economic environment this means a moderate decrease of 0.8 % compared to the previous year. The proportion of the group turnover again clearly increased from 67.4 % to 71.5 %.

Compared to the previous year the production quantity of silicon metal decrease by 5 % from 29,092 tons to 27,620 tons. Due to the rationalisation investment of equipping one furnace with a new type of electrode system, this capacity was not available for a period of three months. This project had already been started in 2008 and with a total volume of EUR 5.5 million was concluded within the approved budget frame.

With 28,634 tons, silicon-metal sales in 2009 were slightly higher than in the previous year (28,311 tons). Average proceeds still slightly increased by 2.6 % in the period under review.

Our major customer was the chemical industry, where the sold quantities compared to the previous year clearly increased to 23,998 tons. In the aluminium industry, however, we had to put up with noticeable reductions. Compared to the previous year the sold quantity again decreased from 9,823 tons to

4,636 tons. Here we were indirectly affected by the drop in demand in the automobile industry, which despite the boost from government economic stimulus programs (car-scrap bonus) had to suffer serious sales drops in the medium- and luxury-class segment. The sold quantity of secondary silicon was 1,639 tons.

Business with the second product range of this segment, the sale of the so-called RW filler, also suffered from the general economic situation. This product is used in the fireproof, fibre-cement, and building material industries, and therefore also was indirectly affected by decreasing building investments. The sold quantity in 2009 was 16,342 tons (previous year: 17,528 tons), the average price dropped by 5.5 %.

The special quality, established on the market under the name of "Q<sub>1</sub>", was sold in a quantity of 1,366 tons. Compared to the previous year the sold quantity also dropped significantly, but average proceeds fortunately showed a slight increase compared to the previous year.

Because of the production plant location near the German-Austrian border the silicon-metal segment has procurement and marketing advantages compared to competitors of foreign countries. On the one hand, large quartz deposits are in the direct vicinity and are available for covering the great demand in production. On the other hand, our major customers are located in the direct vicinity of our production plant. This guarantees clear transport cost advantages compared to competitors from foreign countries.

For this reason turnover in our main sales market of German-speaking Europe, combined in the D/A/CH region, contrary to the trend again increased and reached EUR 56.3 million, after EUR 52.7 million in the previous year. Other European countries, and all the remaining regions, however, remained behind the previous year's figures.

Our result still is burdened by in European comparative terms high energy costs. At the same time prices for important raw materials such as charcoal and electrodes again clearly increased compared to the previous year, so that with EUR 4.8 million in the fiscal year we could no longer reach the gross profit of the previous year.

Consequently, the earnings before interest, taxes, depreciation and amortization (EBITDA) also remained lower than in 2008. The EBITDA is EUR 4.2 million, after EUR 6.8 million in the previous year. Due to the projects concluded in the fiscal year, depreciation and amortisation increased from EUR 1.0 million to EUR 1.4 million, which results in remaining earnings before interest and taxes (EBIT) of EUR 2.8 million (previous year: EUR 5.8 million).

Due to the raising of new long-term loans the net finance costs of the silicon-metal segment worsened by EUR 0.3 million and amount to EUR - 0.7 million. Earnings before tax decreased from EUR 5.3 million to EUR 2.1 million in the fiscal year.

### Graphite segment

In the graphite segment we had to put up with a decrease of external turnover of 18.4 % to EUR 24.1 million. Due to the disproportionately high decrease, the segment turnover proportion of total turnover at the same time dropped to 28.5 %.

Compared to the silicon-metal segment, the graphite segment has a much wider customer structure both with respect to regional and to industry-specific classification.

The graphite segment – just like the silicon-metal segment - only reached growth figures in the chemical industry, where especially the building chemistry sector was of great importance. In this sector, graphite is an important additive for thermal insulation materials, increasing insulation properties and at the same time decreasing the quantity of basic materials. In the classic fields of application for graphite, such as applications in the fireproof and casting industries, we had to record turnover drops of more than 30 %. These applications increasingly are price-sensitive, which means that we have to face more and more aggressive competition. The field of "customer solutions" also was strongly influenced by the economic environment, and turnover decreased by 24 % here. The "dispersions" customer sector also dropped by 22 %, but in this sector we have the positive development that we can more and more establish our new product developments on the market here. In the future we intend to further boost this development by continuing with the expansion of our marketing capacities.

Regional classification shows that the D/A/CH region remains our most important market. Despite a drop of 16.3 % the proportion of segment turnover slightly increased from 53.0 % to 54.1 %. For the graphite segment, America as a sales market have again clearly lost significance. The companies we supply our products to were strongly impressed by the economic environment, the automotive supply industry especially was affected by restructuring measures among the American automobile producers. Furthermore, the dollar exchange rates on an annual average were at a level of 1.40 USD/EUR. The Asia / Pacific region showed a comparatively moderate decrease of 3.8 %. However, with our participations in China we are able to participate in the growth of the market for high-quality graphite products, and our turnover figures are clearly increasing here. The countries summarised in the "rest of the world" region show a positive development which, however, still is at a rather low level.

Despite all the measures we took to adapt our cost structure to the clearly lower capacity utilisation, we could not prevent a significant drop of the gross profit. Furthermore, the economic boom of the year 2008 had further heated up the development of energy prices at the Leipzig Energy Exchange up to autumn 2008. Electricity procurement costs for the year 2009 were clearly above the level of the previous years, and on an annual average electricity costs in Germany were clearly higher. Especially the micronising of graphite is a very energy-intensive production stage, and in our price negotiations we no longer were able to fully pass on the increasing costs to our customers.

In total, the gross profit clearly decreased from EUR 6.9 million to EUR 3.9 million.

With additional cost reductions we still were able to lessen the effects on the earnings before interest, taxes, depreciation and amortization adjusted for restructuring expenses (adjusted EBITDA), but there still remained a drop of approx. EUR 2.4 million, which is also reflected in the earnings before interest and taxes (excl. restructuring expenses). After a positive EBIT of EUR 0.7 million in the previous year, the graphite segment had to record a loss of EUR - 1.7 million in 2009.

Within the scope of the restructuring program in Sri Lanka, severance payments in the amount of EUR 0.4 million had already been recorded in the previous year. In 2009, EUR 0.1 million of severance payments had to be considered again. As a result of the on average higher net debt, financing costs increased from EUR 0.8 million to EUR 0.9 million. In the graphite segment the resulting total earnings before tax (EBT) amount to EUR - 2.7 million, after EUR - 0.5 million in the previous year.

### Group

Based on the influences described in the segments, the financial key data of the group compared to the previous year are as follows.

in EUR million	2009	2008
Turnover	84.6	90.5
Gross profit	8.7	15.2
Gross profit in %	10.3 %	16.8 %
Adjusted EBITDA	4.2	9.2
Depreciation and amortisation	3.1	2.7
Adjusted EBIT	1.1	6.5
Restructuring expenses	- 0.1	- 0.4
Financing costs	- 1.6	- 1.2
EBT	- 0.6	4.8

Despite the negative earnings before tax (EBT), tax expenses of EUR 0.4 million had to be considered in the group. In addition to taxes for previous years, which primarily resulted from an audit by the German financial authorities, current taxes for the tax consolidation circle of EUR 0.3 million and deferred taxes from the change of temporary differences of EUR 0.3 million also had to be considered.

The resulting profit for the year is EUR - 1.0 million, EUR - 0.1 million of which was attributable to the minority interests of Bogala Graphite Lanka Plc. For the shareholders of Graphit Kropfmühl Aktiengesellschaft the remaining consolidated profit for the year is EUR - 0.9 million, after EUR 3.5 million in the previous year. The resulting earnings per share is EUR - 0.32.

### Asset position

In fiscal year 2009 the consolidated balance sheet total of the Graphit Kropfmühl group decreased from TEUR 70,933 to TEUR 68,757, which means a drop of TEUR 2,176 or 3.1 %.

The table below shows the Graphit Kropfmühl group's non-current assets.

in TEUR	31 Dec. 2009	31 Dec. 2008
Goodwill	6,083	6,065
Other intangible assets	469	345
Property, plant and equipment	34,377	32,495
Deferred tax assets	337	140
Other financial assets	137	170
	41,403	39,215

The change in goodwill is due to the initial consolidation of a newly acquired participation in Sri Lanka. Exchange rate effects on goodwill directly recognised in the balance sheets of our subsidiaries also had to be considered. Other intangible assets increased by TEUR 124 as a result of investments of TEUR 219, which primarily related to the purchase of software licences, and depreciation and amortisation of TEUR 95.

The property, plant and equipment item shows an increase of TEUR 1,883. This increase especially is the result of additions from investments in the amount of TEUR 4,985 and disposals from depreciation and amortisation in the amount of TEUR 3,022. As in the previous year, asset impairment expenses according to IAS 36 did not have to be considered. Expenses for investments primarily relate to the completion of the rationalisation investments in the silicon-metal segment which had already been started in the previous year and were completed in the 1st half year.

Other financial assets decreased by TEUR 33, and deferred tax assets were TEUR 197 higher than in the previous year. With TEUR 152 the major part is attributable to the valuation of derivative financial instruments that are recognised in the other financial assets.

In the period under review the current assets decreased by TEUR 4,364 to TEUR 27,354. Current assets are structured as follows:

in TEUR	31 Dec. 2009	31 Dec. 2008
Inventories	15,765	20,159
Trade receivables	8,673	8,218
Taxes receivable	981	1,137
Other current assets	933	1,295
Cash and cash equivalents	1,002	909
	27,354	31,718

The development of inventories was characterised by our objective of securing the liquidity of the Graphit Kropfmühl group in a challenging environment. In the last quarter of 2008 longterm purchasing obligations with our suppliers had forced us to clearly increase our inventories, because on the other hand our customers in both segments had drastically reduced their orders at very short notice. In the year 2009 we responded to this development. By way of consistent inventory management we were able to reduce our inventories by TEUR 5,160 until the end of the third quarter. Due to supply limitations of our regional raw material suppliers in the silicon-metal segment in the winter months, which on account of weather conditions only are available to a limited extent, inventories increased again by TEUR 766 in the closing quarter.

Due to the balance sheet date trade receivables increased by TEUR 455. In the previous year the drop of sales, which the Graphit Kropfmühl group had felt only at a relatively late time starting from November and December, resulted in a very low trade receivables figure. The decrease of taxes receivable resulted from the proportional payment of a corporate tax credit in Germany which will be completed until 2017, and the payment of tax refunds for previous years.

Other current assets decreased by TEUR 362 essentially as a result of the decrease of other taxes receivable, advance payments made for inventories, and prepaid expenses. Due to the good operative cashflow, cash and cash equivalents slightly increased by TEUR 113.

Changes in equity are shown in detail in the statement of changes in equity. Especially the negative consolidated profit for the year resulted in a decrease of TEUR 1,083. Foreign currency changes shown in the consolidated statement of recognized income and expense and market value changes of derivative financial instruments also had to be considered. Due to the simultaneously decreased balance sheet total the group's equity base only decreased slightly to 33.1 %.

The total of provisions and liabilities decreased by TEUR 1,093 in fiscal year 2009. Especially by raising long-term loans we managed to clearly reduce current liabilities by TEUR 3,608.

in TEUR	31 Dec. 2009	31 Dec. 2008
Long-term bank debt	10,224	8,317
Short-term bank debt	9,629	11,941
Bank debt	19,853	20,258
Pension obligations	8,973	8,571
Non-current provisions	3,896	3,841
Deferred tax liabilities	630	733
Long-term government grants	467	209
Short-term government grants	163	127
Government grants	630	336
Trade payables	6,924	9,193
Current taxes payable	1,504	832
Other long-term financial liabilities	795	799
Other short-term financial liabilities	2,795	2,530
Other financial liabilities	3,590	3,329
Provisions and liabilities	46,000	47,093
thereof short-term	21,015	24,623
thereof long-term	24,985	22,470

The bank debt decreased by TEUR 405. Long-term loans for investment financing in Germany and in the Czech Republic and simultaneous regular repayments resulted in an increase of long-term loans of TEUR 2,420. At the same time our good operative cashflow allowed us to reduce short-term borrowings, adjusted for foreign currency effects, within the scope of available credit lines at home and abroad by TEUR 2,811.

With payments of TEUR 471 and regular additions, pension obligations increased to TEUR 8,973. The non-current provisions essentially contain the provisions for the recultivation obligation of the mine in Kropfmühl. With a utilisation of TEUR 101 the interest proportion resulting from the timing in total resulted in a slight increase of TEUR 55. Due to the change of underlying temporary differences in the consolidated companies, deferred tax liabilities dropped by TEUR 103.

In the silicon-metal segment we received a government grant from the Government of Bavaria in the amount of TEUR 444. This grant was given within the scope of a program that encourages our investment in an energy-saving furnace technology. These government grants will be released over the average expected service life of the promoted investments. In total this position increased by TEUR 294.

The increase of inventories near the end of the year and the utilisation of granted payment periods in the previous year resulted in high trade payables. The inflow of liquidity resulting especially from the decrease of inventories was used to reduce this position again. Current taxes fully are payable to German tax authorities and result from the tax consolidation circle. In addition, a tax audit of previous years plus consequential effect resulted in a tax back payment in the amount of TEUR 352. The change of other financial liabilities contains the market value adaptations of the derivatives used for interest-rate hedging, the obligations to employees, and other positions which are explained in detail in the notes to the consolidated financial statements.

### Financial position

The company's financial position in fiscal year 2009 was strongly influenced by our objective of securing the solvency of the Graphit Kropfmühl group in an economic environment that was affected by great uncertainties.

We reached this objective by permanently monitoring the decisive control variables. With this consistent strategy we reached an operative cashflow of TEUR 5,670 in the year 2009 despite the adverse conditions, and we thus again clearly exceeded the year 2008 in which we reached a cashflow of TEUR 4,390.

Based on the consolidated profit for the year of TEUR - 1,019 we indirectly determine the operative cashflow and adjust it for non-effective income and expenses and decisive changes in assets and liabilities.

The cashflow from operating activities was essentially characterised by the reduction of inventories in both segments, which in fiscal year 2009 resulted in a liquidity inflow of TEUR 4,454. This was used for financing the increase in trade receivables of TEUR 434 and the decrease in trade payables and other financial liabilities of TEUR 2,561. The payment of the government grant and the reduction of other current assets also resulted in a cash inflow. Deducting interest rate payments of TEUR 1,273 net, which due to the on average higher net debt in fiscal year 2009 were higher than in the previous year, and an inflow from income tax of TEUR 153 net, the resulting operative cashflow amounts to TEUR 5,670.

Investing activities are essentially influenced by the completion of investment projects that had been started in the previous year. These resulted in expenses of TEUR 4,985 altogether, the major part of which already was made in the 1st half year of 2009. Acquisitions of intangible assets in the amount of TEUR 219, essentially relating to the purchase of software, and proceeds of TEUR 67 in 2009 resulted in expenses of TEUR 5,146. In the previous year the expenses for investing activities altogether amounted to TEUR 6,636.

In fiscal year 2009 the outside capital structure was reorganised by the raising of long-term loans. These primarily are used for financing the investments in the silicon-metal segment. In part we were able to use loans that were granted by the German "Kreditanstalt für Wiederaufbau" (KfW) in the context of governmental economic stimulus programs. Furthermore we received a loan in the Czech Republic already in the previous year for financing the relocation of the production line from Great Britain to our Czech production plant. Altogether these resulted in proceeds of TEUR 4,314. Scheduled repayments were made in an amount of TEUR 1,894. The achieved cash inflows were used to clearly reduce short-term borrowing within the scope of granted credit lines by TEUR 2,811. This allows us to flexibly respond to future developments in our environment.

Financing activities resulted in a cash outflow of TEUR 391, adjusted for currency effects. The net bank debt of the Graphit Kropfmühl group altogether decreased by TEUR 498 in fiscal year 2009.

Adjusted for exchange-rate changes in the amount of TEUR - 40, cash and cash equivalents increased by TEUR 93 to TEUR 1,002 (previous year: TEUR 909).

### Supplementary report

Starting from the 2nd quarter of 2010 we plan to establish a joint venture with Brazilian partners for the field of natural graphite. The objective of this joint venture is to secure raw material supplies in Germany and to directly sell high-quality graphite products in Brazil and in certain export areas. Our participation



in this joint venture furthermore secures the representation of the Graphit Kropfmühl group in a strongly growing market. Graphit Kropfmühl Aktiengesellschaft will have a 49 % share in this joint venture.

### **Compensation report**

The compensation of the Management Board 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 their 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 Management Board or with employees for the case of a takeover offer. For details on board compensation, please refer to the compensation report (page 10) and to the notes (page 82). 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 2009 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 Management Board 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 Management Board 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 2009 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 Management Board members and alterations of the articles of association

The appointment and dismissal of Management Board members is regulated by the provisions of § 84 and § 85 of the German Stock Corporation Act (AktG). According to these provisions the Supervisory Board may appoint individual Management Board members 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 Management Board consists of one or several persons, and that the number of Management Board members 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 Management Board to issue or repurchase shares

#### Authorised capital

According to the resolution of the Annual General Meeting of 10 June 2009 the Management Board is authorised, with the approval of the Supervisory Board, to increase the capital stock in the time until 9 June 2014 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 Management Board furthermore 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.

#### Participation rights

On account of the resolution of the Annual General Meeting of 29 June 2005, the Management Board furthermore is authorised, with the approval of the Supervisory Board, to once or several times issue participation 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 Management Board 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 participation rights, please visit [www.gk-graphite.com](http://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 Management Board members and with executive staff 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 Management Board 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 Management Board is informed about the results of risk management in regular reports, which guarantees that especially risks endangering the continued 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 Management Board also outside the regular risk reports. The Management Board timely and continuously informs the Supervisory Board about essential risks. In the process of quality management system certification and monitoring, the risk management system of Graphite Kropfmühl Aktiengesellschaft is regularly examined for its function and efficiency and for its continuous further development and integration in the business processes, both by TÜV Management Service GmbH of 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 purpose of diversifying the supply risk for graphite and avoiding dependencies on individual regions, we are constantly searching and evaluating new raw material sources, among others in Africa and South America .

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 which 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 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.

### 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 executive 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 system comprising cash management, long-term liquidity planning and controlling, and the cooperation with outside capital lenders. 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 and interest rate swaps.

### Other risks

Possible other risks that might arise in connection with our business as an operator of several graphite mines for example might 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 reviewed.

### Legal risks

In addition to extensive 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 2009 the risk situation of the Graphit Kropfmühl group did not change in any essential manner compared to the previous year. At present there are no known risks that individually or in their entirety could endanger the continued 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 beyond our influence, 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 year 2009 the global economy had to cope with the most severe recession since World War II. Triggered by the financial and real estate crisis in the USA, the booming development came to an absolute standstill in the course of the year 2008. The year 2009 also was still strongly influenced by the crisis, but in the 3rd and 4th quarter of 2009 some indications suggested a possible recovery. For 2010 leading economic research institutions in their joint diagnosis expect a return to a moderate growth of the global economy. For the full year they expect a growth of the global gross domestic product (GDP) of 2.1 %.

However, there are great differences with respect to regions. While threshold countries such as Russia, China, India, Brazil, and other Latin American countries generate a distinct average growth of 4.9 %, traditional industrialised countries in Europe, the USA and Japan with an average growth of 1.1 % clearly remain behind this development. According to the ifo economic forecast Germany, with a GDP growth of 1.7 % in 2010, even is expected to make an above-average contribution to this growth.

However, there still are risks that might endanger a sustained recovery of the economy. Despite state intervention there still are high risk positions in the credit business. Due to the recession-related deterioration of the creditworthiness of companies on the one hand, and to the requirement for higher core capital ratios on the other hand, banks might be forced to limit or essentially increase the price of credit granting. Private consumption which until now functioned as an economic stabiliser at least in Germany, might drop as a result of a loss of consumer confidence due to rising unemployment figures in a continuing recession.

Due to economic stimulus packages and the necessary support for the credit business, the national debts in the euro region have drastically increased. At the same time the deteriorating economic situation resulted in tax revenue losses. As a result the placing of orders by states and communities, which all over the world are of great importance for the economy, might be clearly reduced.

The presented forecasts are based on the joint autumn 2009 forecast of the "joint diagnosis" project group and on the ifo economic forecast 2010 for Germany of 15 December 2009. The essential uncertainties make it more difficult to provide a reliable forecast of the economic development of the Graphit Kropfmühl group for the coming fiscal years.

### Course of business and earnings position

The global economic crisis reached the Graphit Kropfmühl group only at a comparatively late time in 2008. In the year 2009 the effects were clearly felt in both business segments, and in many fields of application we had to accept clear drops in turnover and sales.

The global silicon-metal market was affected by a drop in demand which consequently resulted in deteriorating market prices. In the meantime, the price level is beginning to recover, but the level of previous years has not yet been reached again.

We have already sold 50 % of our silicon-metal production on the market, and we expect to fully utilise our capacities and in total to reach the turnover of 2009 despite a lower price level. Energy costs, however, have a burdening effect and will relatively increase due to the lower sales prices. We therefore expect that in the silicon-metal segment we will not reach the earnings ratios of the year 2009.

In the graphite segment we will start up a new micronising line in the 2nd quarter of 2010. Furthermore, additional turnover is expected to be generated on new markets with lubricants and separating agents. The expected development in China, and our concentration on high-quality graphite products, should lead to disproportionately high growth figures in this region. If the forecasts concerning the general economic development turn out to be correct, we expect a turnover of about EUR 28.0 million for 2010 with simultaneously improved earnings ratios.

For the group we expect a turnover figure between EUR 88 million and EUR 90 million. Because of the generally uncertain and unstable situation of the global economy, however, we can at this time not provide any reliable turnover and earnings forecasts. From today's perspective, however, we expect a slight improvement of earnings compared to the last fiscal year.

In 2010 we will continue to attach greatest importance to the securing of our liquidity, and our actions and our decisions will be in line with this target. Our still careful investment policy is an example for this. New investments only are made with due consideration and reviewing of all the relevant influencing factors and risk assessments. The investments planned for 2010 will clearly remain behind the volumes of the previous years. With consistent inventory management and cost reductions we will furthermore continue to attempt to strengthen our liquidity position.

Graphit Kropfmühl Aktiengesellschaft  
München

Management Board

Martin Ebeling

Hans-Detlef Antel



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## Consolidated financial statements

Consolidated Balance Sheet as at 31 December 2009  
Graphit Kropfmühl Aktiengesellschaft, München

### ASSETS

	Notes no.	31 Dec. 2009 TEUR	31 Dec. 2008 TEUR
Non-current assets			
Intangible assets	(8)	6,552	6,410
Goodwill		6,083	6,065
Other intangible assets		469	345
Property, plant and equipment	(9)	34,377	32,495
Land and buildings		14,884	14,958
Machinery and technical equipment		16,959	12,509
Other assets, factory and office equipment		1,890	1,908
Construction in progress		644	3,120
Deferred tax assets	(30)	337	140
Other financial assets	(13)	137	170
		<b>41,403</b>	<b>39,215</b>
Current assets			
Inventories	(11)	15,765	20,159
Trade receivables	(12)	8,673	8,218
Receivables from affiliated companies		0	0
Other financial assets	(13)	141	115
Taxes receivable	(14)	981	1,137
Other current assets	(15)	792	1,180
Cash and cash equivalents		1,002	909
		<b>27,354</b>	<b>31,718</b>
		<b>68,757</b>	<b>70,933</b>



## Consolidated financial statements

### STOCKHOLDERS EQUITY AND LIABILITIES

	Notes no.	31 Dec. 2009 TEUR	31 Dec. 2008 TEUR
<b>Equity</b>	(16)		
Capital stock		8,640	8,640
Additional paid-in capital		5,568	5,568
Capital reserves		8,500	9,593
Minority interests		49	39
		<b>22,757</b>	<b>23,840</b>
<b>Non-current liabilities</b>			
Pension obligations	(17)	8,973	8,571
Non-current provisions	(18)	3,896	3,841
Long term bank-debt		10,224	8,317
Government grants		467	209
Deferred tax liabilities	(30)	630	733
Other financial liabilities	(18)	795	799
		<b>24,985</b>	<b>22,470</b>
<b>Current liabilities</b>			
Short-term bank debt		9,629	11,941
Trade payables		6,924	9,193
Liabilities to affiliated companies		1	0
Provisions for warranty and restructuring costs	(20)	0	312
Government grants		163	127
Other financial liabilities	(19)	733	421
Current taxes payable	(21)	1,504	832
Other liabilities	(22)	2,061	1,797
		<b>21,015</b>	<b>24,623</b>
		<b>68,757</b>	<b>70,933</b>

## Consolidated financial statements

Consolidated statement of comprehensive income for the time from 1 January to 31 December 2009  
Graphit Kropfmühl Aktiengesellschaft, München

	Notes no.	2009 TEUR	2008 TEUR
<b>I. Profit and loss statement</b>			
Turnover	(23)	84.554	90.456
Cost of sales		- 75.834	- 75.261
<b>Gross profit</b>		<b>8.720</b>	<b>15.195</b>
Selling, general and administrative expenses	(24)	- 8.496	- 10.138
Restructuring and asset impairment expenses		- 142	- 405
Other income	(25)	884	1.440
<b>Operating profit (EBIT)</b>		<b>966</b>	<b>6.092</b>
Net finance costs	(29)	- 1.597	- 1.276
<b>Profit before income tax</b>		<b>- 631</b>	<b>4.816</b>
Income tax expense	(30)	- 388	- 1.397
<b>Profit for the year</b>		<b>- 1.019</b>	<b>3.419</b>
thereof attributable to:			
Minority interests	(31)	- 91	- 75
Shareholders of the company		- 928	3.494
<b>II. Other comprehensive income</b>			
Foreign currency translation adjustment		- 22	- 215
Unrealised gains / losses on derivative financial instruments	(35)		
Change in unrealised gains / losses		- 275	- 456
Realised gains (-) / losses (+)		160	- 9
Net unrealised gains / losses		- 115	- 465
Income tax on income and expenses recognized directly in equity	(30)		
Change of income tax on income and expenses reco- gnized directly in equity		74	127
Realised gains (-) / losses (+)		- 44	2
Net unrealised gains / losses		30	129
Other comprehensive income after taxes		- 107	- 551
<b>III. Total comprehensive income</b>			
thereof attributable to:			
Minority interest		- 93	- 72
Shareholders of the company		- 1.033	2.940

## Consolidated financial statements

Consolidated statement of cashflows for the time from 1 January to 31 December 2009  
Graphit Kropfmühl Aktiengesellschaft, München

	Notes no.	2009 TEUR	2008 TEUR
I.			
1.		- 1,019	3,419
2.	(9)	3,022	2,620
3.	(8)	95	96
4.	(29)	1,597	1,275
5.	(30)	388	1,397
6.		- 1	- 453
7.		4,454	- 6,220
8.		- 434	374
9.		467	- 28
10.		- 2,561	3,400
11.	(18)	- 101	- 86
12.	(17)	- 471	- 463
13.		1,033	700
14.		293	- 128
15.		28	192
16.		75	61
17.		- 1,348	- 1,228
18.		- 56	- 1,054
19.		209	516
		5,670	4,390
II.			
1.	(9)	- 4,985	- 7,054
2.	(8)	- 219	- 61
3.	(2)	0	0
4.		67	467
5.		- 9	12
		- 5,146	- 6,636
III.			
1.		4,314	5,447
2.		- 1,894	- 4,605
3.		- 2,811	1,838
		- 391	2,680
IV.			
1.		133	434
2.		- 40	- 33
3.		909	508
V.		1,002	909

## Consolidated financial statements

Consolidated statement of changes in equity at 31 December 2009  
Graphit Kropfmühl Aktiengesellschaft, München

TEUR	Capital Stock	Additional paid-in capital	Other capital reserves	
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	
Other comprehensive income after taxes	0	0	- 554	
Profit for the year	0	0	0	
Total comprehensive income	0	0	- 554	
Dividend distribution	0	0	0	
Changes in the scope of consolidation	0	0	- 13	
Balance at 31 December 2008	8,640	5,568	1,358	
Foreign currency translation	0	0	- 20	
Gain (loss) of cashflow hedges	0	0	- 115	
Income tax on income and expenses recognized directly in equity	0	0	30	
Other comprehensive income after taxes	0	0	- 105	
Profit for the year	0	0	0	
Total comprehensive income	0	0	- 105	
Dividend distribution	0	0	0	
Changes in the scope of consolidation	0	0	- 60	
Balance at 31 December 2009	8,640	5,568	1,193	

## Consolidated financial statements

Capital reserves				Total	Equity attributable to shareholders of the parent	Minority interests	Total equity
Other changes in equity		Generated consolidated stockholders equity					
Foreign currency translation	Fair value financial instruments						
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	
- 218	- 336	0	- 554	- 554	3	- 551	
0	0	3,494	3,494	3,494	- 75	3,419	
- 218	- 336	3,494	2,940	2,940	- 72	2,868	
0	0	0	0	0	0	0	
0	0	0	- 13	- 13	- 22	- 35	
270	- 321	8,235	9,593	23,801	39	23,840	
- 20	0	0	- 20	- 20	- 2	- 22	
0	- 115	0	- 115	- 115	0	- 115	
0	30	0	30	30	0	30	
- 20	- 85	0	- 105	- 105	- 2	- 107	
0	0	- 928	- 928	- 928	- 91	- 1,019	
- 20	- 85	- 928	- 1,033	- 1,033	- 93	- 1,126	
0	0	0	0	0	0	0	
0	0	0	- 60	- 60	103	43	
250	- 406	7,307	8,500	22,708	49	22,757	

## Consolidated financial statements

Notes to the consolidated financial statements for fiscal year 2009  
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, (AMG) as the top parent company. The Management Board released the consolidated financial statements for publication on 25 February 2010.

### (1) Accounting principles

The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft, Munich, of 31 December 2009 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). This may involve marginal rounding differences.

These consolidated financial statements relate to the fiscal year 2009 (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, Germany	100.0 %
GK Graphit Kropfmühl GmbH	Kropfmühl, Germany	100.0 %
RW silicium GmbH	Pocking, Germany	100.0 %
Branwell Graphite Ltd.	Epping, Great Britain	100.0 %
Fair Deal Trading (Pvt.) Ltd.	Colombo, Sri Lanka	90.4 %
Graphite Týn spol. s.r.o.	Týn, Czech Republic	100.0 %
GK Asia Ltd.	Hong Kong, People's Republic of China	100.0 %
Bogala Graphite Lanka Plc.	Colombo, Sri Lanka	90.4 %
Share Investments (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 %

## Consolidated financial statements

With the exception of Share Investments (Pvt.) Ltd. 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 2009). Share Investments (Pvt.) Ltd. was integrated in the consolidated financial statements on the basis of interim financial statements.

The interest in Zimbabwe German Graphite Mines (Pvt.) Ltd. was not recognised according to the equity method because for political reasons no decisive influence can be exerted on the business and financial policy of the company.

In July 2009 Bogala Graphite Lanka Plc. acquired a 100 % interest in Fair Deal Trading (Pvt.) Ltd. Graphit Kropfmühl Aktiengesellschaft thus indirectly holds an interest of 90.4 %. The purchase price for this interest was LKR 25,000.00 (EUR 158.25). Initial consolidation was performed according to the purchase method. Fair Deal Trading (Pvt.) Ltd. is a logistics service provider in Sri Lanka organising and performing transports of goods in Sri Lanka. The market values of identifiable assets and liabilities at 31 July 2009 are as follows:

	Book value	Market value
Factory and office equipment	33	33
Cash and cash equivalents	0	0
Total assets	33	33
Non-current liabilities	27	27
Liabilities to affiliated companies	18	18
	45	45
Net assets	- 12	- 12
Goodwill		12

Of the reported consolidated profit for the period a loss of TEUR 12 was attributable to the company. If the company instead had been purchased already at 1 January 2009, a loss of TEUR 18 would have had to be considered in the financial statements.

In December 2009 a capital increase was performed at Bogala Graphite Lanka Plc. with an exclusion of minority interests. The capital increase resulted in a dilution of minority interests, so that the share in the company's capital stock attributable to Graphit Kropfmühl Aktiengesellschaft increased to 90.4 %. The acquisition costs for the capital increase at Graphit Kropfmühl Aktiengesellschaft amounted to TEUR 947. The dilution of minority interests resulted in an active difference of TEUR 63 which was classified as a transaction between the owners and was recognised in the capital reserves with no effect on income.

### (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 amortized on a straight-line basis over their economic useful life. Goodwill has an unlimited useful life and is thus not regularly amortized, 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 attributable 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, general and administrative expenses.

**Property, plant and equipment** is valued at purchasing or production costs, less the ordinary straight-line depreciations according to the standard useful life. Starting from fiscal year 2009 borrowing costs are capitalised if they are attributable to a qualified asset.

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 property, plant and equipment is tested (impairment test).

The regular depreciations of property, plant and equipment are assigned to the respective functional fields. Impairment expenses according to IAS 36 are stated under the restructuring and asset impairment expenses.

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.

**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 realization. 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** include the part of the profit for the year and of the subsidiaries' net assets that is attributable to interests that are not directly held by the parent company or indirectly by the parent company through other subsidiaries. Up to the early application of IAS 27-2008 starting from 1 January 2009, losses of a subsidiary that are attributable to minority interests basically only had to be recorded under the adjustment item if this item did not become negative due to this, or a negative balance did not increase. The exceeding amount and any other loss attributable to minority interests was 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. Basically these grants are recognised in the income only when the expenses that are to be compensated with the subsidy 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. As in the previous year there were interest rate derivatives and currency forwards on the balance sheet date.

**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.

**Turnover** and **other 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, general and administrative expenses** show all the expenses that cannot be attributed 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 that 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 pension obligations, because there are different possibilities of recording actuarial gains and losses. The discount factor also is an essential estimator in the pension obligations: An increase or decrease of this discount factor by 0.25 % would decrease the pension obligations of the plans in Germany by EUR 0.3 million, or increase them by EUR 0.3 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 perspective, 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.

## Consolidated financial statements

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 perspective no essential adjustment of the carrying amounts of the accounted assets and liabilities is to be expected in fiscal year 2010.

### (5) Changes in presentation and comparative information

Differing from the previous year, liabilities to employees are no longer recognised as financial liabilities, but as other current liabilities. According to the definitions in IAS 32 and the supplementary explanations in IFRS 7 only liabilities that exist against businessmen and that in the future will lead to an outflow of financial assets are to be recognised as financial liabilities.

Also differing from the previous year, interest rate components that are contained in pension expenses no longer are recognised in the net finance costs. We used the option in IAS 19 to recognise interest expenses in the operative functional areas. We hereby follow the accounting principles of AMG to ensure comparability with our parent group and also with our main customer.

	New 2008	Before 2008	Reclassification
Balance sheet			
Current liabilities			
Other financial liabilities	421	1,420	- 999
Other current liabilities	1,797	798	999
Profit and loss statement			
Selling, general and administrative expenses	- 10,138	- 9,659	- 479
Net finance costs	- 1,276	- 1,755	479
Other data			
Personnel expenses	15,906	15,427	479

### (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 2009.

Standard / Interpretation	Mandatory as from	Adopted by the EU commission
IAS 1 Presentation of Financial Statements – Capital Disclosures (revised)	1 Jan. 2009	Yes
IFRS 1 and IAS 27 Acquisition Costs of investments in subsidiaries, joint ventures, or associated companies	1 Jan. 2009	Yes
IAS 23 Borrowing Costs (revised)	1 Jan. 2009	Yes
IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation	1 Jan. 2009	Yes
IAS 39 and IFRIC 4 Reassessment of embedded derivatives	1 July 2008	Yes
IFRS 2 Share-based Payment	1 Jan. 2009	Yes
IFRS 4 Improvement of Disclosures	1 Jan. 2009	Yes
IFRS 7 Improvement of Disclosures	1 Jan. 2009	Yes
IFRS 8 Operating Segments	1 Jan. 2009	Yes
IFRIC 13 Customer Loyalty Programs	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 Jan. 2009	Yes
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	1 Oct. 2008	Yes

The following standards were adopted ahead of time in the consolidated financial statements of 31 December 2009:

Standard / Interpretation	Mandatory as from	Adopted by the EU commission
IAS 27 Consolidated and Separate Financial Statements acc. to IFRS (revised)	1 July 2009	Yes

#### IAS 1 Presentation of Financial Statements (revised)

The changed presentation was used for the first time in the interim financial statements and the consolidated financial statements of fiscal year 2009. The Graphit Kropfmühl group implemented these requirements in the consolidated statement of recognized income and expense that is part of these financial statements.

#### Amendments to IFRS 1 and IAS 27

The amendments have no effect on the group's asset, financial, and earnings position.

At 31 December 2009, as in the previous year, the group had no investments in joint ventures or associated companies.

### IAS 23 Borrowing Costs (revised)

The initial application of IAS 23 in 2009 did not have any effects on the presentation of the asset, financial, and earnings position, because so far there have not been any business transactions that would have been attributable to borrowing costs for the purchase, construction, or manufacture of non-current assets.

### IAS 27 Consolidated and Separate Financial Statements acc. to IFRS

The standard requires that a change in the interest of a subsidiary that does not lead to a loss of control must be recognised as a transaction between the shareholders. Neither goodwill nor profit or loss can result from such transactions. In the Graphit Kropfmühl group this procedure has been used since 2006. In fiscal year 2009 this had the result that an active difference in the amount of TEUR 63 from the capital increase without participation of minority interests at Bogala Graphite Lanka Plc. directly was recognised in the group's equity. In the future losses furthermore have to be distributed also to minority interests even if these minority interests show a negative balance due to this.

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

The amendments of these standards had no effect on the asset, financial, and earnings position of the group, because the group has not issued any such instruments.

### IFRS 2 Share-based Payment

Since there are no share-based payments in the Graphit Kropfmühl group, this had no effects on the group's asset, financial, and earnings position.

### IFRS 8 Operating Segments

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 37.

### IFRIC 13 Customer Loyalty Programs

Since the Graphit Kropfmühl group until now has not established any long-term customer loyalty programs, this interpretation had no effects on the asset, financial, and earnings position.

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

The application of this interpretation had no influence on the group's asset, financial, and earnings position, because the pension commitments in the Graphit Kropfmühl group exclusively are financed by provisions.

### IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 had no effects on the consolidated financial statements because the interpretations are not applicable to the group.

### IFRIC 16 Hedges of a Net Investment in a Foreign Operation

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.

### 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.

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, the amendments of the standards and interpretations had no essential effects on the asset, financial, and earnings position.

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

In addition to the standards and interpretations that are mandatory for the consolidated financial statements of 31 December 2009 there also are other new standards and interpretations which are not yet mandatory for fiscal years that started on 1 January 2009 and have not yet been applied in the financial statements of the Graphit Kropfmühl group:

Standard / Interpretation	Mandatory as from	Adopted by the EU commission
IAS 24 Related Party Disclosures (revised)	1 Jan. 2011	No
IAS 32 Amendment – Classification of Rights Issues	1 Feb. 2010	Yes
IAS 39 Financial Instruments: Recognition and Measurement – Qualifying Items	1 July 2009	Yes
IFRS 1 First-time adoption of International Financial Reporting Standards (revised)	1 July 2009	Yes
IFRS 1 Amendment - Other Exceptions for first-time adopters of IFRS	1 Jan. 2010	No
IFRS 2 Group Cash-settled Share-based Payment Transactions	1 Jan. 2010	No
IFRS 3 Business Combinations (revised)	1 July 2009	Yes
IFRS 9 Financial Instruments: Classification and Measurement	1 Jan. 2013	No
IFRIC 14 Amendment – Prepayments of Minimum Funding Requirements	1 Jan. 2011	No
IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009	Yes
IFRIC 18 Transfers of Assets from Customers	1 July 2009	Yes
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	No
Improvements to IFRS 2009		No

### IAS 24 Related Party Disclosures

The revision intends to essentially streamline IAS 24 disclosure obligations for state-controlled entities. It is no longer required to disclose all the business transactions with the state and with other state-controlled entities. Furthermore, the definition of related parties is put in more concrete terms especially for state-controlled entities.

### IAS 39 Financial Instruments: Recognition and Measurement – Qualifying Items

The amendment specifies how the principles of measuring hedge relations that are contained in IAS 39 are to be applied to the designation of a single-sided risk in a hedged item and on the designation of inflation risks as a hedged item. It is made clear that it is permissible to only designate a part of the changes of the fair value or of cashflow fluctuations of a financial instruments as a hedged item. The group expects that the amendment will have no effects on the asset, financial, and earnings position of the group.

### IFRS 1 First-time adoption of International Financial Reporting Standards (revised)

The purpose of this revision was to restructure the standard, and the revision only related to editorial changes. The following amendment allows IFRS first-time adopters to use the transitional regulations of the amendment of IFRS 7.

### IFRS 2 Group Cash-settled Share-based Payment Transactions

The amendment of IFRS 2 specifies that a company only has to record received goods or services according to the regulations for share-based payments with equity instrument compensation if own equity instruments of the company are granted in return or the company has no obligation to settle the share-based payment. Within the scope of the amendment the regulations in IFRIC 8 "Scope of IFRS 2" and IFRS 11 "Group and treasury share transactions" are adopted in IFRS 2 and cancelled. The adoption of IFRS 2 will have no effects on the asset, financial, and earnings position of the Graphit Kropfmühl group because it is not intended to issue equity instruments as compensation for goods or services. In 2010 it is planned to establish compensation components with long-term incentive effect for Management Board members in accordance with the German law on the appropriateness of Management Board remuneration (VorstAG). Until now neither type nor extent have been defined in the Graphit Kropfmühl group, and the effects of the implementation of these regulations can at present not yet be defined.

### IFRS 3 Business Combinations (revised)

The essential amendments of this standard concern the measurement of interests without a controlling influence (previously "minority interests") and the measurement of interests upon the first reaching of control in a successive interest acquisition. The mandatory consideration of compensations in case of occurring future events and the recognised treatment of transaction costs also are defined. The transitional regulations provide for a prospective adoption. The new regulations will have effects on goodwill generated in business combinations, on the result of the respective reporting period, and on future reporting periods.

### IFRS 9 Financial Instruments

IFRS 9 was prepared as the first part of a project for the comprehensive new regulation of the financial instruments accounting and at the end of a three-stage process should completely replace the previous standard IAS 39 "Financial Instruments: Recognition and Measurement". The standard published in November so far covers the classification and measurement of financial assets. It has not yet been decided whether the Graphit Kropfmühl group chooses an early adoption.

### IFRIC 14 Amendment – Prepayments of Minimum Funding Requirements

With the interpretation the amendment should abolish unintended effects in some countries where a company is subject to minimum funding requirements and makes a prepayment of contributions that meet these requirements.



### IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 17 regulates how companies have to value non-cash assets that are transferred to owners as a dividend. IFRIC 17 will have no effects on the consolidated financial statements because a distribution of property dividends is not intended in the group.

### IFRIC 18 Transfers of Assets from Customers

IFRIC 18 provides guidelines on the accounting of agreements in which a company receives assets or property, plant and equipment from a customer which the company must use to provide the customer with services or goods. In the energy industry, for example, this is a frequently used procedure. IFRIC 18 will have no effects on the consolidated financial statements because such business transactions are not planned in the group.

### IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation so far has not been approved by the EU commission within the scope of the endorsement process. IFRIC 19 clarifies that in the case of an extinguishing of financial liabilities with equity instruments the equity instrument must be treated as compensation for the extinguishing of the liability, and specifies how these equity instruments have to be measured. It is at present not planned to issue equity instruments for the extinguishing of financial liabilities, and effects on the asset, financial, and earnings position of the Graphit Kropfmühl group are not to be expected.

### Improvements to IFRS 2009

Within the scope of the improvement process, the IASB in April 2009 issued a standard collection that involved minor changes of the following standards and interpretations which predominantly are to be used for fiscal years starting after 1 July 2009 or 1 January 2010.

Standard / Interpretation	
IAS 1	Presentation of Financial Statements
IAS 7	Cashflow Statement
IAS 17	Leases
IAS 18	Revenue
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 2	Share-based Payment
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 8	Operating Segments
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

The changes in the standards predominantly concern matters that are not relevant for the Graphit Kropfmühl group. From the adoption of the changed standards and interpretations we therefore expect no essential effects on the asset, financial, and earnings position.

## Consolidated financial statements

### (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 profit 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 2009 these resulted in foreign currency losses of TEUR 16 (previous year: TEUR 235).

#### Important exchange rates

	Currency	Closing rate on 31 Dec.			Average rate		
		2009	2008	Change	2009	2008	Change
China	CNY / 1 EUR	9.8350	9.4967	3.6 %	9.5277	10.2250	- 6.8 %
Great Britain	GBP / 1 EUR	0.8881	0.9525	- 6.8 %	0.8909	0.7963	11.9 %
Hong Kong	HKD / 1 EUR	11.1709	10.7875	3.6 %	10.8114	11.4548	- 5.6 %
Sri Lanka	LKR / 1 EUR	164.1450	157.9779	3.9 %	160.6404	158.2279	1.5 %
Czech Republic	CZK / 1 EUR	26.4730	26.8817	- 1.5 %	26.4349	25.0000	5.7 %
USA	USD / 1 EUR	1.4406	1.3918	3.5 %	1.3948	1.4708	- 5.2 %

## II. Notes to the consolidated balance sheet

## (8) Intangible assets

	Goodwill	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at 1 Jan. 2008	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
Exchange rate differences	6	0	0	6
Additions	12	0	219	231
Disposals	0	0	0	0
Transfers	0	0	0	0
Acquisition costs at 31 Dec. 2009	6,083	621	1,563	8,267
Accum. amortisation at 1 Jan. 2008	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
Exchange rate differences	0	0	0	0
Additions	0	63	32	95
Disposals	0	0	0	0
Transfers	0	0	0	0
Accum. amortisation at 31 Dec. 2009	0	407	1,308	1,715
Net carrying amounts at 1 Jan. 2009	6,065	277	68	6,410
Net carrying amounts at 31 Dec. 2009	6,083	214	255	6,552

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 assigned 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. As in the previous year, there is no goodwill in the silicon-metal segment. 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 three years (2010 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 assumptions about the development of the selling and purchasing markets of the CGU. 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. The growth acc. to the detailed planning period was considered with an average of 1.0 % (previous year: 0.5 %) in the discount rate. As discount rate before tax, 10.9 % (previous year: 16.5 %) was used in the graphite CGU.

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

On the balance sheet date the goodwill in the graphite segment amounted to TEUR 6,083 (previous year: TEUR 6,065).

The initial consolidation of the interest acquired in Fair Deal Trading (Pvt.) Ltd., Colombo, Sri Lanka, resulted in a goodwill of TEUR 12. Currency effects in the amount of TEUR 6 also have to be considered.

Intangible assets apart from goodwill also include internally generated intangible assets of TEUR 214 (previous year: TEUR 277) and other intangible assets of TEUR 255 (previous year: TEUR 68).

Development costs are regularly amortised on a straight-line basis over a useful life of 10 years. Amortisation in fiscal year 2009 amounted to TEUR 63 (previous year: TEUR 63). In 2009 there were no asset impairment expenses acc. to IAS 36. In fiscal year 2009, as in the previous years, no other development costs were recorded as internally generated intangible assets.

The other intangible assets essentially include software that is amortised on a straight-line basis over 3 to 5 years. They also contain a purchased delivery right that is linearly amortised over the term of the contract. Amortisation on other intangible assets in fiscal year 2009 amounted to TEUR 32 (previous year: TEUR 33) and as in the previous year is recorded in the selling, general and administrative expenses. The other intangible assets include fully amortised software that is still in use.

Amortisation on intangible assets fully is contained in the selling, general and administrative expenses.

## (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 cost at 1 Jan. 2008	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 cost at 31 Dec. 2008	23,459	48,253	8,639	3,120	83,471
Exchange rate differences	- 49	- 32	- 23	- 6	- 110
Additions from company acquisitions	0	0	33	0	33
Additions	19	123	178	4,665	4,985
Disposals	- 223	- 243	- 394	- 5	- 865
Transfers	503	6,417	210	- 7,130	0
Acquisition cost at 31 December 2009	23,709	54,518	8,643	644	87,514
Accum. depreciations at 1 Jan. 2008	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. depreciation at 31 Dec. 2008	8,501	35,744	6,731	0	50,976
Exchange rate differences	- 22	- 28	- 12	0	- 62
Additions	569	2,063	390	0	3,022
Disposals	- 223	- 220	- 356	0	- 799
Transfers	0	0	0	0	0
Accum. depreciation at 31 Dec. 2009	8,825	37,559	6,753	0	53,137
Net carrying amounts at 1 Jan. 2009	14,958	12,509	1,908	3,120	32,495
Net carrying amounts at 31 Dec. 2009	14,884	16,959	1,890	644	34,377

## Consolidated financial statements

The regular depreciation on property, plant and equipment is based on the following useful life periods:

Years	2009	2008
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

Loans that are secured with mortgages on land and buildings on 31 December 2009 amounted to TEUR 8,433 (previous year: TEUR 8,114). The carrying amount of the mortgaged land is TEUR 7,341 (previous year: TEUR 7,242). Technical equipment and machinery with a carrying amount of TEUR 1,580 are pledged as security in the amount of TEUR 1,574 (previous year: TEUR 1,570).

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

Within the scope of revaluation at the initial consolidation time of our participation in Bogala Graphite Lanka Plc. 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 (previous year: TEUR 179).

At 31 December 2008 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. The remaining carrying amount of the graphite deposit on 31 December 2009 was TEUR 2,736 (previous year: TEUR 2,915).

At 31 December 2009 the contractual obligations for the purchase of technical equipment and machinery amounted to TEUR 859 (previous year: TEUR 3,447).

For assets leased under operating-leasing-contracts, payments of TEUR 150 (previous year: TEUR 190) 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

	2009	2008	Change
Graphite segment			
Raw materials and consumables	5,784	6,743	- 14.2 %
Work in progress	1,062	1,156	- 8.1 %
Finished goods	3,655	3,803	- 3.9 %
Total for the graphite segment	10,501	11,702	- 10.3 %
Silicon-metal segment			
Raw materials and consumables	3,623	5,502	- 34.2 %
Work in progress	13	15	- 13.3 %
Finished goods	1,628	2,940	- 44.6 %
Total for the silicon-metal segment	5,264	8,457	- 37.8 %
Total	15,765	20,159	- 21.8 %

The carrying amounts of the inventories rated at their fair value less selling expenses amount to TEUR 6,010 (previous year: TEUR 2,506). The impairment in relation to the purchase and production costs amounted to TEUR 649 (previous year: TEUR 366). In the fiscal year it amounted to TEUR 283 (previous year: TEUR 210).

(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 331 (previous year: TEUR 336) were taken into consideration here.

(13) Other financial assets

	2009	2008	Change
Granted loans (non-current)	137	170	- 19.4 %
Granted loans (current)	26	56	- 53.6 %
Financial derivatives	115	0	not stated
Other financial receivables	0	59	- 100.0 %
Total	278	285	- 2.5 %

The derivative financial instruments are recorded at their fair value.

(14) Taxes receivable

	2009	2008	Change
Tax refund claims in Germany	952	1,108	- 14.1 %
Tax refund claims in foreign countries	29	29	0.0 %
Total	981	1,137	- 13.7 %

## Consolidated financial statements

### (15) Other current assets

	2009	2008	Change
Other tax refund claims	211	514	- 58.9 %
Refund claims from the professional association	92	85	8.2 %
Advance payments on inventories	134	281	- 52.3 %
Prepaid expenses	107	161	- 33.5 %
Creditors with debit balances	78	64	21.9 %
Other assets	170	75	> 100.0 %
Total	792	1,180	- 32.9 %

The "Other tax refund claims" position contains tax refund claims in an amount of TEUR 172 (previous year: TEUR 184) for which a legal claim did not yet exist on the balance sheet date.

### (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 2009 of up to TEUR 4,320, which may be utilised until 9 June 2014.

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

Provisions 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 provision-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 financed through provisions.

The provisions 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	
	2009	2008	2009	2008
Discount rate	5.25 %	6.0 %	12.0 %	12.0 %
Future salary increases	1.8 %	3.0 %	9.0 %	9.0 %
Pension trend	1.5 %	2.0 %	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 provision-financed pension obligations is as follows:

	2009	2008	2007	2006	2005
Pension obligation at 1 January	9,188	9,306	9,094	8,939	7,567
Current service cost	329	275	241	297	317
Interest cost	539	479	397	434	444
Actuarial gains (-) and losses (+)	32	- 409	- 52	- 207	897
Currency adjustment	- 4	0	- 22	- 32	21
Pension payments made	- 471	- 463	- 352	- 337	- 307
Pension obligation at 31 December	9,613	9,188	9,306	9,094	8,939
Adjustment amount due to actuarial gains (+) and losses (-)	- 640	- 617	- 974	- 1,059	- 1,303
Balance sheet net obligation at 31 December	8,973	8,571	8,332	8,035	7,636

The total pension obligation at 31 December 2009 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 900 (previous year: TEUR 758), which comprises the following components:

	2009	2008
Current service cost including interest cost	870	754
Realised actuarial gain (-) / loss (+)	9	4
Pension expenses	879	758

The current service cost are mainly recognised in the selling, general and administrative expenses.

## Consolidated financial statements

The total of defined contribution 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 2009 the total of statutory pension insurance contributions was TEUR 839 (previous year: TEUR 859).

### (18) Other non-current provisions

	2009	2008	Change
Recultivation obligation	3,875	3,820	1.4 %
Other non-current provisions	21	21	0.0 %
Total	3,896	3,841	1.4 %

#### 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 applications were filed for a further prolongation of the mining operation and a corresponding extension of the main operation plan. In the meantime the government of Upper Bavaria has granted these applications. The valid main operation plan was approved until 31 December 2010.

For the upcoming underground and surface restoration work the company formed provisions in the previous years, of which an amount of TEUR 101 (previous year: TEUR 86) was used for one measure in the reporting year.

In the fiscal year the provision was recalculated in accordance with the interest rate development. Elapsed time resulted in an increase of the provision by TEUR 156 (previous year: TEUR 176). In the previous year the re-estimation of the expected recultivation expenses had an opposite effect.

	2009	2008
Recultivation obligation at 1 January	3,820	3,906
Utilisation	- 101	- 86
Re-estimation of the obligation	0	- 176
Interest cost	156	176
Recultivation obligation at 31 December	3,875	3,820

### (19) Other financial liabilities

	2009	2008	Change
Financial derivatives (long-term)	673	635	6.0 %
Financial derivatives (short-term)	260	0	not stated
Financial statement expenses	288	281	2.5 %
Other financial liabilities	307	304	1.0 %
Total	1,528	1,220	25.2 %

(20) Provisions for warranty and restructuring expenses

	Warranty	Restructuring expenses	Total
At 1 January 2008	132	0	132
Exchange rate differences	- 1	0	- 1
Utilisation	0	0	0
Reversal	- 8	0	- 8
Addition	10	179	189
At 31 December 2008	133	179	312
Exchange rate differences	0	- 2	- 2
Utilisation	0	- 177	- 177
Reversal	- 133	0	- 133
Addition	0	0	0
At 31 December 2009	0	0	0

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

(21) Current taxes payable

	2009	2008	Change
Tax liabilities in Germany	1,504	830	81.2 %
Tax liabilities in foreign countries	0	2	- 100.0 %
Total	1,504	832	80.8 %

(22) Other current liabilities

	2009	2008	Change
Other tax liabilities	237	129	83.7 %
Remaining holiday entitlements of employees	108	166	- 34.9 %
Professional association	156	187	- 16.6 %
Liabilities under partial retirement models	327	116	> 100.0 %
Other liabilities to employees	692	937	- 26.1 %
Received advance payments on orders	81	131	- 38.2 %
Supervisory Board compensation	0	56	- 100.0 %
Other current liabilities	460	75	> 100.0 %
Total	2,061	1,797	14.7 %

### III. Notes to the comprehensive income

(23) Turnover

For the composition of turnover please refer to the chapter on segment reporting.

(24) Selling, general and administrative expenses

	2009	2008	Change
Selling expenses	- 1,416	- 1,800	- 21.3 %
General administrative expenses	- 5,937	- 6,831	- 13.1 %
Research and development expenses	- 788	- 831	- 5.2 %
Other operating expenses	- 355	- 676	- 47.5 %
Total	- 8.496	- 10.138	- 16.2 %

(25) Other income

In fiscal year 2009 the other income essentially contained income from insurance refunds of TEUR 154, income from the reversal of government grants (TEUR 151), income from letting and leasing (TEUR 145), and income from the reversal of provisions in the amount of TEUR 277. In the previous year this position essentially contained income from the disposal of non-current assets in the amount of TEUR 463, income from the reversal of provisions in the amount of TEUR 209, income from letting and leasing in the amount of TEUR 157, income from the taking-back 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.

(26) Material expenses

	2009	2008	Change
Expenses for raw materials and consumables, and for goods purchased	29,754	30,640	- 2.9 %
Expenses for services purchased	26,765	29,257	- 8.5 %
Material expenses	56,519	59,897	- 5.6 %

(27) Personnel expenses

	2009	2008	Change
Wages and salaries	10,974	13,402	- 18.1 %
Social security contributions and expenses for pensions and welfare	3,020	2,504	20.6 %
Personnel expenses	13,994	15,906	- 12.0 %

(28) Number of employees

On an annual average the number of persons employed (without apprentices) was:

	2009	2008	Change
Employees working in production	432	512	- 15.6 %
Employees working in sales and marketing	20	32	- 37.5 %
Employees working in administration / research and development	56	56	- 0.0 %
Total	508	600	- 15.3 %

(29) Net finance costs

	2009	2008	Change
Other interests and similar income	70	105	- 33.3 %
Market value changes of derivate financial instruments	- 71	- 190	- 62.6 %
Other interests and similar expenses	- 1,596	- 1,191	34.0 %
Net finance costs	- 1,597	- 1,276	25.2 %

(30) Income tax expense

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

Income tax expenses are composed as follows:

	2009	2008	Change
National taxes	667	1,412	- 52.8 %
Foreign country taxes	10	49	- 79.6 %
Deferred tax income	- 289	- 64	> 100.0 %
Total	388	1,397	- 72.2 %

The taxes of the fiscal year include taxes for previous years in the amount of TEUR 361 (previous year: TEUR 1) that essentially were generated due to the results of the tax audit.

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 dividend 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 2009 was determined to be TEUR 940 (previous year: TEUR 1,039). The difference resulting from the discount effect in the amount of TEUR 39 was assigned to the net finance costs as interest income.

The determination of the mathematical national income tax expenses is based on a tax rate of 27.8 % (previous year: 27.2 %). The national tax rate is based on the corporation tax rate of 15.0 % applicable for the tax period 2009, plus a solidarity surcharge of 5.5 %, and on an average trade tax rate of 342.0 % (previous year: 325.0 %). The tax rates applied to current taxes in foreign countries vary between 15.0 % and 28.2 %.

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### Reconciliation

Deferred taxes are determined on the basis of the tax rates expected at the realization 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	
	2009	2008	2009	2008
Tax loss carried forward	46	0	- 91	- 109
Fixed assets	- 228	10	978	1,260
Inventories	2	1	0	0
Pension obligations	324	0	- 127	- 412
Provisions for recultivation	0	0	- 43	0
Other liabilities	41	129	- 16	- 6
Derivative financial instruments	152	0	- 71	0
Total	337	140	630	733

Of the deferred taxes, deferred tax assets in the amount of TEUR 30 (previous year: TEUR 129) were recognised in the other comprehensive income.

The listed income taxes of the year 2009 in the amount of TEUR 388 (previous year: TEUR 1,397) deviate by TEUR 563 (previous year: TEUR 65) from the calculated tax expenses of TEUR 175 (previous year TEUR 1,332). The reconciliation between calculated and listed income tax expenses is shown in the table below:

	2009	2008
Earnings before income tax	- 631	4,816
Calculated tax expenses	- 175	1,332
Tax increase due to non-tax-deductible expenses	54	121
Tax decrease due to tax-free income	- 58	- 244
Tax increase due to non-tax-effective consolidation entries	0	11
Tax increase due to loss carried forward for which no deferred tax assets were recorded in the current period	112	85
Tax decrease from the utilization of previously not recorded loss carried forward	- 23	0
Taxes from prior years	361	1
Tax effect of domestic trade tax	20	45
Effects from tax rate changes on deferred taxes	- 13	0
Effects of deviating foreign-country tax rates	110	46
Listed income tax	388	1,397

For tax loss carry-forwards of foreign subsidiaries in the amount of TEUR 1,363 (previous year: TEUR 939), no deferred tax asset refund claims were shown in the balance sheet as the utilization of these seems insecure from today's point of view.

(31) Minority interests

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

	2009	2008	Change
Proportion of profit of minority shareholders	0	0	0.0 %
Proportion of loss of minority shareholders	- 90	- 75	20.0 %
Minority interests	- 90	- 75	20.0 %

**IV. Other notes**

(32) Cashflow statement

Cash and cash equivalents comprise cash on hand and cash at banks.

The cashflow from operating activities is derived indirectly from the consolidated profit for the year attributable to the shareholders of Graphit Kropfmühl Aktiengesellschaft. The consolidated profit for the year attributable to the shareholders of Graphit Kropfmühl Aktiengesellschaft of TEUR - 1,019 (previous year: TEUR 3,419) is adjusted for essential non-effective expenses and income. Taking into consideration the changes in the working-capital, the resulting cashflow from operating activities is TEUR 5,670 (previous year: TEUR 4,390).

The cashflow from investing activities as outflow essentially shows the acquisitions of property, plant and equipment of TEUR 4,985 (previous year: TEUR 7,054), as inflow the proceeds from the sale of property, plant and equipment of TEUR 67 (previous year: TEUR 467). Approximately 88 % (previous year: 80 %) of the total investment amount is allocated to expansion and rationalisation investments. On balance, the resulting cashflow from investing activities amounts to TEUR - 5,146 (previous year: TEUR - 6.636).

The cashflow from financing activities of TEUR - 391 (previous year: TEUR 2,680) 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 133 (previous year: TEUR 434). Adjusted for exchange-rate fluctuations and consolidation-scope related changes of TEUR - 40 (previous year: TEUR - 33) the resulting cash and cash equivalents at the end of the period amount to TEUR 1,002 (previous year: TEUR 909).

(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 2009 and 31 December 2008 there were no changes in the targets, guidelines, and procedures.

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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 internal group guide-lines 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. 2009	31 Dec. 2008
Financial liabilities	21,381	22,476
Trade payables	6,924	9,193
Less cash and cash equivalents	- 1,002	- 909
Net financial liabilities	27,303	30,760
Net financial liabilities	27,303	30,760
Total equity	22,757	23,840
Equity plus net financial liabilities	50,060	54,600
Debt ratio	54.5 %	56.3 %



## (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- nised in equity	Fair value recog- nised in profit or loss	
At 31 December 2009					
<b>ASSETS</b>					
Cash and cash equivalents and receivables					
Cash and cash equivalents	1,002	1,002			1,002
Trade receivables	8,673	8,673			8,673
Other non-derivative financial assets	163	163			163
Derivatives with hedge relationship	115		115		115
<b>LIABILITIES</b>					
Loans and receivables					
Liabilities to banks	19,853	19,853			19,449
Trade payables	6,924	6,924			6,924
Liabilities to affiliated companies	1	1			1
Non-derivative financial liabilities	595	595			595
Derivatives with hedge relationship	673		673		673
Financial instruments available for sale					
Derivatives without hedge relationship	260			260	260
At 31 December 2008					
<b>ASSETS</b>					
Cash and cash equivalents and receivables					
Cash and cash equivalents	909	909			909
Trade receivables	8,218	8,218			8,218
Other non-derivative financial assets	285	285			285
<b>LIABILITIES</b>					
Loans and receivables					
Liabilities to banks	20,258	20,258			19,760
Trade payables	9,193	9,193			9,193
Non-derivative financial liabilities	585	585			585
Derivatives with hedge relationship	445		445		445
Financial instruments available for sale					
Derivatives without hedge relationship	190			190	190

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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 2009					
Trade receivables	8,673	7,791	713	76	90
Loans granted	163	163			
Other financial assets	0	0			
Financial derivatives	115	115			
Total	8,951	8,069	713	76	90
At 31 December 2008					
Trade receivables	8,217	6,628	1,134	241	80
Loans granted	226	226			
Other financial assets	59	59			
Financial derivatives	0	0			
Total	8,502	6,913	1,134	241	80

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.

Within the scope of a blanket assignment trade receivables in the amount of TEUR 6,045 were pledged as security for bank loans in the year 2009. At 31 December 2009 the corresponding loans had a value of TEUR 2,000. Loans granted of TEUR 95 (previous year: TEUR 135) in the other financial assets are secured by way of guarantees of the city of Hauzenberg.

The value adjustments of trade receivables developed as follows:

	2009	2008
At 1 January	336	343
Exchange rate differences	0	- 24
Addition to value adjustments	13	127
Utilisation	- 18	- 110
Reversal	0	0
At 31 December	331	336

#### 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 2009	Carrying amount	Contractually agreed cash-flows	2010	2011	2012	2013	2014	later
Fixed-rate loans from banks <sup>1</sup>	12,155	12,181	1,931	2,488	2,488	2,128	1,133	2,013
Variable-rate loans from banks	0	0	0	0	0	0	0	0
Current time loans and bank overdrafts	7,698	7,698	7,698	0	0	0	0	0
Interest payments	76	1,804	566	428	317	207	127	159
Pension obligations <sup>2</sup>	8,973	5,715	420	439	518	534	552	3,252
Trade payables	6,924	6,924	6,924	0	0	0	0	0
Liabilities to affiliated companies	1	1	1	0	0	0	0	0
Currency forwards	- 115	- 115	- 115	0	0	0	0	0
Interest rate swaps	933	1,511	442	393	332	222	58	64
Finance lease liabilities	20	20	10	10	0	0	0	0
Other financial liabilities	575	767	683	21	21	21	21	0
Operative lease liabilities	0	293	147	95	49	2	0	0
Non-cancellable purchase obligation	0	17,366	17,366	0	0	0	0	0
<b>Total</b>	<b>37,240</b>	<b>54,165</b>	<b>36,073</b>	<b>3,874</b>	<b>3,725</b>	<b>3,114</b>	<b>1,891</b>	<b>64</b>

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At 31 December 2008	Carrying amount	Contractually agreed cash-flows	2009	2010	2011	2012	2013	later
Fixed-rate loans from banks <sup>1</sup>	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	0	1,891	477	416	330	243	156	269
Pension obligations <sup>2</sup>	8,571	5,649	424	436	448	530	550	3,261
Trade payables	9,193	9,193	9,193	0	0	0	0	0
Currency forwards	22	22	22	0	0	0	0	0
Interest rate swaps	612	776	170	178	159	134	89	46
Finance lease liabilities	72	72	19	17	17	18	1	0
Other financial liabilities	513	728	455	31	31	60	60	91
Operative lease liabilities	0	417	184	142	69	20	2	0
Non-cancellable purchase obligation	0	17,857	17,857	0	0	0	0	0
<b>Total</b>	<b>39,241</b>	<b>56,968</b>	<b>39,694</b>	<b>2,849</b>	<b>2,908</b>	<b>2,859</b>	<b>2,353</b>	<b>6,305</b>

1) In part variable interest agreements were made for long-term liabilities to banks. Corresponding interest rate swaps were concluded for these credit contracts, so that these liabilities in their entirety are classified as fixed-interest 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 2009 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 cash flows relating to pension obligations cover cash flows up to and including 2018. They do not include cash flows after 2018.

For minimising the liquidity risk the Graphit Kropfmühl group in addition to cash resources especially has short-term credit lines available. The parent company has credit lines with several regionally and internationally operating German banks with a total volume of TEUR 12,250 (previous year: TEUR 11,000). Individual subsidiaries furthermore have their own credit lines with an aggregated total volume of TEUR 720 (previous year: 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 objective 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 interests in foreign-country companies that involves currency risks. In 2009 we acquired an interest in a foreign-country company, Fair Deal Trading (Pvt) Ltd., Sri Lanka. The capital stock is LKR 25,000.00 (approx. EUR 150.00).

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 2009.

The operative field involves currency risks especially on the purchasing side, but also 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.

On the balance sheet date the Graphit Kropfmühl group held 15 currency forwards. The currency forwards, concluded for the balance sheet date for hedging currency risks, have a nominal volume of approx. USD 4.1 million. The exchange rate development at the balance sheet date resulted in positive market values in the amount of TEUR 115 that were recognised in the other current financial assets. Since the currency forwards have the purpose of securing future cashflows and thus are classified as cashflow-hedges, the counter entry of the total market value change of TEUR 83 was made in the other profit for the period. Deferred tax liabilities of TEUR 32 were formed on the valuation reserve. The market value of the currency forwards is derived from the average exchange rate at the balance sheet data. On 31 December 2008 the group held two currency forwards.

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. Foreign exchange risks in USD especially exist on the acquisition side. In 2009 the purchasing volume in USD amounted to approx. USD 14.7 million with an equivalent value of approx. EUR 10.4 million. If the underlying exchange rate should increase (decrease) by 5 %, the input decreases (increases) by approx. EUR 0.5 million. The equity will be correspondingly adapted.

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.

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### 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 four fixed-rate-payer swaps and serve for hedging the interest rate change risks of liabilities.

Three interest rate swaps are intended to minimise the interest rate change risk of long-term loans. The fourth 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 recognised as cashflow-hedge.

These cashflow-hedges have a congruence between basic and hedge business, which is why the market value was recognised outside the consolidated profit for the year in the other consolidated income. For the interest rate swap without hedge accounting the difference from the market value was recognised as interest expenses in the amount of TEUR 71 (previous year: TEUR 190).

In fiscal year 2009 TEUR 116 (previous year: TEUR - 7) from the other consolidated income and expense were reclassified to the consolidated profit for the year. Of these, TEUR 22 (previous year: TEUR - 24) were attributed to the "cost of sales" position. TEUR 138 (previous year: TEUR 33) were recognised in the net finance costs. On the total change, TEUR 44 had to be recognised as income in the income taxes (previous year: TEUR 2 expenses).

On the balance sheet date the group held 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	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Fixed-rate payer	3,000	2,734	8,681	7,881	0	1,800	11,681	12,415
Nominal volume	3,000	2,734	8,681	7,881	0	1,800	11,681	12,415

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

	Nominal amount		Market value		Shown in the equity	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Fixed-rate payer	11,681	12,415	- 934	- 612	- 673	- 422
Total	11,681	12,415	- 934	- 612	- 673	- 424

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 2009 had been 1 % higher (lower), the interest rate expenses would have been TEUR 37 (31 December 2008: TEUR 84) higher (lower).

(36) Earnings per share

On the balance sheet 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:

	2009	2008
Profit for the year attributable to shareholders of the company (in EUR)	- 928,363.46	3,494,002.10
Number of shares	2,880,000	2,880,000
Earnings per share (in EUR)	- 0.32	1.21
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 Plc., Share Investments (Pvt.) Ltd., Fair Deal Trading (Pvt.) Ltd, Branwell Graphite Ltd., Graphite Týn spol. s.r.o., GK Asia Ltd. (former Mutual Sources Ltd.) and the Chinese companies Qingdao Kropfmuehl Graphite Co. Ltd. and Qingdao Kropfmuehl Trading Co. Ltd.

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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 separating agents also are customers of this segment.

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

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

### Transition items

The transition items of the segment assets relate to settlement accounts between the reporting segments. Turnover and interest expenses and income between the segments also are shown in this position.

Turnover is 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 depreciation, and inventory changes that are attributable to production. The EBIT contains no interest and tax positions. 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 tax receivables and interest-bearing assets.

Additions to non-current assets and regular depreciation and amortisation refer to the property, plant and 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 turnover.

Inter-segment transaction are accounted at standard market conditions.



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	Silicon metal		Graphite		Transition		Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Turnover from external customers	60,493	60,953	24,222	29,570	- 161	- 67	84,554	90,456
DACH	56,317	52,730	13,108	15,662			69,425	68,392
thereof Germany	52,612	43,879	11,113	13,924			63,725	57,803
Other European countries	3,881	7,641	6,394	8,430			10,275	16,071
America	53	59	430	1,548			483	1,607
Asia / Pacific	230	511	3,551	3,692			3,781	4,203
Rest of the world	12	12	578	171			590	183
Intersegment turnover	0	0	161	67	- 161	- 67	0	0
Gross profit	4,778	8,308	3,942	6,886	0	0	8,720	15,194
EBITDA	4,195	6,765	30	2,448	0	0	4,225	9,213
Depreciation and amortisation	1,380	1,013	1,737	1,703			3,117	2,716
Restructuring expenses	0	0	142	405			142	405
EBIT	2,815	5,752	- 1,849	340	0	0	966	6,092
Impairment expenses on inventories and trade receivables	182	28	114	63			296	301
Income from the revaluation of inventories and trade receivables	0	0	1	177			1	177
Finance costs	- 699	- 439	- 898	- 837	0	0	- 1,597	- 1,276
Interest income	23	70	234	109	- 187	- 74	70	105
Interest expenses	- 722	- 509	- 1,132	- 946	187	74	- 1,667	- 1,381
EBT	2,116	5,313	- 2,747	- 497			- 631	4,816
Segment assets	34,185	34,364	35,923	43,693	- 1,351	- 7,124	68,757	70,933
Acquisition of non-current assets	4,047	4,059	1,157	3,056			5,204	7,115
Non-current assets	22,534	19,868	18,415	19,208			40,949	39,076
DACH	22,534	19,868	9,249	6,705			31,783	26,573
thereof Germany	22,534	19,868	9,249	6,705			31,783	26,573
Other European countries	0	0	2,020	4,828			2,020	4,828
Asia / Pacific	0	0	7,146	7,675			7,146	7,675
America	0	0	34	0			34	0
Rest of the world	0	0	71	0			71	0

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### 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 turnover 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. In the graphite segment this limit was exceeded for the first time with one customer in 2009.

### (38) Contingent liabilities

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

	2009	2008	Change
Liabilities under warranties	243	248	- 2.0 %

### (39) Rental and leasing contracts

Rental and leasing contracts for property, plant and equipment 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 - 5 years		Mature in more than 5 years	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Leasing obligations	147	184	146	233	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 2009 the Management Board had the following members:

- Martin Ebeling, Wedel, Chief Executive Officer
- Hans-Detlef Antel, Ruhstorf
- Achim Carstanjen, Passau (released as of 15 December 2009)

On 31 December 2009 the Management Board members held the following number of shares:

Name	2009	2008
Martin Ebeling	0	0
Hans-Detlef Antel	0	0
Achim Carstanjen	0	0

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

- Dr. Heinz Schimmelbusch, Wayne PA; United States of America, Chief Executive Officer (CEO) of AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands

- Dr. Michael Witzel, Munich, lawyer,  
first deputy chairman until 9 June 2009,  
second deputy chairman as from 10 June 2009
- Rainer Grohe, Otterstadt, former Executive Director of Galileo Joint Undertaking, Toulouse, France,  
and London, Great Britain,  
first deputy chairman as from 10 June 2009,  
second deputy chairman until 9 June 2009
- Klaus Josef Lutz, Munich, Chief Executive Officer of BayWa Aktiengesellschaft, Munich
- Manfred Kneidinger, Kropfmühl, white-collar worker, employee representative
- Peter Fesl, Kropfmühl, blue-collar worker, employee representative

On 31 December 2009 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 Ltd., Toronto, Canada
	Chairman of the Supervisory Board	Allied Resource Corporation, Wayne, PA, United States of America PFW Aerospace AG, Speyer
	Supervisory Board member	BMG Capital AG, Frankfurt SASAG AG, Elsteraue
	Advisory Board member	Allied Technologies GmbH, Frankfurt / Main Allied Carbon Credit GmbH, Frankfurt / Main
Dr. Michael Witzel	Chairman of the Supervisory Board	Eramon AG, Gersthofen Metallgesellschaft AG, Elsteraue
	Supervisory Board member	BMG Capital AG, Frankfurt LOEWE AG, Kronach PFW Aerospace AG, Speyer
	Advisory Board member	AP-Stiftung GmbH, Speyer
Rainer Grohe	Supervisory Board member	Aurubis AG, Hamburg K+S Kali + Salz AG, Kassel PFW Aerospace AG, Speyer
	Advisory Board member	VRD GmbH, Heidelberg VRD GbR, Heidelberg
Klaus Josef Lutz	Chief Executive Officer	BayWa AG, Munich
	Chairman of the Supervisory Board	VK Mühlen, Hamburg „UNSER LAGERHAUS“ WARENHANDELS- GESELLSCHAFT m.b.H., Klagenfurt, Austria
	Supervisory Board member	Eramon AG, Gersthofen MAN Nutzfahrzeuge AG, Munich RWA Raiffeisen Ware Austria AG, Vienna, Austria Renenco Renewable Energy Concepts AG, Munich

## Consolidated financial statements

On 31 December 2009 the Supervisory Board members 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	0	0	0
Total	10	0	10

### Scope of relations to related parties

The table below shows service relationships to related companies and persons in the year 2009:

Company	Person	Position	Amount of transactions	Liabilities
AMG Advanced Metallurgical Group			- 661	0
Becancòur Silicon			- 73	0
Lovells LLP	Dr. Michael Witzel	Partner	486	11
Total			- 248	11

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. All transactions were accounted at conditions identical to those conventionally used among foreign third parties.

### (41) Compensation of Supervisory Board and Management Board

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 Management Board and Supervisory Board.

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

	2009	2008	Change
Short-term benefits	866	1,046	- 17.2 %
Post-employment benefits	140	144	- 2.8 %
Total	1,006	1,190	- 15.5 %

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

The compensation of the Supervisory Board for fiscal year 2009 amounted to TEUR 90 (previous year: TEUR 90) and only contained short-term benefits.

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

The pension commitments ("defined benefit obligations") for former members of the Management Board and their surviving dependants amounted to TEUR 1,766 (previous year: TEUR 1,759).

(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 2009 by the auditor of the consolidated financial statements, Ernst & Young GmbH, auditing company, Mannheim, the following fees were recorded as expenses:

	2009	2008
Auditing	198	185
Reviewing of interim financial statements	72	62
Other certification and valuation services	289	200
Tax advisory services	1	0
Other services rendered for the parent company or for subsidiaries	0	0
Total	560	447

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 Plc., 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 art. 2 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 %
Fair Deal Trade (Pvt.) Ltd.	Colombo, Sri Lanka	90.4 %
GK Asia Ltd.	Hong Kong, People's Republic of China	100.0 %
Bogala Graphite Lanka Plc.	Colombo, Sri Lanka	90.4 %
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 %

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 %

## Consolidated financial statements

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 Management Board 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 18 December 2009 and have made this declaration permanently accessible to the shareholders through the internet on 30 December 2009.

Munich, 25 February 2010

Graphit Kropfmühl Aktiengesellschaft  
München

The Management Board

Martin Ebeling

Hans-Detlef Antel

### Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, 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, 25 February 2010

Graphit Kropfmühl Aktiengesellschaft  
München

The Management Board

Martin Ebeling

Hans-Detlef Antel

### 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, München, comprising the balance sheet, comprehensive income, the cashflow statement, the statement of changes in equity, and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 January 2009 to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with the 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 asset, 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 of 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating 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 asset, 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, 25 February 2010

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Fluck  
Auditor

Kuhn  
Auditor



## Financial calendar and contact

### Dates

3-month report 2010	12 May 2010
Annual General Meeting, Munich	16 June 2010
6-month report 2010	11 August 2010
9-month report 2010	10 November 2010
German Equity Forum, Frankfurt	22 - 24 November 2010

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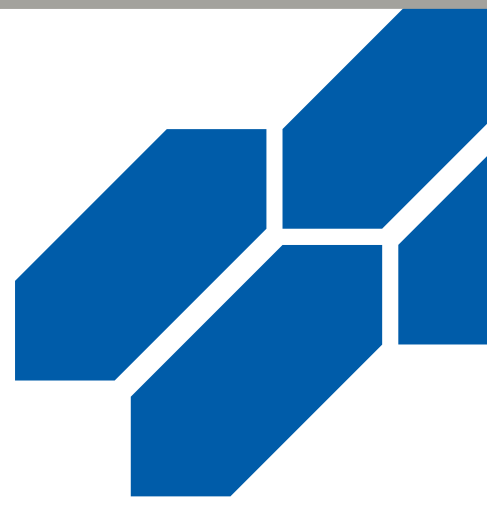
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This annual report also is available in German language. Both the German and the English version of the annual report are available for downloading on the internet at [www.gk-graphite.com](http://www.gk-graphite.com) under "Investor Relations / Publications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

The individual financial statements of the Graphit Kropfmühl Aktiengesellschaft are available on the internet at [www.gk-graphite.com](http://www.gk-graphite.com) under "Investor Relations / Annual General Meeting / Annual General Meeting 2010" or for inspection at our office in Kropfmühl.



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**Graphit Kropfmühl AG**



A Member of  
AMG Advanced Metallurgical Group N.V.