

Annual Report 2010



Graphit Kropfmühl AG

A Member of
AMG

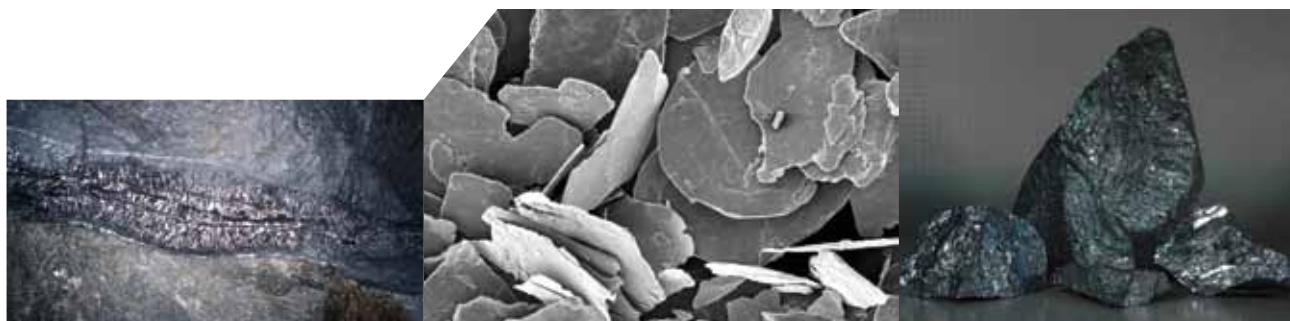
AMG Advanced Metallurgical Group N.V.

GRAPHIT KROPFMÜHL AG – Financial Highlights







| Group | | 2006 | 2007 | 2008 | 2009 | 2010 | Change |
|--|--------------|------------------|------|-------|--------|------|------------|
| Total sales | euro million | 75.3 | 83.1 | 90.5 | 84.6 | 96.9 | 14.5 % |
| Foreign-country share of total sales | in % | 36.6 | 36.7 | 36.1 | 24.6 | 35.0 | |
| Gross profit | euro million | 10.4 | 13.0 | 15.2 | 8.7 | 10.2 | 17.2 % |
| EBITDA ¹ | euro million | 5.4 | 7.4 | 9.2 | 4.2 | 6.7 | 59.5 % |
| EBIT | euro million | 3.2 | 4.7 | 6.6 | 1.0 | 2.8 | > 100.0 % |
| EBT | euro million | 1.4 | 3.2 | 4.8 | - 0.6 | 2.6 | not stated |
| Consolidated earnings for the year | euro million | 2.5 ² | 1.9 | 3.5 | - 0.9 | 1.6 | not stated |
| Cashflow from ordinary business activities | euro million | 4.9 | 4.3 | 4.4 | 5.7 | 1.7 | - 70.2 % |
| Investments | euro million | 1.8 | 4.3 | 7.1 | 5.2 | 3.5 | - 32.7 % |
| Balance sheet total | euro million | 59.4 | 61.1 | 70.9 | 68.8 | 73.7 | 7.1 % |
| Stockholders equity | euro million | 19.3 | 21.0 | 23.8 | 22.8 | 24.9 | 9.2 % |
| Equity ratio | in % | 32.3 | 34.3 | 33.6 | 33.1 | 33.8 | |
| Net debt | euro million | 17.5 | 17.1 | 19.3 | 18.9 | 19.7 | 4.2 % |
| Employees (31 December) | | 666 | 714 | 600 | 477 | 482 | 1.1 % |
| | | | | | | | |
| Profitability | | 2006 | 2007 | 2008 | 2009 | 2010 | Change |
| EBITDA margin | in % | 7.2 | 8.9 | 10.2 | 5.0 | 6.9 | |
| EBIT margin | in % | 4.2 | 5.7 | 7.3 | 1.2 | 2.9 | |
| Return on sales | in % | 3.3 | 2.3 | 3.9 | - 1.1 | 1.7 | |
| Return on equity | in % | 12.8 | 9.0 | 14.7 | - 3.9 | 6.4 | |
| | | | | | | | |
| Silicon-metal segment | | 2006 | 2007 | 2008 | 2009 | 2010 | Change |
| Sales | euro million | 48.5 | 54.0 | 61.0 | 60.5 | 63.6 | 5.1 % |
| Segment share of total sales | in % | 64.4 | 65.0 | 67.4 | 71.5 | 65.6 | |
| EBITDA ¹ | euro million | 3.0 | 4.0 | 6.8 | 4.2 | 4.1 | - 2.4 % |
| EBIT | euro million | 2.5 | 3.3 | 6.0 | 2.8 | 2.2 | - 21.4 % |
| EBT | euro million | 1.6 | 2.6 | 5.3 | 2.1 | 2.0 | - 4.8 % |
| Employees (31 December) | | 110 | 107 | 108 | 106 | 108 | 1.9 % |
| | | | | | | | |
| Graphite segment | | 2006 | 2007 | 2008 | 2009 | 2010 | Change |
| Sales | euro million | 26.8 | 29.1 | 29.5 | 24.2 | 33.3 | 37.6 % |
| Segment share of total sales | in % | 35.6 | 35.0 | 32.6 | 28.5 | 34.4 | |
| EBITDA ¹ | euro million | 2.4 | 3.4 | 2.4 | 0.0 | 2.6 | > 100.0 % |
| EBIT | euro million | 0.7 | 1.4 | 0.6 | - 1.8 | 0.6 | not stated |
| EBT | euro million | - 0.2 | 0.6 | - 0.5 | - 2.7 | 0.5 | not stated |
| Employees (31 December) | | 556 | 607 | 492 | 371 | 374 | 0.8 % |
| | | | | | | | |
| Share | | 2006 | 2007 | 2008 | 2009 | 2010 | Change |
| Earnings | in euro | 0.86 | 0.66 | 1.21 | - 0.32 | 0.57 | not stated |
| Cashflow from ordinary business activities | in euro | 1.69 | 1.49 | 1.52 | 1.97 | 0.59 | - 70.1 % |
| Dividend | in euro | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |

¹ Earnings ratios EBITDA adapted to uniform group accounting principles. Adjusted EBITDA before restructuring measures, foreign exchange result, and expenses for recultivation; for comparability previous year's figures adapted to uniform group accounting principles

² Tax refund claims: euro 1.1 million in 2006



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Letter to our shareholders

Martin Ebeling



Hans-Detlef Antel



Frank Berger



Dear shareholders,

After an enormously difficult year 2009 the economic recovery in 2010 resulted in a highly pleasing increase of turnover and earnings for the Graphit Kropfmühl group.

Demand figures in our main sales markets and application fields clearly exceeded our expectations. Compared to the previous year, turnover increased by 14.5 %, which resulted in a record turnover figure of EUR 96.9 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) also showed a highly pleasing 59.5 % increase from EUR 4.2 million to EUR 6.7 million.

Securing liquidity had top priority in 2010

In view of the effects of the banking crisis and the related credit situation that still were noticeable at the beginning of the year 2010, which, however, eased off in the course of the year, the securing of our liquidity remained our primary objective in 2010. With appropriate measures that were initiated at an early time we were able to secure our financial requirements. In a trustful cooperation with our financial institutions and with the shareholders passing the dividend, we were able to provide the required funds for investments, even though we did no longer reach the high operative cashflow of the previous year. High income tax payments on the one hand, and the necessary financing of the working capital resulting from the jump in turnover on the other hand, resulted in a decrease of the operative cash inflow to EUR 1.7 million. Because of a restrictive investment policy the application of funds also clearly decreased to EUR 2.4 million. The total result, however, showed a funding gap, so that our net debt to banks increased by EUR 0.8 million to EUR 19.7 million.

Our second objective was the securing of our raw material supplies, because the demand for raw materials, especially for graphite, strongly increased due to stable growth figures in Asia. In the medium term our target is to increase our self-supply, and we are intensively developing new deposits.

Compared to the previous year, the EBITDA in 2010 improved from EUR 4.2 million to EUR 6.7 million. The clearly improved capacity utilisation especially in the graphite segment, and the effects of our restructuring programs of the previous years, together with additional cost saving measures clearly had an impact. On the other hand our earnings were burdened by clearly increasing material expenses that could not be fully compensated on the selling side.

Constant development in the silicon-metal segment – Positive increase in the graphite segment
Business in the silicon-metal segment remained constant. With full capacity utilisation this segment reached a turnover of EUR 63.6 million (previous year EUR 60.5 million) and earnings (EBITDA) of EUR 4.1 million (previous year EUR 4.2 million). The high energy costs did not allow any further increase of earnings.

Due to the strong revival of the demand for graphite the graphite segment, after a weak year 2009, reached a record turnover of EUR 33.3 million in the year 2010, which is an increase of 37.6 %. The EBITDA also showed a pleasing disproportionately high improvement from EUR 0.0 million in 2009 to EUR 2.6 million in 2010.

Graphite has been successfully established in the field of energy-saving insulating materials for construction chemistry applications. This sector offers many more interesting fields of application, which we are developing together with our customers. One interesting medium-term project is the use of graphite in the field of nuclear waste disposal. This project still is in its development and test phase, but it demonstrates that graphite again and again offers new application possibilities, which we successfully intend to turn into products creating turnover.

Our developments of graphite-based dispersions also are quite successful in new market areas: Development work thus is and remains the core of our graphite business, combined with innovative production technology and excellent customer service. In 2010 we therefore also continued to make investments in machinery and equipment.

Great demand for energy and raw materials

After the economic crisis the situation on the energy and raw material markets quickly changed. Demand clearly increased due to the recovery of the markets and to the continuing strong growth in Asia.

For us this confirms that we are on the right track with our rationalisation projects in energy-saving technologies and with our raw material securing programs. These fields will continue to have highest priority for us.

Investor Relations: Positive response at the equity forum

In addition to our press releases we also provided you, dear shareholders, with information in our comprehensive interim reports also in the last year. Our participation in the equity forum in November 2010 found a very positive response among the attending analysts.

The shareholder structure changed when UBS Global Asset Management (Deutschland) GmbH, Frankfurt, sold its shares on 22 December 2010. UBS informed us that on this day their proportion dropped below the threshold of 3 % of the voting rights, and that at this time the proportion of voting rights was 0 % of the voting rights.

At the same time our major shareholder, AMG Invest GmbH, increased its shareholding in Graphit Kropfmühl Aktiengesellschaft by 8.5 % to 88.0 %. The remaining 12.0 % of the total of 2,880,000 shares are widely spread shareholdings.

In the last fiscal year the price development of the Graphit Kropfmühl share was highly positive. In the second half of the year prices increased rapidly. In the course of the year the price of our share increased by 61.4 % and reached its yearly high on 28 December 2010 with EUR 19.70.

Letter to our shareholders

A strong team even in difficult times

With their commitment and dedication our employees made a decisive contribution that allowed us to exceed the targets in 2010.

We express our sincere thanks for their commitment in the last fiscal year, for the cooperation of the teams, and we also thank our works council for their constructive work.

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



Martin Ebeling
Chief Executive Officer



Hans-Detlef Antel
Managing Director



Frank Berger
Managing Director



Dear shareholders,

In fiscal year 2010 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 meetings and in a telephone conference.

Meetings and main subjects

In 2010 the Supervisory Board held three meetings on 12 March, 16 June, and 15 December, which were attended by all the Supervisory Board members. The meeting on 14 October was held as a telephone conference that also was attended by all the Supervisory Board members. The meetings and the telephone conference (hereinafter collectively referred to as "meetings" or "Supervisory Board meetings") also were attended by the members of the Management Board.

The Supervisory Board did not form any committees in fiscal year 2010.

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 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 fiscal year 2011, the midterm plan 2012 – 2013, as well as the further development of Corporate Governance, risk management, and 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 and Africa, and various midterm

projects such as the securing of energy supplies. These discussions resulted in several subjects that were prepared in project groups and were submitted to the Supervisory Board for information and decision purposes.

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

To avoid any 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 Hogan Lovells International LLP law office in Munich, until he resigned as a partner of this law office on 30 April 2010.

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 15 December 2010 the Supervisory Board and the Management Board updated the common declaration of conformity according to § 161 AktG (German Stock Corporation Act). On 21 December 2010 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 audit 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 the auditing of the annual financial statements also included the reviewing of the interim reports for the first half year.

The annual financial statements and the management report, the consolidated financial statements and the group management report as well as the auditing reports of the auditor were made available to all the members of the Supervisory Board in due time before the balance sheet meeting on 11 March 2011. 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, as well as the consolidated financial 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.

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 11 March 2011. 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

With a Supervisory Board resolution of 7 February 2011 Mr. Frank Berger was appointed as a member of the company's Management Board.

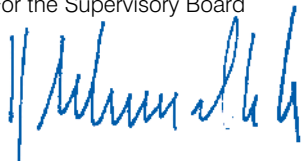
Changes in the Supervisory Board

At the Annual General Meeting on 15 June 2010 it was resolved to amend the articles of association to the effect that there now only is one deputy chairman of the Supervisory Board. In its meeting on 15 December 2010 the Supervisory Board unanimously and with all the votes resolved to confirm Mr. Rainer Grohe in his former position as deputy chairman of the Supervisory Board until the end of the current Supervisory Board's term of office.

We sincerely thank the Management Board and all our employees for their commitment and for their successful work in fiscal year 2010.

Kropfmühl, 11 March 2011

For the Supervisory Board



Dr. Heinz Schimmelbusch
Chairman of the Supervisory Board

Declaration on Corporate Governance

Responsible and transparent corporate governance and control is the basis for all the decision and control processes in all segments of the Graphit Kropfmühl group. Corporate governance of the Graphit Kropfmühl Aktiengesellschaft as a listed German stock corporation primarily is determined by the German Stock Corporation Act and additionally by the stipulations of the German Corporate Governance Code in its respective current version. According to no. 3.10. of the German Corporate Governance Code and § 289a art. 1 of the German Commercial Code the Management Board and the Supervisory Board in this declaration report on the group's corporate governance.

Declaration of conformity acc. to § 161 of the German Stock Corporation Act with the German Corporate Governance Code - Wording of the declaration of conformity of 15 December 2010

In fiscal year 2010 the Management Board and the Supervisory Board regularly discussed Corporate Governance matters. On 15 December 2010 the Management Board and the Supervisory Board issued the annual declaration of conformity according to § 161 of the German Stock Corporation Act concerning the recommendations of the Government Commission - German Corporate Governance Code. On 21 December 2010 this declaration of conformity was published and made permanently available on the website of Graphit Kropfmühl Aktiengesellschaft at www.gk-graphite.com. If required, the declaration of conformity will be updated and published there again.

The wording of the declaration of conformity of 15 December 2010 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 - German Corporate Governance Code:

1. Since making the last declaration of conformity on 18 December 2009, Graphit Kropfmühl Aktiengesellschaft has complied 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 following deviations:
 - The company only upon specific request by electronic means sends a notification of the convening of the Annual General Meeting together with the convention documents to all domestic and foreign financial service providers, shareholders and shareholders' associations, even if all the approval requirements are fulfilled (code no. 2.3.2). Since the company has issued bearer shares the company cannot directly communicate with all the shareholders and ensure electronic sending to all shareholders. With respect to the notification as per § 125 of the German Stock Corporation Act the company therefore still uses paper mailing and furthermore makes the convening and the convention documents available on the company's website.
 - The Management Board so far does not arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions (code no. 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 without agreeing a deductible for the members of the Supervisory Board (code no. 3.8 par. 3), because on an international level it is not usual to agree a deductible. For the Management Board members a deductible was agreed on 22 February 2010 according to the regulations in the law on the appropriateness of Management Board remuneration (German VorstAG).

Declaration on Corporate Governance

- For the conclusion of new Management Board contracts or the extension of Management Board contracts it is 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 no. 4.2.3 par. 4 clause 1). It is standard practice in the company that Management Board contracts are concluded or extended only for a term of three years, which means that in the company's opinion it is not necessary to agree the abovementioned limitations because they are of minor practical significance.
- Age limits for Management Board and Supervisory Board members have not been specified (code no. 5.1.2 par. 2 clause 3 and code no. 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 no. 5.3.2) because the tasks of such a committee due to their special importance in the company are performed by the full Supervisory Board.
- The Supervisory Board has not formed a nomination committee (code no. 5.3.3). Because of the company's structure it is not necessary to form such a committee.
- The members of the Supervisory Board do not receive performance-related compensation (code no. 5.4.6 par. 2 clause 1). An appropriate fixed compensation is considered to be better suited for the independent control function of the Supervisory Board.
- The ownership of shares in the company or of related financial instruments by members of the Management Board and the Supervisory Board so far is not shown in the corporate governance report (code no. 6.6). The administrative efforts for reviewing these data should be avoided.

2. Graphit Kropfmühl Aktiengesellschaft in the future will comply with the recommendations of the German Corporate Governance Code in its version of 26 May 2010, published in the official section of the electronic Federal Gazette (Bundesanzeiger) on 2 July 2010, with the deviations mentioned under no. 1. In the future, however, the company also will comply with the following recommendations of the code concerning which under no. 1 a deviation had been published:

- Starting from the next Annual General Meeting the company will arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions (code no. 2.3.3 clause 3).
- In the future the company will show any ownership of shares in the company or of related financial instruments by members of the Management Board and the Supervisory Board (code no. 6.6).

The company does not comply with the following new recommendations:

- The Supervisory Board so far has not specified any concrete objectives regarding its composition (code no. 5.4.1 par. 2 and 3), because the next Supervisory Board elections will be held only in the year 2013.

Kropfmühl, 15 December 2010

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 2010 the Management Board of Graphit Kropfmühl Aktiengesellschaft comprised Mr. Martin Ebeling and Mr. Hans-Detlef Antel. Mr. Achim Carstanjen, who at the beginning of fiscal year 2010 also had been a member of the Management Board, with his declaration of 12 March 2010 resigned from his Management Board position at his own request and in agreement with the Supervisory Board. With the Supervisory Board resolution of 7 February 2011 Mr. Frank Berger was appointed as a member of the company's Management Board.

The Management Board did not form any committees in fiscal year 2010.

The rules of procedure for the Management Board that are established by the Supervisory Board regulate the cooperation of Management Board members and the allocation of duties. As Chief Executive Officer Mr. Martin Ebeling so far was responsible for the fields of strategy development, finances, Investor Relations, and for the graphite segment. With his appointment as a Management Board member Mr. Frank Berger assumed managing responsibility for finances. Mr. Hans-Detlef Antel is responsible for the siliconmetal 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.

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 companyinternal 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 as an essential part of corporate governance. The risk management process helps the Management Board to make business decisions, determine measures, and minimise or avoid risks. For detailed information on Graphit Kropfmühl Aktiengesellschaft risk management please refer to the risk report as of page 39 of the annual report.

In the staffing of management positions the Management Board duly considers the aspect of diversity and intends to achieve an appropriate level of female representation. To promote diversity the company also provides parttime work. If recruiting agents are used for the staffing of management positions, such agents are requested to observe the aspect of diversity in their candidate proposals.

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 onethird participation act. In fiscal year 2010 the Supervisory Board did not form any committees.

With regard to the new recommendation in no. 5.4.1 of the German Corporate Governance Code the Supervisory Board has not yet specified any concrete objectives regarding its composition because the next Supervisory Board elections will be held only in the year 2013. However, the Supervisory Board will discuss concrete objectives for its composition to make sure that these objectives can be published in due time before the next Supervisory Board elections.

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.

In the appointment of Management Board members the Supervisory Board duly considers the aspect of diversity. With regard to the new version of no. 5.1.2 of the German Corporate Governance Code the Supervisory Board in its meeting on 15 December 2010 once again expressly dealt with the subject of diversity and resolved that in the appointment of Management Board members the Supervisory Board considers diversity and intends to achieve an appropriate level of female representation, as far as this is compatible with the obligation under the Stock Corporation Act to make the best possible choice for the company in any concrete appointment decision.

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 the annual report.

Function of Management Board and Supervisory Board

Graphit Kropfmühl Aktiengesellschaft complies with the recommendations of the German Corporate Governance Code. In accordance with the Stock Corporation Act the company has a dual board system comprising the Management Board and the Supervisory Board, each of which has its own competences. 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 2010 the Supervisory Board was informed by way of detailed reports of the Management Board members in four 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 the annual report.

Declaration on Corporate Governance

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.

The annual total compensation of the Management Board members comprises nonperformancerelated and performancerelated components. The nonperformancerelated component essentially is a fixed compensation that is paid as a monthly salary. The performancerelated 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 former Management Board member Achim Carstanjen (until 12 March 2010) the EBIT of the graphite segment. As a rule the performancerelated component is paid in May of the following year. Furthermore there also are additional benefits for the Management Board members in the form of company car use and grants to pension, health, and long term care insurance.

| in TEUR | Fixed component | Variable component | Additional benefits | Total |
|-------------------|-----------------|--------------------|---------------------|-------|
| Martin Ebeling | 168 | 54 | 13 | 235 |
| Hans-Detlef Antel | 162 | 78 | 13 | 253 |
| Achim Carstanjen* | 0 | 5 | 0 | 5 |
| Total | 330 | 137 | 26 | 493 |

*) Management Board member until 12 March 2010

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.

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 or 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 or 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 the 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.

Declaration on Corporate Governance

| in TEUR | Current service cost 2010 | Defined benefit obligation (DBO) 31 Dec. 2010 | Pension claim* 31 Dec. 2010 |
|-------------------|---------------------------|---|-----------------------------|
| Martin Ebeling | 90 | 1,214 | 84 |
| Hans-Detlef Antel | 38 | 1,125 | 84 |
| Achim Carstanjen | 13 | 0 | 0 |
| Total | 141 | 2,339 | 168 |

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

The pension regulations for former Management Board members and their surviving dependants are the same as for the active Management Board. In the current fiscal year an amount of TEUR 144 was paid for pensions, the amount of the defined benefit obligation (DBO) of former Management Board members was TEUR 2,135. This amount also contains the obligation to the former Management Board member Achim Carstanjen.

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 EUR 10,000 for every member, of EUR 30,000 for the chairman, and EUR 15,000 for the deputy chairman.

The table below shows the Supervisory Board compensation figures:

| Member | Position | Compensation in TEUR |
|-------------------------|---|----------------------|
| Dr. Heinz Schimmelbusch | Chairman | 30 |
| Rainer Grohe | Deputy chairman | 15 |
| Dr. Michael Witzel | Member (second deputy chairman until 16 June) | 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.

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 at www.gk-graphite.com. Possible counter-motions and statements of the Management Board concerning such counter-motions also are published there.

The company's Annual General Meeting on 16 June 2010 was attended by 88.7 % of the voting capital. In all the agenda items the approximately 70 attending or represented shareholders accepted the administration's proposals for resolution with majorities of more than 99 %. Essential agenda items

Declaration on Corporate Governance

included the resolution on balance sheet profit appropriation, the approval of the actions of Management Board and Supervisory Board members, the choosing of the auditor, and the amendment of the articles of association on account of the act on the implementation of the shareholder rights directive and the act on the appropriateness of Management Board compensation. 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

Consistent, comprehensive, and prompt information is of highest priority for Graphit Kropfmühl Aktiengesellschaft. 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, 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.

Information about the company's business situation and earnings is provided in the annual report and in the interim reports for the first, second, and third quarter of the fiscal year.

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.

In the last fiscal year Graphit Kropfmühl Aktiengesellschaft published seven press releases and two voting rights announcements.

In addition to the statutory obligation to immediately report and publish transactions in company shares the company hereby reports any direct or indirect holding of company shares or related financial instruments by Management Board and Supervisory Board members. The members of the Management Board and of the Supervisory Board directly or indirectly hold the following company shares or related financial instruments:

Mr. Manfred Kneidinger holds 10 employee shares of the company.

The dates of essential regular publications (including annual report, 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 in Mannheim, which in the Annual General Meeting 2010 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.

Share price increased by 61.4 %

After a moderate start into the year 2010 with prices rising up to EUR 14.50 in the months of February and March, the share then showed a lateral movement until July 2010 with prices at about EUR 12. In the second half of the year the price then clearly increased. Near the end of the year our major shareholder AMG Invest GmbH announced that they had increased the shareholding in our company, and on 28 December 2010 the share then reached its yearly high at EUR 19.70. At year's end the share price then had slightly decreased again to EUR 19.06. With EUR 11.79 the share had its yearly low already on 6 January 2010. Over the course of the year the price in total increased by 61.4 %.

The price development of the Graphit Kropfmühl share thus clearly exceeded the highly positive development of the SDAX, which in the year 2010 showed an increase of about 42 %.

| Financial ratios per share in EUR | 2010 | 2009 | 2008 |
|--------------------------------------|-----------|-----------|-----------|
| End-of-year price | 19.06 | 11.81 | 17.40 |
| Yearly high | 19.70 | 17.50 | 24.40 |
| Yearly low | 11.79 | 10.89 | 11.04 |
| Number of shares | 2,880,000 | 2,880,000 | 2,880,000 |
| Capital stock in EUR million | 8.64 | 8.64 | 8.64 |
| Market capitalisation in EUR million | 54.9 | 34.0 | 50.1 |
| Earnings per share | 0.57 | - 0.32 | 1.21 |
| Cashflow per share | 0.59 | 1.97 | 1.52 |
| Dividend per share | 0.00 | 0.00 | 0.00 |

Loss in terms of the German Commercial Code in the Graphit Kropfmühl Aktiengesellschaft
The annual financial statements of Graphit Kropfmühl Aktiengesellschaft, which are the basis for dividend distribution and are prepared according to German commercial law principles, show a balance sheet loss for fiscal year 2010. Due to the adjustment to modified accounting principles (German Accounting Law Modernisation Act) and the closing-date effect relating to the securing of medium-term electricity supply at RW silicium GmbH, the fiscal year 2010 after profit and loss transfers showed an annual loss in the amount of TEUR 4,413. Adjusted for profit brought forward from the previous year the balance sheet for fiscal year 2010 still shows a loss of TEUR 151.

Due to the balance sheet loss no dividend will be distributed for fiscal year 2010.

Shareholder structure

Our major shareholder AMG Invest GmbH, a 100 % subsidiary of AMG Advanced Metallurgical Group N.V., Amsterdam, has further increased its shareholding in Graphit Kropfmühl Aktiengesellschaft. With the purchase by AMG Advanced Metallurgical Group N.V. the proportion of voting rights increased by 8.5 % to 88.0 % on 22 December 2010. In the meantime this 8.5 % proportion has been transferred to AMG Invest GmbH.

On 22 December 2010 the proportion held by UBS Global Asset Management (Deutschland) GmbH, Frankfurt, dropped below the threshold of 3 % of voting rights. On this day the attributable proportion of voting rights was 0.0 %.

The remaining 12.0 % of the total 2,880,000 shares are in free float.

Investor Relations

Transparent communication

In the last fiscal 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. Equal treatment of all market participants for us is the core principle of transparent communication, which we provide with our annual and interim reports and our continuous press releases. Communication with our shareholders, potential investors, and financial market opinion leaders, apart from direct dialog at the Annual General Meeting especially focused on current information provided in the Investor Relations sector of our website, where financial statements, press releases, ad hoc messages, and current presentations are available. At www.gk-graphite.com we also publish our financial calendar, comprehensive information about the Annual General Meeting, the declaration of conformity with the German Corporate Governance Code, and everything worth knowing about the Graphit Kropfmühl share.

Personal contact with investors and analysts is of special importance for us and therefore receives special attention. At the German Equity Forum that was held in Frankfurt in November 2010 we presented our company to a variety of analysts and institutional investors. In one-on-one meetings and interviews we furthermore inform the interested public about current opportunities and developments in our business sectors and in the group as a whole.

We will maintain transparent communication in fiscal year 2011, continue to observe equal treatment of all the interested groups, and provide prompt and comprehensive information about 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

Group structure

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

The group's graphite segment has extensive 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 product and process innovations. Already 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 a graphite deposit in Zimbabwe which until today has been part of the raw material supply in this segment, established micronising capacities, acquired a participation in a mine on Sri Lanka, and started building up operations in China. Our multifaceted research and development work furthermore guarantees the permanent optimisation of our product range. Hand in hand with our customers we develop specifically customised product solutions.


In the group's 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. To reduce emissions, continuous investments were made in environmental protection measures, especially in exhaust-air purification. The marketing of microsilica, a very fine silicon dioxide that is obtained in the process of exhaust-air purification, developed into another successful business area in this segment.

Today the Graphit Kropfmühl group comprises 14 companies, including the non-consolidated participation in Zimbabwe. In addition to the production capacities at the German plants in Kropfmühl, Wedel, Bonn und Pocking the group has other plants in the Czech Republic, the People's Republic of China, Sri Lanka, and Zimbabwe. In Mozambique and Brazil project companies were established in 2010 to evaluate new graphite deposits in these countries. In these consolidated financial statements the company Graphit Kropfmuehl de Moçambique Lda. was for the first time integrated in the scope of consolidation. The company Graphit Kropfmuehl do Brasil Participações Ltda. is not included in the consolidated financial statements because of its minor importance. Our worldwide distribution network guarantees 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 Management Board also includes the Managing Director of the silicon-metal segment. With its resolution of 7 February 2011 the Supervisory Board strengthened the Management Board with a Financial Director responsible for the fields of controlling, treasury, finance and accounting, law and taxes, human resources and IT, which so far were managed by the Chief Executive Officer.

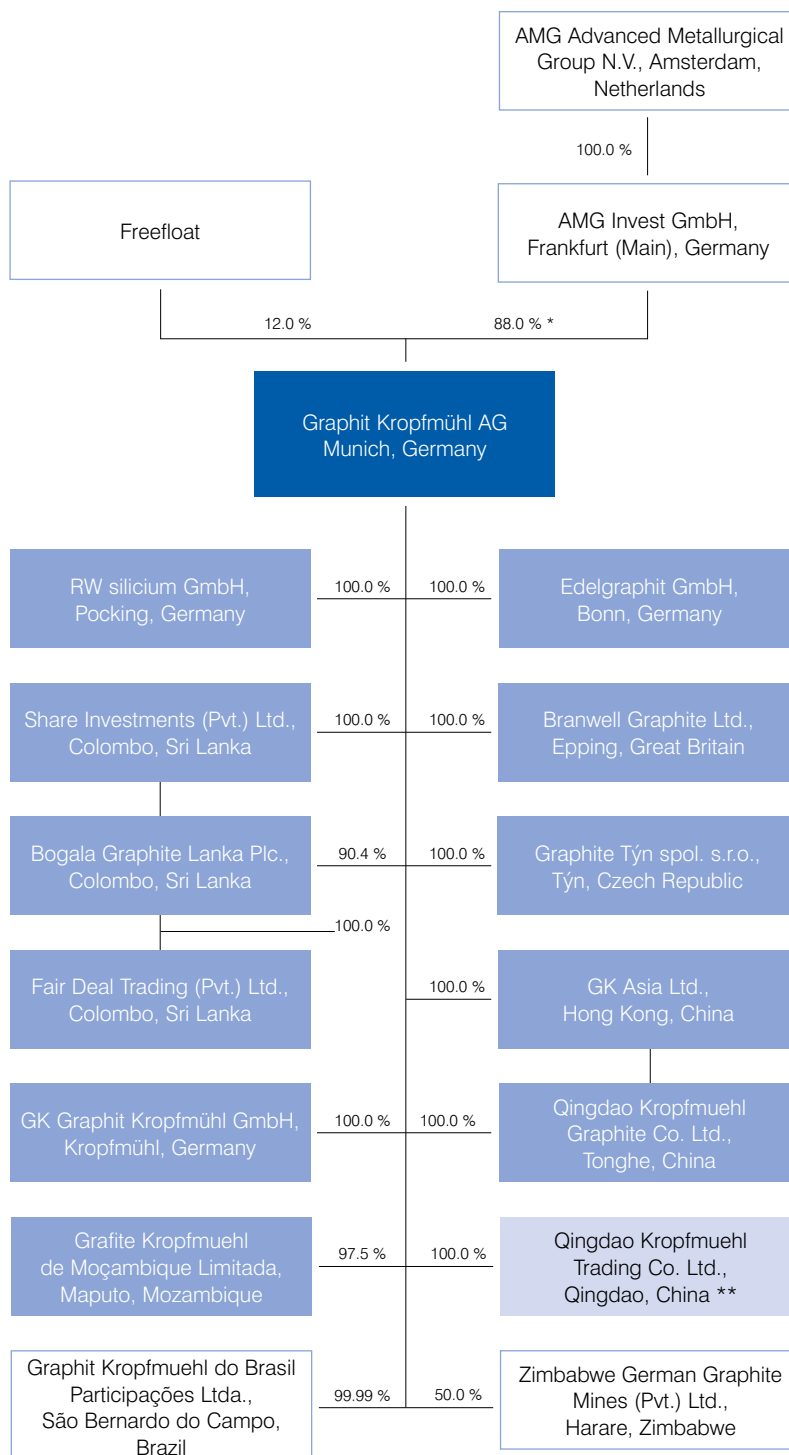
The Management Board acts in close coordination and dialog with the Supervisory Board, which accompanies and supervises the work of the Management Board.

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



In the year 2008 the majority of Graphit Kropfmühl Aktiengesellschaft was acquired by AMG Advanced Metallurgical Group N. V., which directly and indirectly through AMG Invest GmbH holds 88.0 % of the shares of our company. The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft are integrated in the consolidated financial statements of AMG Advanced Metallurgical Group N. V., Amsterdam, Netherlands.

On 27 December 2010 UBS Global Asset Management (Deutschland) GmbH reported that on 22 December 2010 their attributable proportion had dropped below the threshold of 3 % and that on this day they did not hold any shares of Graphit Kropfmühl Aktiengesellschaft.



*) On the balance sheet date AMG Invest GmbH held 79.5 %. An additional 8.5 % were held by AMG N.V., Amsterdam, and were transferred to AMG Invest GmbH on 1 January 2011.

***) Qingdao Kropfmuehl Trading Co. Ltd. was liquidated and deconsolidated on 17 August 2010.

Business operations of the Graphit Kropfmühl group are combined in two reportable business segments.

Silicon metal

The silicon-metal segment comprises the 100 % participation in RW silicium GmbH, the only German producer of silicon-metal. In fiscal year 2010 this segment reached a turnover of EUR 63.6 million and contributed about 66 % to the consolidated turnover.

The major part of the turnover in this segment is generated with the sale of silicon-metal, followed by turnover with 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.

Production capacities are located in Pocking 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 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 turnover in the silicon-metal segment is generated in the German-speaking region (D/A/CH). The close vicinity to our customers for us has clear transport cost advantages compared to our competitors. For the same reason, however, silicon-metal 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., Grafite Kropfmuehl de Moçambique Lda. (established in 2010), GK Asia Ltd. (previously Mutual Sources Ltd.), Qingdao Kropfmuehl Graphite Co. Ltd., Qingdao Kropfmuehl Trading Co. Ltd. (until 17 August 2010), Share Investments (Pvt.) Ltd., and already since 2009 an indirect participation in a logistics service provider in Sri Lanka, Fair Deal Trading (Pvt.) Ltd. The non-consolidated subsidiary Graphit Kropfmuehl do Brasil Participações Ltda. (established in 2010) and the participation in Zimbabwe German Graphite Mines (Pvt.) Ltd. also are managed in this segment. Because of their minor importance for the consolidated financial statements, or because of a lack of influence on the business and financial policy of the company, these companies are not included in the scope of consolidation.

Graphite is a raw material that is needed in many fields of every-day life. 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 technical 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 state-of-the-art 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 lubricants and separating agents, which in the field of forging or as descaling agents are directly supplied to the respective industries, also is gaining ever more importance for us.

German-speaking Europe (D/A/CH) is the major sales market of the graphite segment. About 51 % of the 2010 turnover of EUR 33.3 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 is regularly examined by way of the consolidated financial statements of the segments and of the whole 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 correspondingly 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 by way 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.

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 intend to reach this objective.

Economies all over the world strongly depend on raw material supplies from China. In the People's Republic of China domestic consumption of raw materials grows continuously due to high growth rates and to increasing technology transfers. For some time China therefore increasingly has been pursuing a policy of raw material securing. The European Union (EU) and Germany also have defined the securing of raw materials as a high priority objective for the European Union. In the middle of 2010 the EU Commission published a report that defines a total of 14 minerals and metals as important and critical raw materials, and graphite also is on this list. Because of the immense economic importance for key industries and in view of a lack of own resources in the EU and the high dependency on imports, the European Union also adopted a policy of strategic resource securing.

Graphit Kropfmühl Aktiengesellschaft continuously examines new raw material supply possibilities to reduce the high dependency on Chinese raw material sources. We are currently evaluating deposits in Africa and in South America. A raw material supply Joint Venture in Brazil that was planned early in 2010, however, could not be realised after thorough examinations. In the meantime we have established

a regional company in Brazil to continue the evaluation there. In the second quarter of 2010 we entered into an agreement with the government in Mozambique that allows us to closely examine possible deposits in the north of the country.

Graphite is a raw material with a very wide range of applications and with special properties that again and again open up new application possibilities. Graphit Kropfmühl - also in cooperation with the AMG group - intends to turn such application possibilities into concrete products that yield concrete turnover. One interesting medium-term project that so far has advanced furthest involves the use of graphite's special properties for nuclear waste disposal.

In the silicon metal segment energy expenses are the decisive cost factor in the production process. Our production strategy therefore especially focuses on the constant improvement of energy efficiency. Continuous rationalisation is the only way for us to counter price increases.

General economic development

In 2010 the global economy recovered from the consequences of the 2009 financial and economic crisis faster and more dynamically than expected. However, in the course of the year 2010 the global economic development, which had been very strong at the beginning of the year, did somewhat slow down again. In emerging markets the dynamic development already had become weaker as from the start of the year 2010, whereas industrial nations and especially the euro zone began to noticeably slow down only after the second quarter of 2010.

For the regions that are relevant for the Graphit Kropfmühl group the ifo economic forecast for 2010/2011 states the growth of the real gross domestic product (GDP) as follows:

| Real GDP growth in % compared to the previous year | 2010 | 2009 |
|--|------|-------|
| World | 4.7 | - 0.6 |
| All industrial nations | 2.6 | - 3.7 |
| EU 27 | 1.8 | - 4.3 |
| Euro zone | 1.7 | - 4.0 |
| Germany | 3.7 | - 4.7 |
| Emerging markets | 7.9 | 3.9 |
| China and Hong Kong | 9.7 | 8.2 |
| Latin America | 5.9 | - 2.1 |

The table clearly shows that the dynamic development is quite different in individual economic regions and countries.

The development in Germany, which is important for the Graphit Kropfmühl group, compared to the EU 27 economic region and to industrial nations shows an above-average 3.7 % increase of the expected GDP growth. Due to the high level of export orientation, however, the relevant countries and regions also had experienced the highest losses in the previous year.

For the euro zone the ifo Institute expects a growth of 1.7 % for 2010. The picture here is highly heterogeneous. Export-oriented countries with relatively intact national finances, including among others Germany and Austria, profit from the global dynamic development and developed above average in 2010. On the other hand countries such as Greece, Ireland, Portugal and Spain, whose high national debt repeatedly gives rise to discussions, and which in part already had to use the euro rescue fund, suffer from the enforced consolidation measures. While Greece and Ireland, which are not significant for GK,

suffer a deep recession, the economy in Spain has remained static since the beginning of 2010. In other larger EU member states such as France and Italy the economy is moderately recovering with growth rates of 1.0 % and 1.5 %, respectively.

In Eastern Europe not all countries were able to profit from the economic recovery. While countries such as Poland and the Czech Republic performed above average, the economic development's momentum clearly decreases in countries further to the east.

Development in China remained at an extraordinarily high level also in 2010. For the total year the Ifo Institute in its economic forecast expects a growth of 9.7 %. An increasingly restrictive monetary policy that should reduce the granting of loans resulted in a slow-down of the development in the course of the year 2010. Compared to the previous year the first quarter of 2010 still showed a GDP increase of 11.9 %, which by the third quarter had decreased to 9.6 % and is expected to further drop in the fourth quarter.

Latin America predominantly experienced a stable growth in 2010, especially driven by the development of important industry raw materials. However, the development also noticeably decelerated here in the course of the second half year, primarily as a result of the decreasing demand caused by the global economic slowdown, although in the total year a GDP growth of 5.9 % compared to the previous year means an above-average growth.

Apart from the euro as the common European currency, the US dollar (USD) is another important currency in the Graphit Kropfmühl group, because essential parts of the purchase volume are paid in this currency.

At the end of the first quarter the euro was clearly devaluated against many other currencies, which was caused by the debt crisis of some South and West European member states of the monetary union. In view of continuing uncertainties exchange rates partially dropped below 1.20 EUR/USD and only were reversed again at the end of the second quarter 2010 due to growing uncertainties concerning the stability of the development in the USA and an expansive monetary policy of the American Federal Reserve Bank. By the end of October the exchange rate had returned to more than 1.40 EUR/USD, before a renewed discussion about the debt levels of some member states causes the exchange rate to drop to a level of about 1.30 EUR/USD again. On an annual average the euro was devaluated against the USD by 5.0 %.

The electricity price is an essential economic success factor in the silicon metal segment, where the acquisition price of electric power is the main cost factor in production. The company covers its demand by way of a long-term supply contract with a power supply company. The agreed prices are based on the development at the European Energy Exchange (EEX) in Leipzig. At the moment the silicon-metal segment already has covered the major part of its electricity demand up to 2013 to safeguard against price change risks. The general development can be described as follows: In the first quarter of 2010 the prices for one-year contracts (Phelix Futures) at the Energy Exchange decreased, while early in the second quarter they reached their respective yearly high with simultaneously increased volumes. In the further course of the year both prices and trade volumes decreased until October. In November this development was reversed, and prices increased again until the end of the year.

Report of the Management Board

Borne by the general economic recovery, business in the Graphit Kropfmühl group developed very positively in the year 2010 – especially compared to the previous year, and also compared to the overall economic development in the regions where we are operating. In both segments we exceeded our turnover and earnings targets.

The table below shows the development of turnover in both segments in 2010.

| External turnover in TEUR | Q I | Q II | Q III | Q IV | Total |
|--|--------|--------|---------|--------|--------|
| Silicon metal | 14,866 | 15,853 | 15,985 | 16,903 | 63,607 |
| Change compared to the previous year (%) | 16.1 % | 9.2 % | - 6.5 % | 5.2 % | 5.1 % |
| Graphite | 6,760 | 9,165 | 9,080 | 8,278 | 33,283 |
| Change compared to the previous year (%) | 27.8 % | 64.8 % | 37.1 % | 25.7 % | 37.6 % |
| Group | 21,626 | 25,018 | 25,065 | 25,181 | 96,890 |
| Change compared to the previous year (%) | 19.6 % | 24.6 % | 5.6 % | 11.1 % | 14.5 % |

Due to the strongly decreased demand that was a result of the financial and economic crisis, market prices for silicon-metal experienced a lasting decline in the previous year 2009. This development had a clear effect in 2010, because the agreed prices of supply contracts for the following year regularly are determined by the market prices at the time of contract conclusion. As a result average prices in the silicon-metal segment did not reach the level of the previous year. The reported growth in turnover originates from a 9.0 % increase of the production volume, which could be placed on the market due to the high demand in all the product fields. The continued increase of important energy costs did not allow an improvement of earnings in this segment, and the EBITDA with EUR 4.1 million even is slightly lower than in the previous year.

Backed by a strongly increasing global demand the graphite segment reached a record turnover of EUR 33.3 million. All the markets and established application fields showed a highly pleasing development, and compared to the previous year the sales volume in this segment increased by 28.3 %.

Our result was burdened by strongly increasing prices on the procurement side, which showed a rapid upward development especially in the second half of the year, decisively due to a clear recovery of demand on the world markets and a continuously strong growth in Asia. It also can be assumed that politically pushed resource securing especially in China will increasingly influence the development of prices.

Altogether the earnings situation in the graphite segment has clearly improved. The EBITDA is EUR 2.6 million, after an only balanced result in 2009.

In the group all the earnings ratios have decisively improved. The EBITDA increased by 59.5 % to EUR 6.7 million. Earnings before interest and taxes (EBIT) and earnings before tax (EBT) also increased disproportionately to EUR 2.8 million and EUR 2.6 million, respectively.

The operative cashflow in the group decreased to EUR 1.7 million, after EUR 5.7 million in the previous year. On the one hand 2010 compared to the previous year showed a massive liquidity outflow due to income tax payments of EUR 1.7 million, on the other hand the working capital clearly increased due to the economic recovery and to inventories and receivables that were higher than in the previous year. The change in the working capital resulted in an outflow of funds of EUR 2.6 million. On the accounting date the clearly increased turnover as a whole, and a strong last month resulted in a clear increase of trade receivables. At the same time inventories increased, and due to the market situation some of our suppliers demanded payment in advance, which we had to perform to guarantee our future supply readiness. The higher capital commitment for inventories only to a limited extent could be compensated by utilising supplier payment terms and with the increase of other liabilities. In the previous year the massive decrease of inventories still had resulted in a significant inflow of funds from the change of the working capital. The outflow for investing activities due to a careful and restrictive investment policy

clearly decreased to EUR 2.4 million. In combination with an inflow of EUR 1.0 million from financing activities, the reported cash and cash equivalents increased by EUR 0.4 million to EUR 1.4 million. As a result, however, the net debt to banks in 2010 increased by EUR 0.8 million to EUR 19.2 million.

Research and development

Research and development for us is of great importance in both segments, since it helps to secure the economic future of the Graphit Kropfmühl group. Providing constant quality throughout the life cycle of our products, and ensuring continuous further development and new developments is what clearly distinguishes us from competitors in developing and emerging markets.

In the silicon-metal segment we are continuously improving energy efficiency. In fiscal year 2009 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 the meantime this system has proven its efficiency, and we are at present considering to also convert other furnaces.

The carbon setting of the furnace mixture has been improved. Depending on consumption and electrode service life, correction mixtures are calculated and used per shift.

An additional compacted quality was developed for RW filler marketing. The fine-grained dust is compacted in a special silo process.

In the graphite segment we benefit from the necessity to clearly reduce primary energy demand due to the expected scarcity of fossil fuels. In the field of building chemistry we cooperate with 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.

Applications in the field of battery development and the implementation of electromobility are other important subjects for the graphite segment. Graphite is used in the so-called anode mass of lithium-ion batteries. To further intensify this subject, Graphit Kropfmühl Aktiengesellschaft as a partner company next year will participate in an endowed chair at a Lower Bavaria university of applied sciences.

Together with companies of the AMG group we are involved in a project dealing with nuclear waste disposal. Together with these companies we are developing special graphite products for this application, but this development will still last several years.

On the accounting date our research and development team as in the previous year comprised 11 employees. If necessary, additional capacities are added from other departments. In fiscal year 2010 the total expenses for research and development compared to the previous year slightly increased to EUR 0.9 million (previous year: EUR 0.8 million).

Investments

In 2010 the investing activities of the Graphit Kropfmühl group still were influenced by the uncertainties caused by the financial and economic crisis. The most important objective in 2010 still was to secure the group's liquidity, which is why we maintained the careful and restrictive investment policy of the previous year.

After total investments of EUR 5.0 million in 2009, an amount of EUR 3.1 million was invested in property, plant and equipment in 2010.

Group Management Report

Investments in the silicon-metal segment amounted to EUR 0.9 million. The biggest single investment was made in a third casting line for the production of structure-optimised silicon-metall.

In the graphite segment the investment volume in property, plant and equipment amounted to EUR 2.2 million. The major part was invested in the expansion of micronising capacities at the Kropfmühl plant, which according to plan were put into operation at the beginning of the second half year.

In the second half year of 2010 the graphite segment started detailed examinations of graphite deposits in Africa and in South America. The costs directly attributable to these measures are assigned to the intangible assets as exploration costs until a final decision is made in a comprehensive feasibility study. These measures thus resulted in the essential additions to intangible assets of EUR 0.3 million.

Employees

On 31 December 2010 the Graphit Kropfmühl group in total had 482 employees. Compared to the previous year the number of employees thus increased by five.

The silicon-metal segment had 108 employees on 31 December 2010 (previous year: 106 employees). 374 employees worked in the graphite segment (371 employees on 31 December 2009).

| Employees classified by their function | 2010 | 2009 | Change |
|--|------|------|---------|
| Production | 407 | 400 | 1.8 % |
| Research and development | 11 | 11 | 0.0 % |
| Sales and marketing | 22 | 24 | - 8.3 % |
| Administration and other fields | 42 | 42 | 0.0 % |
| Total | 482 | 477 | 1.1 % |

Personnel expenses in fiscal year 2010 are classified as follows:

| in EUR million | 2010 | 2009 | Change |
|---|------|------|------------|
| Wages and salaries | 11.4 | 10.9 | 4.6 % |
| Restructuring expenses (severance payments) | 0.0 | 0.1 | not stated |
| Social security contributions and expenses for pensions and welfare | 2.9 | 3.0 | - 3.3 % |
| Total | 14.3 | 14.0 | 2.1 % |

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. Through 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, we operate a tourist mine and a geology education trail. 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 comply with all the environmental regulations that concern us with respect to air pollution control, water pollution control, noise and waste.

Earnings position

Silicon-metal segment

| in EUR million | 2010 | 2009 |
|--|--------|--------|
| Si-metal production (in tons) | 30,105 | 27,620 |
| Total sales volume (in tons) | 55,154 | 50,626 |
| Segment assets | 40.6 | 34.2 |
| Turnover | 63.6 | 60.5 |
| EBITDA | 4.1 | 4.2 |
| Depreciation and amortisation | 1.6 | 1.4 |
| Recultivation expenses | 0.0 | 0.0 |
| Restructuring expenses | 0.0 | 0.0 |
| Foreign exchange result (adjustment (-)) | 0.3 | 0.0 |
| EBIT | 2.2 | 2.8 |
| Financing expenses | 0.2 | 0.7 |
| EBT | 2.0 | 2.1 |

In fiscal year 2010 the silicon-metal segment reached a 5.1 % turnover increase of EUR 3.1 million to EUR 63.6 million. However, since sales prices had decreased on an annual average, this increase is not correspondingly reflected in the earnings.

In 2010 the silicon-metal production quantity increased by 9.0 % to 30,105 tons. In 2009 a production line had to be shut down according to plans because a furnace was upgraded. In the year 2010 the full capacity was available again, except for planned regular maintenance work.

As in the previous year, almost the full quantity of our produced silicon-metal could be placed on the market. The silicon-metal sales quantity of 29,914 tons represents an increase of 4.5 %. Average earnings on an annual comparison decreased by 1.3 %. The major part of our production is sold through sales contracts with a normal term of one year. In 2009 the prices for silicon-metal had experienced a severed drop due to the decline in demand. As a result contracts had been concluded with the price level of the previous year. In 2010 prices recovered again, and clearly improved prices for spot transactions somewhat moderated the total effects.

The chemical industry still is the major customer for our silicon-metal, even though the sales volume compared to the previous year decreased to 21,364 tons. In 2009 a quantity of 23,998 tons was sold to this industry. On the other hand sales to the aluminium industry recovered, and a volume of 8,550 tons represents an increase of 84.4 % in this industry sector. However, the volumes of 2008 and of previous years could not yet be reached again. In this sector we indirectly benefited from the recovering demand in the automobile industry, which in 2010 had a growing demand for aluminium casting products due to improved sales figures especially in the medium- and luxury-class segment. The sales volume of secondary silicon also improved to 2,101 tons, after 1,639 tons in 2009.

The demand for so-called RW filler products also recovered significantly. In 2009 the changed general economic conditions also had resulted in a noticeable decline in demand in this product sector which, however, could be fully compensated in 2010. The sales volume of 18,572 tons represents an increase of 13.6 %, but the price level was somewhat lower than in the previous year.

Compared to the standard quality, the special quality "Q1" can be placed on the market at clearly higher prices, but the level of the previous year also could not be reached for this product. The sales volume growth to 2,599 tons means an increase of 90.3 % compared to the previous year.

Classified by regions, turnover developed as follows compared to the previous year:

| in EUR million | Silicon-metal | |
|--------------------------|---------------|------|
| | 2010 | 2009 |
| Turnover | 63.6 | 60.5 |
| DACH | 58.2 | 56.3 |
| thereof Germany | 48.4 | 52.6 |
| Other European countries | 4.9 | 3.9 |
| America | 0.1 | 0.1 |
| Asia / Pacific | 0.4 | 0.2 |
| Rest of the world | 0.0 | 0.0 |

The production plants of the silicon-metal segment are located near the German-Austrian border, which offers advantages on the procurement and marketing side. Large quartz deposits lie in the direct vicinity and are available for covering the great demand in production. Our major customers also are located in this region. For this reason the DACH region comprising German-speaking Europe remains the main sales market in this segment. Turnover again increased by EUR 1.9 million to EUR 58.2 million, decreasing figures in Germany were compensated by foreign-country customers. In other European countries turnover increased by EUR 1.0 million to EUR 4.9 million. All the other sales regions remained at a comparatively low level.

The lower sales prices burdened the earnings of the segment, since increased electricity expenses as the main cost factor in production once again became more important. The gross profit margin therefore remained lower than in the previous year. At the same time an increase in structural costs of production due to higher depreciations resulting from investments in previous years, and increased maintenance costs also resulted in a decrease of the gross profit. After EUR 4.8 million in 2009, the silicon-metal segment in fiscal year 2010 reached a gross profit of EUR 4.1 million. Selling and administrative expenses remained almost unchanged, and earnings before interest and taxes thus also decreased by EUR 0.6 million and amounted to EUR 2.2 million in 2010.

In the EBITDA the higher depreciation and amortisation and a clearly improved foreign exchange result softened the decrease, which as a result was only moderate from EUR 4.2 million to EUR 4.1 million. Earnings before tax also decreased slightly by EUR 0.1 million to EUR 2.0 million.

Graphite segment

| in EUR million | 2010 | 2009 |
|--|--------|--------|
| Total sales volume (in tons) | 22,640 | 17,649 |
| Segment assets | 39.5 | 35.9 |
| Turnover | 33.3 | 24.2 |
| EBITDA | 2.6 | 0.0 |
| Depreciation and amortisation | 1.8 | 1.7 |
| Recultivation expenses | 0.1 | 0.0 |
| Restructuring expenses | 0.0 | 0.1 |
| Foreign exchange result (adjustment (-)) | 0.2 | 0.0 |
| EBIT | 0.6 | - 1.8 |
| Financing expenses | 0.1 | 0.9 |
| EBT | 0.5 | - 2.7 |

In fiscal year 2010 the graphite segment reached a new record turnover with EUR 33.3 million. Compared to the previous year a growth of EUR 9.1 million means a turnover increase of 37.6 %. The losses that had been caused by the financial crisis in 2009 thus were already fully compensated in 2010.

Compared to the silicon-metal segment the graphite segment has a much wider customer structure both with respect to regions and industries. All the customer segments benefited from the unexpectedly clear recovery of the economic environment, and the graphite segment thus could achieve two-digit growth figures in all fields.

With products in the field of energy efficiency, which for years have continuously contributed to the growth of the graphite segment, turnover increased by 12 % to EUR 8.5 million. The major customers in this market segment are building chemistry companies that benefit from the increasing requirements concerning thermal insulation and energy saving of buildings. In the field of customer solutions turnover increased by approx. 36 % to EUR 11.4 million. Traditional applications and sales through merchants even reached more distinct turnover increases compared to the previous year. Here a clearly increasing price level for graphite all over the world resulted in a return of former customers in these especially price-sensitive industries. The dispersions customer segment reached a turnover increase of about 53 %. Apart from customers in the lubricant industry this segment also includes deliveries to customers who require our self-developed lubricant and separating materials. This segment developed above average and will continue to generate growth in the future.

The table below shows the development in the sales regions:

| in EUR million | Graphite | |
|--------------------------|----------|------|
| | 2010 | 2009 |
| Turnover | 33.3 | 24.2 |
| DACH | 17.0 | 13.1 |
| thereof Germany | 14.6 | 11.1 |
| Other European countries | 8.5 | 6.4 |
| Asia / Pacific | 5.8 | 3.6 |
| America | 1.5 | 0.4 |
| Rest of the world | 0.5 | 0.6 |

The DACH region remains the main sales market also in the graphite segment. With EUR 17.0 million about 51 % of the segment turnover is generated in this region. A turnover growth of about 30 % compared to 2009 also demonstrates that graphite is an important raw material for many industries and applications in the European economic area, and that the demand for graphite is developing disproportionately compared to the general economic growth in this area. Compared to the crisis year 2009 the graphite segment turnover also clearly increased in other regions. The declining figures of 2009 were fully compensated both in other European countries and in America. A growth of 32.1 % to EUR 8.5 million in other European countries, and an almost quadruplication of turnover in America represent a return to the turnover levels of 2008. In the graphite segment the economic environment in the Asia / Pacific region with constant growth rates in the boom regions of China and India resulted in a jump in turnover of 62.3 % that was clearly above the general economic growth level. In these regions the demand for high-quality graphite grades is rapidly increasing, because as a result of increasing technology transfers production and thus value creation also of sophisticated applications is performed in these regions.

The earnings position of the graphite segment benefited from a mostly excellent capacity utilisation. Plant capacity utilisation remained at a high level also after the new micronising line had been put into operation in Kropfmühl. Compared to the previous year fixed cost degression clearly had positive effects on our earnings figures, and at the same time the restructuring measures of previous years showed their full effects. The situation on the procurement markets had opposite effects. In the course of the year 2010 the development on the procurement markets that had started in the second half of 2009 still accelerated and burdened our margins. The acquisition prices for our raw materials in part increased significantly.

To strengthen mutual trust in the cooperation with our customers our selling prices to a large extent were kept stable in 2010. We passed on cost advantages from increased efficiency and from improved capacity utilisation to our customers, and fulfilled our delivery and price promises despite the market development.

Gross profit altogether improved by 54.6 % to EUR 6.1 million. Selling, general and administrative expenses in this segment were lower than in the previous year. In 2009 an amount of EUR 0.1 million had to be considered for a severance payment program within the scope of restructuring measures in Sri Lanka. With EUR 0.4 million the other operating income also was lower than in the previous year. In total the segment earnings (EBIT) clearly improved to EUR 0.6 million, after EUR - 1.8 million in the previous year.

Because of investments that were made in 2010 and in previous years, depreciations in this segment again slightly increased, and together with a higher foreign exchange result that also is considered in the EBITDA this resulted in a EUR 2.6 million increase of the EBITDA to EUR 2.6 million.

The interest and foreign exchange results that are combined in the net finance costs remained neutral in 2010 especially due to the discounting effects of the recultivation provision in Kropfmühl. In the previous year net interest and foreign exchange effects of EUR - 0.9 million had to be considered. Earnings before tax (EBT) thus increased from EUR - 2.7 million to EUR 0.5 million.

Group

The group's earnings ratios are as follows:

| in EUR million | 2010 | 2009 |
|--|--------|--------|
| Turnover | 96.9 | 84.6 |
| Gross profit | 10.2 | 8.7 |
| Gross profit in % | 10.5 % | 10.3 % |
| EBITDA | 6.7 | 4.2 |
| Depreciation and amortisation | 3.3 | 3.1 |
| Recultivation expenses | 0.1 | 0.0 |
| Restructuring expenses | 0.0 | 0.1 |
| Foreign exchange result (adjustment (-)) | 0.5 | 0.0 |
| EBIT | 2.8 | 1.0 |
| Financing expenses | 0.2 | 1.6 |
| EBT | 2.6 | - 0.6 |

The influences on the development of earnings is described under the earnings position of the two segments.

Income taxes in the amount of EUR 0.9 million had to be considered on the generated earnings before tax (EBT). This means a tax rate of 33.8 %. In the previous year income taxes of EUR 0.4 million had to be considered despite negative earnings before tax of EUR - 0.6 million. While fiscal year 2010 predominantly shows taxes relating to the current period, the income taxes of the previous year essentially contained taxes outside the period.

After EUR - 1.0 million in the previous year, 2010 shows a profit for the year of EUR 1.7 million. After deduction of what is attributable to minority interests, earnings of EUR 1.6 million or EUR 0.57 per share are attributable to the shareholders of Graphit Kropfmühl Aktiengesellschaft. In 2009 the earnings were still negative with EUR 0.9 million or EUR - 0.32 per share.

Asset position

In fiscal year 2010 the consolidated balance sheet total of the Graphit Kropfmühl group increased by TEUR 4,952 to TEUR 73,709. At 31 December 2009 the balance sheet total was TEUR 68,757, the increase thus is 7.2 %. Adjusted for exchange rate changes the balance sheet total increased to TEUR 72,993. The exchange rate related change of TEUR 716 especially was caused by the development of the Sri Lanka rupee and by the Czech crown.

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

| in TEUR | 31 Dec. 2010 | 31 Dec. 2009 |
|-------------------------------|--------------|--------------|
| Goodwill | 6,103 | 6,083 |
| Other intangible assets | 650 | 469 |
| Property, plant and equipment | 34,566 | 34,377 |
| Deferred tax assets | 443 | 337 |
| Other financial assets | 210 | 137 |
| | 41,972 | 41,403 |

The increase of goodwill exclusively is caused by exchange rate effects. The other intangible assets apart from software licences and self-created intangible assets for the first time also include exploration costs which according to IFRS 6 are recognised already during the evaluation of the deposits. Altogether the additions of TEUR 315 (TEUR 308 thereof for exploration) are contrasted by regular depreciations of TEUR 135.

Investments in property, plant and equipment in the amount of TEUR 3,152 are contrasted by regular depreciations of TEUR 3,201. Apart from minor disposals, exchange rate related changes of TEUR 288 also resulted in a TEUR 189 higher property, plant and equipment figure.

Deferred tax assets increased by TEUR 106 to TEUR 443.

Especially due to the granting of a loan to a business partner of the graphite segment the other non-current assets increased from TEUR 137 to TEUR 210.

The following table shows the development of current assets.

| in TEUR | 31 Dec. 2010 | 31 Dec. 2009 |
|---------------------------|--------------|--------------|
| Inventories | 17,068 | 15,765 |
| Trade receivables | 10,599 | 8,673 |
| Taxes receivable | 816 | 981 |
| Other current assets | 1,817 | 933 |
| Cash and cash equivalents | 1,437 | 1,002 |
| | 31,737 | 27,354 |

In fiscal year 2010 the current assets increased from TEUR 27,354 to TEUR 31,737. The increase of TEUR 4,383 equals approximately 16 % and essentially is due to a clear rise of trade receivables and inventories.

Compared on the reporting date the receivables are TEUR 1,926 higher, which is due to the distinctly higher group turnover compared to the previous year. As opposed to traditionally lower turnover figures in December of previous years, turnover in the last month of 2010 remained at a high level, which resulted in a disproportionate rise of receivables at closing date.

The TEUR 1,303 increase of inventories is intended to secure the supply readiness of the graphite segment. In the last quarter of the year 2010 the price and demand development on the procurement market accelerated again, and we were thus forced to build up raw material inventories to safeguard against possible delivery failures during the winter months. The inventory increase furthermore includes a price-related rise due to clearly higher raw material costs.

For future raw material supplies we made advance payments in a total amount of TEUR 714 which essentially contributed to the rise of other current assets from TEUR 933 to TEUR 1,817. TEUR 237 higher taxes receivable from energy and value added taxes also contributed to this development.

Cash and cash equivalents amounted to TEUR 1,437 on the balance sheet date.

Compressed under explanatory aspects the equity developed as follows.

| in TEUR | 31 Dec. 2009 | Change | 31 Dec. 2010 |
|--|--------------|--------|--------------|
| Capital stock | 8,640 | 0 | 8,640 |
| Additional paid-in capital | 5,568 | 0 | 5,568 |
| Foreign currency translation | 250 | 340 | 590 |
| Market value changes of derivative financial instruments | - 406 | 113 | - 293 |
| Generated equity | 7,307 | 1,648 | 8,955 |
| Other provisions | 1,349 | 0 | 1,349 |
| Capital reserves | 8,500 | 2,101 | 10,601 |
| Capital attributable to shareholders | 22,708 | 2,101 | 24,809 |
| Minority interests | 49 | 51 | 100 |
| Equity | 22,757 | 2,152 | 24,909 |
| Equity ratio (equity in % of balance sheet total) | 33.1 % | | 33.8 % |

Group Management Report

In fiscal year 2010 the total of provisions and liabilities increased by TEUR 2,800. The table below shows the recognition in the balance sheet summed up by positions.

| in TEUR | 31 Dec. 2010 | 31 Dec. 2009 |
|--|--------------|--------------|
| Long-term bank debt | 7,763 | 10,224 |
| Short-term bank debt | 13,377 | 9,629 |
| Bank debt | 21,140 | 19,853 |
| Pension obligations | 9,364 | 8,973 |
| Non-current provisions | 3,249 | 3,896 |
| Deferred tax liabilities | 1,148 | 630 |
| Long-term government grants | 484 | 467 |
| Short-term government grants | 132 | 163 |
| Government grants | 616 | 630 |
| Trade payables | 7,841 | 6,924 |
| Current taxes payable | 206 | 1,504 |
| Other long-term financial liabilities | 1,307 | 795 |
| Other short-term financial liabilities | 3,929 | 2,795 |
| Other financial liabilities | 5,236 | 3,590 |
| Provisions and liabilities | 48,800 | 46,000 |
| thereof short-term | 25,485 | 21,015 |
| thereof long-term | 23,315 | 24,985 |

The TEUR 1,287 increase of the bank debt resulted from a TEUR 3,167 higher utilisation of short-term credit lines, among others for the financing of the working capital. On the other hand there were regular repayments of long-term loans in the amount of TEUR 1,939. A higher recognition of TEUR 59 that is attributable to currency conversion also is considered.

Regular additions of TEUR 789 and payments of TEUR 398 resulted in an increase of pension obligations by TEUR 391 to TEUR 9,364.

Non-current provisions decreased from TEUR 3,896 to TEUR 3,249. The decrease of TEUR 647 essentially is due to the partial reversal and adaptation of the provision for recultivation obligations. The classification of graphite as a raw material that is strategically important for the European Union resulted in a change of the licensing situation of responsible authorities. At present we expect that the final closure and thus the start of recultivation work at the Kropfmühl mine will not start before 2015. This postponement, taking into account the expected cost increases due to the discounting obligation for long-term provisions, resulted in the performed reversal.

The increase of deferred tax liabilities among others results from a different tax treatment of the postponement of the start of recultivation. In addition, increased differences in the fixed assets also essentially contributed to the development of this position.

Government grants decreased only slightly by TEUR 14. In the last quarter of 2010 we received a grant of the Government of Lower Bavaria in the amount of TEUR 150, which was granted for various projects at the Kropfmühl plant, among others for the expansion investment in energy-saving micronising technologies. Government grants are released in accordance with the service life of the promoted investments. In fiscal year 2010 this release amounted to TEUR 163.

Compared to the previous year the procurement volume was higher in 2010, which resulted in an increase of trade payables to TEUR 7,841. The significant drop of current taxes payable by TEUR 1,298 to TEUR 206 among others results from paid back payments due to a tax audit at the end of 2009 and other tax assessments for previous years.

The other financial liabilities increased by TEUR 1,646 to TEUR 5,236 (previous year: TEUR 3,590). This position also shows liabilities under the finance lease contract for the constructed micronising line. On 31 December 2010 the total finance lease liabilities amounted to TEUR 919 (previous year: TEUR 20). The other tax liabilities increased by TEUR 561 to TEUR 798 and essentially comprise value added tax liabilities and state export duties. Differing from the previous year compensations to Supervisory Board members in the amount of TEUR 107 also were paid only after the balance sheet date.

Financial position

Principles and objectives of financial management

The primary objective of capital management within the scope of financial management in the Graphit Kropfmühl group is to maintain a high credit rating and a good equity ratio, and to always secure the solvency of Graphit Kropfmühl Aktiengesellschaft and its subsidiaries.

The key value for financial management in the Graphit Kropfmühl group is the debt ratio, which is defined as the relation of net financial liabilities to the total of equity and net financial liabilities. The net financial liabilities comprise interest-bearing loans, trade payables, and other financial liabilities, less cash and cash equivalents. On the balance sheet date the debt ratio was 54.6 % (previous year: 54.5 %). In the group a debt ratio of 70 % was defined as a critical value.

Liquidity and cash management

Long-term liquidity planning is performed within the scope of annual planning calculations that altogether cover a period of three years.

Short-term liquidity flow controlling and reviewing is performed in recurring planning calculations that are used to compare cash inflows and outflows and to adapt cashflows in the group.

The most important financing source is the cash inflow from operating activities. For Germany we centrally manage cash and cash equivalents, fundraising, and the use of hedge instruments at the Kropfmühl location. For this purpose the domestic accounts of group companies are combined in a cash pooling process. Since a global central approach is restricted with respect to capital flows in some countries, subsidiaries outside Germany primarily are financed through their local banks. Furthermore, financing requirements are served by way of internal group offset accounts or through loans.

On 31 December 2010 Graphit Kropfmühl Aktiengesellschaft in Germany had short-term credit lines in a total amount of TEUR 14,250 with various credit institutions. Foreign-country subsidiaries had additional credit lines with local banks in an amount of TEUR 784.

For the securing of future financial risks Graphit Kropfmühl Aktiengesellschaft uses various financial instruments. Foreign currency risks, which especially result from the procurement of raw materials in foreign currencies, in Germany are centrally secured by way of foreign currency derivatives, primarily forward exchange transactions. With interest rate derivatives in the form of interest rate caps and swaps we limit the influence of interest rate fluctuations on variable-interest loans and short-term credits.

Explanations on the cashflow statement

The cashflow statement table below is aggregated with respect to source and appropriation of cash funds.

| in TEUR | 2010 | 2009 |
|---|---------|---------|
| Profit for the year | 1,692 | - 1,019 |
| Non-operative expenses and income | 5,588 | 6,162 |
| Change of working capital | - 2,607 | 1,354 |
| Net interest expenses | - 1,353 | - 1,273 |
| Net tax expenses | - 1,594 | 153 |
| Others | - 13 | 293 |
| Cash inflow from operating activities | 1,713 | 5,670 |
| Cash outflow for investing activities | - 2,395 | - 5,146 |
| Cash inflow (outflow) from / for financing activities | 1,050 | - 391 |

The operative cash inflow is determined indirectly. Based on the profit for the year, non-operative expenses and income are adjusted first. After deduction of changes of the working capital and of interest and tax expenses, the remaining cash inflow amounts to TEUR 1,713 in the year 2010. The operative cashflow of TEUR 5,670 that was reached in the crisis year 2009 was not reached in the year 2010.

On the one hand this development was characterised by a higher capital commitment due to the increase of the working capital, on the other hand this reporting period showed a high liquidity outflow for income tax payments.

The increase of the working capital especially is influenced by a rise of trade receivables (TEUR 1,870) that reflects the 14.5 % jump of turnover compared to the previous year, and an increase of inventories of TEUR 1,103. Counter-financing of TEUR 1,727 was achieved through an increase of trade payables and of other financial liabilities. The challenging development on the procurement market for graphite intensified especially in the last quarter. Advance payments for orders essentially contributed to the increase of other current assets. In 2009 a significant inventory reduction in the amount of TEUR 4,454 with a simultaneous reduction of liabilities had resulted in a cash inflow of TEUR 1,354.

The cash outflow for investing activities amounts to TEUR 2,395. Compared to the previous year this means a decrease of TEUR 2,751. In 2009 the liquidity requirement for investing activities had been TEUR 5,146. About 55 % of the outflow for investments in property, plant and equipment and intangible assets in the amount of TEUR 2,057 were allocated to the graphite segment. In the silicon-metal segment an amount of TEUR 924 was used for expansion and replacement investments. In fiscal year 2010 we furthermore assigned expenses for ongoing exploration activities to the intangible assets.

In 2009 approximately 77 % of the group's investments of TEUR 5,204 were allocated to the silicon-metal segment. As already in 2009, the cash inflow from the sale of property, plant and equipment remained at a very low level with TEUR 38. The change of other non-current assets also shows the changes of granted loans.

In 2009 a net repayment TEUR 391 could be made within the scope of financing activities. In 2010 the group in its financing activities had an inflow of outside capital of TEUR 1,050 to cover its liquidity requirements. While the regular repayment of long-term loans resulted in a cash outflow of TEUR 1,939, the utilisation of short-term credit lines provided a cash inflow of TEUR 3,167.

Altogether cash and cash equivalents increased by TEUR 368 in fiscal year 2010 (previous year: TEUR 133). Adjusted for exchange-rate changes in the amount of TEUR 67 (previous year: TEUR - 40) cash and cash equivalents at 31 December 2010 amounted to TEUR 1,437 after TEUR 1,002 at 31 December 2009.

Compared to the previous year the net bank debt increased by TEUR 852 and amounts to TEUR 19,703.

| in TEUR | 31 Dec. 2010 | 31 Dec. 2009 |
|---------------------------|--------------|--------------|
| Long-term bank debt | 7,763 | 10,224 |
| Short-term bank debt | 13,377 | 9,629 |
| Cash and cash equivalents | - 1,437 | - 1,002 |
| Net bank debt | 19,703 | 18,851 |

Supplementary report

With resolution from 7 February 2011 the Supervisory Board strengthened the Management Board of Graphit Kropfmühl Aktiengesellschaft with Dipl.-Kaufmann Frank Berger, who assumed management responsibility for the finance sector and is in charge of controlling, treasury, finance and accounting, law and taxes, human resources and IT, which before had been managed by Martin Ebeling.

Compensation report

Management Board compensation comprises non-performance-related and performance-related compensation components that depend on the respective task, performance, and the company's business success. Supervisory Board members apart from the reimbursement of their expenses receive a fixed compensation and no performance-related component. There are no additional special compensation agreements with Management Board members or with employees of the parent company that would become effective in case of a takeover bid. Details on board compensation are explained in the compensation report that is contained in the Declaration on Corporate Governance (page 11) and in the notes (page 88). This compensation report was reviewed by the auditor and is part of the group management report.

Information required pursuant to § 315 art. 4 HGB (German Commercial Code)

Composition of the capital stock

On 31 December 2010 the capital stock of 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 statutory regulations and with 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

At the balance sheet date of 31 December 2010 AMG Invest GmbH, Frankfurt (Main) held 79.5 %. On 21 December 2010 AMG Advanced Metallurgical Group N.V. acquired 244,600 shares, which is an 8.5 % proportion of the total capital. In the meantime this proportion has been transferred to AMG Invest GmbH. The AMG group thus holds 88.0 % of the shares. Other direct or indirect interests in the capital that achieve or 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 under 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 EUR 4,320,000 by issuing new shares against cash and/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.

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 Management Board members and with executive staff concerning the monetary indemnification in case of a change of control or a takeover of the company.

Information required pursuant to § 315 art. 2 no. 5 HGB (German Commercial Code)

At all levels the primary objective of our accounting-related internal control and risk management system is to ensure that financial reporting is conducted properly with respect to completeness and compliance with applicable regulations.

At the top level the management of Graphit Kropfmühl Aktiengesellschaft is responsible for the observance of applicable regulations and for the establishing and maintaining of appropriate controls of financial reporting. Furthermore, the respective management of individual companies is responsible for the accounting-related internal control and risk management system of the respective companies. In all the areas of accounting-relevant processes operative functions are clearly assigned.

The base data for the preparation of the consolidated financial statements consist of the closing data provided by Graphit Kropfmühl Aktiengesellschaft and its subsidiaries. These are based on the accounting records of the individual units. Accounting is performed at the level of the individual company. For this purpose the companies predominantly use standard software that mainly is operated as an in-house solution. Access rules are defined in all accounting-relevant systems to guarantee that data are protected against unauthorised access, use, and change.

Individual financial statements are prepared according to the provisions of local accounting standards. At company level the annual financial statements of subsidiaries are translated into a report layout that is specified by Graphit Kropfmühl Aktiengesellschaft to guarantee a uniform assignment of different account tables. If there are any deviations between local accounting standards and International Financial Reporting Standards (IFRS) that are used in the group, such deviations are translated in the preparation of the consolidated financial statements. The consolidated financial statements including segment reporting are prepared in the consolidation system of Graphit Kropfmühl Aktiengesellschaft. Manual and system-supported completeness and plausibility checks are performed throughout the whole preparation process.

Short-term and medium-term planning calculations and projections are regularly prepared for controlling the Graphit Kropfmühl group. Within the scope of the regular reporting system, target/performance comparisons and analyses of the composition and change of individual positions are used as additional control mechanism at different levels.

Employees involved in accounting already are checked for their qualification when they are selected. Regular internal and external training measures for the respective employees ensure that any changes of basic conditions and of applicable regulations can be considered promptly. For special subjects that require special qualification and knowledge we use the support of external service providers, for example actuaries. The four-eyes principle is used throughout all the accounting-relevant processes.

As part of its work the Supervisory Board reviews the annual and the consolidated financial statements of the company. In the meeting dealing with the adoption of the financial statements the Management Board once again explains essential subjects and is available for further questions and additional information.

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 countermeasures. 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 countermeasures 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 Aktiengesell-

schaft is regularly examined for its function and efficiency and for its continuous further development and integration in the business processes by TÜV Management Service GmbH of TÜV Süddeutschland.

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 Graphit Kropfmühl, 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. In Africa we hold a 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 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 2010 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 situ-

ation, 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

For the year 2011 it is expected that the global recovery will continue at a slower pace. A growing worldwide consolidation pressure on public budgets will result in a shift away from the predominantly expansive monetary policy and will decelerate the growth rates.

In its 2010/2011 economic forecast (dated 14 December 2010) the ifo Institute expects the following growth of the real gross domestic product (GDP) in selected regions:

| Real GDP growth in % compared to the previous year | 2011 | 2010 |
|--|------|------|
| World | 3.6 | 4.7 |
| All industrial nations | 1.7 | 2.6 |
| EU 27 | 1.6 | 1.8 |
| Euro zone | 1.4 | 1.7 |
| Germany | 2.4 | 3.7 |
| Emerging markets | 6.3 | 7.9 |
| China and Hong Kong | 8.0 | 9.7 |
| Latin America | 3.9 | 5.9 |

According to expectations Germany, compared to the member states of the European Union and to all industrial nations, again will experience above-average growth. Although in the years to come Germany, too, will have to clearly reduce its national debt, and public spending will thus clearly decrease, the GDP still is expected to grow by 2.4 %. Clearly decreased unemployment figures are expected to remain at the level reached, and consumer confidence and thus private consumer spending therefore are expected to make a noticeable contribution to the growth in 2011. Exports in 2011 are not expected to make further essential contributions to the upswing, but altogether are expected to remain at a high level. The interest level still is expected to remain low, and continuing good financing conditions according to expectations will lead to high investments.

Because of the high consolidation pressure on the debt countries in South and West Europe the split image within the European Union and the European currency area is expected to remain. According to the ifo economic forecast, Greece will not be able to leave the deep recession, and other countries such as Spain and Italy only will make a below-average contribution to economic growth.

In Eastern Europe the situation is expected to brighten in 2011. Poland and the Czech Republic are expected to maintain their above-average growth rates. Furthermore, most of the Eastern Bloc countries according to the ifo economic forecast are expected to return to a stable growth.

For China and Hong Kong the restrictive monetary policy is expected to intensify to counteract overheating of the real estate market similar to the USA in 2008, and to reduce high lending activities. An expected revaluation of the exchange rate against the US dollar and a generally weaker demand from the USA furthermore are expected to lead to a decrease of growth to 8.0 %.

Essential risks are generated by the continuing tension in connection with European government bonds. If the effects of initiated consolidation measures should not be sufficient to calm down the markets, financing costs for the complete European community of states could clearly increase and force other

countries to use the European rescue fund. This would be accompanied by additional depreciation demands in the European banking sector which, in combination with higher requirements for financing the banking sector, would lead to a clear decrease of lending activities and thus of the economic development as a whole.

The still latent risk of real estate valuation in the USA in case of a renewed collapse of building prices could strongly influence the economic development there. Furthermore, these burdens especially with smaller banks that in many cases still have low equity ratios, might develop into a danger for the USA and for the total global economy.

Course of business and earnings position

In 2010 the global silicon-metal market continued to quickly recover from the drop in demand at the beginning of the year 2009. However, the silicon-metal segment in 2010 could not yet reach the earnings level of the 2008 pre-crisis year again. For 2011 we expect a continuation of the positive price trend with a continuing high demand. This should compensate further increasing raw material prices and higher energy costs in 2011.

In this segment, compared to 2010, we expect a further increase of segment turnover with a simultaneous improvement of the earnings position.

In the graphite segment we will continue to make investments in the application fields of energy efficiency and lubricants / separating agents, and will further expand these fields of application. In this segment we will be burdened by continuing price increases on the procurement side. The price trend still is developing upwards. In combination with a continuing increase of demand, continuous price adaptations on the selling side also will result in a higher segment turnover.

After the significant turnover increase to EUR 96.9 million in 2010, we again expect a clear jump in turnover for 2011, so that in the year 2011 - provided that there will be no unexpectedly strong market influences - we for the first time will exceed the EUR 100 million limit in turnover. For the group we also expect that earnings ratios will again clearly improve.

The securing of our liquidity again has top priority for us in 2011. All our actions and our decisions will be in line with this objective, which our continuing careful investment policy demonstrates. New investments only are made with due consideration and reviewing of all the relevant influencing factors and risk assessments.

For 2011 and 2012 we are planning investments that on the one hand are targeted to provide further rationalisation, with a special focus on energy saving, and on the other hand should provide additional production capacities. The securing of raw materials in the graphite segment also will be an important aspect here.

The objective of all our work still will be to improve our liquidity position and to increase the value of our company.

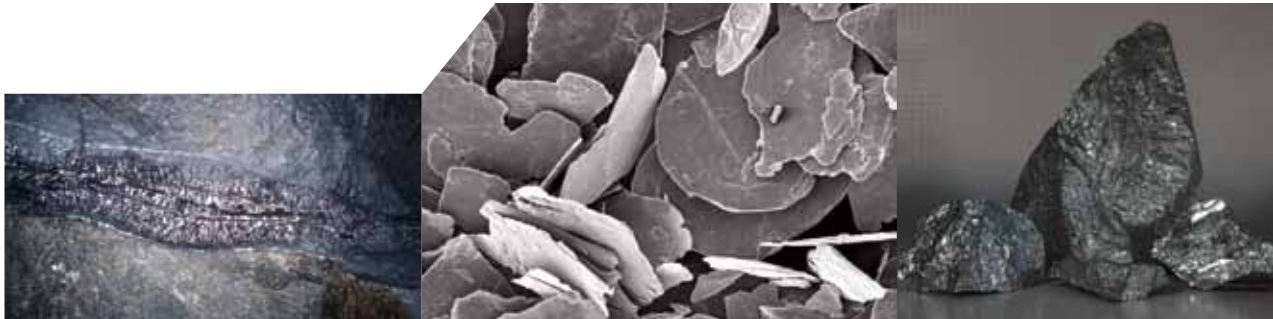
Graphit Kropfmühl Aktiengesellschaft
München

Management Board

Martin Ebeling

Hans-Detlef Antel

Frank Berger



Consolidated financial statements

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Consolidated financial statements

Consolidated Balance Sheet as at 31 December 2010
Graphit Kropfmühl Aktiengesellschaft, München

ASSETS

| | Notes no. | 31 Dec. 2010 TEUR | 31 Dec. 2009 TEUR |
|--|--------------|----------------------|----------------------|
| Non-current assets | | | |
| Intangible assets | (7) | 6,753 | 6,552 |
| Goodwill | | 6,103 | 6,083 |
| Other intangible assets | | 650 | 469 |
| Property, plant and equipment | (8) | 34,566 | 34,377 |
| Land and buildings | | 15,071 | 14,884 |
| Machinery and technical equipment | | 17,072 | 16,959 |
| Other assets, factory and office equipment | | 1,773 | 1,890 |
| Construction in progress | | 650 | 644 |
| Deferred tax assets | (28) | 443 | 337 |
| Other financial assets | (12) | 210 | 137 |
| | | 41,972 | 41,403 |
| Current assets | | | |
| Inventories | (10) | 17,068 | 15,765 |
| Trade receivables | (11) | 10,599 | 8,673 |
| Receivables from affiliated companies | | 12 | 0 |
| Other financial assets | (12) | 163 | 141 |
| Taxes receivable | (13) | 816 | 981 |
| Other current assets | (14) | 1,642 | 792 |
| Cash and cash equivalents | | 1,437 | 1,002 |
| | | 31,737 | 27,354 |
| | | 73,709 | 68,757 |

Consolidated financial statements

STOCKHOLDERS EQUITY AND LIABILITIES

| | Notes no. | 31 Dec. 2010 TEUR | 31 Dec. 2009 TEUR |
|-------------------------------------|--------------|----------------------|----------------------|
| Equity | (15) | | |
| Capital stock | | 8,640 | 8,640 |
| Additional paid-in capital | | 5,568 | 5,568 |
| Capital reserves | | 10,601 | 8,500 |
| Minority interests | | 100 | 49 |
| | | 24,909 | 22,757 |
| Non-current liabilities | | | |
| Pension obligations | (16) | 9,364 | 8,973 |
| Non-current provisions | (17) | 3,249 | 3,896 |
| Bank debt | | 7,763 | 10,224 |
| Government grants | | 484 | 467 |
| Deferred tax liabilities | (28) | 1,148 | 630 |
| Other financial liabilities | (18) | 1,307 | 795 |
| | | 23,315 | 24,985 |
| Current liabilities | | | |
| Bank debt | | 13,377 | 9,629 |
| Trade payables | | 7,841 | 6,924 |
| Liabilities to affiliated companies | | 0 | 1 |
| Government grants | | 132 | 163 |
| Other financial liabilities | (18) | 1,141 | 733 |
| Current taxes payable | (20) | 206 | 1,504 |
| Other liabilities | (21) | 2,788 | 2,061 |
| | | 25,485 | 21,015 |
| | | | |
| | | | |
| | | 73,709 | 68,757 |

Consolidated financial statements

Consolidated statement of comprehensive income for the time from 1 January to 31 December 2010
Graphit Kropfmühl Aktiengesellschaft, München

| | Notes no. | 2010 TEUR | 2009 TEUR |
|--|--------------|--------------|----------------|
| I. Profit and loss statement | | | |
| Turnover | (22) | 96,890 | 84,554 |
| Cost of sales | | - 86,652 | - 75,834 |
| Gross profit | | 10,238 | 8,720 |
| | | | |
| Selling, general and administrative expenses | (23) | - 8,215 | - 8,496 |
| Restructuring and asset impairment expenses | | 0 | - 142 |
| Other income | (24) | 751 | 884 |
| Operating profit (EBIT) | | 2,774 | 966 |
| | | | |
| Interest income | | 654 | 70 |
| Interest expenses | | - 1,374 | - 1,667 |
| Foreign exchange result | | 501 | 0 |
| Profit before income tax | | 2,555 | - 631 |
| | | | |
| Income tax expense | (28) | - 863 | - 388 |
| Profit for the year | | 1,692 | - 1,019 |
| thereof attributable to: | | | |
| Minority interests | (29) | 44 | - 91 |
| Shareholders of the company | | 1,648 | - 928 |
| | | | |
| II. Other comprehensive income | | | |
| Foreign currency translation adjustment | | 347 | - 22 |
| | | | |
| Unrealised gains / losses on derivative financial instruments | (33) | | |
| Change in unrealised gains / losses | | - 56 | - 275 |
| Realised gains (-) / losses (+) | | 208 | 160 |
| Net unrealised gains / losses | | 152 | - 115 |
| | | | |
| Income tax on income and expenses recognized directly in equity | (28) | | |
| Change of income tax on income and expenses recognized directly in equity | | 19 | 74 |
| Realised gains (-) / losses (+) | | - 58 | - 44 |
| Net unrealised gains / losses | | - 39 | 30 |
| | | | |
| Other comprehensive income after taxes | | 460 | - 107 |
| | | | |
| III. Total comprehensive income | | | |
| | | 2,152 | - 1,126 |
| thereof attributable to: | | | |
| Minority interest | | 51 | - 93 |
| Shareholders of the company | | 2,101 | - 1,033 |

Consolidated financial statements

Consolidated statement of cashflows for the time from 1 January to 31 December 2010
Graphit Kropfmühl Aktiengesellschaft, München

| | Notes no. | 2010 TEUR | 2009 TEUR |
|--|--------------|--------------|--------------|
| I. Cashflow from operating activities | | | |
| 1. Profit for the period | | 1,692 | - 1,019 |
| Adjustments for non-cash income and expenses | | 5,588 | 6,162 |
| 2. Depreciation on property, plant and equipment | (8) | 3,201 | 3,022 |
| 3. Amortisation of intangible assets | (7) | 135 | 95 |
| 4. Net finance costs | | 219 | 1,597 |
| 5. Income taxes | (28) | 863 | 388 |
| 6. Gain on sale or disposal of non-current assets | | 14 | - 1 |
| 7. Other changes in pension and recultivation liabilities | | 862 | 1,033 |
| 8. Other non-cash profit and loss items | | 294 | 28 |
| Adjustments for changes of working capital | | - 2,607 | 1,354 |
| 9. Change in inventories | | - 1,103 | 4,454 |
| 10. Change in trade receivables | | - 1,870 | - 434 |
| 11. Change in other receivables | | - 853 | 467 |
| 12. Change in trade payables, provisions and other liabilities | | 1,727 | - 2,561 |
| 13. Payment of recultivation costs | (17) | - 104 | - 101 |
| 14. Payment of pension liabilities | (16) | - 404 | - 471 |
| 15. Change in government grants | | - 13 | 293 |
| 16. Interest received | | 23 | 75 |
| 17. Interest paid | | - 1,376 | - 1,348 |
| 18. Income taxes paid | | - 1,745 | - 56 |
| 19. Income taxes received | | 151 | 209 |
| Cashflow from operating activities | | 1,713 | 5,670 |
| II. Cashflow from investing activities | | | |
| 1. Acquisition of property, plant and equipment | (8) | - 2,057 | - 4,985 |
| 2. Acquisition of intangible assets | (7) | - 315 | - 219 |
| 3. Acquisition of a subsidiary | (2) | 0 | 0 |
| 4. Proceeds from sale of property, plant and equipment | | 38 | 67 |
| 5. Change of other non-current assets | | - 61 | - 9 |
| Cashflow from investing activities | | - 2,395 | - 5,146 |
| III. Cashflow from financing activities | | | |
| 1. Proceeds from issuance of debt | | 0 | 4,314 |
| 2. Repayment of borrowings | | - 1,939 | - 1,894 |
| 3. Repayment for finance lease contracts | (37) | - 177 | 0 |
| 4. Proceeds / repayment from short-term debt | | 3,167 | - 2,811 |
| 5. Other changes in non-current liabilities | | - 1 | 0 |
| Cashflow from financing activities | | 1,050 | - 391 |
| IV. Cash and cash equivalents | | | |
| 1. Net increase (decrease) in cash and cash equivalents | | 368 | 133 |
| 2. Effect of exchange rate fluctuations on cash held | | 67 | - 40 |
| 3. Cash and cash equivalents at the beginning of the period | | 1,002 | 909 |
| V. Cash and cash equivalents at the end of the period | | 1,437 | 1,002 |

Consolidated financial statements

Consolidated statement of changes in equity at 31 December 2010
Graphit Kropfmühl Aktiengesellschaft, München

| TEUR | Capital Stock | Additional paid-in capital | Other capital reserves | |
|---|---------------|----------------------------|------------------------|--|
| | | | | |
| 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 | |
| Foreign currency translation | 0 | 0 | 340 | |
| Gain (loss) of cashflow hedges | 0 | 0 | 152 | |
| Income tax on income and expenses recognized directly in equity | 0 | 0 | - 39 | |
| Other comprehensive income after taxes | 0 | 0 | 453 | |
| Profit for the year | 0 | 0 | 0 | |
| Total comprehensive income | 0 | 0 | 453 | |
| Dividend distribution | 0 | 0 | 0 | |
| Changes in the scope of consolidation | 0 | 0 | 0 | |
| Balance at 31 December 2010 | 8,640 | 5,568 | 1,646 | |

Consolidated financial statements

| Capital reserves | | Generated consolidated stockholders equity | Total capital reserves | Equity attributable to shareholders of the parent | Minority interests | Total |
|------------------------------|----------------------------------|--|------------------------|---|--------------------|---------|
| Other changes in equity | | | | | | |
| Foreign currency translation | Fair value financial instruments | | | | | |
| 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 |
| 340 | 0 | 0 | 340 | 340 | 7 | 347 |
| 0 | 152 | 0 | 152 | 152 | 0 | 152 |
| 0 | - 39 | 0 | - 39 | - 39 | 0 | - 39 |
| 340 | 113 | 0 | 453 | 453 | 7 | 460 |
| 0 | 0 | 1,648 | 1,648 | 1,648 | 44 | 1,692 |
| 340 | 113 | 1,648 | 2,101 | 2,101 | 51 | 2,152 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 590 | - 293 | 8,955 | 10,601 | 24,809 | 100 | 24,909 |

Consolidated financial statements

Notes to the consolidated financial statements for fiscal year 2010
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 79.5 % of the shares of our company. On 21 December 2011 AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands, (AMG) acquired 8.5 % of the shares. Altogether AMG thus holds 88.0 % of the shares. The annual financial statements of our company are integrated in the consolidated financial statements of AMG as the top parent company. The Management Board of Graphit Kropfmühl Aktiengesellschaft released the consolidated financial statements for publication on 22 February 2011.

(1) Accounting principles

The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft, Munich, of 31 December 2010 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 2010 (1 January to 31 December).

Consolidated financial statements

(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 % |
| Grafite Kropfmuehl de Mocambique LDA | Maputo, Mozambique | 97.5 % |
| 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. ¹ | Qingdao, People's Republic of China | 100.0 % |

¹⁾ until August 2010. Qingdao Kropfmuehl Trading Co. Ltd. was liquidated in August 2010.

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 2010). Share Investments (Pvt.) Ltd. was integrated in the consolidated financial statements on the basis of interim financial statements.

On 24 April 2010 the company general meeting of Bogala Graphite Lanka Plc. resolved to reduce the capital stock from TLKR 547,142 to TLKR 80,074. The difference in the amount of TLKR 467,068 was used to reduce loss carryforwards. The equity total remains unchanged. This also applies to the interest that Graphit Kropfmühl Aktiengesellschaft holds in Bogala Graphite Lanka Plc.

Qingdao Kropfmuehl Trading Co. Ltd. was liquidated in August 2010. In the group this resulted in liquidation proceeds of TEUR 26, which were recognised under the other operating income.

On 10 August 2010 Graphit Kropfmühl Aktiengesellschaft together with two other partners established the company Grafite Kropfmuehl de Moçambique Limitada in Maputo, Mozambique. Graphit Kropfmühl Aktiengesellschaft holds a share of 97.5 % in this company. The paid-in capital of the company is MZN 20,000.00 (EUR 394.90). Grafite Kropfmuehl de Moçambique LDA is a company dealing with the exploration and development of graphite mines.

In Brazil Graphit Kropfmühl Aktiengesellschaft furthermore established the company Graphit Kropfmuehl do Brasil Participações Ltda., in São Bernardo do Campo, together with one other partner. The paid-in capital of the company is BRL 10,000 (EUR 4,509.18 at 31 December 2010), of which Graphit Kropfmühl Aktiengesellschaft holds a share of 99.99 %. Because of a minor influence on the asset, financial, and earnings position the company was not integrated in the consolidated financial statements of 31 December 2010.

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.

(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.

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

Successive interest acquisitions with already existing control of the subsidiary are shown as a transaction between the owners.

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. For 2010 there was no need of any impairment.

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

(4) Accounting and valuation principles

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

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

Development costs for self-generated intangible assets were recorded at acquisition or production costs, if the production of these processes probably will yield economic return. The acquisition or production costs include all the costs directly 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.

Exploration costs for the assessment of graphite deposits are recognised during the evaluation phase. After successful proof of technical and economic feasibility (feasibility study) these costs are reclassified to the land and buildings position.

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.

Leasing rates under operating-lease contracts 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 and IFRS 3-2008 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 recorded as liabilities 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.

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 including borrowing costs are subject to accrual accounting. If borrowing costs can be directly assigned to the acquisition or generation of an asset, they are attributed to its acquisition costs. Otherwise financial expenses are directly recognised in profit or loss.

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.

Discretionary decisions in the use of accounting and valuations methods especially must be made in the valuation of pension obligations, because complex assessment is required here for every key date. This especially applies to the determination of the discount factor of 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 0.4 million, or increase them by EUR 0.4 million, respectively.

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.

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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 2011.

(5) 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 2010.

| Standard / Interpretation | Mandatory as from |
|--|-------------------|
| IFRS 2 Share-based Payment | 1 Jan. 2010 |
| IAS 39 Financial Instruments: Recognition and Measurement – Qualifying Items | 1 July 2009 |
| IFRIC 17 Distributions of Non-cash Assets to Owners | 1 July 2009 |
| Amendments to IFRS 2008 | |
| Amendments to IFRS 2009 | |

IFRS 2 Share-based Payment

In June 2009 the IASB published an amendment of IFRS 2 concerning the scope and the accounting of group-settled share-based payments settled in cash. The group expects that this amendment will have no effect on the group's asset, financial and earnings position.

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 determined that the amendment will have no effect on the group's asset, financial and earnings position because the group has not entered into any such transactions.

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 was not made in the group.

IFRS improvements 2008 and 2009

In May 2008 and in April 2009 the IASB published two standard collections relating to various IFRS with the primary objective of removing inconsistencies and clarifying wordings. The standard collections provide transition arrangements for every individual amended IFRS. The application of the following new regulations did result in a change of accounting methods, but had no effect on the asset, financial and earnings position.

Published in May 2008

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: It is made clear that if a subsidiary is classified as held for sale, all the assets and liabilities are classified as held for sale. This also applies if after the sale the company still has shares in the former subsidiary without any controlling influence. The amendment is applied prospectively and has no effect on the asset, financial and earnings position of the group.

The other new regulations in IFRS improvements that are listed below did not have any effects on the accounting methods and on the presentation of the group's asset, financial and earnings position:

Published in April 2009

| Standard / Interpretation | |
|---------------------------|--|
| IAS 1 | Presentation of Financial Statements |
| IAS 7 | Cashflow Statement |
| IAS 17 | Leases |
| IAS 36 | Impairment of Assets |
| IAS 38 | Intangible Assets |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| 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 |

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The standard makes it clear that only the disclosure requirements of IFRS 5 are relevant for non-current assets and disposal groups that are classified as held for sale and for discontinued operations. The amendment is applied prospectively and has no effect on the asset, financial and earnings position of the group.

IFRS 8 Operating Segments

It is made clear that segment assets and segment liabilities only have to be disclosed if such assets and liabilities are regularly reported to the responsible corporate entity. Since the responsible corporate entity of the group monitors the development of segment assets, the group continues to disclose these under number (35) segment reporting.

IAS 7 Cashflow Statement

It is made clear that only such expenses that lead to a recognition of an asset can be classified as cashflows from investing activities. The amendment is applied prospectively and has no effect on the asset, financial and earnings position of the group.

IAS 36 Impairment of assets

The amendment makes it clear that a cash-generating unit to which a goodwill that is acquired in a business combination is allocated may not be bigger than an operating segment according to IFRS 8 before aggregation under the criteria provided there. The amendment is applied prospectively and has no effect on the asset, financial and earnings position of the group.

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The changes in the standards predominantly related to subjects that were not relevant for the Graphit Kropfmühl group. Therefore they had no essential effects on the asset, financial, and earnings position.

In addition to the standards and interpretations that are mandatory for the consolidated financial statements of 31 December 2010 there also are other new standards and interpretations that are not yet mandatory for fiscal years that started on 1 January 2010 and that have not yet been applied in the financial statements of the Graphit Kropfmühl group::

| Standard / Interpretation | Mandatory as from |
|--|-------------------|
| IAS 24 Related Party Disclosures (revised) | 1 Jan. 2011 |
| IAS 32 Amendment – Classification of Rights Issues | 1 Feb. 2010 |
| IFRS 9 Financial Instruments: Classification and Measurement | 1 Jan. 2013 |
| IFRIC 14 Amendment – Prepayments of Minimum Funding Requirements | 1 Jan. 2011 |
| IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |
| Improvements to IFRS 2010 | |

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 32 Financial Instruments – Classification of Rights Issues

The definition of a financial liability was changed in so far as rights issues and certain options or option rights must be classified as equity instruments under certain conditions. These conditions are deemed to be fulfilled if such rights contain the acquisition of a certain number of equity instruments of the company at a fixed amount in any currency, and the company offers these proportionately to all owners of the same class of non-derivative equity instruments.

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 19 Extinguishing Financial Liabilities with Equity Instruments

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 2010

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 | |
|---------------------------|--|
| IFRS 3 | Business Combinations |
| IFRS 7 | Financial Instruments: Disclosures |
| IAS 1 | Presentation of Financial Statements |
| IAS 27 | Consolidated and Separate Financial Statements |
| IFRIC 13 | Customer Loyalty Programs |

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.

(6) 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 2010 these resulted in foreign currency earnings of TEUR 501 (previous year: foreign currency losses TEUR 16).

Important exchange rates

| | Currency | Closing rate on 31 Dec. | | | Average rate | | |
|----------------|-------------|-------------------------|----------|----------|--------------|----------|---------|
| | | 2010 | 2009 | Change | 2010 | 2009 | Change |
| China | CNY / 1 EUR | 8.8220 | 9.8350 | - 10.3 % | 8.9712 | 9.5277 | - 5.8 % |
| Great Britain | GBP / 1 EUR | 0.8608 | 0.8881 | - 3.1 % | 0.8578 | 0.8909 | - 3.7 % |
| Hong Kong | HKD / 1 EUR | 10.3856 | 11.1709 | - 7.0 % | 10.2994 | 10.8114 | - 4.7 % |
| Sri Lanka | LKR / 1 EUR | 147.242 | 164.1450 | - 10.3 % | 150.4432 | 160.6404 | - 6.3 % |
| Czech Republic | CZK / 1 EUR | 25.0610 | 26.4730 | - 5.3 % | 25.284 | 26.4349 | - 4.4 % |
| USA | USD / 1 EUR | 1.3362 | 1.4406 | - 7.2 % | 1.3257 | 1.3948 | - 5.0 % |

II. Notes to the consolidated balance sheet

(7) Intangible assets

| | Goodwill | Internally generated intangible assets | Exploration costs | Other intangible assets | Total |
|--------------------------------------|----------|--|-------------------|-------------------------|-------|
| Acquisition costs at 1 Jan. 2009 | 6,065 | 621 | 0 | 1,344 | 8,030 |
| Exchange rate differences | 6 | 0 | 0 | 0 | 6 |
| Additions | 12 | 0 | 0 | 219 | 231 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Acquisition costs at 31 Dec. 2009 | 6,083 | 621 | 0 | 1,563 | 8,267 |
| Exchange rate differences | 20 | 0 | 0 | 1 | 21 |
| Additions | 0 | 0 | 308 | 7 | 315 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Acquisition costs at 31 Dec. 2010 | 6,103 | 621 | 308 | 1,571 | 8,603 |
| Accum. amortisation at 1 Jan. 2009 | 0 | 344 | 0 | 1,276 | 1,620 |
| Exchange rate differences | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 63 | 0 | 32 | 95 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Accum. amortisation at 31 Dec. 2009 | 0 | 407 | 0 | 1,308 | 1,715 |
| Exchange rate differences | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 53 | 0 | 82 | 135 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Accum. amortisation at 31 Dec. 2010 | 0 | 460 | 0 | 1,390 | 1,850 |
| Net carrying amounts at 1 Jan. 2010 | 6,083 | 214 | 0 | 255 | 6,552 |
| Net carrying amounts at 31 Dec. 2010 | 6,103 | 161 | 308 | 181 | 6,753 |

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. At the balance sheet date the graphite segment had goodwill in the amount of TEUR 6.103 (previous year: TEUR 6.083). The increase is due to exchange rate effects in the amount of TEUR 20.

The respective carrying amount of the segments is contrasted by the recoverable amount. The value in use is used as the recoverable amount. The value in use is the cash value of the estimated future cashflows that can be expected from the continued use of a CGU. The forecasts refer to a detailed planning period of three years (2011 to 2013) – 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 2013. The growth acc. to the detailed planning period was considered with an average of 1.0 % (previous year: 1.0 %) in the discount rate. As discount rate before tax, 9.2 % (previous year: 10.9 %) 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.

Intangible assets apart from goodwill also include expenses for the exploration of mineral resources in the amount of TEUR 308 (previous year: TEUR 0) and internally generated intangible assets of TEUR 161 (previous year: TEUR 214) and other intangible assets of TEUR 181 (previous year: TEUR 255).

Graphit Kropfmühl Aktiengesellschaft presently is evaluating a graphite deposit in Mozambique, the expenses for which were recognised in accordance with IFRS 6. These expenses especially include the costs for test drilling and costs for geologists and other consultants. Depreciations will start after the preparation of the feasibility study that is expected for the middle of 2011. The carrying amount at 31 December 2010 was TEUR 308 (previous year: TEUR 0).

Development costs are regularly amortised on a straight-line basis over a useful life of 10 years. Amortisation in fiscal year 2010 amounted to TEUR 53 (previous year: TEUR 63) and are fully contained in the selling, general and administrative expenses. In 2010 there were no asset impairment expenses acc. to IAS 36. In fiscal year 2010, as in the previous year, 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 2010 amounted to TEUR 82 (previous year: TEUR 32) and as in the previous year is recorded in the selling, general and administrative expenses.

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(8) 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. 2009 | 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. Dec. 2009 | 23,709 | 54,518 | 8,643 | 644 | 87,514 |
| Exchange rate differences | 253 | 427 | 83 | 21 | 784 |
| Additions | 475 | 1,451 | 505 | 721 | 3,152 |
| Disposals | - 27 | - 166 | - 165 | 0 | - 358 |
| Transfers | 154 | 817 | - 235 | - 736 | 0 |
| Acquisition cost at 31 Dec. 2010 | 24,564 | 57,047 | 8,831 | 650 | 91,092 |
| Accum. depreciations at 1 Jan. 2009 | 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. depreciations at 31. Dec. 2009 | 8,825 | 37,559 | 6,753 | 0 | 53,137 |
| Exchange rate differences | 119 | 326 | 49 | 0 | 494 |
| Additions | 576 | 2,231 | 394 | 0 | 3,201 |
| Disposals | - 27 | - 141 | - 138 | 0 | - 306 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Accum. depreciations at 31 Dec. 2010 | 9,493 | 39,975 | 7,058 | 0 | 56,526 |
| Net carrying amounts at 1 Jan. 2010 | 14,884 | 16,959 | 1,890 | 644 | 34,377 |
| Net carrying amounts at 31 Dec. 2010 | 15,071 | 17,072 | 1,773 | 650 | 34,566 |

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

| Years | 2010 | 2009 |
|--|---------|---------|
| 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 2010 amounted to TEUR 6,904 (previous year: TEUR 8,433). The carrying amount of the mortgaged land is TEUR 7,346 (previous year: TEUR 7,341). Technical equipment and machinery with a carrying amount of TEUR 1,432 (previous year: TEUR 1,580) are pledged as security in the amount of TEUR 1,479 (previous year: TEUR 1,574).

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 Ltd. the deposit in Sri Lanka was identified as an asset and was assigned to the land and buildings position. At the acquisition date the deposit was quantified by way of a geological expertise and was depreciated on a straight-line basis over its expected useful life. The useful life of the deposit is reviewed in regular intervals by way of new expertises. On 31 December 2007 a geological expertise of the mine was prepared that shows the useful life of the mine with still 17 years until 2025. Until fiscal year 2006 the expected useful life had been until the year 2031. Starting from the year 2007 the depreciation period was therefore correspondingly adapted. The depreciation shown in the cost of sales amounts in 2010 to TEUR 180 (previous year: TEUR 179).

At 31 December 2009 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. In fiscal year 2010 there were no indications that would have required a renewed reviewing of valuation. The remaining carrying amount of the graphite deposit on 31 December 2010 was TEUR 2,556 (previous year: TEUR 2,736).

At 31 December 2010 the contractual obligations for the purchase of technical equipment and machinery amounted to TEUR 1,064 (previous year: TEUR 859).

The property, plant and equipment position contains assets with a carrying amount of TEUR 1.046 (previous year: TEUR 0) that were acquired through finance lease contracts. For assets leased under operating-lease contracts expenses in the amount of TEUR 177 (previous year: TEUR 150) were recognised in the current year.

(9) 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.

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(10) Inventories

| | 2010 | 2009 | Change |
|-------------------------------------|--------|--------|----------|
| Graphite segment: | | | |
| Raw materials and consumables | 7,223 | 5,784 | 24.9 % |
| Work in progress | 950 | 1,062 | - 10.6 % |
| Finished goods | 3,685 | 3,655 | 0.8 % |
| Total for the graphite segment | 11,858 | 10,501 | 12.9 % |
| Silicon-metal segment: | | | |
| Raw materials and consumables | 2,902 | 3,623 | - 19.9 % |
| Work in progress | 17 | 13 | 30.8 % |
| Finished goods | 2,292 | 1,628 | 40.8 % |
| Total for the silicon-metal segment | 5,211 | 5,264 | - 1.0 % |
| Total | 17,069 | 15,765 | 8.3 % |

The carrying amounts of the inventories rated at their fair value less selling expenses amount to TEUR 4,666 (previous year: TEUR 6,610). New impairments of TEUR 353 were necessary in the fiscal year. The previous year's impairment in the amount of TEUR 649 was no longer necessary due to sales and was fully caught up.

Under an assignment as security of shares in a consolidated company, the inventories of this company indirectly are used as security for a loan with a carrying amount of TEUR 1,678 (previous year: TEUR 2,340).

(11) Trade receivables

The carrying amounts of the trade receivables correspond with the fair values to be used. Value adjustments in the amount of TEUR 347 (previous year: TEUR 331) were taken into consideration here.

(12) Other financial assets

| | 2010 | 2009 | Change |
|--------------------------------------|------|------|------------|
| Granted loans (non-current) | 205 | 137 | 49.6 % |
| Other financial assets (non-current) | 5 | 0 | not stated |
| Subtotal (non-current) | 210 | 137 | 53.3 % |
| Granted loans (current) | 46 | 26 | 76.9 % |
| Financial derivatives | 117 | 115 | 1.7 % |
| Subtotal (current) | 163 | 141 | 15.6 % |
| Total | 373 | 278 | 34.1 % |

The derivative financial instruments are recorded at their fair value.

(13) Taxes receivable

| | 2010 | 2009 | Change |
|--|------|------|----------|
| Tax refund claims in Germany | 814 | 952 | - 14.5 % |
| Tax refund claims in foreign countries | 2 | 29 | - 93.1 % |
| Total | 816 | 981 | - 16.8 % |

(14) Other current assets

| | 2010 | 2009 | Change |
|---|-------|------|-----------|
| Other tax refund claims | 448 | 211 | > 100.0 % |
| Refund claims from the professional association | 127 | 92 | 38.0 % |
| Advance payments on inventories | 714 | 134 | > 100.0 % |
| Prepaid expenses | 72 | 107 | - 32.7 % |
| Creditors with debit balances | 18 | 78 | - 76.9 % |
| Other assets | 263 | 170 | 54.7 % |
| Total | 1,642 | 792 | > 100.0 % |

(15) 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 revenue reserves contain effects not recognised in the income as shown in the other comprehensive income. The foreign currency translation provision shows the effects of the translation of the financial statements of foreign-country companies that are integrated in the consolidated financial statements. These translation effects always are recognised as other income. In case of a partial or complete disposal of a subsidiary, the foreign currency translation provision is correspondingly released in the profit and loss statement. Differences from market value changes of financial derivatives exclusively contain market value changes of interest and currency hedges that are deemed to be effective in their securing effect. Deferred taxes resulting from these changes also are contained in this position. The generated equity shows the historically generated consolidated profits for the year less dividend payments of Graphit Kropfmühl Aktiengesellschaft.

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(16) Pension obligations

Provisions for pensions are formed for obligations resulting from expectancies and from ongoing benefits to former employees of the Graphit Kropfmühl group in Germany and Sri Lanka and their surviving dependants. 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 total pension obligation at 31 December 2010 is not covered by plan assets.

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 | |
|-------------------------|---------|--------|-----------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Discount rate | 4.95 % | 5.25 % | 10.0 % | 12.0 % |
| Future salary increases | 2.5 % | 1.8 % | 9.0 % | 9.0 % |
| Pension trend | 2.0 % | 1.5 % | 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:

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---------|-------|-------|-------|---------|
| Pension obligation at 1. January | 9,613 | 9,188 | 9,306 | 9,094 | 8,939 |
| Current service cost | 275 | 329 | 275 | 241 | 297 |
| Interest cost | 493 | 539 | 479 | 397 | 434 |
| Actuarial gains (-) and losses (+) | 1,454 | 32 | - 409 | - 52 | - 207 |
| Currency adjustment | 12 | - 4 | 0 | - 22 | - 32 |
| Pension payments made | - 398 | - 471 | - 463 | - 352 | - 337 |
| Pension obligation at 31 December | 11,449 | 9,613 | 9,188 | 9,306 | 9,094 |
| Adjustment amount due to actuarial gains (+) and losses (-) | - 2,085 | - 640 | - 617 | - 974 | - 1,059 |
| Balance sheet net obligation at 31 December | 9,364 | 8,973 | 8,571 | 8,332 | 8,035 |

Pension obligations are divided as follows:

| | 2010 | 2009 |
|---|-------|-------|
| Germany | 9,229 | 8,878 |
| Sri Lanka | 135 | 95 |
| Balance sheet net obligation at 31 December | 9,364 | 8,973 |

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 778 (previous year: TEUR 879), which comprises the following components:

| | 2010 | 2009 |
|--|------|------|
| Current service cost including interest cost | 768 | 870 |
| Realised actuarial gain (-) / loss (+) | 10 | 9 |
| Pension expenses | 778 | 879 |

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

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 2010 the total of statutory pension insurance contributions was TEUR 865 (previous year: TEUR 839).

(17) Other non-current provisions

| | 2010 | 2009 | Change |
|------------------------------|-------|-------|----------|
| Recultivation obligation | 3,228 | 3,875 | - 16.7 % |
| Other non-current provisions | 21 | 21 | 0.0 % |
| Total | 3,249 | 3,896 | - 16.6 % |

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. Due to changed general conditions the Management Board in December 2010 resolved not to close the mine in Kropfmühl before 31 December 2014. The company in the main operation plan applied for a further prolongation with the Government of Upper Bavaria.

For the upcoming underground and surface restoration work the company formed provisions in the previous years, of which an amount of TEUR 104 (previous year: TEUR 101) was used for one measure in the reporting year.

In the fiscal year the provision was calculated anew in accordance with the development of costs and interest rates. Due to expected cost increases that were determined from average price increase rates for construction work, the amount to be paid was calculated from the current scope of obligation. Because of the deferred timing of the planned closing of the mine, discounting must be applied to the amount to be paid. The expected amount to be paid was discounted with an interest rate of 3.5 %. Discounting resulted in a release of the provision in the amount of TEUR 621, which is included in the interest income. The cost increase is allocated to the cost of sales.

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| | 2010 | 2009 |
|---|-------|-------|
| Recultivation obligation at 1 January | 3,875 | 3,820 |
| Utilisation | - 104 | - 101 |
| Re-estimation of the obligation | 78 | 0 |
| Release | - 621 | 0 |
| Accrued interest | 0 | 156 |
| Recultivation obligation at 31 December | 3,228 | 3,875 |

(18) Other financial liabilities

| | 2010 | 2009 | Change |
|--|-------|-------|-----------|
| Financial derivatives (long-term) | 514 | 673 | - 23.6 % |
| Finance lease(long-term) | 712 | 10 | > 100.0 % |
| Other financial liabilities (long-term) | 81 | 112 | - 27.7 % |
| Other financial liabilities (long-term) | 1,307 | 795 | 64.4 % |
| Financial derivatives (short-term) | 262 | 260 | 0.8 % |
| Finance lease (short-term) | 207 | 10 | > 100.0 % |
| Financial statement expenses | 334 | 288 | 16.0 % |
| Other financial liabilities | 338 | 175 | 93.1 % |
| Other financial liabilities (short-term) | 1,141 | 733 | 55.7 % |
| Total | 2,448 | 1,528 | 60.2 % |

(19) Provisions for warranty and restructuring expenses

| | Warranty | Restructuring expenses | Total |
|---------------------------|----------|------------------------|-------|
| At 1 January 2009 | 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 |
| Exchange rate differences | 0 | 0 | 0 |
| Utilisation | 0 | 0 | 0 |
| Reversal | 0 | 0 | 0 |
| Addition | 0 | 0 | 0 |
| At 31 December 2010 | 0 | 0 | 0 |

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

(20) Current taxes payable

| | 2010 | 2009 | Change |
|--------------------------------------|------|-------|------------|
| Tax liabilities in Germany | 133 | 1.504 | - 91.2 % |
| Tax liabilities in foreign countries | 73 | 0 | not stated |
| Total | 206 | 1.504 | - 86.3 % |

(21) Other current liabilities

| | 2010 | 2009 | Change |
|---|-------|-------|------------|
| Other tax liabilities | 798 | 237 | > 100.0 % |
| Remaining holiday entitlements of employees | 167 | 108 | 54.6 % |
| Professional association | 120 | 156 | - 23.1 % |
| Liabilities under partial retirement models | 367 | 327 | 12.2 % |
| Other liabilities to employees | 667 | 692 | - 3.6 % |
| Received advance payments on orders | 64 | 81 | - 21.0 % |
| Supervisory Board compensation | 107 | 0 | not stated |
| Other current liabilities | 498 | 460 | 8.3 % |
| Total | 2,788 | 2,061 | 35.3 % |

III. Notes to the consolidated statement of recognized income and expense

(22) Turnover

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

(23) Selling, general and administrative expenses

| | 2010 | 2009 | Change |
|-----------------------------------|-------|-------|----------|
| Selling expenses | 2,021 | 1,416 | 42.7 % |
| General administrative expenses | 4,804 | 5,937 | - 19.1 % |
| Research and development expenses | 911 | 788 | 15.6 % |
| Other operating expenses | 479 | 355 | 34.9 % |
| Total | 8,215 | 8,496 | - 3.3 % |

(24) Other income

The other income of TEUR 751 essentially contains TEUR 163 income from letting and leasing and income from the reversal of government grants (TEUR 163) as well as income from other sales (TEUR 120). In the previous year this position 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.

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(25) Material expenses

| | 2010 | 2009 | Change |
|--|--------|--------|--------|
| Expenses for raw materials and consumables, and for goods purchased (inventories recognised as expenses) | 34,445 | 29,754 | 15.8 % |
| Expenses for services purchased | 31,836 | 26,765 | 19.0 % |
| Material expenses | 66,281 | 56,519 | 17.3 % |

(26) Personnel expenses

| | 2010 | 2009 | Change |
|---|--------|--------|---------|
| Wages and salaries | 11,443 | 10,974 | 4.3 % |
| Social security contributions and expenses for pensions and welfare | 2,873 | 3,020 | - 4.9 % |
| Personnel expenses | 14,316 | 13,994 | 2.3 % |

(27) Number of employees

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

| | 2010 | 2009 | Change |
|--|------|------|---------|
| Employees working in production | 403 | 432 | - 6.7 % |
| Employees working in sales and marketing | 21 | 20 | 5.0 % |
| Employees working in administration / research and development | 54 | 56 | - 3.6 % |
| Total | 478 | 508 | - 5.9 % |

(28) 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:

| | 2010 | 2009 | Change |
|-----------------------|------|-------|------------|
| National taxes | 376 | 667 | - 43.6 % |
| Foreign country taxes | 96 | 10 | > 100.0 % |
| Deferred tax income | 391 | - 289 | not stated |
| Total | 863 | 388 | > 100.0 % |

The taxes of the fiscal year include taxes for previous years in the amount of TEUR 12 (previous year: TEUR 361). These essentially were generated in the previous year 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 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 3.50 % (previous year: 3.75 %) the present value on 31 December 2010 was determined to be TEUR 812 (previous year: TEUR 940). The difference resulting from the discount effect in the amount of TEUR 10 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: 27.8 %). The national tax rate is based on the corporation tax rate of 15.0 % applicable for the tax period 2010, plus a solidarity surcharge of 5.5 %, and on an average trade tax rate of 341.0 % (previous year: 342.0 %). The tax rates applied to current taxes in foreign countries vary between 11.5 % and 28.2 %.

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 11.5 % and 28.2 %. Deferred taxes result from the following future tax reliefs or burdens:

| | Assets | | Liabilities | |
|----------------------------------|--------|-------|-------------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Tax loss carried forward | 170 | 46 | 0 | - 91 |
| Fixed assets | - 199 | - 228 | 1,127 | 978 |
| Inventories | 2 | 2 | 0 | 0 |
| Other assets | 0 | 0 | - 20 | 0 |
| Pension obligations | 341 | 324 | - 81 | - 127 |
| Provisions for recultivation | 0 | 0 | 187 | - 43 |
| Other liabilities | 17 | 41 | 7 | - 16 |
| Derivative financial instruments | 112 | 152 | - 72 | - 71 |
| Total | 443 | 337 | 1,148 | 630 |

Of the deferred taxes, deferred tax assets in the amount of TEUR - 39 (previous year: TEUR 30) were recognised in the other income.

The listed income taxes of the year 2010 in the amount of TEUR 863 (previous year: TEUR 388) deviate by TEUR 153 (previous year: TEUR 563) from the calculated tax expenses of TEUR 710 (previous year: tax earnings TEUR 175).

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The reconciliation between calculated and listed income tax expenses is shown in the table below

| | 2010 | 2009 |
|---|-------|-------|
| Earnings before income tax | 2.555 | - 631 |
| Calculated tax expenses | 710 | - 175 |
| Tax increase due to non-tax-deductible expenses | 119 | 54 |
| Tax decrease due to tax-free income | - 36 | - 58 |
| Tax increase due to non-tax-effective consolidation entries | 5 | 0 |
| Tax increase due to loss carried forward for which no deferred tax assets were recorded in the current period | 71 | 112 |
| Tax decrease from the utilization of previously not recorded loss carried forward | - 28 | - 23 |
| Taxes from prior years | 12 | 361 |
| Tax effect of domestic trade tax | 26 | 20 |
| Effects from tax rate changes on deferred taxes | 0 | - 13 |
| Effects of deviating tax rates | - 16 | 110 |
| Listed income tax | 863 | 388 |

For tax loss carry-forwards of foreign subsidiaries in the amount of TEUR 1,495 (previous year: TEUR 1,363), 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.

(29) Minority interests

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

| | 2010 | 2009 |
|---|------|------|
| Proportion of profit of minority shareholders | 44 | 0 |
| Proportion of loss of minority shareholders | 0 | - 91 |
| Minority interests | 44 | - 91 |

IV. Other notes

(30) 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. The consolidated profit for the year is adjusted for essential non-effective expenses and income and essential changes of group assets and liabilities.

The cashflow from investing activities essentially shows the acquisitions of property, plant and equipment and the proceeds from the sale of property, plant and equipment. Approximately 43 % (previous year: 88 %) of the total investment amount is allocated to expansion and rationalisation investments. Acquisitions of property, plant and equipment that were generated in connection with finance-lease contracts are classified as non-cash and are not included in the cashflow from investing activities. In the fiscal year the acquisitions of property, plant and equipment in the amount of TEUR 3,201 contain TEUR 1,096 (previous year: TEUR 0) that were acquired through corresponding agreements.

The cashflow from financing activities shows the flow of funds from the repayment and raising of loans.

Non-cash transactions are adjusted in the cashflow statement. Acquisitions of property, plant and equipment under finance-lease contracts are classified as non-cash and are not included in the cashflow from investing activities.

(31) 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 2010 and 31 December 2009 there were no changes in the targets, guidelines, and procedures.

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

| Debt ratio | 31 Dec. 2010 | 31 Dec. 2009 |
|---------------------------------------|--------------|--------------|
| Financial liabilities | 23,588 | 21,381 |
| Trade payables | 7,841 | 6,924 |
| Less cash and cash equivalents | - 1,437 | - 1,002 |
| Net financial liabilities | 29,992 | 27,303 |
| | | |
| Net financial liabilities | 29,992 | 27,303 |
| Total equity | 24,909 | 22,757 |
| Equity plus net financial liabilities | 54,901 | 50,060 |
| Debt ratio | 54.6 % | 54.5 % |

In fiscal year 2010 the company complied with all the minimum requirements concerning certain financial ratios that were agreed with lenders, inclusive of any imposed minimum capital requirements.

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(32) 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 | Cash-flow hedging | |
| At 31 December 2010 | | | | | |
| ASSETS | | | | | |
| Cash and cash equivalents and receivables | | | | | |
| Cash and cash equivalents | 1,437 | 1,437 | | | 1,437 |
| Trade receivables | 10,599 | 10,599 | | | 10,599 |
| Receivables from affiliated companies | 12 | 12 | | | 12 |
| Other financial assets | 256 | 256 | | | 256 |
| Derivatives with hedge relationship | 117 | | | 117 | 117 |
| LIABILITIES | | | | | |
| Financial liabilities | | | | | |
| Liabilities to banks | 21,140 | 21,140 | | | 20,850 |
| Trade payables | 7,841 | 7,841 | | | 7,841 |
| Finance lease liabilities | 919 | 919 | | | 919 |
| Other financial liabilities | 753 | 753 | | | 753 |
| Derivatives with hedge relationship | 522 | | | 522 | 522 |
| Financial instruments available for sale | | | | | |
| Derivatives without hedge relationship | 254 | | 254 | | 254 |
| At 31 December 2009 | | | | | |
| ASSETS | | | | | |
| 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 financial assets | 163 | 163 | | | 163 |
| Cash and cash equivalents and receivables | 115 | | | 115 | 115 |
| LIABILITIES | | | | | |
| Financial liabilities | | | | | |
| Liabilities to banks | 19,853 | 19,853 | | | 19,449 |
| Trade payables | 6,924 | 6,924 | | | 6,924 |
| Liabilities to affiliated companies | 1 | 1 | | | 1 |
| Other financial liabilities | 595 | 595 | | | 595 |
| Derivatives with hedge relationship | 673 | | | 673 | 673 |
| Financial instruments available for sale | | | | | |
| Derivatives without hedge relationship | 260 | | 260 | | 260 |

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.

All the derivatives that were measured at fair value (interest rate and currency derivatives) as in the previous years were valued according to procedures that are based on indirectly observable influences (interest rate and currency development) (level 2). During the reporting period, as in the previous year, there were no transfers between measurements at fair value of the different levels (level 1 - 3).

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 2010 | | | | | |
| Trade receivables | 10,599 | 9,895 | 646 | 22 | 35 |
| Loans granted | 256 | 256 | | | |
| Financial derivatives | 117 | 117 | | | |
| Total | 10,972 | 10,268 | 646 | 22 | 35 |
| At 31 December 2009 | | | | | |
| Trade receivables | 8,673 | 7,791 | 713 | 76 | 90 |
| Loans granted | 163 | 163 | | | |
| Financial derivatives | 115 | 115 | | | |
| Total | 8,951 | 8,069 | 713 | 76 | 90 |

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 6,947 (previous year: TEUR 6,045) were pledged as security for bank loans in the year 2009. At 31 December 2010 the corresponding loans had a value of TEUR 1,875 (previous year: TEUR 2,000). Loans granted of TEUR 90 (previous year: TEUR 95) in the other financial assets are secured by way of guarantees of the city of Hauzenberg.

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The value adjustments of trade receivables developed as follows:

| | 2010 | 2009 |
|-------------------------------|------|------|
| At 1 January | 331 | 336 |
| Exchange rate differences | 12 | 0 |
| Addition to value adjustments | 111 | 13 |
| Utilisation | - 31 | - 18 |
| Reversal | - 76 | 0 |
| At 31 December | 347 | 331 |

If a non-payment is classified as highly probable, e.g. in case of insolvency, trade receivables are directly written off, or if the event occurs after value adjustment has been performed, are debited to the value adjustment account. In case of probable non-payments, e.g. if payment terms are considerably exceeded, value adjustments are allocated to the value adjustment account.

Liquidity risk

The table below shows the Graphit Kropfmühl group's contractually agreed interest and redemption payments of non-derivative financial liabilities, derivative financial instruments, pension obligations, and financial liabilities not existing on the accounting date:

| At 31 December 2010 | Carrying amount | Contractually agreed cashflows | 2011 | 2012 | 2013 | 2014 | 2015 | later |
|--|-----------------|--------------------------------|--------|-------|-------|-------|-------|-------|
| Fixed-rate loans from banks ¹ | 10,258 | 10,280 | 2,496 | 2,495 | 2,135 | 1,141 | 625 | 1,388 |
| Variable-rate loans from banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current time loans and bank overdrafts | 10,882 | 10,882 | 10,882 | 0 | 0 | 0 | 0 | 0 |
| Interest payments | 79 | 1,337 | 523 | 331 | 198 | 127 | 81 | 77 |
| Pension obligations ² | 9,364 | 5,969 | 435 | 532 | 558 | 573 | 578 | 3,293 |
| Trade payables | 7,841 | 7,841 | 7,841 | 0 | 0 | 0 | 0 | 0 |
| Currency forwards | 9 | 9 | 9 | 0 | 0 | 0 | 0 | 0 |
| Interest rate swaps | 824 | 1,029 | 322 | 294 | 241 | 94 | 56 | 22 |
| Finance lease liabilities | 919 | 1,042 | 258 | 256 | 242 | 230 | 56 | 0 |
| Other financial liabilities | 753 | 753 | 680 | 73 | 0 | 0 | 0 | 0 |
| Operative lease liabilities | 0 | 294 | 134 | 91 | 51 | 18 | 0 | 0 |
| Non-cancellable purchase obligation | 0 | 21,349 | 17,009 | 4,340 | 0 | 0 | 0 | 0 |
| Total | 40,929 | 60,785 | 40,589 | 8,412 | 3,425 | 2,183 | 1,396 | 4,780 |

| At 31 December 2009 | Carrying amount | Contractually agreed cashflows | 2010 | 2011 | 2012 | 2013 | 2014 | later |
|--|-----------------|--------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Fixed-rate loans from banks ¹ | 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 ² | 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 |
| Total | 37,240 | 54,165 | 36,073 | 3,854 | 3,725 | 3,114 | 1,891 | 5,488 |

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 2010 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 2019. They do not include cash flows after 2019.

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 14,250 (previous year: TEUR 12,250). Individual subsidiaries furthermore have their own credit lines with an aggregated total volume of TEUR 784 (previous year: TEUR 720).

(33) 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 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.

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 2010.

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 4.9 million (previous year: USD 4.1 million). The exchange rate development at the balance sheet date resulted in market values in the amount of TEUR 108 (previous year: TEUR + 115) that were recognised in the other current financial assets. Deferred tax liabilities of TEUR 29 were formed on this. Since the currency forwards have the purpose of securing future cashflows and thus are classified as cashflow hedges, the total market value change of TEUR 7 was recognised in the other comprehensive income. The market value of the currency forwards is derived from the average exchange rate at the balance sheet data. On 31 December 2009 the group held 15 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 2010 the purchasing volume in USD amounted to approx. USD 22.5 million (previous year: USD 14.7 million) with an equivalent value of approx. EUR 16.9 million (previous year: EUR 10.4 million). If the underlying exchange rate should increase (decrease) by 5 %, the input decreases (increases) by approx. EUR 0.9 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.

Interest rate risks

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.

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.

Four interest rate swaps are intended to minimise the interest rate change risk or the short-term interests in the current accounts of long-term loans. The fifth interest rate swap originally was intended for a financing project in 2009. Due to the financial crisis this financing project was not utilised.

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 income in the amount of TEUR 7 (previous year: interest expenses TEUR 71).

In fiscal year 2010 TEUR 150 (previous year: TEUR 116) from the other consolidated income and expense were reclassified to the consolidated profit for the year. Of these, TEUR 115 (previous year: TEUR 22) were attributed to the "cost of sales" position. TEUR 323 (previous year: TEUR 138) were recognised in the net finance costs. On the total change, TEUR 58 had to be recognised as income in the income taxes (previous year: TEUR 44 income).

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 | |
|------------------|----------------------|------------|------------------------|------------|-----------------------------|------------|------------|------------|
| | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 |
| Fixed-rate payer | 0 | 3,000 | 11,124 | 8,681 | 0 | 0 | 11,124 | 11,681 |
| Nominal volume | 0 | 3,000 | 11,124 | 8,681 | 0 | 0 | 11,124 | 11,681 |

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

| | Nominal amount | | Market value | | Shown in the equity | |
|------------------|----------------|------------|--------------|------------|---------------------|------------|
| | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 |
| Fixed-rate payer | 11,124 | 11,681 | - 642 | - 934 | - 388 | - 673 |
| Total | 11,124 | 11,681 | - 642 | - 934 | - 388 | - 673 |

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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 2010 had been 1 % higher (lower), the interest rate expenses would have been TEUR 134 (31 December 2009: TEUR 37) higher (lower). The equity is changed in analogy to this.

(34) 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:

| | 2010 | 2009 |
|--|--------------|--------------|
| Profit for the year attributable to shareholders of the company (in EUR) | 1,648,297.75 | - 928,363.46 |
| Number of shares | 2,880,000 | 2,880,000 |
| Earnings per share (in EUR) | 0.57 | - 0.32 |
| Dividend per share (in EUR) | 0.00 | 0.00 |

(35) Segment reporting

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. The 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, Graphit Kropfmuehl do Brasil Participações Ltda., Branwell Graphite Ltd., Graphite Týn spol. s.r.o., GK Asia Ltd. (former Mutual Sources Ltd.) Grafite Kropfmuehl de Moçambique Lda. and the Chinese companies Qingdao Kropfmuehl Graphite Co. Ltd. and Qingdao Kropfmuehl Trading Co. Ltd..

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

Additions to non-current assets and regular depreciations 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 | |
|--|---------------|--------|----------|---------|------------|---------|---------|---------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Turnover | 63,607 | 60,493 | 33,283 | 24,222 | 0 | - 161 | 96,890 | 84,554 |
| DACH | 58,162 | 56,317 | 17,043 | 13,108 | | | 75,205 | 69,425 |
| thereof Germany | 48,399 | 52,612 | 14,592 | 11,113 | | | 62,991 | 63,725 |
| Other European countries | 4,916 | 3,881 | 8,450 | 6,394 | | | 13,366 | 10,275 |
| America | 58 | 53 | 1,523 | 430 | | | 1,581 | 483 |
| Asia / Pacific | 459 | 230 | 5,766 | 3,551 | | | 6,225 | 3,781 |
| Rest of the world | 12 | 12 | 501 | 578 | | | 513 | 590 |
| Intersegment turnover | 0 | 0 | 0 | 161 | 0 | - 161 | 0 | 0 |
| Gross profit | 4,144 | 4,778 | 6,094 | 3,942 | 0 | 0 | 10,238 | 8,720 |
| EBITDA | 4,059 | 4,195 | 2,629 | 30 | 0 | 0 | 6,688 | 4,225 |
| Recultivation expenses | 0 | 0 | 78 | 0 | | | 78 | 0 |
| Restructuring expenses | 0 | 0 | 0 | 142 | | | 0 | 142 |
| Foreign exchange result (adjustments (-)) | 298 | 0 | 203 | 0 | | | 501 | 0 |
| Depreciation and amortisation | 1,552 | 1,380 | 1,783 | 1,737 | | | 3,335 | 3,117 |
| EBIT | 2,209 | 2,815 | 565 | - 1,849 | 0 | 0 | 2,774 | 966 |
| Interest and foreign exchange result | - 182 | - 699 | - 37 | - 898 | 0 | 0 | - 219 | - 1,597 |
| Interest income | 59 | 23 | 660 | 234 | - 65 | - 187 | 654 | 70 |
| Interest expenses | - 539 | - 722 | - 900 | - 1,132 | 65 | 187 | - 1,374 | - 1,667 |
| Foreign exchange result | 298 | 0 | 203 | 0 | | | 501 | 0 |
| EBT | 2,027 | 2,116 | 528 | - 2,747 | | | 2,555 | - 631 |
| Impairment expenses on inventories and trade receivables | 394 | 182 | 70 | 114 | | | 464 | 296 |
| Income from the revaluation of inventories and trade receivables | 582 | 0 | 143 | 1 | | | 725 | 1 |
| Segment assets | 40,574 | 34,185 | 39,483 | 35,923 | - 6,348 | - 1,351 | 73,709 | 68,757 |
| Acquisition of non-current assets | 924 | 4,047 | 2,544 | 1,157 | | | 3,468 | 5,204 |
| Non-current assets | 21,900 | 22,534 | 19,629 | 18,415 | | | 41,529 | 40,949 |
| DACH | 21,900 | 22,534 | 10,027 | 9,249 | | | 31,927 | 31,783 |
| thereof Germany | 21,900 | 22,534 | 9,971 | 9,249 | | | 31,871 | 31,783 |
| Other European countries | 0 | 0 | 2,069 | 2,020 | | | 2,069 | 2,020 |
| Asia / Pacific | 0 | 0 | 7,069 | 7,146 | | | 7,069 | 7,146 |
| America | 0 | 0 | 52 | 34 | | | 52 | 34 |
| Rest of the world | 0 | 0 | 412 | 71 | | | 412 | 71 |

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.

In both segments, as already in the previous year, this limit is exceeded with one customer each.

(36) Contingent liabilities

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

| | 2010 | 2009 | Change |
|---------------------------------------|------|------|---------|
| Liability for third-party liabilities | 234 | 243 | - 3.7 % |

The contingent liability refers to a joint liability of several corporations with respect to a pension commitment in favour of a third party. The proportion allocatable to the company is recognised in the other non-current provisions. The uncertainty lies in the solvency of the involved corporations. The loss of one or several involved corporations is deemed improbable by the company.

(37) Rental and leasing contracts

Operating lease 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 | |
|---------------------|----------------------|------------|-----------------------|------------|-----------------------------|------------|
| | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 |
| Leasing obligations | 134 | 147 | 160 | 146 | 0 | 0 |

Finance lease contracts

The group has concluded various finance lease contracts that essentially are used to finance technical equipment and machinery. In these cases the transfer of ownership was contractually agreed at the end of the contract term. These lease contracts have a remaining term between 1 and 5 years. The maturities of future minimum lease payments are as follows:

| | Mature within 1 year | | Mature in 2 - 5 years | | Mature in more than 5 years | |
|---------------------|----------------------|------------|-----------------------|------------|-----------------------------|------------|
| | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 | 31.12.2010 | 31.12.2009 |
| Leasing obligations | 258 | 10 | 784 | 10 | 0 | 0 |

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The cash-value transition of future rent and lease payments is as follows:

| | 2010 | 2009 | Change |
|---|-------|------|------------|
| Minimum lease payments at the end of the period | 1,042 | 20 | > 100.0 % |
| Less financing costs | - 123 | 0 | not stated |
| Cash value | 919 | 20 | > 100.0 % |

(38) 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 2010 the Management Board had the following members:

- Martin Ebeling, Wedel, Chief Executive Officer
- Hans-Detlef Antel, Ruhstorf
- Achim Carstanjen, Passau (until 12 March 2010)

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
Chairman
- Rainer Grohe, Otterstadt,
former Executive Director of Galileo Joint Undertaking,
Toulouse, France, and London, Great Britain
deputy chairman
- Dr. Michael Witzel, Munich,
lawyer,
(second deputy chairman until 16 June 2010)
- 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 2010 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 |
| Rainer Grohe | Supervisory Board member | Aurubis AG, Hamburg K+S Kali + Salz AG, Kassel PFW Aerospace AG, Speyer |
| 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 |
| 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 Renerco Renewable Energy Concepts AG, Munich |

At 31 December 2010 the Management Board and Supervisory Board members did not hold more than 1 % of the shares issued by the company (German Corporate Governance Code no. 6.6). A classification by Management Board and Supervisory Board is therefore not made.

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Scope of relations to related parties

The table below shows service relationships to related companies and persons in the year 2010:

| Company | Person | Position | Amount of transactions used | Amount of transactions provided | Receivables (+) Liabilities (-) |
|----------------------------------|--------------------|----------|-----------------------------|---------------------------------|------------------------------------|
| AMG Advanced Metallurgical Group | | | - 17 | 12 | 12 |
| Metallurg Inc. | | | - 5 | 0 | 0 |
| Hogan Lovells International LLP | Dr. Michael Witzel | Partner | - 86 | 0 | - 4 |
| Total | | | - 108 | 12 | 8 |

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.

(39) 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:

| | 2010 | 2009 | Change |
|--------------------------|------|-------|----------|
| Short-term benefits | 493 | 866 | - 43.1 % |
| Post-employment benefits | 128 | 140 | - 8.6 % |
| Total | 621 | 1,006 | - 38.3 % |

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

The compensation of the Supervisory Board for fiscal year 2010 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 144 (previous year: TEUR 141).

The pension commitments ("defined benefit obligations") for former members of the Management Board and their surviving dependants amounted to TEUR 2,135 (previous year: TEUR 1,759).

(40) Events after the balance sheet date

With resolution from 7 February 2011 the Supervisory Board strengthened the Management Board of Graphit Kropfmühl Aktiengesellschaft with Dipl.-Kaufmann Frank Berger, who assumed management responsibility for the finance sector and is in charge of controlling, treasury, finance and accounting, law and taxes, human resources and IT, which before had been provisionally managed by Martin Ebeling.

(41) Auditing fees

For the services rendered in fiscal year 2010 by the auditor of the consolidated financial statements, Ernst & Young GmbH, auditing company, Mannheim, the following fees were recorded as expenses:

| | 2010 | 2009 |
|--|------|------|
| Auditing | 191 | 198 |
| Reviewing of interim financial statements | 42 | 72 |
| Other certification and valuation services | 10 | 289 |
| Tax advisory services | 0 | 1 |
| Total | 243 | 560 |

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 and Bogala Graphite Lanka Plc., Colombo, Sri Lanka. Other certification and valuation services comprise the fees for services in connection with potential transactions.

(42) Exemptions pursuant to § 264 art. 3 HGB (German Commercial Code)

In fiscal year 2010 the following domestic subsidiaries in accordance with § 264 art. 3 HGB used the possibility of exemption from disclosure obligations pursuant to §§ 325 ff HGB:

| Company | Domicile | Interest held |
|---------------------------|------------|---------------|
| Edelgraphit GmbH | Bonn | 100.0 % |
| GK Graphit Kropfmühl GmbH | Hauzenberg | 100.0 % |
| RW silicium GmbH | Pocking | 100.0 % |

(43) 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 % |
| Grafite Kropfmuehl de Moçambique Limitada. | Maputo, Mozambique | 97,5 % |
| Qingdao Kropfmuehl Graphite Co. Ltd. | Tonghe, People's Republic of China | 100.0 % |
| Qingdao Kropfmuehl Trading Co. Ltd. ¹ | Qingdao, People's Republic of China | 100.0 % |
| Share Investments (Pvt.) Ltd. | Colombo, Sri Lanka | 100.0 % |

¹) Qingdao Kropfmuehl Trading Co Ltd. was liquidated in August 2010. Accounts up to August 2010 were considered in the consolidated financial statements.

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Companies not consolidated because of their minor importance:

Not included in the consolidated financial statements as an associated company acc. to IFRS 3/IAS 27 because it is of minor importance for conveying a suitable view of the asset, financial and earnings position:

| Company | Domicile | Interest held |
|--|--------------------------------|---------------|
| Graphit Kropfmuehl do Brasil Participações Ltda. | São Bernardo do Campo / Brazil | 99,99 % |

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 % |

(44) 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 15 December 2010 and have made this declaration permanently accessible to the shareholders through the internet on 21 December 2010.

Munich, 22 February 2011

Graphit Kropfmühl Aktiengesellschaft
München

The Management Board

Martin Ebeling

Hans-Detlef Antel

Frank Berger

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, 22 February 2011

Graphit Kropfmühl Aktiengesellschaft
München

The Management Board

Martin Ebeling

Hans-Detlef Antel

Frank Berger

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 consolidated balance sheet, consolidated statement of comprehensive income, the consolidated cashflow statement, the consolidated 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 2010 to 31 December 2010. 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 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Fluck
Wirtschaftsprüfer

Kuhn
Wirtschaftsprüfer"

Financial calendar and contact

Dates

| | |
|--------------------------------|-----------------------|
| 3-month report 2011 | 11 May 2011 |
| Annual General Meeting, Munich | 15 June 2011 |
| 6-month report 2011 | 10 August 2011 |
| 9-month report 2011 | 09 November 2011 |
| German Equity Forum, Frankfurt | 21 - 23 November 2011 |

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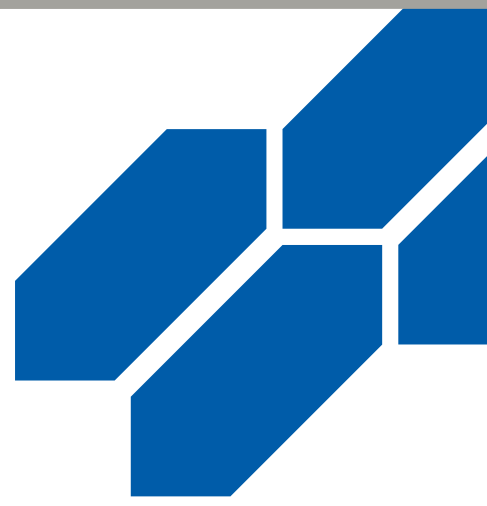
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This annual report also is available in German language. Both the German and the English version of the annual report are available for downloading on the internet at www.gk-graphite.com under "Investor Relations / Publications / Annual Reports".

The individual financial statements of the Graphit Kropfmühl Aktiengesellschaft are available on the internet at www.gk-graphite.com under "Investor Relations / Annual General Meeting / Annual General Meeting 2011" or for inspection at our office in Kropfmühl.



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