Annual Report 2011

Graphit Kropfmühl AG

A Member of

AMG Advanced Metallurgical Group N.V.

Graphit Kropfmühl Aktiengesellschaft at a glance

Group		2007	2008	2009	2010	2011	Change
Revenue	EUR millions	83.1	90.5	84.6	96.9	118.9	22.7 %
Of which from abroad	in %	36.7	36.1	24.6	35.0	34.8	
Gross profit	EUR millions	13.0	15.2	8.7	10.2	24.8	> 100.0 %
EBITDA[1, 2]	EUR millions	7.4	9.2	4.2	6.7	18.5	> 100.0 %
EBIT[2]	EUR millions	4.1	6.3	1.0	2.8	14.4	> 100.0 %
EBT	EUR millions	3.2	4.8	- 0.6	2.6	13.1	> 100.0 %
Consolidated profit/loss after minority interests	EUR millions	1.9	3.5	- 0.9	1.6	9.2	> 100.0 %
Cashflow from operating activities	EUR millions	4.3	4.4	5.7	1.7	12.7	> 100.0 %
Investments	EUR millions	4.3	7.1	5.2	3.5	6.7	91.4 %
Balance sheet total	EUR millions	61.1	70.9	68.8	73.7	83.2	12.9 %
Equity	EUR millions	21.0	23.8	22.8	24.9	34.5	38.6 %
Equity ratio	in %	34.3	33.6	33.1	33.8	41.5	
Net debt[2]	EUR millions	17.1	19.3	18.9	20.6	14.6	- 29.1 %
Employees (31.12)		714	600	477	482	510	5.8 %

Profitability		2007	2008	2009	2010	2011	Change
EBITDA margin	in %	8.9	10.2	5.0	6.9	15.6	
EBIT margin	in %	4.9	7.0	1.2	2.9	12.1	
Return on revenue	in %	2.3	3.9	- 1.1	1.7	7.7	
Return on equity	in %	9.0	14.7	- 3.9	6.4	26.7	

Silicon-metal business segment		2007	2008	2009	2010	2011	Change
Revenue	EUR millions	54.0	61.0	60.5	63.6	77.0	21.1 %
Segment contribution to overall revenue	in %	65.0	67.4	71.5	65.6	64.8	
EBITDA[1, 2]	EUR millions	4.0	6.8	4.2	4.1	14.6	> 100.0 %
EBIT[2]	EUR millions	3.1	5.8	2.8	2.2	12.6	> 100.0 %
EBT	EUR millions	2.6	5.3	2.1	2.0	12.5	> 100.0 %
Employees (31.12)		107	108	106	108	110	1.9 %

Graphite business segment		2007	2008	2009	2010	2011	Change
Revenue	EUR millions	29.1	29.5	24.1	33.3	41.9	25.8 %
Segment contribution to overall revenue	in %	35.0	32.6	28.5	34.4	35.2	
EBITDA[1, 2]	EUR millions	3.4	2.4	0.0	2.6	3.9	50.0 %
EBIT[2]	EUR millions	1.5	0.7	- 1.7	0.6	1.9	> 100.0 %
EBT	EUR millions	0.6	- 0.5	- 2.7	0.5	0.7	40.0 %
Employees (31.12)		607	492	371	374	400	7.0 %

Share		2007	2008	2009	2010	2011	Change
Earnings	EUR	0.66	1.21	- 0.32	0.57	3.19	> 100.0 %
Cashflow from operating activities	EUR	1.49	1.52	1.97	0.59	4.40	> 100.0 %
Dividend[3]	EUR	0.00	0.00	0.00	0.00	0.00	0.0 %

[1] Earnings figures before restructuring measures and expenses for recultivation

[2] Previous year figures adjusted for better comparability

[3] Proposed dividend

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Frank Berger | Martin Ebeling | Hans-Detlef Antel

Dear Shareholders,

2011 was the most successful financial year in the history of Graphit Kropfmühl Aktiengesellschaft.

This success was built on the upbeat economic situation in our sales markets and the very strong development of demand for our customers' products. Graphit Kropfmühl Group was again able to substantially improve profitability, with the Silicon-metal business segment in particular recording outstanding development and the Graphite business segment also improving its results substantially.

In 2011, Graphit Kropfmühl Group generated revenue of EUR 118.9 million, up EUR 22.0 million (22.7 %) on the previous year. Earnings before interest, amortisation and depreciation (adjusted EBITDA) totalling EUR 18.5 million grew by EUR 12 million to almost triple the level of the previous year.

Up until late in the third quarter 2011, demand for our main products silicon-metal and special graphite was still extremely high. From October, however, we observed a reluctance to order in some of our customer sectors, and this was reflected in the somewhat lower revenue figures recorded in the fourth quarter 2011 compared to the first few quarters of the year. The outstanding improvement in earnings is primarily attributable to the development of demand and the upbeat economic data in our main sales sectors. The increase in earnings is also a result of the internal efficiency and structural improvements carried out in the past, as well as the systematic alignment of production capacities to the medium-term requirements of our main customers.

In order to create the conditions for even more efficient production facilities, we invested in substantial improvement measures and new modern capacities in 2011. With investments totalling around EUR 6.4 million, largely at the Bavarian sites in Kropfmühl and Pocking, 2011 saw one of the highest investment volumes spent in Company history. The outstanding earnings situation and the upbeat operating cash inflow allowed us to reduce external net debt by EUR 6.0 million, despite the high amounts of capital required for investments.

In autumn 2010, the German government agreed a German raw materials strategy in an effort to permanently anchor German industry's supply situation and corresponding need for access to raw materials within its national policy. The main aspects of its strategy to secure the supply of raw materials to German business were published. The raw materials strategy describes, among other things, the requirement for early and lasting intervention in the critical stages of the value creation chain, allowing a long-term and stably priced supply of critical raw materials to German businesses. Primarily, this does not relate to securing cost advantages economically or for business, but instead focuses on the access and availability of raw materials – basic prerequisites for high quality technological and economic growth. Graphit Kropfmühl Aktiengesellschaft is a German mining company with foreign raw materials sources which processes these raw materials in its own production sites into source materials for innovative technical products produced by our customers. Graphit Kropfmühl Aktiengesellschaft has been implementing this concept of raw materials supply and pursuing the corresponding success factors for decades.

In order to increase the long-term internal supply of our companies and production sites with raw materials and to make the most of the growth opportunities emerging from the developing industry of battery technologies and electro-mobility for instance, we are working intensively to tap new deposits. We are focusing our efforts on both known and new graphite deposits in the North of Mozambique. The preparations for the first project are already at an advanced stage and can be viewed highly positively. Negotiations with the mining authorities in Mozambique regarding mining approvals are likely to be complete by the Annual General Meeting in June.

Upbeat business development in both business segments

Business in the Silicon-metal business segment was booming in the first nine months of the year in all product areas. In the fourth quarter there was then a tangible slump in orders and revenue. With full capacity utilisation, the production sites over the full year generated revenue of EUR 77.0 million (previous year: EUR 63.6 million) and earnings (EBITDA) of EUR 14.6 million (previous year EUR 4.1 million). The improved earnings in the Silicon-metal business segment are primarily attributable to silicon-metal prices. Earnings were however also substantially influenced by the successful sales of the co-products RW filler and the successful reduction in specific expenses for energy.

The successful conversion of the production in recent years to graphite products for applications in innovative and potential high-growth end products at our industrial customers led to stable and upbeat demand for graphite and revenue of EUR 41.9 million (previous year: EUR 33.3 million) in 2011. Earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) therefore increased from EUR 2.6 million in 2010 to EUR 3.9 million in the year under review.

Our successful product developments continue to show good growth opportunities. The new developments and possible applications for graphite continue to grow. As a well-established graphite specialist, Graphit Kropfmühl Aktiengesellschaft works closely with partners in the worlds of academia and industry on new developments and we apply our raw materials knowledge to develop these market opportunities and successfully convert them into future revenue.

Raw materials boom, catastrophes and political upheaval

The situation on the energy and raw materials markets in 2011 was characterised by high demand for raw materials in an effort to satisfy the growth in Asia and the further recovery in demand in Germany industry, which is key for us. The situation was also impacted by catastrophes and political upheaval.

It is currently difficult to forecast current development in the global economic situation. Global political restructuring will be wide-ranging in 2012. The impacts of the crisis in the Eurozone and further development of the exchange rate with the important raw materials currency US Dollar could be substantial. With the knowledge of the competitive advantage of our customers' products and our own abilities with regards to technology and production facilities, we are nevertheless confident for the financial year

2012. We will continue to strengthen the Company in terms of the strategic success factors for Graphit Kropfmühl Aktiengesellschaft and again invest in rationalisation projects and energy-saving technologies, as well as continuing to implement our program to secure raw materials.

Investor relations: Positive feedback at the German Equity Forum

In addition to our press releases, we also provided you with information in our comprehensive interim reports throughout the last year. At the German Equity Forum in Frankfurt in November 2011, we presented the strengths and development prospects of our Company to a large number of analysts.

The shareholder structure hardly changed in the past financial year. AMG Invest GmbH, which is based in Frankfurt am Main, is the largest shareholder with 88.15 % of the shares. The remaining 11.85 % of the total of 2,880,000 shares are in free float.

In the last fiscal year, the price development of the Graphit Kropfmühl share was highly positive. After a short downturn during the middle of the year, the share price once again gained momentum. On 9 December 2011, the share price reached its highest level for the last ten years at EUR 27.40. Over the year, our share gained 36 % and recorded substantially better development than the DAX and SDAX.

We confirm the receipt of the voluntary public purchase offer from AMG Invest GmbH to the shareholders of Graphit Kropfmühl Aktiengesellschaft for the purchase of all no-par value bearer shares in Graphit Kropfmühl Aktiengesellschaft, which was announced on 14 March 2012, and will make a statement on it within the set deadline.

Thanks to our employees

The management team and the workforce at our sites contributed great work in 2011. Thanks to the commitment and hard work of our employees, we were able to overcome the many challenges in supplying our customers, as well as in implementing conversion measures and exploration projects.

We would like to express our deepest thanks for this outstanding work and cooperation at local sites and in the global team. Many thanks also go to the employee representation team at Graphit Kropfmühl Aktiengesellschaft for their constructive and focused cooperation.

At this point, we would also like to thank all external partners who have placed their trust and support in us over the past year. Our thanks also go out to our shareholders, customers, business partners and the Supervisory Board members of the Graphit Kropfmühl Group.

Martin Ebeling
Chief Executive Officer

Hans-Detlef Antel
Management Board Member

Frank Berger
Management Board Member

Dear Shareholders,

In the financial year 2011, the Supervisory Board monitored and supported the work of the Management Board in an advisory function. To this end, the Supervisory Board regularly obtained information about the current development of business, as well as the Company's earnings and financial position, business planning, further strategic development and upcoming investments. Our work was based on wide-ranging written and verbal reports from the Management Board, which always provided us with up-to-date information about the status quo of the Company and its subsidiaries. Any deviations in business development from the set plans were individually explained. Furthermore, the Chairman of the Supervisory Board regularly and personally discussed the latest information with the Chief Executive Officer. The Supervisory Board was directly involved in all decisions that were of fundamental importance for the Company. If decisions or measures required the approval of the Supervisory Board under the law or under the articles of association, we examined and passed the respective draft resolutions in meetings and in telephone conferences.

There were no conflicts of interest within the Supervisory Board in the financial year 2011.

Meetings and main issues

In 2011, the Supervisory Board held four meetings on 11 March, 15 June, 22 September and 16 December. At the meetings on 11 March and 15 June, one Supervisory Board member respectively was prevented from taking part, while the other meetings were attended by all members. In addition, our 12 August meeting was held as a telephone conference, in which two members of the Supervisory Board could not take part. The meetings and the telephone conference (hereinafter collectively referred to as „meetings“ or „Supervisory Board meetings“) were also attended by the members of the Management Board.

The Supervisory Board did not form any committees in the financial year 2011.

The reports, especially the monthly management reports, and the draft resolutions of the Management Board were discussed openly and in depth at the Supervisory Board meetings. Our meetings regularly dealt with the revenue and earnings position of the Group as well as with the operating development in the business segments. Moreover, the agenda included the annual financial statements and the auditing of the annual financial statements for the financial year 2010, the budget planning, the financial, investment, and personnel planning for financial year 2012, the mid-term plan 2013 – 2014, as well as the further development of corporate governance, risk management and compliance efforts.

Last year, our work again particularly focused on the strategic alignment of the two business segments Silicon-metal and Graphite. The Supervisory Board fully supported the Management Board both in its forecasts for global economic development and in its future plans. In particular, the Management Board and Supervisory Board discussed securing raw material procurement and various medium-term projects, such as securing the energy supply. Options for extending the global mining activities, e.g. in South America and Africa, were subjects that were prepared and submitted to the Supervisory Board for information and decision-making purposes.

In addition, the Supervisory Board also reviewed the amendment to the Management Board compensation system.

Corporate governance

The continued development of corporate governance is vitally important to Graphit Kropfmühl Aktiengesellschaft and is regularly discussed in the Supervisory Board meetings. In a detailed corporate governance report that makes up part of the annual report, the Management Board and the Supervisory Board report together on corporate governance within the Graphit Kropfmühl Group. This report also details the main items concerning the Supervisory Board. On 16 December 2011, the Supervisory Board and the Management Board submitted the required common declaration of conformity pursuant to § 161 AktG (German Stock Corporation Act). On 22 December 2011, 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 were again prepared according to the regulations of the German Commercial Code (HGB). The auditor, Ernst & Young GmbH in Stuttgart, performed an audit of the consolidated financial statements and of the annual financial statements of Graphit Kropfmühl Aktiengesellschaft for the financial year 2011 as of 31 December 2011. 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 addition to auditing the annual financial statements, the services rendered by Ernst & Young GmbH in Stuttgart in the past financial year also included reviewing 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 and the Management Board proposal for the use of the consolidated profit were made available to all the members of the Supervisory Board in due time before the balance sheet meeting on 20 March 2012. 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 to answer any questions and provide any supplementary information.

We performed our own examination of the annual financial statements, the management report, the Management Board's proposal for the use of the consolidated profit, as well as the consolidated financial statements and the group management report, and we agreed with the results of the auditor. We did not raise any objections based on the final result of our examination. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Management Board. The annual financial statements are hereby adopted. We support the Management Board's proposal for using the consolidated profit.

Dependent company report

The report on relations with affiliated companies pursuant to § 312 AktG that was prepared by the Management Board and reviewed by Ernst & Young GmbH, Stuttgart, received the following auditor's opinion: Having conducted a proper audit and appraisal, we hereby confirm that firstly the actual data in the report is correct, secondly that in the legal transactions shown in the report were not inappropriately high, and thirdly 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 20 March 2012. 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 to answer any questions and provide 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 results of our examination, we did not raise any objections against the Management Board's declaration concerning relations with affiliated companies at the end of the report.

Changes in the Management Board

With a Supervisory Board resolution on 7 February 2011, Mr. Frank Berger was appointed as a member of the Company's Management Board. Since his appointment, Mr. Berger has been responsible for overseeing finance, legal affairs and investor relations.

The Supervisory Board has confirmed the receipt of the voluntary public purchase offer from AMG Invest GmbH to the shareholders of Graphit Kropfmühl Aktiengesellschaft for the purchase of all no-par value bearer shares in Graphit Kropfmühl Aktiengesellschaft, which was announced on 14 March 2012, and will make a statement on it within the set deadline.

We would like to sincerely thank the Management Board and all employees for their commitment and for their successful work in the financial year 2011.

Kropfmühl, 20 March 2012

For the Supervisory Board

Dr. Heinz Schimmelbusch
Chairman of the Supervisory Board

Responsible and transparent corporate governance and control is the basis for all the decision-making and control processes in all areas of the Graphit Kropfmühl Group. As a listed German stock corporation, the corporate governance of Graphit Kropfmühl Aktiengesellschaft is primarily determined by the German Stock Corporation Act and additionally by the stipulations of the German Corporate Governance Code in its respective current version. Pursuant to no. 3.10. of the German Corporate Governance Code and § 289a art. 1 of the German Commercial Code (HGB), the Management Board and the Supervisory Board are to report in this declaration on the Group's corporate governance.

Declaration of conformity pursuant to § 161 of the German Stock Corporation Act on compliance with the German Corporate Governance Code – Wording of the declaration of conformity from 16 December 2011

In the financial year 2011, the Management Board and Supervisory Board regularly discussed corporate governance matters. On 16 December 2011, the Management Board and Supervisory Board issued the annual declaration of conformity pursuant to § 161 of the German Stock Corporation Act concerning the recommendations of the "Government Commission on the German Corporate Governance Code". On 22 December 2011, 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 is updated and published there in its updated form.

The wording of the declaration of conformity from 16 December 2011 is as follows:

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

Since making the last declaration of conformity on 15 December 2010, Graphit Kropfmühl Aktiengesellschaft has complied with the recommendations of the German Corporate Governance Code in its version dated 26 May 2010, published in the official section of the electronic Federal Gazette (Bundesanzeiger) on 2 July 2010, with the following deviations and will continue to do so in future with the same deviations:

- Only upon specific request by electronic means does the Company send 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 approval requirements are fulfilled (Code no. 2.3.2). As the Company has issued bearer shares, it cannot directly communicate with all shareholders and ensure electronic transmission to all shareholders. With respect to the notifications pursuant to § 125 of the German Stock Corporation Act (AktG), the Company therefore still uses the post and furthermore publishes the convening and the convention documents on its website.

- The Company has effected a D&O insurance without agreeing a deductible for members of the Supervisory Board (code no. 3.8 par. 3), because on an international level it is unusual to agree a deductible. A deductible was agreed for the Management Board members pursuant to the regulations in the law on the appropriateness of Management Board remuneration (German VorstAG).

- For the conclusion of new Management Board contracts or the extension of Management Board contracts, no agreement is in place that payments to a Management Board member in case of premature termination of his or her position as a Management Board member without serious cause do not exceed the value of two years' compensation including 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 aforementioned 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 par. 2 clause 1). 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 are performed by the Supervisory Board as a whole due to their importance at the Company.

- The Supervisory Board has not formed a nomination committee (Code no. 5.3.3). Due to 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). Appropriate fixed compensation is considered to be better suited for the independent control function of the Supervisory Board.

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

Kropfmühl, 16 December 2011

The Supervisory Board The Management Board"

Corporate governance report

All the corporate activities of the Management Board and Supervisory Board of Graphit Kropfmühl Aktiengesellschaft always focus on the sustained increase in our company value. To this end, the continuous development of corporate governance is of outstanding importance. 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 forms the basis for all actions of the Management Board, Supervisory Board and employees of the Graphit Kropfmühl Group and for their business success. In an effort to ensure consistent exemplary behaviour within the Graphit Kropfmühl Group, we developed a code of conduct that is mandatory for both 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 the financial year 2011, the Management Board of Graphit Kropfmühl Aktiengesellschaft comprised Mr. Martin Ebeling, Mr. Hans-Detlef Antel and Mr. Frank Berger. Mr. Frank Berger was appointed as a member of the Company's Management Board following the Supervisory Board resolution from 7 February 2011. Mr. Hans-Detlef Antel was reappointed as a member of the Management Board following the Supervisory Board resolution from 30 June 2011.

The Management Board did not form any committees in the financial year 2011.

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 (CEO), Mr. Martin Ebeling is responsible for the field of strategy development and for the Graphite business segment. Since his appointment as a Management Board member, Mr. Frank Berger has assumed management responsibility for finances, legal affairs and investor relations. Mr. Hans-Detlef Antel is responsible for the Silicon-metal business segment.

In the last financial year, there were no possible conflicts of interest that would require immediate disclosure to the Supervisory Board. Similar to the previous year, 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 determining the strategic alignment of the Company and managing the Company. In addition, the Management Board has to ensure that statutory regulations and internal company guidelines are observed. In the spirit of good corporate governance, the Management Board ensures that risks within the Company are dealt with responsibly. The basis for this is an appropriate risk management approach with an integrated controlling system as an essential component 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 on page 39 of the annual report.

When staffing management positions, the Management Board duly considers the aspect of diversity and intends to achieve an appropriate level of female representation. In an effort to promote diversity, the Company also provides part-time work. If recruiting agents are used for staffing management positions, these agents are requested to observe the Company's diversity-related wishes 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, while two representatives are elected by the employees in accordance with the German "One Third Participation Act" (Drittelbeteiligungsgesetz). In the financial year 2011, 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 as the next Supervisory Board elections will only be held 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 has established its own rules of procedure. At regular intervals, it examines the efficiency of its work to guarantee continuous optimisation. There were no conflicts of interests.

The Supervisory Board duly considers diversity in the appointment of Management Board members. With regard to the new version of no. 5.1.2 of the German Corporate Governance Code, in its meeting on 15 December 2010, the Supervisory Board expressly dealt with the subject of diversity and resolved that the Supervisory Board would consider diversity in the appointment of Management Board members 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 made.

The Supervisory Board advises and supervises the Management Board in its company management activities. The Supervisory Board is always involved in issues concerning the strategic alignment 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.

Management Board and Supervisory Board approach

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. The Management Board and Supervisory Board closely and trustingly cooperate in the best interests of the Company. The Management Board develops the strategic alignment of the Graphit Kropfmühl Group, coordinates it with the Supervisory Board and is responsible for the corresponding implementation of individual measures. It regularly and comprehensively informs the Supervisory Board in a timely manner about all the subjects that are relevant for the Company, especially matters of planning, the latest business development and risk situation as well as risk management and compliance issues. The rules of procedure for the Management Board stipulate that important business transactions are subject to the approval of the Supervisory Board.

In the financial year 2011, the Supervisory Board was informed by way of detailed reports from Management Board members in four Supervisory Board meetings, and through continuous close contact between the Chief Executive Officer and the Chairman of the Supervisory Board between the dates of the individual meetings. For further information on the cooperation between the Management Board and Supervisory Board, please refer to the Report of the Supervisory Board on page 5 of the annual report.

Compensation report

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 its appropriateness. The Management Board compensation takes into account the size as well as the business and financial position of the Group.

In the financial year 2011, the system governing compensation for Management Board members was overhauled. The new compensation system takes into account all requirements which were introduced due to the law on the appropriateness of management board compensation. The Management Board contracts relating to members of the Management Board whose appointment or extension the Supervisory Board had to decide on in the financial year 2011 (Mr. Hans-Detlef Antel and Herr Frank Berger), already take into account the new compensation system. For Mr. Ebeling, the previous system of compensation for Management Board members still applies. In the following, both the previous and the new system of compensation for management board members are presented.

Previous compensation system

The annual total compensation of the Management Board members comprises non-performance-related and performance-related components. The non-performance-related component is largely made up of fixed compensation that is paid in the form of a monthly salary. The performance-related component consists of a bonus, the amount of which is determined by achieving the individual targets. For the Chief Executive Officer Martin Ebeling, the consolidated EBIT figure is decisive, for the Management Board member Hans-Detlef Antel the EBIT of the RW silicium GmbH subsidiary is the decisive figure, while Frank Berger, the Management Board member appointed during the year, is to receive a fixed amount for the financial year 2011 instead of a variable component. As a rule, the performance-related component is paid in May of the following year. Furthermore, there also are additional benefits for Management Board members in the form of company car use as well as grants for pension, health and long-term care insurance.

in EUR thousands	Fixed components	Variable components	Additional benefits	Total
Martin Ebeling	168	673	21	862
Hans-Detlef Antel	184	828	24	1,036
Frank Berger*	200	200	16	416
Total	552	1,701	61	2,314

*) Management Board member since 7 February 2011

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.

In addition, the Management Board members have identical pension commitments comprising old age pension, disability pension and widow's pension. The Management Board members will receive an old age pension at 50 % of the fixed gross salary when they retire after completion of their 65th year. The determination basis is the gross salary that was paid in the last year before retirement. If a Management Board member retires before completion of his or her 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 this pension 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.

in EUR thousands	Current service cost 2011	Defined benefit obligation (DBO) 31.12.2011	Pension entitlement* 31.12.2011
Martin Ebeling	0	1,292	84
Hans-Detlef Antel	43	1,324	100
Total	43	2,616	184

*) Entitlement after assumed completion of the 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 financial year, a total of EUR 211 thousand was paid in contributions to former Management Board members; the amount of the defined benefit obligation (DBO) of former Management Board members was EUR 1,934 thousand.

No pension scheme had yet been agreed with Management Board member Frank Berger by the end of the financial year 2011.

New compensation system
The new system of compensation for Management Board members also has an annual total compensation made up of non-performance-related and performance-related components. The non-performance-related component is largely made up of fixed compensation that is paid in the form of a monthly salary. The performance-related compensation consists of an annual bonus and a long-term compensation component.

The annual bonus is based on the criteria return on capital employed (ROCE), earnings before interest, tax, depreciation and amortisation (EBITDA) as well as individually defined targets. The individual performance criteria are weighted as follows: ROCE 40 %, EBITDA 40 %, individual targets 20 %. The Supervisory Board defines challenging targets before every financial year. After the financial year is completed, all performance criteria are analysed for target achievement. Maximum caps ensure that the annual bonus is limited. Non-operating expenses and earnings are not taken into account when setting the targets. The annual bonus is due on 1 May of the year following the financial year in question. The target figures generally refer to the Group. The key figures from the Silicon-metal business area are applied for the Management Board member Hans-Detlef Antel.

In addition, members of the Management Board receive a long-term compensation component which is measured over a three-year period and which is based on the ROCE and EBITDA criteria. The individual performance criteria are weighted as follows: ROCE 50 %, EBITDA 50 %. The Supervisory Board defines targets for a three-year average level of the aforementioned performance criteria. Maximum caps ensure that the variable compensation components due from these long-term components are limited. Non-operating expenses and earnings are not taken into account in relation to achieving targets. The pay-out is made on 1 May in the year following the completed three-year measurement period. In the second and third year of the measurement period, part payments totalling 75 % of the amount of the long-term compensation components due for that year are paid out if the planned targets are achieved. If after the completion of the measurement period the Company determines that the amount of long-term compensation component due is lower than the part payments already made, the member of the Management Board in question is obligated to pay back the difference between the actual amount due and the part payments paid out. The target figures generally refer to the Group. The key figures from the Silicon-metal business area are applied for the Management Board member Hans-Detlef Antel.

There are no changes to the previous compensation system with regards the additional benefits. The existing pension schemes agreed with the Management Board members Martin Ebeling and Hans-Detlef Antel also remain unchanged. Effective from 1 January 2012, the Management Board member Frank Berger will receive a pension plan comprising of old age pension, disability pension and widow's pension. According to this scheme, Mr. Berger will receive an old age pension at 50 % of his fixed gross salary when he retires after completion of his 65th year. An early pension claim is possible from his 62nd year at the earliest. If Mr. Berger leaves before completing his 65th year, the basis for calculation is also an amount of 50 % of Mr. Berger's fixed salary in the final year of his work. For every year not worked between from 62nd and 65th year of his life, 1 % of the fixed compensation is deducted from the pension amount. In a disability case, the Management Board member Frank Berger will receive disability pension. The determination basis of the disability pension 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.

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, EUR 30,000 for the chairman and EUR 15,000 for the deputy chairman.

The Supervisory Board compensation breaks down as follows:

Member	Position	Compensation in EUR thousands
Dr. Heinz Schimmelbusch	Chairman	30
Rainer Grohe	Deputy chairman	15
Dr. Michael Witzel	Member	10
Klaus-Josef Lutz	Member	10
Peter Fesl	Member - Employee representative	10
Manfred Kneidinger	Member - Employee representative	10
Total		85

The members of the Supervisory Board are entitled to the full reimbursement of their expenses in connection with their work, particularly 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 Company's Annual General Meeting. Graphit Kropfmühl Aktiengesellschaft publishes all the documents and information concerning the Annual General Meeting, including the agenda and the annual report, on its website at www.gk-graphite.com. Possible counter-motions and statements by the Management Board concerning such counter-motions also are published there.

The Company's Annual General Meeting on 15 June 2011 was attended by 89.0 % 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 included the final financial statements as of 31 December 2010, the ratification of the actions of Management Board and Supervisory Board members as well as the selection of the auditor. After the Annual General Meeting, the detailed voting results were published on the Company's website together with the presentation and the speech by the Chief Executive Officer.

Transparency

Consistent, comprehensive and prompt information takes the 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 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 section on www.gk-graphite.com, where 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 downloading.

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

Insider information relating to the Company or to financial instruments belonging to the Company is immediately published by Graphit Kropfmühl Aktiengesellschaft in accordance with the regulations of § 15 of the German Securities Trading Act (Wertpapierhandelsgesetz).

In the last financial year, Graphit Kropfmühl Aktiengesellschaft published seven press releases and two ad-hoc announcements.

In addition to the statutory obligation to immediately report and publish transactions in Company shares, the Company also 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 Supervisory Board directly or indirectly hold the following company shares or related financial instruments:

Mr. Manfred Kneidinger holds 10 employee shares in the Company.

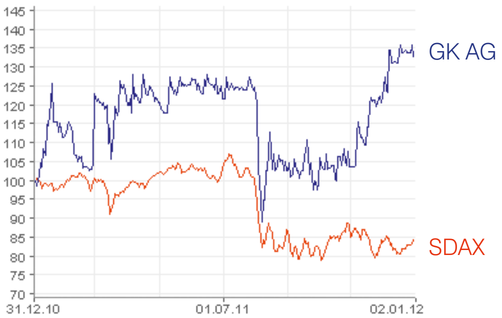
The dates of essential regular publications (including annual report, interim reports) and the date of the Company's Annual General Meeting are published in good time in a "financial calendar" on the Company's website.

Accounting and auditing

The individual and consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft are prepared on the basis of the German Commercial Code (HGB) and the principles of the International Financial Reporting Standards (IFRS). The annual financial statements and the consolidated financial statements were audited by Ernst & Young GmbH in Stuttgart, which was appointed as auditor and group auditor by the shareholders at the Annual General Meeting 2011. 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 ensured its independence. There were no conflicts of interests.

Share grows by 36 %

The share price of Graphit Kropfmühl Aktiengesellschaft recorded highly pleasing developments in 2011 – a difficult year on the stock exchange. Over the course of the year the value of the share posted a 36 % increase. This set the development of the Graphit Kropfmühl share apart from the negative developments on the DAX and SDAX.



The share price started the year at EUR 18.90. In the period up to July 2011, the share posted positive development with prices around EUR 24. However, the Graphit Kropfmühl share was also unable to escape the general development on the markets and suffered a substantial slump at the start of August. The lowest share price during the year was recorded on 9 August 2011 at EUR 16.50. The price, however, recovered within a short space of time back to the EUR 21 level and again gained momentum in its development towards the end of the year. On 8 December 2011, the share price achieved its annual high of EUR 27.40.

Key figures for the share in EUR	2011	2010	2009
Year-end price	25.90	19.06	11.81
Annual high	27.40	19.70	17.50
Annual low	16.50	11.79	10.89
Number of shares	2,880,000	2,880,000	2,880,000
Capital stock in EUR millions	8.64	8.64	8.64
Market capitalisation in EUR millions	74.6	54.9	34.0
Earnings per share	3.19	0.57	- 0.32
Cashflow per share	4.40	0.59	1.97
Dividend per share	0.00*	0.00	0.00

*Proposed

Forgoing dividends to strengthen equity

The annual financial statements of Graphit Kropfmühl Aktiengesellschaft, prepared according to the principles of German commercial law, recorded a consolidated balance sheet profit of EUR 9,818 thousand for the financial year 2011 after a consolidated loss in the previous year. Given the continued uncertainty on the credit and financial markets in the Eurozone, the Supervisory Board and Management Board of Graphit Kropfmühl Aktiengesellschaft believe it is necessary to continue to strengthen and preserve the company's equity. A high equity ratio underpins the creditworthiness as a basis for negotiating loans and achieving the best possible terms and conditions. The Management Board and Supervisory Board therefore propose foregoing the distribution of a dividend for the financial year 2011.

Shareholder structure

The shareholder structure remained almost unchanged in the past financial year. AMG Invest GmbH remained the largest individual shareholder during the reporting period with a stake of 88.15 %. AMG Invest GmbH is a wholly owned subsidiary of AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands.

The remaining 11.85 % of the total 2,880,000 shares are in free float.

AMG Invest GmbH, announced its plan to take over the remaining shares in Graphit Kropfmühl Aktiengesellschaft as part of a voluntary takeover bid pursuant to § 10 art. 1 of the Securities Acquisition and Takeover Act (“WpÜG”). AMG Invest GmbH intends to offer shareholders EUR 31.75 per share certificate. The offer documentation had been published on 14 March 2012 and are available on www.amginvest-angebot.de and also on our website www.gk-graphite.com.

Transparent communication

In the last financial year, we also continued our policy of promptly and comprehensively informing institutional investors, analysts, representatives of business publications and private shareholders about the business development of our company. Equal treatment of all market participants is the backbone of transparent communication for us, and we seek to provide this with our annual and interim financial reports as well as our regular press releases. In addition to direct dialog at the Annual General Meeting, communication with our shareholders, potential investors and financial market opinion leaders especially focused on the latest information provided in the Investor Relations section 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 as well as everything worth knowing about the Graphit Kropfmühl share.

Personal contact with investors and analysts is particularly important to us and therefore receives special attention. At the German Equity Forum that was held in Frankfurt in November 2011 we presented our company to a variety of analysts and institutional investors. Moreover, in one-on-one meetings and interviews we informed the interested public about the latest opportunities and developments in our business segments and the Group as a whole.

We will continue to maintain transparent communications in the financial year 2012, observe equal treatment of all interested groups and provide prompt and comprehensive information about Graphit Kropfmühl Aktiengesellschaft.

Key data for the Graphit Kropfmühl share	
ISIN	DE0005896005
Securities identification number	589600
Ticker symbol	GKR
Market segment	Regulated market (Prime Standard)

Economic environment

Group structure

The Graphit Kropfmühl Group is a globally-oriented raw materials group which primarily focuses on silicon-metal and natural graphite products. The Group can look back over a successful history covering several decades in both of these business segments.

The Group's Graphite business segment can draw on extensive know-how accumulated over the course of more than 140 years. Industrial graphite mining operations started at the Kropfmühl site in 1870 and the Company was converted into a stock corporation as early as 1916. Development in this segment is characterised by continuous product and process innovations. A thermochemical refining plant was put into operation in the mid-1950s, enabling graphite purities of 99.98 %. The Company later acquired a participation in a graphite deposit in Zimbabwe, which is still part of the raw material supply in this segment to this day, and established micronising capacities in Germany. Graphite Týn spol. s.r.o. was founded in 1998 and the purchased assets of a Czech graphite refining company were pooled within the start-up. This was followed by the acquisition of a participation in a mine in Sri Lanka and the establishment of operations in China. Our multi-faceted research and development work ensures that the product range is constantly being optimised. We develop specifically customised product solutions hand in hand with our customers.

The first furnaces in the Group's Silicon-metal business segment were put into operation at the Pocking site more than 60 years ago. Initially, the Company produced ferrosilicon at the site – a material used in the steel industry. Over time, production gradually switched to silicon-metal, which is produced in four furnaces at the site today. In an effort to reduce emissions, continuous investments have been made in environmental protection measures, particularly in exhaust air purification. Another product emerged in this segment as a result of these efforts when the Group started marketing microsilica, a very fine silicon dioxide obtained during the process of exhaust air purification.

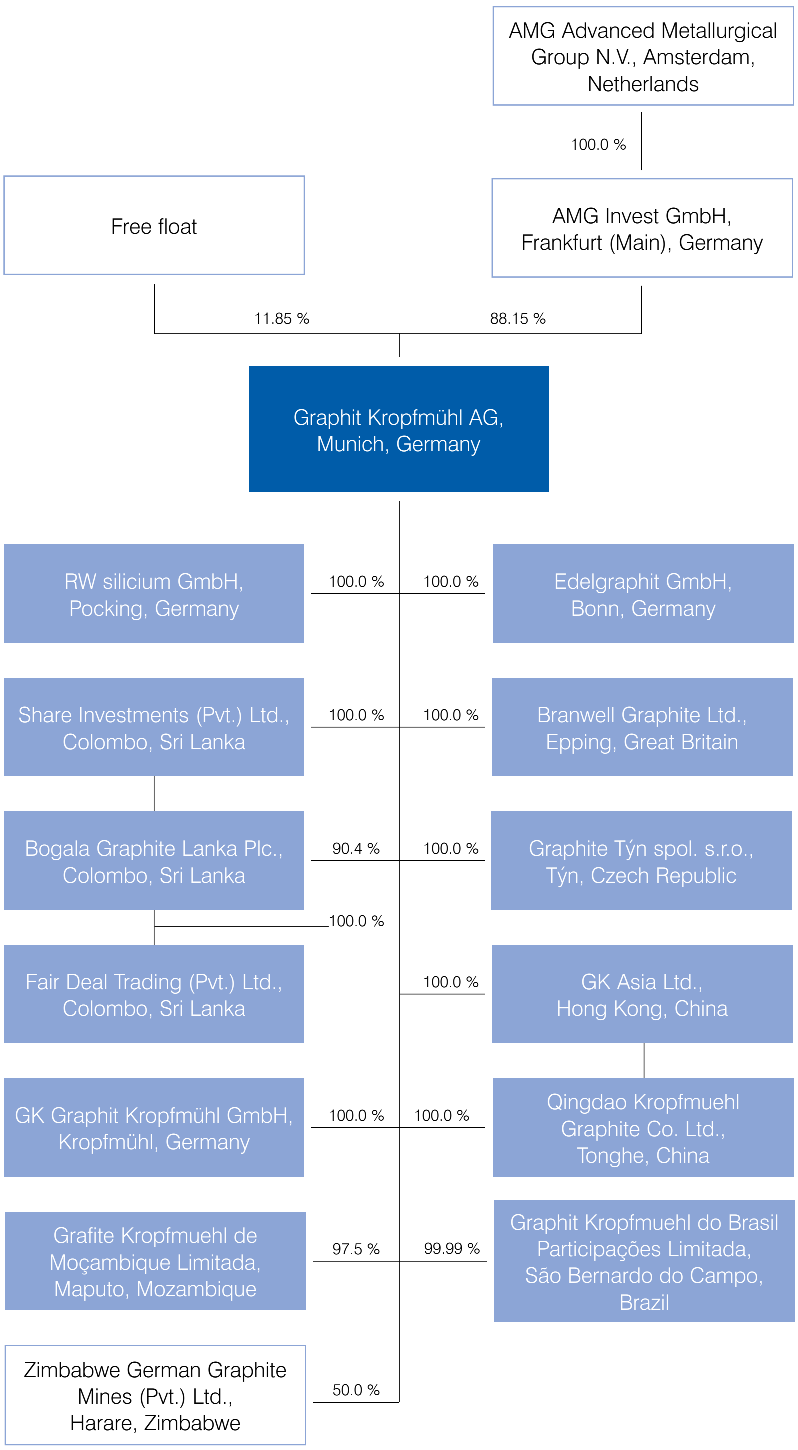
Today, the Graphit Kropfmühl Group comprises 14 companies, including the non-consolidated participation in Zimbabwe. In addition to the production capacities at the German plants in Kropfmühl, Wedel, Bonn and Pocking, the Group also has other sites in the Czech Republic, the People's Republic of China, Sri Lanka and Zimbabwe. Project companies were established in 2010 in Mozambique and Brazil with a view to evaluating new graphite deposits in these countries. The company Graphit Kropfmuehl do Brasil Participações Ltda. is integrated in the scope of consolidation for the first time in these consolidated financial statements. Our worldwide distribution network ensures good levels of customer proximity.

The Group is managed by the Management Board. In addition to the Chief Executive Officer, who has management responsibility for the Graphite business segment, the Management Board also includes the Managing Director of the Silicon-metal business segment. With its resolution on 7 February 2011, the Supervisory Board expanded the Management Board to include a Financial Director responsible for controlling, treasury, accounting, law and taxes, which had been managed by the Chief Executive Officer up to that point.

The Management Board works in close coordination and constant dialog with the Supervisory Board, which supports and supervises the work of the Management Board.

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

In 2008, a majority interest in Graphit Kropfmühl Aktiengesellschaft was acquired by AMG Advanced Metallurgical Group N. V., which holds 88.15 % of the shares of our Company directly and indirectly through AMG Invest GmbH. The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft are integrated into the consolidated financial statements of AMG Advanced Metallurgical Group N. V., Amsterdam, Netherlands.



The business operations of the Graphit Kropfmühl Group are pooled into two reportable business segments.

Silicon-metal

The Silicon-metal business segment comprises the 100 % participation in RW silicium GmbH, the only German producer of silicon-metal. In the financial year 2011, this business segment generated revenue of EUR 77.0 million and therefore contributed around 65 % to consolidated revenue overall.

The majority of the revenue in this segment is generated through the sale of silicon-metal, followed by revenue from the sale of microsilica, an extremely fine silicon dioxide that is sold under the name „RW filler“, and the sale of other by-products.

The Company’s production capacities are located in Pocking near the German-Austrian border and therefore 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 required as an additive that makes aluminium castable, among other things for the production of high-strength, yet 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. In addition, RW filler is used in the production of ceramic and fireproof products as well as in thermal insulation materials.

More than 90 % of revenue in the Silicon-metal business segment is generated in the German-speaking world (D/A/CH). The close proximity to our customers means clear transport cost advantages compared to our competitors. For the same reason, however, the silicon-metal sales markets outside Europe are only of minor importance.

Graphite

This business 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 Týn spol. s.r.o., Grafite Kropfmuehl de Moçambique Lda. (established in 2010), GK Asia Ltd., Qingdao Kropfmuehl Graphite Co. Ltd., Share Investments (Pvt.) Ltd. and since 2009 an indirect participation in a logistics service provider in Sri Lanka, Fair Deal Trading (Pvt.) Ltd. The subsidiary Graphit Kropfmuehl do Brasil Participações Ltda., which was established in 2010 and is included in the scope of consolidation for the first time, and the non-consolidated participation in Zimbabwe German Graphite Mines (Pvt.) Ltd. are also managed as part of this business segment. Due to its lack of influence on the business and financial policy of the Company, the latter is not included in the scope of consolidation.

Graphite is a raw material which is required in many aspects of everyday life. Due to its variety of unique properties, graphite covers an extremely wide spectrum of technical applications. Properties such as extreme thermal resistance, electrical and thermal conductivity, resistance to chemicals and outstanding lubrication properties due to the crystalline structure allow graphite to be used in the fireproof sector of the steel and iron industry, in carbon brushes, battery systems, brake and friction linings as well as in lubricants and separating agents. Our graphite products are also used in the field of construction chemistry as additives to state-of-the-art thermal insulation materials. The production of pencils continues to represent the most well-known application of Graphite.

The Graphit Kropfmühl Group's value creation chain covers the mining, processing and refining of graphite, which is then supplied to the processing industries as a raw material. Our operations focus on applications that require so-called high-quality graphite grades, which are characterised by high degrees of purity and properties specifically customised in line with the customer's demands. Processing graphite into lubricants and separating agents, which are directly supplied to the respective industries in the form of forging or as descaling agents, is also increasingly gaining in importance for us.

German-speaking Europe (D/A/CH) is the main sales market of the Graphite business segment. Around 54 % of the 2011 revenue of EUR 41.9 million was generated in this region.

Controlling system

The Management Board controls the development of the Group in close coordination with the responsible personnel at the operating companies. Based on the individual reporting units, success is regularly checked via the consolidated financial statements of the segments and of the Group as a whole.

Detailed short-term planning calculations are prepared within the scope of an annual planning process. As part of a medium-term planning process, which covers a further two financial years, we examine whether development is proceeding in line with strategy and whether strategic measures are yielding the expected success. The assumptions on which the strategic orientation is based are regularly reviewed, and measures or strategy are adapted if necessary.

The planning calculations are checked and analysed as part of a monthly reporting system. Any deviations from planning are therefore quickly identified. The efficiency of measures to counteract such deviations is reviewed in recurring forecast calculations.

Controlling across all levels is based on uniform figures, making use of standard financial and profitability key figures. In addition to revenue figures, earnings targets are reviewed using the gross profit, EBITDA and EBIT figures. Sales and production analyses are performed on the basis of regional differentiation, as well as criteria defined by the applications of our products. Equity ratio, net debt and inventory key figures are used for balance sheet and liquidity analyses.

Strategy

Sustained and profitable growth is our strategic objective in both business segments. We intend to achieve this objective by consistently gearing our value creation and services towards the requirements of our customers as well as focusing on high-quality and high-margin products in both business segments.

The growing global population and emerging economic powers are driving the demand for raw materials worldwide. The world is still strongly dependent on raw material supplies from China. In autumn 2010, the German government agreed a German raw materials strategy in an effort to permanently anchor German industry's supply situation and corresponding need for access to raw materials within its national policy. The main aspects of its strategy to secure the supply of raw materials to German business were published. The necessity for sustainably ensuring critical levels of raw material supply and value creation at an early stage was therefore brought to the attention of the general public. The declared political objective is to secure a long-term and stably priced supply of critical raw materials to German businesses. The EU also recognises the major economic importance of critical raw materials – graphite among them – for key sectors. Due to the lack of local raw materials resources within the EU and the high dependency on imports, a policy of strategically securing resources has been adopted.

As one of the few German mining companies, we own foreign raw material sources and operate our own production sites in which these raw materials are processed into concentrates and source materials for technically innovative products made by our customers in Germany and Europe. In this respect, Graphit Kropfmühl Aktiengesellschaft is an example of sound strategy and excellent positioning.

The important strategic success factors for the Graphit Kropfmühl Group are securing direct access to raw materials combined with the ability to supply our plants and production facilities ourselves in the long-term. Thanks to the internal quality control at each phase of the value creation chain, i.e. from mining right through to finished customised end products, substantial growth opportunities exist for the sales of our complex technical products. New sales segments are currently showing strong development, e.g. in applications and components for new battery technologies and as part of electro-mobility solutions. We are working hard to tap new deposits in Africa. We are currently focusing our efforts on both known and new graphite deposits in the North of Mozambique. As part of these activities, the specific raw materials have to be analysed and qualified for their suitability for high-quality applications as well as the entire logistics and processing chain planned and well established at an early stage.

In the Silicon-metal business segment, specific production costs at the Pocking site can still be optimised. Specifically, our focus is on electricity expenses, as these represent a decisive cost factor in the basic production process for silicon-metal. To ensure the sustainable development of the business segment's results, on the one hand it is necessary to expand the sales markets for the by-products from the production of silicon-metal and gain new customers. The additional income would allow revenue per megawatt of electricity used to be substantially improved. On the other hand, an important aspect of our production strategy is improving energy efficiency overall and specifically on a continuous basis. Strategically securing electricity procurement in the long term is another key part of our corporate approach.

General economic development

After a highly dynamic start to 2010, the world economy increasingly lost momentum. This trend continued in 2011 and reached its low point with the escalation of the debt crisis in the Eurozone during the middle of the year. The markets reacted with increasing uncertainty to the political events in Italy, one of the largest economies in Europe. Similar development was seen as part of the unsolved debt situation in the USA, where national bankruptcy was only avoided at the start of August when the world's largest national borrower agreed a compromise to increase the federal debt ceiling. Stable development was recorded in Asia's emerging markets, especially in China, as well as those in Latin America.

Growth (GDP development) in the key regions for the Graphit Kropfmühl Group developed as follows in a comparison of the financial years 2010/2011.

Real GDP growth in % compared to the previous year	2011	2010
World	3.8	5.1
Industrialised countries overall	1.4	2.7
EU 27	1.6	1.9
Eurozone	1.5	1.8
Germany	3.0	3.6
Emerging markets overall	6.3	8.4
China and Hong Kong	9.1	10.3
Latin America	4.3	6.1

The comparison clearly continues to show the strong development of the emerging markets compared to the developed economies in the industrialised world.

Germany is the main sales market for the Graphit Kropfmühl Group. As a result, the above-average GDP growth of 3.0 % year-on-year compared to the other industrialised nations had a positive effect on the revenue development of the Graphit Kropfmühl Group. Growth was particularly driven by the stable domestic economy, in which private consumption rose substantially due to the upbeat situation on the employment market and compensated for the decline in national consumer spending. In addition, a substantial rise in gross investments (with the strong increase in construction investments being important for the Graphite business segment) led to exports assuming lesser importance in terms of overall economic growth.

Europe and the Eurozone paint a different picture. The Eurozone generated GDP growth of 1.5 %, a figure mainly driven by strong growth in Germany. Countries with relatively intact national finances also continued to experience above-average development. Austria posted above average growth of 3.2 %, as did Finland. By contrast, countries involved in the continuing discussion about national debt, particularly Greece and Portugal, fell into deep recession. Italy and Spain recorded below-average growth as expected with 0.7 % respectively. In Eastern Europe, particularly Poland and the Czech Republic helped generate stable growth as important centres of industry. This growth was even exceeded by the Baltic States.

Emerging nations such as China and Brazil continued to record stable growth rates. Despite the increasing influence of economic and fiscal policy, which counteracted looming overheating with monetary policy restrictions in order to limit the unbroken high inflow of foreign capital, development in these countries was propped up by the continued high demand from abroad and the constant growth in domestic demand.

The Graphit Kropfmühl Group procures a large amount of its purchasing volume in US dollars (USD). Consequently, the exchange rate between the European Euro (EUR) and the USD exerts a substantial influence on the Group's income situation. In 2011, the debt debate in the Eurozone continued to have a substantial impact on the development of the exchange rate. After the weak Euro posted an exchange rate of 1.30 EUR/USD at the end of 2010 but rose back to a level of 1.40 EUR/USD in the first quarter, the strength of the Euro remained intact until September with some fluctuations up to 1.45 EUR/USD. However, in the final quarter uncertainty regarding the economic development in Europe and the solution scenarios to the debt crisis being discussed led to a fall in the exchange rate to below 1.30 EUR/USD. The annual average stood at 1.39 EUR/USD and therefore around 5 % up on the previous year.

Electricity and energy costs are key cost factors for the Graphit Kropfmühl Group. The purchase price for electricity is a major cost factor, particularly in the Silicon-metal business segment. Company management constantly monitors developments on the EEX European Energy Exchange. 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 on the EEX. Currently, individual contracts cover demand up to 2015. Annual contracts (Phelix Futures) hardly showed any upwards or downwards movement during the first quarter until a substantial volume increase triggered a jump at the end of the quarter and led to year-high prices in April. After that, a sideways movement was recorded with a moderate but constant downward movement continuing from the start of the second half of the year. By the end of the year, the price had once again dropped close to the level from the start of the year.

Report of the Management Board

The Graphit Kropfmühl Group recorded outstanding business development in 2011. In fact, the financial year 2011 was the most successful in the long history of the Graphit Kropfmühl Group. This success was aided by the upbeat economic situation in the sales markets and very strong development in demand for products from our customers. All revenue and earnings targets were clearly exceeded in both business segments.

The economic environment in which the Graphit Kropfmühl Group operates also recorded a strong financial year overall. Although the grow rates slowed somewhat from quarter to quarter, the highly positive development of the Group was more than satisfactory. Consolidated revenue rose by 22.7 % to EUR 118,868 thousand for the full year, with the stable revenue development in both business segments helping to make 2011 a record-breaking year for the Graphit Kropfmühl Group. In the Graphite business segment, the drastic increase in procurement prices particularly in the first few months of the year were only passed on to the customers through increased sales prices from the second half of the year onwards.

The table below shows the development of revenue in both business segments in 2011.

External revenue in EUR thousands	Q I	Q II	Q III	Q IV	Total
Silicon-metal	20,173	19,305	19,722	17,805	77,005
Change compared to the previous year (%)	35.7 %	21.8 %	23.4 %	5.3 %	21.1 %
Graphite	10,725	10,468	10,917	9,753	41,863
Change compared to the previous year (%)	58.7 %	14.2 %	20.2 %	17.8 %	25.8 %
Group	30,898	29,773	30,639	27,558	118,868
Change compared to the previous year (%)	42.9 %	19.0 %	22.2 %	9.4 %	22.7 %

The high production and sales volumes required almost full capacity utilisation of the production facilities in both segments over the course of the entire reporting period. This led to substantially positive earning effects from fixed cost degression which in combination with significantly increased sales prices led to a considerable improvement in the relevant earnings and profitability key figures. Earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) came in at EUR 18,524 thousand and therefore almost tripled the figure from the previous year. Earnings before interest and taxes (EBIT) and earnings before taxes (EBT) rose to EUR 14,437 thousand and EUR 13,145 thousand respectively.

The upbeat income development also had a positive effect on the cashflow and therefore on the Group's net debt. Cash inflow from operating activities jumped from EUR 1,713 thousand to EUR 12,661 thousand. Cash outflow for investment activities totalled EUR 6,621 thousand for the financial year, making it one of the highest totals in Company history. The investment measures were largely carried out at the Bavarian sites in Kropfmühl and Pocking, and were completely financed from operating cashflow. Moreover, we used the remaining liquidity to considerably reduce the current loans from on-going credit lines in addition to the planned repayments for non-current borrowing. Overall, we were able to reduce net debt by EUR 5,983 thousand to EUR 14,639 thousand over the full year.

Research and development

We regard research and development as a vital aspect of the business in both segments, as these activities help to secure the innovation and financial future of the Graphit Kropfmühl Group in the long-term. Providing constant quality throughout the life cycle of our products, as well as ensuring continuous further development and innovations is what sets us apart from competitors in developing and emerging markets.

We are continuously endeavouring to improve energy efficiency in the Silicon-metal business segment. In 2011, a new type of electrode system was installed at one of our furnaces. The system is capable of reducing the specific energy input in relation to the output quantity. At the same time, this measure results in an increase in the production volume.

The mix of furnaces was continuously improved, particularly the carbon setting. Depending on consumption and electrode service life, correction mixtures are calculated and used on a shift by shift basis. A variety of other production tests with various input materials, operating modes and analysis methods were carried out in an effort to check and enhance process efficiency and product quality.

In the Graphite segment, we are cooperating with well-known producers in the field of construction chemistry who use the insulation properties of graphite in their products. Together with these customers, we benefit from the necessity to substantially reduce primary energy demand due to the expected scarcity of fossil fuels in future. Another focus is on the development of lubricants and separating agents with the objective of extending our value creation in this product segment. Graphit Kropfmühl is also an important point of contact as part of the wide-ranging raw materials requirements of European research into graphenes.

A major focus of the development activities in the Graphite business segment are uses and applications as part of the battery development efforts for the electro-mobility sector. Graphit Kropfmühl Aktiengesellschaft has established an external network in this field and in 2011 became a partner company to an endowed chair at the Technology Centre for Energy in Ruhstorf an der Rott, which is a research branch of Landshut University.

On the balance sheet date, our research and development team comprised 11 employees, as in the previous year. Additional capacities are added from other departments if required. In the financial year 2011, total expenses for research and development were slightly down on the previous year, totalling EUR 876 thousand after EUR 911 thousand in 2010.

Investments

In the financial year 2011, we continued our exploration efforts at several graphite deposit sites in the North of Mozambique. We are employing geologists and mining specialists on the ground and are also making use of external service providers. In addition to the qualitative and quantitive assessment of the actual deposits, the infrastructural conditions and geographic situation of the possible mining sites also have to be evaluated. Moreover, we also include the resultant long-term environmental impact and other opportunities and risks in our overall assessment. We spent around EUR 422 thousand on these processes in the financial year 2011, and this influenced cash outflows and the rise in intangible assets.

EUR 6,301 thousand was expended on property, plant and equipment (fixed assets) in the financial year 2011. In addition, EUR 81 thousand was financed through a vehicle leasing agreement. Consequently, the outflow for investment activities tripled compared to the previous year. Investments in the Silicon-metal business segment accounted for EUR 1,795 thousand or around 29 % of total investment, while the Graphite business segment made up EUR 4,506 thousand or around 71 % of expenses for real investments.

The majority of investments in the Silicon-metal business segment flowed into the modernisation of a furnace for the installation of a modern composite electrode system. In addition, a raw materials warehouse was erected. After the successful and tested operation of the already modernised furnace, the fundamental renovation and modernisation of a further furnace was planned and set in motion during the financial year 2011. The rebuilding work is due to be carried out and completed in 2012. This is another step towards systematically reducing specific electricity consumption in order to increase the efficiency of our production and therefore maintain our competitiveness.

In the Graphite business segment, the majority of investments committed related to the erection of another modern micronising line for producing finest quality graphite, which commenced operations in January 2012. In addition, key parts of the compressed air system were renewed at the Kropfmühl site. Both of these investments are measures from our strategy for improving energy efficiency and therefore doing our bit to conserve resources and reduce environmentally-harmful emissions. In the last quarter, we completed urgent measures to improve flood protection at the Kropfmühl site as planned before winter set in. In addition, during the first half of the year further micronising capacities were established in China and a new plant for producing lubricants installed in an effort to extend the local value creation in this area of application.

Employees

As of 31 December 2011, the Graphit Kropfmühl Group had a total of 510 employees. Compared to the balance sheet date in the previous year, the number of employees therefore increased by 28.

On the balance sheet date, the Silicon-metal business segment had 110 employees (previous year: 108 employees), while the Graphite business segment employed 400 people compared to 374 at the end of 2010. From the total of 510 employees, 227 employees work in Germany while 283 are employed at our foreign companies.

Employees classified by their function	2011	2010	Change
Production	425	407	4.4 %
Research and development	11	11	0.0 %
Sales	28	22	27.3 %
Administration and other departments	46	42	9.5 %
Total	510	482	5.8 %

Personnel expenses in the financial year 2011 break down as follows:

in EUR thousands	2011	2010	Change
Wages and salaries	14,275	11,443	24.7 %
Social security contributions, expenses for pensions and welfare	3,255	2,873	13.3 %
Total	17,530	14,316	22.5 %

Social responsibility

We are well aware of our responsibility for employees and the regions in which the Graphit Kropfmühl Group operates. We attach great importance to implementing the European standards for working conditions, safety at work and quality in all our companies.

In addition, in Germany and at our international sites we are involved with various social causes. For instance, we support cultural and social projects in the area around our Kropfmühl parent plant through a foundation. We assist selected local associations that are committed to caring for young people, we also operate a tourist mine and a geology education trail. In Zimbabwe we meet our responsibility for this crisis-ridden region by supporting the upkeep of two schools. Wherever possible, we provide equipment for the school buildings as well as teaching materials, clothes and supplies for the pupils.

Quality management, safety and environmental protection

Our certified quality management system covers the continuous quality control of our products and production processes. In line with our strategy of margin-oriented growth through focusing on high-quality products, we are continuously making targeted improvements to our processes as well as our technical and organisational procedures. We set up a company suggestion system through which we encourage all our employees to identify potential improvements in their working environment. The information gained is used to aid the evolution of our quality management system.

In the field of occupational safety, we continued to improve our standards both in Germany and at our international sites over the course of the past year. A new initiative for enhancing occupational safety and permanently reducing hazards was launched in the middle of the year and is aimed at promoting conscious and aware behaviour in terms of hazards in the workplace. We periodically inspect our working processes and processing systems, ensure that employees are equipped with suitable protective work clothing and optimise workplaces with a view to our employees' health. In addition, we also help to prevent accidents by carrying out regular training on site and by communicating "best practice" examples.

Responsibility for our environment is a central pillar of our value system. Our objective is to reduce waste and emissions, or to completely avoid them wherever possible. To this end, we regularly inspect the environmental compatibility and efficiency of our production processes and ensure that we employ state-of-the-art systems for cleaning waste water and exhaust air. At our mining facilities, we ensure best possible deposit utilisation and minimum-loss processing and refining. This ensures that the resources available to us are handled carefully and responsibly. We comply with all the environmental regulations which apply to our business with regard to air pollution control, water pollution control, noise and waste.

Earnings position

Silicon-metal business segment

in EUR thousands	2011	2010
Production silicon-metal (in tonnes)	30,134	30,105
Total sales volume (in tonnes)	57,721	55,154
Segment assets	47,313	40,574
Revenue	77,005	63,607
EBITDA	14,611	4,059
Depreciation and amortisation	- 1,640	- 1,552
Recultivation expenses	- 430	0
Restructuring expenses	0	0
Foreign exchange result	17	- 298
EBIT	12,558	2,209
Financing expenses	- 67	- 182
EBT	12,491	2,027

In the Silicon-metal business segment, revenue was up by around 21 % compared to 2010, coming in at EUR 77,005 thousand. Total sales volume rose by 4.7 % compared to the previous year to 57,721 tonnes on the back of economies of scale and price increases across all product segments.

The sales prices for silicon-metal are regularly negotiated and contractually agreed with our main customers in the final quarter of the previous year. Due to the upbeat economic situation in the final quarter of 2010 and the foreseeable high level of demand in 2011, we were able to implement substantially better prices for our products. Despite a slight fall in volume development overall, a considerable growth in revenue was still recorded.

Sales of the second product line “RW filler” were driven by the unique economic conditions in 2011 and grew by more than 10 %. The Q_1 special quality again gained substantial ground compared to standard quality. This development is also reflected in the sales prices in which the Q_1 quality also posted substantially better numbers compared to the standard qualities. Overall, a moderate price increase helped drive revenue growth of 13.4 % in this product area.

Growth was also recorded in sales of so-called secondary silicon. Compared to the previous year, this business segment posted volume growth of 20 % to 4,883 tonnes. In contrast, the average sales price fell considerably, meaning that despite the highly positive sales development, this made a lower overall contribution to business segment revenue.

The delayed effects of the world economic development are also reflected in revenue development. While we were able to make gains in both sales and revenue across all product areas in the first two quarters of the year, in the final quarter we experienced clear apprehension to order among customers, meaning growth rates slowed considerably over the course of the year.

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

in EUR thousands	2011	2010
Revenue	77,005	63,607
D/A/CH	70,925	58,162
Of which Germany	57,679	48,399
Rest of Europe	5,429	4,916
Americas	198	58
Asia / Pacific	426	459
Rest of the world	27	12

Germany and Austria (the most important foreign market) remained the main sales regions in the segment thanks to their proximity to the production site in Pocking. The site in Pocking offers us several advantages as a producer because the majority of the main raw materials, such as quartz and charcoal, are available nearby. Our customers operating corresponding production sites in the direct vicinity of our production facility near the German-Austrian border benefit from short lead times and therefore lower capital commitment and transport expenses.

Revenue in Germany was up by around 19 % to EUR 57,679 thousand, with the D/A/CH region overall even recording revenue growth of close to 22 % up to EUR 70,925 thousand. The rest of Europe also considerably increased its overall contribution to segment revenue, posting EUR 5,429 thousand. All other regions made stable contributions to revenue, remaining at a rather low-level overall.

In 2011, the production of silicon-metal remained on a par with the high level of the previous year. A production volume of 30,134 tonnes represents a slight increase compared to 2010. Over 99 % of the total production in the Silicon-metal business segment comprised refinement qualities. As in the previous year, the production capacities were completely available with the exception of regular servicing work. As part of recurring servicing, one furnace was off line for around six weeks and was converted in this time to include a composite electrode system.

The improved pricing situation among the main products played a considerable role in significantly improving profitability in the Silicon-metal business segment. The rise in personnel expenses, higher depreciation and amortisation and increased servicing and maintenance expenses year-on-year as well as cost increases from higher procurement prices for electricity and some of the raw materials were more than balanced out by the improved revenue development. The almost disruption-free operation of the efficient production facilities and the effects from the continuous improvements to processes also played a key role in achieving the increased profitability over the financial year. At EUR 15,987 thousand, gross profit almost quadrupled compared to the previous year, while the gross profit margin rose to 20.8 %. Higher sales, administrative and other costs primarily resulted from increased performance-related payments.

On top of slightly decreased other operating income, earnings before interest and taxes (EBIT) jumped from EUR 2,209 thousand to EUR 12,558 thousand. Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) developed in line with this and came in at EUR 14,611 thousand compared to EUR 4,059 thousand in the previous year. Adjusted EBITDA was adjusted for recultivation expenses totalling EUR 430 thousand which had to be formed for the first time in 2011 to cover the obligation for decommissioning a disposal site.

Graphite segment

in EUR thousands	2011	2010
Total sales volume (in tonnes)	24,111	22,640
Segment assets	46,585	39,483
Revenue	41,867	33,283
EBITDA	3,913	2,629
Depreciation and amortisation	- 1,791	- 1,783
Recultivation expenses	- 81	- 78
Restructuring expenses	- 52	0
Foreign exchange result	- 110	- 203
EBIT	1,879	565
Financing expenses	- 1,225	- 37
EBT	654	528

The Graphite business segment benefited from stable and positive development in the main sales industries. Segment revenue was up 25.8 % to EUR 41,867 thousand. This is a new record amount in the history of the Graphite business segment. This resulted from a 6.5 % increase in sales as well as substantially higher sales prices. The drastic rise in procurement prices was passed on to the customers over the year through increased sales prices.

High demand continued to be recorded in the field of energy efficiency. Our customers use our graphite to make insulation materials even more effective. Our products therefore contribute to improving the options for saving energy in the building sector. Sales and revenue in this product area both grew by double-digit figures. High levels of growth were also generated in the dispersions field. In addition to business with customers from the lubricants industry, business with our own lubricants and separating agents also recorded positive development. In the field of customer solutions, batteries in particular helped contribute to slight growth in sales compared to the previous year. In contrast, the conventional applications field showed negative growth. These volume markets entail particularly price sensitive customers and as a result the implemented price adjustments led to a tangible decline in sales.

The table below shows the development in the sales regions (external revenue):

in EUR thousands	2011	2010
Revenue	41,863	33,283
D/A/CH	22,641	17,043
of which Germany	19,808	14,592
Rest of Europe	9,140	8,450
Asia / Pacific	7,808	5,766
Americas	1,272	1,523
Rest of the world	1,002	501

Germany and the neighbouring German-speaking countries (D/A/CH) remain the most important sales market for the products offered by the Graphite business segment. The renewed substantial growth in sales and revenue boosted the proportion made up by this region from around 51 % in the previous year to over 54 % in 2011. Our domestic customers make up an above-average proportion, as the most important customers from our energy efficiency growth market are also located here. The growth rates achieved were only exceeded in the Asia and Pacific region. In these Asian regions, revenue of EUR 7,808 thousand was generated, representing a leap of over 35 %. The stable overall economic development combined with above-average development in the demand for graphite contributed to the positive trend in the region, as did the constant expansion of production capacities on the ground. In the rest of Europe, revenue growth was driven in particular by above-average development in Eastern Europe. Although the Group lost ground in the Americas, this was offset by revenue doubling in the rest of the world.

Despite substantially higher prices on the sales side during the course of the year, the development on the procurement side continued to have a negative impact on profitability in the graphite-segment. Largely high utilisation of the production capacities in connection with more efficient facilities was almost able to offset these negative effects. Compared to the previous year, gross profit rose by EUR 2,757 thousand to EUR 8,851 thousand. The gross profit margin improved from 18.3 % to 21.1 %.

Sales, administrative and other expenses were up by around 27 % on the previous year. This also contains effects resulting from higher personnel expenses in connection with performance-related payments. In addition, non-capitalisable expenses from exploration activities of deposits in Brazil and Mozambique also impacted the income figures. An impairment loss of EUR 52 thousand on the exploration expenses capitalised in the previous year was incurred following the abandonment of exploration activities in Brazil, and this was taken into account in the restructuring and impairment expenses. In connection with the rise in other operating income, EBIT increased from EUR 565 thousand to EUR 1,879 thousand. The adjusted EBITDA figure recorded similar development, up EUR 1,284 thousand to EUR 3,913 thousand.

The interest and foreign exchange results fell substantially. In addition to a foreign exchange result which was halved to EUR 110 thousand, substantially increased interest expenses, resulting among other things from the higher level of the clearing account of the Silicon-metal business segment, and a fall in interest income also contributed to this. In the previous year, the discounting of recultivation provisions led to one-off interest income of EUR 621 thousand due to the extension of the running period. Earnings before taxes (EBT) therefore only rose slightly to EUR 654 thousand, compared to EUR 528 thousand in the previous year.

Group

The Group recorded the following earnings figures:

in EUR thousands	2011	2010
Revenue	118,868	96,890
Gross profit	24,838	10,238
Gross profit in %	20.9 %	10.6 %
EBITDA	18,524	6,688
Depreciation and amortisation	- 3,431	- 3,335
Recultivation expenses	- 511	- 78
Restructuring expenses	- 52	0
Foreign exchange result	- 93	- 501
EBIT	14,437	2,774
Financing expenses	- 1,292	- 219
EBT	13,145	2,555
Income taxes	- 3,923	- 863
Consolidated profit for the period	9,222	1,692

The influences on and explanation of the development of earnings is described under the earnings position of the two business segments. No important reconciliation items or other influences on earnings exist, core functions are assigned to both segments via cost allocation.

The earnings before taxes figure (EBT) takes into account income taxes of EUR 3,923 thousand. The Group tax rate came in at 29.8 %, therefore slightly improving on the previous year.

Consolidated profit for the period improved substantially over the previous year to EUR 9,222 thousand. After taking into account the share attributable to minority interests, profit remaining for the shareholders of Graphit Kropfmühl Aktiengesellschaft rose from EUR 1,648 thousand in 2010 to EUR 9,201 thousand. As a result, earnings per share increased to EUR 3.19 after EUR 0.57 in the previous year.

Asset position

In the financial year 2011, the consolidated balance sheet total of the Graphit Kropfmühl Group increased by EUR 9,531 thousand to EUR 83,240 thousand (previous year: EUR 73,709 thousand). As a result the balance sheet total grew by 12.9 %. Exchange rate changes only had a minor impact on the balance sheet total compared to the previous year, translation into the functional currency resulted in a difference of EUR 144 thousand.

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

in EUR thousands	31 Dec 2011	31 Dec 2010
Goodwill	6,093	6,103
Other intangible assets	872	650
Property, plant and equipment	37,571	34,566
Deferred taxes	218	443
Income tax refund claims	575	0
Other financial assets	290	210
Total	45,619	41.972

The decline in goodwill is exclusively attributable to the translation of purchased goodwill which was capitalised at a subsidiary. The increase in other intangible assets to EUR 872 thousand is largely due to exploration expenses in Mozambique. In the financial year 2011, we invested EUR 422 thousand (previous year: EUR 308 thousand) in the continued investigation and assessment of two deposits in the north of the African country. In contrast, complete impairment of the capitalised costs from the previous year for the exploration in Brazil was carried out totalling EUR 52 thousand. The insights gained during the investigations as well as the superior infrastructure triggered the decision to focus further exploration efforts on Mozambique. The other intangible assets, particularly capitalised development expenses and software, were written off as planned.

Property, plant and equipment increased substantially. One of the highest investment volumes spent in the past years (EUR 6,382 thousand) led to an increase of Property, plant and equipment of EUR 3,005 thousand following only planned write-offs totalling EUR 3,288 thousand, only marginal influences from foreign currency translation and low divestments.

The change in deferred tax assets was primarily due to the positive change in the market value of our currency hedging transactions. For the first time in 2011, we reported the present value of the non-current portion of the corporation tax credit as non-current income tax refund claims in line with § 37 KStG. Non-current financial assets are primarily made up of loans to third parties which were issued at standard market conditions.

The following table shows the development of current assets.

in EUR thousands	31 Dec 2011	31 Dec 2010
Inventories	24,956	17,068
Trade receivables	9,786	10,599
Income tax refund claims	165	816
Other current assets	1,628	1,817
Cash and cash equivalents	1,086	1,437
Total	37,621	31,737

In the financial year 2011, current assets increased by EUR 5,884 thousand or 18.5 %. This development is largely attributable to the substantial rise in inventories, which increased by around 46 % or EUR 7,888 thousand during the financial year. Both business segments contributed to this. Inventories in the Silicon-metal business segment increased by EUR 2,850 thousand, while inventories in the Graphite business segment rose by EUR 4,927 thousand. In contrast, trade receivables fell by EUR 813 thousand as of the reporting date. The fall in current income tax refund claims is connected to the reclassification of the non-current portion of a tax credit in Germany. Other current assets decreased slightly by EUR 189 thousand. A rise in the market value of our foreign exchange derivatives due to the foreign currency development between EUR and USD and the higher reimbursement claims on premiums paid to the employers' third-party liability insurance scheme were primarily offset by the fall in advance payments made. Cash and cash equivalents amounted to EUR 1,086 thousand on the balance sheet date, falling compared to the previous year. The development is explained in the presentation of the financial position.

The Company's equity rose considerably on the back of the positive earnings development. The equity ratio was up from 33.8 % in the previous year to 41 % in 2011. The development of equity is highlighted in the data below:

in EUR thousands	31 Dec 2010	Change	31 Dec 2011
Share capital	8,640	0	8,640
Capital reserves	5,568	0	5,568
Foreign currency translation reserve	590	24	614
Changes in the market value of derivate financial instruments	- 293	319	26
Generated equity	8,955	9,200	18,155
Other provisions	1,349	0	1,349
Retained earnings	10,601	9,543	20,144
Capital attributable to shareholders	24,809	9,543	34,352
Minority interests	100	22	122
Equity	24,909	9,565	34,474
Equity ratio (Equity as a % of the balance sheet total)	33.8 %		41.4 %

In the financial year 2011, total provisions and liabilities fell slightly by EUR 34 thousand. The table below shows the recognition in the balance sheet summed up in items.

in EUR thousands	31 Dec 2011	31 Dec 2010
Liabilities to financial institutions (non-current)	5,265	7,763
Liabilities to financial institutions (current)	9,684	13,377
Liabilities to financial institutions	14,949	21,140
Pension provisions	9,943	9,364
Other non-current provisions	3,770	3,249
Deferred taxes	1,021	1,148
Investment grants (non-current)	477	484
Investment grants (current)	15	132
Investment grants	492	616
Trade payables	10,117	7,841
Income tax liabilities	2,397	206
Other financial debts and liabilities (non-current)	994	1,307
Liabilities to affiliated entities	4	0
Provisions for warranties	162	0
Other financial debts and liabilities (current)	4,917	3,929
Other financial debts and current liabilities	6,077	5,236
Provisions and liabilities	48,766	48,800
Of which current	27,296	25,485
Of which non-current	21,470	23,315

Thanks to the upbeat earnings development and the resultant high cashflow, liabilities to financial institutions were reduced considerably. A small newly issued non-current liability to a financial institution was offset on the reporting date by a planned repayment of EUR 2,491 thousand. At the same time, current claims were reduced considerably, so that liabilities to financial institutions fell by EUR 6,191 thousand overall compared to the previous year.

An inflow of EUR 980 thousand and payments of EUR 402 thousand resulted in an increase of pension obligations to EUR 9,943 thousand. Since 2011, other non-current provisions have contained an obligation to decommission a disposal site for the Silicon-metal business segment as well as the recultivation obligation for the mine in Kropfmühl. The provision was formed in response to authority requirements and was largely responsible for the EUR 521 thousand rise in obligations.

Investment grants fell by EUR 124 thousand to EUR 492 thousand. While a grant received in previous years was paid back, as the issuing conditions were not completely fulfilled, a new grant was received in the financial year under review. The reversal charged directly in income over its running period led to a reversal of EUR 38 thousand (previous year EUR 163 thousand). On the reporting date, trade payables rose from EUR 7,841 thousand to EUR 10,117 thousand, while income tax liabilities increased to EUR 2,397 thousand due to the upbeat income situation. Whereas non-current financial liabilities fell by EUR 313 thousand, particularly due to the fulfilment of obligations from finance leasing, current financial debts and liabilities rose substantially by EUR 988 thousand. The latter contains considerably higher performance-related payments.

Financial position

Principles and objectives of the 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 ensure the solvency of Graphit Kropfmühl Aktiengesellschaft and its subsidiaries.

The key value for financial management within 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. 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 stood at 43.1 % (previous year: 54.5 %). In the Group, a debt ratio of 70 % was defined as a critical value, and as in previous years this level was considerably higher than the actual amount recorded.

Liquidity and cash management

Long-term liquidity planning is carried out within the scope of annual planning calculations that cover a period of three years in total.

All short-term controlling and reviewing of liquidity flow is carried out in recurring planning calculations that are used to compare cash inflows and outflows as well as to adjust cashflows in the Group.

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

On 31 December 2011, Graphit Kropfmühl Aktiengesellschaft in Germany had current credit lines totalling EUR 17,000 thousand with various financial institutions. Foreign subsidiaries had additional credit lines with local banks amounting to EUR 834 thousand.

In an effort to secure itself against future financial risks, Graphit Kropfmühl Aktiengesellschaft uses various financial instruments. Foreign currency risks, which primarily result from the procurement of raw materials in foreign currencies, are centrally secured in Germany using foreign currency derivatives, predominately forward exchange transactions. By concluding 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.

Explanatory notes on the cashflow statement

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

in EUR thousands	2011	2010
Consolidated profit for the period	9,222	1,692
Non-operating expenses and income	10,361	5,588
Changes in working capital	- 3,782	- 2,607
Net interest expenses	- 1,372	- 1,353
Net tax expenses	- 1,643	- 1,594
Other	- 125	- 13
Cash inflow from operating activities	12,661	1,713
Cash inflow from investment activities	- 6,621	- 2,395
Cash inflow (outflow) from / for financing activities	- 6,426	1,050

Operating cash inflow is determined indirectly. Non-cash expenses and income are initially adjusted based on the consolidated profit for the period. After deduction of changes to working capital and of interest and tax expenses, the remaining cash inflow amounted to EUR 12,661 thousand in the year 2011. Therefore, the operating cash inflow of EUR 1,713 thousand improved significantly year-on-year.

This was driven in no small part by the upbeat income situation and the rise in non-cash expenses and income. Outflows for financing working capital, in which the substantial increase in inventories could only be partially financed by the fall in trade receivables and higher liabilities to suppliers, and the only marginally changed net interest and tax payments could be made using the generated cash, similar to outflows for investment activities. Payments for real investments tripled compared to the previous year to EUR 6,301 thousand and therefore recorded the highest level in Company history. This was primarily driven by the Graphite business segment, which made investments close to EUR 4.6 million. A substantial proportion of the payments for intangible assets (EUR 422 thousand) went to the exploration activities in Mozambique.

In addition to the planned repayment of non-current loans, the repayment of obligations from finance leasing agreements totalling EUR 2,742 thousand and the small new loan taken out to the tune of EUR 245 thousand, EUR 3,929 thousand could be used to reduce current claims in connection with the credit lines available.

Overall, cash and cash equivalents were reduced by EUR 386 thousand during the financial year. In comparison, this figure increased by EUR 368 thousand in the previous year. Adjusted for only low exchange-rate changes in cash and cash equivalents of EUR 35 thousand (previous year: EUR 67 thousand), cash and cash equivalents came in at EUR 1,086 thousand on 31 December 2011 compared to EUR 1,437 thousand in the previous year.

In contrast to the previous year, finance leasing agreements were also included in net debt, so the comparative figures from the previous year were also adjusted to take this into account. Compared to the previous year, net debt decreased by EUR 5,983 thousand and amounted to EUR 14,639 thousand.

in EUR thousands	31 Dec 2011	31 Dec 2010
Non-current liabilities to financial institutions	5,265	7,763
Current liabilities to financial institutions	9,684	13,377
Liabilities from finance leasing agreements	776	919
Cash and cash equivalents	- 1,086	- 1,437
Net debt to financial institutions	14,639	20,622

Supplementary report

On 29 February 2012, AMG Invest GmbH announced its plan to take over the remaining shares in Graphit Kropfmühl Aktiengesellschaft as part of a voluntary takeover bid pursuant to § 10 art. 1 of the Securities Acquisition and Takeover Act ("WpÜG"). AMG Invest GmbH intends to offer shareholders EUR 31.75 per share. The offer documentation is due to be published in March 2012.

Compensation report

Management Board compensation comprises non-performance-related and performance-related compensation components dependent on tasks, performance and the Company's success. Aside from the reimbursement of their expenses, Supervisory Board members receive 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 of board compensation are explained in the compensation report that is contained in the Declaration on corporate governance (page 11) and in the Notes section (page 90). 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 share capital

As of 31 December 2011, the share capital of Graphit Kropfmühl Aktiengesellschaft remained at 2,880,000 no-par value ordinary bearer shares. Every share constitutes a calculated amount of EUR 3.00 of the share capital.

Transfer and voting right limitations

In line with § 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 any 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 the articles of association, the shareholders exercise their rights, specifically their voting right, at 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 are also no shares with special rights that would confer any control authority.

Capital interests

As of the balance sheet date on 31 December 2011, AMG Invest GmbH, Frankfurt (Main), held an interest of 88.15 %. No other direct or indirect interests in the capital that reach or exceed 10 % of the voting rights are known.

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

The appointment and dismissal of Management Board members is regulated by provisions § 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 permitted. § 7 of the articles of association also 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 amendment to the articles of association generally always requires a resolution by the Annual General Meeting (§179 art. 1 clause 1 AktG). The Supervisory Board has the right to amend the articles of association if such amendments only relate to the wording. Resolutions of the Annual General Meeting require the simple majority of the votes cast, unless a higher majority is required under 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 on 10 June 2009, the Management Board is authorised, with the approval of the Supervisory Board, to increase the capital stock in the period 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 also 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.

Important agreements for the eventuality of a change of control

At present there are no important agreements at Graphit Kropfmühl Aktiengesellschaft that would become effective given the eventuality of a change of control as a result of a takeover bid.

Compensation agreements

There are no agreements with Management Board members and with executive staff concerning monetary compensation in the 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)

On 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 highest level, the management of Graphit Kropfmühl Aktiengesellschaft is responsible for the observance of applicable regulations, as well as for establishing and maintaining appropriate checks 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. Operating functions are clearly assigned in all the areas of accounting-related processes.

The base data for the preparation of the consolidated financial statements consists of the final data provided by Graphit Kropfmühl Aktiengesellschaft and its subsidiaries. This is based on the accounting records of the individual units. Accounting is performed on individual company level. As a result, the companies predominantly use standard software that is mainly operated as an in-house solution. Access rules are defined in all accounting-related systems to guarantee that data is protected against unauthorised access, use and changes.

Individual financial statements are prepared according to the provisions of the 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 consistent assignment of different account tables. If there are any deviations between local accounting standards and the International Financial Reporting Standards (IFRS) that are used in the Group, such deviations are translated during 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 entire preparation process.

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

Employees involved in accounting are checked for their qualifications in this area when they are selected. Regular internal and external training measures for the respective employees ensure that any changes in basic conditions and applicable regulations can be promptly taken into account. For specialist subjects that require specific qualifications and knowledge, we draw on the support of external service providers, e.g. actuaries. All accounting-related processes are checked by a third person.

As part of its work, the Supervisory Board reviews the annual and consolidated financial statements of the Company. At the meeting held for the adoption of the financial statements, the Management Board once again explains key topics and is available for further questions and additional information.

Risk report

The Graphit Kropfmühl Group's risk policy is oriented towards the company management's targets of sustainably increasing the company value. In addition to achieving financial yield targets, great importance is also attached to managing opportunities and risks. To this end, the Management Board has implemented a risk management system that allows detailed risk analysis and assessment in the run-up to important strategic and operating decisions.

The risk management system comprises an integrated planning, monitoring and controlling system that is continuously developed and adapted to changed conditions. The personnel responsible for risk management at all the levels of the Group identify possible risks, assess the probability of occurrence and the potential damage amount, and examine effective countermeasures. The Management Board is informed about the results of risk management in regular reports, which in particular guarantees that risks endangering the continued existence of the Group are identified at an early stage and countermeasures can be taken. In addition, new risks or the occurrence of existing risks are directly reported to the Management Board outside of the regular risk reports. The Management Board continuously informs the Supervisory Board about important risks. In the process of quality management system certification and monitoring, the risk management system of Graphit Kropfmühl Aktiengesellschaft is regularly examined by external certification organisations for its function and efficiency as well as for its continuous further development and integration into the business processes.

General economic and industry-specific risks

The general economic development in Germany and the other relevant markets has an influence on the success of the Graphit Kropfmühl Group's business operations. Due to the regional diversification of our production sites and sales markets, we are to a certain extent able to compensate the effect that economic fluctuations in individual market sectors have on the whole Group. The continuous monitoring of the most important economic early indicators allows us to respond to changes in good time. However, we too are dependent on major global economic changes.

Company strategy risks

In order to secure future growth, tap further sales markets and therefore secure the long-term success of Graphit Kropfmühl, we are continuously working on the exploration of raw materials sources and the further development of our products, the optimisation of our production processes and on seizing the business opportunities that the market offers. In-house research and development, exploration activities, cooperations and acquisitions play a decisive role here. Due to the uncertainty concerning the success of such measures, risks can occur which we minimise by way of targeted project controlling. All the investment, research and development projects are intensively monitored both in the run-up to decision-making and during the project running time. Monitoring focuses on the observance of budgets, the probability of occurrence of the original forecasts and the arising of new financial or process-technology risks.

Operating risks

Within the field of operating risks, supply risk, market risk and quality risk are of primary importance for Graphit Kropfmühl. The procurement risk primarily relates to the raw materials and energy required for the production process not being available at all or in an insufficient quantity, at a price that was not calculated or not available in the required quality. In the Graphite business segment, we avoid part of these risks by holding participations in graphite mines in Asia and Africa. In Africa we hold a participation in Zimbabwe German Graphite Mines. Despite our 50 % interest, which is written off on the balance sheet, and the current very stable supply volumes, we are subject to increased operating risk in Zimbabwe due to the general political situation in the county. Nevertheless, any mining and export limitations for Zimbabwe graphite would not endanger the Group's overall raw material supply. In an effort to diversify the procurement risk for graphite and avoid dependencies on individual regions, we are constantly searching out and evaluating new raw material sources, among others in Africa and South America.

In the Silicon-metal business segment, we have long-standing relationships with our wide-ranging network of suppliers and can therefore secure the supply of quartzes for silicon-metal production. In this way we can guard against supply risk from the dissolving of relationships with individual suppliers. We reduce possible price risks by continuously comparing with other suppliers from which Graphit Kropfmühl also purchases raw materials.

In an effort to reduce the market risk we closely cooperate with our customers and research institutes. This allows us to recognise new market trends at an early stage and to adapt our products to the respective market and customer requirements. We are therefore able to not only bind existing customers to our products more closely but also open up new sales markets for our products. In both business segments we have long-term production and supply agreements with financially sound companies. However, we are still subject to overall economic risks that may result from fluctuating demand in our markets.

The reliable and high quality of our products and production processes is one of the decisive success factors for the Graphit Kropfmühl Group. In order to meet the high 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 according 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 loss of expert and executive personnel to competitor companies. We counter these risks by way of various personnel loyalty and development measures, using both material and immaterial incentive systems. Furthermore, we safeguard against a general absence risk through corresponding backup regulations.

IT risks

IT risks may involve the risk resulting from insufficient data protection against third party access or from the failure of computer systems and networks. We make regular investments to ensure that our hardware and software is always state-of-the-art, while we also 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 via our extensive financial management system comprising cash management, long-term liquidity planning and controlling, as well as cooperation and discussion with outside capital lenders. Standing financing commitments for a sufficient amount exist from several German financial 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 between the Euro and US dollar. These risks are hedged by employing derivative financial instruments such as currency forwards. In addition, we use financial instruments to limit risks from changes to financing expenses.

Other risks

Possible other risks that could arise in connection with our business as an operator of graphite mines include environmental, fire and explosion risks. We minimise these risks by implementing continuous improvements and optimisations of our production processes and our technical equipment. It goes without saying that we also comply with all the relevant environmental regulations and fire protection measures. The efficiency and suitability of our high safety standards is permanently under review.

Legal risks

In addition to extensive safety precautions, Graphit Kropfmühl also has insurance contracts to safeguard against possible liability risks or damage cases. None of the companies in the Graphit Kropfmühl Group are involved in any legal or arbitration proceedings which we currently believe could have a considerable influence on the earnings, financial and asset position of the Group.

Overall risk

In the financial year 2011, the risk situation of the Graphit Kropfmühl Group did not change in any material way compared to the previous year. At present there are no known risks that could endanger the continued existence of the Group either individually or together.

Outlook

Forward-looking statements

The reports and forecasts 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 relate to current expectations and were made using specific assumptions. Forward-looking statements 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, success and performance outcomes may substantially – both positively and negatively – deviate from those that are considered to be expected here. Such uncertainties are specifically due to the following factors among others: Changes in the general economic and business situation, introduction of competing business fields by other companies, lacking acceptance of new business fields and unexpected bad-debt loss from major customers. The prospective development of the Company for the next financial years with its important opportunities and risks supplementary to the risk report is assessed as follows.

General economic development

The prospects for continued positive economic development have substantially reduced during the course of 2011. The economy already started to slow down during the year and many countries experienced contraction in the final quarter compared to the previous quarter.

The slowdown reflects the increasing uncertainty resulting from the lack of success up to now in finding a sustainable solution for the national debt crises in the Eurozone. Other countries with mature economies, however, are also hit hard by the debt situation and limited in their ability to enact fiscal policy measures in the form of increasing public consumer spending or corresponding base rate adjustments. Only Japan deferred the necessary consolidation package due to the natural catastrophe it suffered and will endeavour to strengthen the domestic economy in 2012 with an extensive rebuilding program.

With regard to estimating future growth development in the relevant regions, we rely on the ifo economic forecasts 2011/2012 (as of 14 December 2011):

Real GDP growth in % compared to the previous year	2012	2011
World	3.3	3.8
Industrialised countries overall	1.1	1.4
EU 27	0.2	1.6
Eurozone	- 0.2	1.5
Germany	0.4	3.0
Emerging markets overall	5.9	6.3
China and Hong Kong	8.2	9.1
Latin America	3.5	4.3

According to expectations, in 2012 Germany will only be able to generate low growth of 0.4 %. This performance, however, will still be better than the Eurozone and the European Union in general. If both private and public consumers can provide stable contribution to growth, the worldwide economic slowdown will result in a decline in exports, leading to exports recording negative development for the first time since 2009. The negative trend from the closing quarter of 2011 will spill over into the first quarter of 2012, before a tangible recovery in demand should kick in during the second half of the year. In view of the anticipated low capacity utilisation, equipment investments will therefore only significantly increase as from the second half of the year, in line with this trend, while the construction industry is expected to experience moderate but sustained upwards development.

In the Eurozone, the fight against the debt crisis will likely drive further countries into recession. Due to the imposed austerity programs, Greece and Portugal will be plunged into deep recession. Economically important countries such as France, Italy and Spain, which are strongly dependent on each other in the banking sector, will also be gripped by recession. Eastern Europe will also not escape the effects of the debt crisis, but although growth will weaken considerably, growth rates particularly in Poland and the Baltic countries will still remain above 2 %.

Development in China will continue to be immune to the effects and economic influences coming from Europe. The monetary restrictions aimed at containing the inflation rate which rose to over 6 % will be loosened. Inflation pressure will ease due to stable food and raw material prices and constant gains in the value of the country's currency, which makes imports cheaper. At the same time, domestic consumption will rise as the return to expansive monetary policy revives public and private consumption and neutralises the effects from lower growth contributions from exports.

In Latin America, the expected fall in raw materials demand on the back of the world economic slowdown will lead to a slight cooling of the economy. As a result, the trend from 2011 will continue in 2012. In contrast to China, most countries in Latin America are not using any additional monetary policy instruments to revive the economy, meaning that an increase in economic output of approximately 3.5 % is expected in 2012.

The main risk with regards to estimating economic development relates to the development of the debt crisis in Europe. If the nations affected do not implement their consolidation programs to the agreed extent, there is a danger of a massive downturn in the value of the Euro compared to other currencies. Further debt cuts in European debtor nations would have a significantly negative effect on the financial market. Additional national support for the banking sector is hardly possible or realisable, which could result in a European banking crisis and which in turn could trigger a massive downturn in development worldwide.

Course of business and earnings position

Following somewhat weaker sales at the end of 2011, customer demand regained momentum during the first weeks of 2012. Following the marked revenue growth over the course of the full 2011 year to EUR 118.9 million, we anticipate consolidated revenue of a similar amount for the 2012 fiscal year. Key profitability figures will prospectively be burdened by higher raw materials and energy costs, lying somewhat below the high earnings level achieved in 2011. A constant trend in revenue and earnings figures should be achievable in subsequent periods where we enjoy visibility, to the extent that our assessment of economic developments in our key sales and procurement markets proves correct.

In this context, we are assuming that capacity utilisation in the silicon-metal segment remains at a high level. Reticence in some customers' ordering behaviour, which exerted a negative impact on revenue growth in the final quarter of 2011, should ease again in the first quarter of 2012. Information garnered from a constant exchange with our customers underpins this appraisal. Our customers in the chemicals and polysilicon sector also regard themselves as well positioned on a medium-term basis. We identify no significant negative sales divergences for the silicon-metal segment for this reason.

In the graphite segment, we will participate in the continuous growth in global demand. We have created the respective preconditions, and will further improve our position by orienting our production capacities with the aim of offering competitive products on growing sales markets. Further growth in shares in the construction chemicals sector and a stable uptrend in the lubricants and separating agents segment will also make contributions in the short term in this context. Rising demand from battery applications, which includes the electro-mobility area, will prospectively not deliver additional revenue and earnings contributions until the medium term, so that we are assuming a constant and moderate uptrend for the graphite segment overall.

Graphit Kropfmühl Aktiengesellschaft and its subsidiaries are well-positioned to meet the future. The investments that we have implemented in the efficiency of both of our segments' production plants form the basis of our competitive strength. The new micronising capacities for special graphite at the Kropfmühl site were commissioned to schedule, and a further electric arc furnace will be converted to new energy-efficient electrode system at the Pocking site in 2012. The investment volume for this project amounts to around EUR 6.0 million.

A further project is the resumption of graphite mining in Kropfmühl. The preconditions for the resumption of operations are in place due to high graphite prices on the global market. The personnel, technical and organisational decisions have been made, and we are assuming that graphite ore production from the Kropfmühl mine for processing in our production plants will start up smoothly by mid-2012.

We are also working intensively on tapping new ore seams abroad. An initial project in Cabo Delgado Province in Mozambique, Africa, is well advanced. We are currently clarifying the final open issues regarding mining licences and other conditions with the Mozambican mining authorities. We are pursuing further long-term oriented exploration projects in Africa with the strategic intention of diversifying our raw material sources, and of significantly boosting the share of raw materials that we produce from our own sources. As in previous years, we will cover the expenses and outlays entailed in these exploration projects from our operating activities.

Fixed financing commitments and sufficient credit lines from our banks secure the Group's funding requirements. Exploration projects will be financed from the positive cashflow that we expect. As far as large-scale investments in plants and equipment above and beyond this are concerned, we are holding discussions with banks, which are focused on project financing abroad. In this context, securing liquidity for our basic business and a high equity ratio create the preconditions for rapid and beneficial financing negotiations with the banks.

In 2012, our activities will continue to aim at further expanding the strategic prospects of success in the segments of the Graphit Kropfmühl Group, and at enhancing the company's value.

Graphit Kropfmühl Aktiengesellschaft
München

The Management Board

Martin Ebeling Hans-Detlef Antel Frank Berger

Consolidated financial statements

Consolidated balance sheet as of 31 December 2011
Graphit Kropfmühl Aktiengesellschaft, München

ASSETS

	Notes no.	31.12.2011 EUR thousands	31.12.2010 EUR thousands
Non-current assets			
Intangible assets	(8)	6,965	6,753
Goodwill		6,093	6,103
Other intangible assets		872	650
Property, plant and equipment	(9)	37,571	34,566
Land and buildings		16,484	15,071
Machinery and technical equipment		16,928	17,072
Other assets, operating and office equipment		2,096	1,773
Advance payments and construction in progress		2,063	650
Deferred taxes	(33)	218	443
Income tax refund claims	(14)	575	0
Other financial assets	(13)	290	210
		45,619	**41,972**
Current assets			
Inventories	(11)	24,956	17,068
Trade receivables	(12)	9,786	10,599
Receivables from affiliated entities		0	12
Other financial assets	(13)	535	163
Taxes receivable	(14)	165	816
Other current assets	(15)	1,093	1,642
Cash and cash equivalents	(16)	1,086	1,437
		37,621	**31,737**
		83,240	**73,709**

STOCKHOLDERS EQUITY AND LIABILITIES

	Notes no.	31.12.2011 EUR thousands	31.12.2010 EUR thousands
Equity	(17)		
Share capital		8,640	8,640
Capital reserves		5,568	5,568
Retained earnings		20,144	10,601
Minority interests		122	100
		34,474	**24,909**
Non-current liabilities			
Pension provisions	(19)	9,943	9,364
Other non-current provisions	(20)	3,770	3,249
Non-current liabilities to financial institutions		5,265	7,763
Investment grants	(18)	477	484
Deferred taxes	(33)	1,021	1,148
Other financial liabilities	(21)	994	1,307
		21,470	**23,315**
Current liabilities			
Current liabilities to financial institutions		9,684	13,377
Trade payables		10,117	7,841
Liabilities to affiliated entities		4	0
Investment grants	(18)	15	132
Provisions for warranties and restructuring expenses	(22)	162	0
Other financial liabilities	(21)	1,139	1,141
Income tax liabilities	(23)	2,397	206
Other current liabilities	(24)	3,778	2,788
		27,296	**25,485**
		83,240	**73,709**

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2011
Graphit Kropfmühl Aktiengesellschaft, München

	Notes no.	2011 EUR thousands	2010 EUR thousands
I. Profit and loss statement			
Revenue	(25)	118,868	96,890
Cost of sales		- 94,029	- 86,652
Gross profit		24,839	10,238
Sales, administrative and other expenses	(26)	- 11,251	- 8,215
Restructuring and impairment expenses		- 52	0
Other operating income	(27)	901	751
Operating profit (EBIT)		14,437	2,774
Interest income	(31)	73	654
Interest expenses	(32)	- 1,458	- 1,374
Foreign exchange result		93	501
Results of ordinary activities		13,145	2,555
Income taxes	(33)	- 3,923	- 863
Consolidated profit for the period		9,222	1,692
of which:			
Minority interests	(34)	21	44
Attributable to the Group		9,201	1,648
II. Other comprehensive income			
Foreign currency translation adjustment		25	347
Unrealised gains / losses from derivative financial instruments	(38)		
Change in unrealised gains / losses		296	48
Realised gains (-) / losses (+)		147	104
Total unrealised gains / losses		443	152
Tax on income and expenses recognised in other comprehensive income	(38)		
Changes in tax on income and expenses recognized in other comprehensive income		- 82	- 9
Realised gains (-) / losses (+)		- 42	- 30
Total unrealised gains / losses		- 124	- 39
Other comprehensive income after tax		344	460
III. Total comprehensive income		**9,566**	**2,152**
of which:			
Minority interests		22	51
Attributable to the Group		9,544	2,101

Consolidated statement of cashflows for the period from 1 January to 31 December 2011
Graphit Kropfmühl Aktiengesellschaft, München

		Notes no.	2011 EUR thousands	2010 EUR thousands
I.	Cashflow from operating activities			
1.	Consolidated profit for the period		9,222	1,692
	Adjustments for non-cash income and expenses:		10,361	5,588
2.	Depreciation of non-current assets	(9)	3,285	3,201
3.	Amortisation of intangible assets	(8)	198	135
4.	Financial result		1,292	219
5.	Income taxes	(33)	3,923	863
6.	Earnings from the disposal of non-current assets		- 91	14
7.	Other changes to pensions obligations and recultivation obligations		1,718	862
8.	Other non-cash profit and loss items		36	294
	Adjustments for changes in working capital:		- 3,782	- 2,607
9.	Change in inventories	(11)	- 7,864	- 1,103
10.	Change in trade receivables	(12)	841	- 1,870
11.	Change in other current assets		563	- 853
12.	Changes to trade payables and other financial debts and liabilities		3,158	1,727
13.	Recultivation payments	(20)	- 78	- 104
14.	Pension payments	(19)	- 402	- 404
15.	Changes in investment grants		- 125	- 13
16.	Interest received		26	23
17.	Interest paid		- 1,398	- 1,376
18.	Income taxes paid		- 1,785	- 1,745
19.	Income taxes received		142	151
	Cashflow from operating activities		12,661	1,713
II.	Cashflow from investment activities			
1.	Acquisition of property, plant and equipment	(9)	- 6,301	- 2,057
2.	Acquisition of intangible assets	(8)	- 423	- 315
3.	Acquisition of a subsidiary	(2)	0	0
4.	Proceeds from the sale of assets		170	38
5.	Change in other non-current assets		- 67	- 61
	Cashflow from investment activities		- 6,621	- 2,395
III.	Cashflow from financing activities			
1.	Proceeds from the issuance of non-current liabilities to banks		245	0
2.	Repayment of non-current liabilities		- 2,491	- 1,939
3.	Repayment of finance lease agreements	(42)	- 251	- 177
4.	Proceeds/repayment from/of current liabilities to banks		- 3,929	3,167
5.	Other changes in non-current liabilities		0	- 1
	Cashflow from financing activities		- 6,426	1,050
IV.	Cash and cash equivalents			
1.	Cash-effective change in cash and cash equivalents		- 386	368
2.	Effect of exchange rate fluctuations on cash held		35	67
3.	Cash and cash equivalents at the beginning of the period		1,437	1,002
V.	Cash and cash equivalents at the end of the period		1,086	1,437

Consolidated statement of changes in equity pursuant to IFRS as of 31 December 2011
Graphit Kropfmühl Aktiengesellschaft, München

EUR thousands	Share capital	Additional paid-in capital	Other retained earnings
Balance as of 31 December 2009	8,640	5,568	1,193
Foreign currency translation adjustments	0	0	340
Financial instruments	0	0	152
Tax on income and expenses recognised directly in equity	0	0	- 39
Other comprehensive income after tax	0	0	453
Consolidated profit for the period	0	0	0
Total comprehensive income	0	0	453
Dividend pay-out	0	0	0
Changes in the scope of consolidation	0	0	0
Balance as of 31 December 2010	8,640	5,568	1,646
Foreign currency translation adjustments	0	0	24
Financial instruments	0	0	443
Tax on income and expenses recognised directly in equity	0	0	- 124
Other comprehensive income after tax	0	0	343
Consolidated profit for the period	0	0	0
Total comprehensive income	0	0	343
Dividend pay-out	0	0	0
Changes in the scope of consolidation	0	0	0
Balance as of 31 December 2011	8,640	5,568	1,989

Retained earnings						
of which: Other changes in equity						
Foreign currency translation reserve	Market value financial instruments	Generated Group equity	Total retained earnings	Equity attributable to shareholders of the parent	Minority interests	Total
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
24	0	0	24	24	1	25
0	443	0	443	443	0	443
0	- 124	0	- 124	- 124	0	- 124
24	319	0	343	343	1	344
0	0	9,200	9,200	9,200	21	9,221
24	319	9,200	9,543	9,543	22	9,565
0	0	0	0	0	0	0
0	0	0	0	0	0	0
614	26	18,155	20,144	34,352	122	34,474

Notes to the consolidated financial statements for fiscal year 2011
Graphit Kropfmühl Aktiengesellschaft, München

I. General disclosures

The registered office of Graphit Kropfmühl Aktiengesellschaft, which is filed at the commercial register of the municipal court of Munich (Amtsgericht München) 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, which is located at Frankfurt am Main, holds 88.15 % of the shares of our company. The annual financial statements of our company are included in the consolidated financial statements of Advanced Metallurgical Group N.V. (AMG), Amsterdam, Netherlands as the ultimate parent company. The Management Board of Graphit Kropfmühl Aktiengesellschaft released the consolidated financial statements for publication on 24 February 2012.

(1) Accounting bases

The consolidated financial statements of Graphit Kropfmühl Aktiengesellschaft, Munich, of 31 December 2011, have been 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 on the Corporate Governance Code that is required by § 161 of the German Stock Corporation Act (AktG) has been rendered and made available to the shareholders.

For the profit and loss statement, the cost-of-sales accounting format 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 2011 (1 January to 31 December).

(2) Scope of consolidation

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

Company	Domicile	Participatory ratio
Edelgraphit GmbH	Bonn	100.0 %
GK Graphit Kropfmühl GmbH	Kropfmühl	100.0 %
RW silicium GmbH	Pocking	100.0 %
Branwell Graphite Ltd.	Epping, United Kingdom	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 Moçambique LDA	Maputo, Mozambique	97.5 %
Graphit Kropfmuehl do Brasil Participações Ltda.	São Bernardo do Campo, Brazil	99.99 %
Share Investments (Pvt.) Ltd.	Colombo, Sri Lanka	100.0 %
Qingdao Kropfmuehl Graphite Co. Ltd.	Tonghe, People's Republic of China	100.0 %

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 2011). Share Investments (Pvt.) Ltd. was integrated in the consolidated financial statements on the basis of interim financial statements.

Graphit Kropfmuehl do Brasil Participações Ltda. was included in the consolidated financial statements in full for the first time in 2011. The entity was founded in 2010; its object is the exploration and mining of graphite and other minerals in Brazil. The paid-in capital of the company is 10,000 Brazilian Reais (BRL) (TEUR 4), of which Graphit Kropfmühl Aktiengesellschaft holds a share of 99.99 %.

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

Capital consolidation was performed using the purchase method by offsetting the purchase costs of company acquisition against the revalued equity of the subsidiary. Initial consolidation is performed at the moment of purchase.

An asset difference from capital consolidation remaining after recognition of the revalued assets and liabilities is recognised as goodwill. Any negative differences are taken to income in the year of acquisition.

Subsequent interest acquisitions where there is already control of the subsidiary are shown as a transaction between the owners.

The recognised goodwill is not subject to scheduled depreciation. The impairment of goodwill is assessed at least once a 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 allocated 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 written down to the higher of net selling price less costs to sell and value in use, with the difference recorded in the income statement. For 2011 there was no need to record any impairment.

Intra-group 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. Intragroup results were eliminated with regard to inventories acquired from within the group.

(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 different methods, adjustments are made in the corresponding items.

Purchased **intangible assets** except goodwill are recognised at acquisition costs and are regularly amortised on a straight-line basis over their economic useful life. Goodwill has an unlimited useful life and therefore it is not regularly depreciated; instead it is subject every year, or when there is evidence of a loss of value, to an impairment test.

Development costs for internally generated intangible assets have been capitalised at manufacturing cost where the development of these processes is likely to result in an economic benefit. The production costs include all the costs directly attributable to the development process, as well as appropriate and necessary parts of development-related overheads.

Research costs are included as current expenses under selling, general and administrative expenses.

Exploration costs for the assessment of graphite deposits and other mineral resources are capitalised during the evaluation phase. These capitalised costs include, inter alia, directly attributable personnel and material expenses as well as drilling costs and expenses for the deployment of outside parties. After successful proof of technical and economic feasibility (feasibility study) these costs are reclassified.

Property, plant and equipment is measured at cost less scheduled straight-line depreciation based on its usual economic life. Starting from fiscal year 2009, borrowing costs are capitalised if they are attributable to a qualifying asset.

If special events or market trends signal a need to correct the estimate of the useful life or else indicate there has been a loss of value, an examination is undertaken of the recoverability of the capitalised carrying amount of the items of fixed assets (impairment test).

The scheduled depreciation of fixed assets is classified under the relevant functional areas. Impairment expenses according to IAS 36 are presented under restructuring and impairment expenses.

Leasing instalments under operating leases are charged directly as expenses in the income statement.

Financial assets that for commercial or political reasons have been omitted from the scope of consolidation are classified as available for sale. Such financial instruments are marked to market.

Inventories are measured 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 capitalised. In the event of inventory risks resulting from quality defects or reduced usability, adjustments are made to the lower net proceeds of sale.

Receivables and **other assets**, except derivative financial instruments, are recorded at adjusted acquisition costs. Recognizable risks are accounted for by value adjustments. Foreign currency receivables are translated at the rate on the balance sheet date, with the resulting gains or losses recognised in the income statement.

Deferred taxes result from temporary differences between IFRS and the tax accounts of the individual companies. In addition, deferred taxes from tax loss carryforwards must be recorded where these are expected to be usable for tax purposes. 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 match. Deferred taxes on temporary differences not recognised in the income statement are shown under equity.

Minority shares include the portion of the period result and the net assets of the subsidiaries relating to interests held neither directly by the parent company nor indirectly through a subsidiary.

Government grants are recorded as liabilities if there is adequate certainty that the conditions related to them will be fulfilled and the subsidies granted. These grants are recognised as income only when the expenses that are to be covered by the subsidy have actually been incurred. The income arising is presented under other operating income. The corresponding expenses are recorded in the functional areas.

Provisions are recognised at the amount corresponding to the best possible estimate of the expense required to fulfil the present obligation as at the balance sheet date. As provided for by IAS 19, the pension provisions are formed using the projected unit credit method. Apart from accounting for the known pensions and entitlements as at the balance sheet date, the provisions also take into consideration expected salary and pension increases. The computation is based on actuarial expertises taking into consideration the biometric calculation bases.

Liabilities are stated at their fair value when first recognised. In the following periods liabilities, except for derivative financial instruments, are measured at adjusted acquisition costs. Foreign currency liabilities are translated at the rate on the balance sheet date, and any 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 in order to limit 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 relevant financial institution, whereas the fair values of currency forwards are calculated on the basis of closing rates. Derivatives that exclusively serve to hedge variable-interest liabilities and future expected payments flows are measured in accordance with the rules on cashflow-hedge accounting. The unrealized gain or loss resulting from the measurement of derivatives at market prices is shown initially under equity (group reserves), i.e. without impacting on income. When the underlying transaction impacts on income, the gain or loss from the derivative is shown in the income statement as the underlying transaction. Changes in the market values of derivative financial instruments for which there is no underlying transaction, or possible ineffective parts of derivative financial instruments, are immediately recognised in the income statement. As in the previous year, there were interest rate derivatives and currency forwards on the balance sheet date.

Contingent liabilities are possible obligations to third parties or present obligations for which an outflow of resources is unlikely or the amount of which cannot be determined reliably. Contingent liabilities 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.

Revenues and **other operating income** are recorded only when the service has been rendered or else the goods or products 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 (individual selling expenses). A decrease in work in progress and finished-goods inventories leads to an increase in the cost of sales, whereas an increase in inventories leads to a reduction.

Selling, general and administrative expenses show all the expenses that cannot be attributed to the cost of sales. In addition to personnel expenses and depreciation, 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 charged directly to income.

(5) Discretionary decisions, estimates and assumptions

In preparing the consolidated financial statements, management has made judgements, estimates and assumptions affecting the amounts of the assets and liabilities as well as of revenues and expenses recognised as at the balance sheet date. These judgements, estimates and assumptions involve uncertainty such that the carrying amounts of the relevant assets and liabilities may need to be adjusted in future periods and they may therefore affect future period results materially.

The impairment test for **goodwill** is based on future-related key assumptions. From today's perspective, changes to these key assumptions will not lead to the carrying values of cash-generating units exceeding their recoverable value, and so will not lead to any adjustment of the carrying amounts in the next fiscal year.

The application of the measurement methods to the capitalised **exploration costs** and **graphite deposits** requires estimates on the extent to which sufficient profits can be generated from future exploitation or the sale of the deposit sites. The recognition of exploration costs in a stage at which individual deposits have not yet been geologically ascertained requires expert estimates on the existence and magnitude of the commercially useful deposits. The verification and development of deposits involves a complex process and is subject to significant uncertainty such that estimated project progress and associated costs are, in turn, uncertain to a significant degree. The estimates and assumptions on exploitability and the commercial operations on the deposits may change substantially as the project progresses. Where new findings or events seem to make it improbable that individual deposits can be exploited commercially, an impairment is recorded and the carrying value reduced.

A complex measurement must be made at each closing date for the valuation of the **pension provisions**. This involves an estimate of future wage, salary and pension trends and, in particular, determining a discount factor for the pension provisions: An increase in the discount factor by 0.25 % would lower the pension obligation of the domestic plans by EUR 0.3 million, whereas a corresponding decrease would raise it by EUR 0.4 million.

Governmental or statutory conditions involve obligations to restore mining sites to their original state and the construction of a depository. These obligations are reflected under the item **Recultivation obligations**. In determining the settlement amounts, estimates must be made on the scope, cost and timing of the measures. The determination of the fair value of the obligation requires assumptions on the discount rates applied.

The **hedging of purchases in foreign currency** requires estimates on the future volumes of purchases, estimates on future procurement prices, and the timing of the disbursements where this is not stipulated in the supply contracts.

All assumptions and estimates 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 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 2012.

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

The International Accounting Standards Board (IASB) has introduced a number of amendments in the existing standards and some new standards and interpretations that are mandatory for the consolidated financial statements as from 1 January 2011.

Standard / Interpretation		Mandatory from
IAS 24	Related party disclosures (revised)	01.01.2011
IAS 32	Amendment – Classification of rights issues	01.02.2010
IFRIC 14	Amendment – Prepayments of a minimum funding requirement	01.01.2011
IFRIC 19	Extinguishing financial liabilities with equity instruments	01.07.2010
	Improvements to IFRS 2010	

IAS 24 Related party disclosures

The amendment has the purpose of alleviating the disclosure obligations under IAS 24 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 such that rights issues and certain options or option rights must, under certain conditions, be classified as equity instruments. 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.

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 must be measured. At present it is not planned to issue equity instruments for the extinguishing of financial liabilities, and therefore no effects are to be expected on the net assets, financial position and results of operations of the Graphit Kropfmühl group.

Improvements to IFRS 2010

Under the improvement process, in May 2010 the IASB issued an omnibus of standards that involved minor changes to the following standards and interpretations, which predominantly are to be used for fiscal years starting after 1 July 2010 or 1 January 2011.

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 programmes

The changes in the standards predominantly related to matters that are not relevant for the Graphit Kropfmühl group. Therefore they had no material effects on the net assets, financial position or results of operations.

Besides the standards and interpretations whose application is mandatory for the consolidated financial statements as at 31 December 2011, there are further new standards and interpretations that are not mandatory for fiscal years that begun on 1 January 2011; nor have these been applied yet in the financial statements of the Graphit Kropfmühl group.

Standard / Interpretation		Anwendungspflicht
IAS 1	Presentation of financial statements: Presentation of other comprehensive income	01.07.2012
IAS 12	Income taxes: Recovery of underlying assets	01.01.2012
IAS 19	Employee benefits	01.01.2013
IAS 27	Separate financial statements	01.01.2013
IAS 28	Accounting for investments in associates and joint enterprises	01.01.2013
IFRS 7	Financial Instruments: Disclosures – Improvements in disclosures on the transfer of financial assets	01.07.2011
IFRS 9	Financial instruments: Classification and measurement	01.01.2015
IFRS 10	Consolidated financial statements	01.01.2013
IFRS 11	Joint Arrangements	01.01.2013
IFRS 12	Disclosure of interests in other entities	01.01.2013
IFRS 13	Fair value measurement	01.01.2013
IFRIC 20	Stripping costs in the production phase of a surface mine	01.01.2013

IAS 1 Presentation of financial statements: Presentation of other comprehensive income

The amendment to the standard leads to a change in the presentation of the items shown under other comprehensive income. A distinction must be made in future whether it is intended to reclassify the items to the income statement (so-called recycling) or whether they are to remain under equity. The amendment relates solely to the presentation of the financial statements and therefore it does not affect the net assets, financial position and results of operations of the group.

IAS 12 Income taxes: Recovery of underlying assets

The amendment relates to the calculation of deferred taxes on temporary differences on property held as a financial investment and measured at fair value. Here, in the measurement of the deferred taxes on property, plant and equipment, that under IAS 40 are measured at fair value, a refutable assumption is made of recovery of the carrying value on sale. In the case of tangible assets that are measured using the revaluation method, a sale is presumed for the calculation of the deferred taxes. The group does not presently hold any property classified as financial assets and therefore the amendment to the standard will not have any effects on the presentation of the financial statements.

IAS 19 Employee benefits

The IASB has revised this standards comprehensively. The main change is that the option to postpone the treatment of actuarial gains and losses (known as the corridor method) has been abolished. In future, actuarial gains and losses must be presented under other comprehensive income under equity. Further changes relate, for example, to the calculation of expected income from the plan assets and more extensive disclosure requirements. Until now, the Graphit Kropfmühl has applied to the corridor method. If the amendment to the standard had been applied prior to its mandatory application date, the pension obligations would have been stated TEUR 1,039 higher, and the presentation in the other comprehensive income would have led to a lowering of equity by TEUR 1,039. It is improbable that the other amendments will lead to any material effects on the net assets, financial position or results of operations. The Graphit Kropfmühl group has not yet decided whether to apply the rules of the amended IAS 19 ahead of schedule.

In May 2011, the IASB published new standards on accounting for joint ventures. It published simultaneously amended versions of standards governing the treatment and measurement of joint ventures.

IAS 27 Separate financial statements

The amended standard now contains only rules on the balance sheet treatment and disclosures in the notes of subsidiaries, joint ventures and associated entities which are relevant for separate financial statements prepared to IFRS. The group does not prepare any such separate financial statements.

IAS 28 Accounting for investments in associates and joint enterprises

The amended IAS 28 expands the rules of the standard, that previously governed accounting for interests held in associated entities, with requirements for the application of the equity method in accounting for interests in associated entities and joint ventures.

IFRS 10 Consolidated financial statements

The new standard replaces SIC-12 “Consolidation of special purpose entities” in full and IAS 27 “Consolidated and separate financial statements under IFRS” in part. The standard leads to a uniform definition of the concept of control for all entities. Therewith IFRS 10 creates a basis for determining the existence of a parent-subsidiary relationship and the relevant inclusion in the scope of consolidation.

IFRS 11 Joint agreements

The standard replaces IAS 31 “Interest in joint ventures” and SIC 13 “Jointly managed units – non-monetary contributions by partner entities”. IFRS 11 governs accounting for situations in which an entity exercises joint management of a joint venture or a joint operation.

IFRS 12 Disclosure of interests in other entities

IFRS 12 aggregates in one standard the disclosures that an entity with interests in, or with an engagement in, another entity must make in the notes. Therewith the new standard replaces the rules on disclosures in the notes that were previously contained separately in IAS 27, IAS 28, IAS 31 and SIC-12.

The scope of consolidation of the company includes, at present, only entities that are consolidated in full. The changes contained in IAS 28 and the newly introduced IFRS 11 are, at present, not relevant for the Graphit Kropfmühl group. It is not possible at present to judge whether the initial application of the new IFRS 10 and IFRS 12 will have any effects on the presentation of the consolidated financial statements. An early application of the standard is permitted if its rules are applied jointly. IFRS 12 may be applied early since it relates only to disclosure requirements.

IFRS 7 Financial Instruments:
Disclosures – Improvements in disclosures on the transfer of financial assets
The amendment requires additional extensive disclosures on financial assets to be transferred in order to create an understanding between financial assets that have not been entirely retired and the corresponding liabilities. These disclosures are intended to enable the users of the financial statements to understand the nature of the continuing engagement of the company and the associated risk.

IFRS 9 Financial Instruments
IFRS 9 was drawn up as the first part of a project on the comprehensive reworking of accounting of financial instruments. Until now, the standard has covered the classification and measurement of financial assets and, it is intended, it shall be expanded with rules on the accounting of collateral relationships and assets detracting from the financial assets. 2011 saw the publication of the draft rules on the offsetting of (financial) receivables and liabilities. At the end of this multiple-stage process, it is intended that IFRS 9 should completely replace the standard “Financial instruments: Recognition and measurement”. The Graphit Kropfmühl group will quantify the effects only when all the project phases have been completed.

IFRS 13 Fair value measurement
This standard stipulates valuation guidance on how the fair value of assets and liabilities may be determined reliably. The rules on when assets and liabilities are to be measured at fair value have not changed and are not part of this standard. The Graphit Kropfmühl group examines the effects on the net assets, financial position and results of operations.

IFRIC 20 Waste stripping in the production phase of an open cast mine
The interpretation governs the accounting on when and how to account for the use of open cast facilities in the production phase of an open-cast mine and how the use is to be measured in the form of improved access to further material deposits or else as inventories, where the mine includes ore, are to be measured, then on initial and, later, on subsequent measurement. At present, the Graphit Kropfmühl group does not operate any overcast mines and therefore there have not been any effects the net assets, financial position and results of operations. It is not possible at present to estimate the extent to which the future exploitation of the graphite deposits being investigated will be lead to a change in the financial statements.

(7) Currency translation

The financial statements of foreign subsidiaries are translated using 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 using the modified closing rate method. All balance sheet items except 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 stated at their 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 under equity (i.e. 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 the closing rate, are recognised in the profit and loss statement. In fiscal year 2011 these resulted in foreign currency earnings of TEUR 93 (previous year: foreign currency losses TEUR 501).

Important exchange rates

		Balance sheet rates as at 31.12			Average rate		
	Currency	2011	2010	Change	2011	2010	Change
China	CNY / 1 EUR	8.1588	8.8220	- 7.5 %	8.9960	8.9712	0.3 %
United Kingdom	GBP / 1 EUR	0.8353	0.8608	- 3.0 %	0.8679	0.8578	1.2 %
Hong Kong	HKD / 1 EUR	10.0510	10.3856	- 3.2 %	10.8362	10.2994	5.2 %
Sri Lanka	LKR / 1 EUR	147.492	147.242	0.2 %	153.8710	150.4432	2.3 %
Czech Republic	CZK / 1 EUR	25.787	25.0610	2.9 %	24.5898	25.284	- 2.7 %
USA	USD / 1 EUR	1.2939	1.3362	- 3.2 %	1.3920	1.3257	5.0 %

II. Notes to the consolidated balance sheet

(8) Intangible assets

	Goodwill	Internally generated assets	Exploration costs	Other intangible assets	Total
Acquisition costs as at 1.1.2010	6,083	621	0	1,563	8,267
Currency differences	20	0	0	1	21
Additions	0	0	308	7	315
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Acquisition costs as at 31.12.2010	6,103	621	308	1,571	8,603
Currency differences	- 10	0	0	0	- 10
Additions	0	0	422	1	423
Disposals	0	0	0	- 51	- 51
Reclassifications	0	0	0	0	0
Acquisition costs as at 31.12.2011	6,093	621	730	1,521	8,965
Accumulated depreciation as at 1.1.2010	0	407	0	1,308	1,715
Currency differences	0	0	0	0	0
Additions	0	53	0	82	135
Disposals	0	0	0	0	0
Reclassifications	0	0	0	0	0
Accumulated depreciation as at 31.12.2010	0	460	0	1,390	1,850
Currency differences	0	0	0	0	0
Additions	0	63	52	83	198
Disposals	0	0	0	- 48	- 48
Reclassifications	0	0	0	0	0
Accumulated depreciation as at 31.12.2011	0	523	52	1,425	2,000
Net carrying values as at 1.1.2011	6,103	161	308	181	6,753
Net carrying values as at 31.12.2011	6,093	98	678	96	6,965

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. 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 6,093 (previous year: TEUR 6,103). The decrease is due to exchange rate effects in the amount of TEUR 10 (prior year an increase of TEUR 20).

The respective carrying amount of the segments is compared to the recoverable amount. The value in use is used as the recoverable amount. The value in use is the cash value of the estimated future cashflows that can be expected from the continued use of a CGU. The forecasts refer to a detailed planning period of three years (2012 to 2014) – 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 sales and procurement markets of the CGU. Here, the company has anticipated the probable price and volume sales development of the next three years. Where 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. Growth after the detailed planning period was estimated at an average of 1.0 % (previous year: 1.0 %) and it is this figure that is used in the discount rate. The discount rate before tax assumed for the Graphite cash generating unit was 9.6 % (previous year: 9.2 %).

As in the previous year, the impairment test did not lead to any impairment expenses.

Apart from goodwill, intangible assets include capitalised expenses incurred for the exploration of mineral resources in the amount of TEUR 678 (previous year: TEUR 308). They further include internally generated assets of TEUR 98 (previous year: TEUR 161) and other intangible assets of TEUR 96 (previous year: TEUR 181).

In order to secure the group’s supply of raw materials in the future, Graphit Kropfmühl Aktiengesellschaft explores graphite deposits continuously. The costs incurred are capitalised in accordance with IFRS 6. The capitalised costs contain mainly expenses for test drilling and fees for geologists and other advisors. An impairment charge of TEUR 52 was incurred in 2011 following the abandonment of exploration activities in Brazil. TEUR 422 was capitalised under intangible assets for the continued exploration in Mozambique. Amortisation begins as soon as the feasibility study has been completed. The carrying amount of the capitalised exploration costs as at 31 December 2011 was TEUR 678 (previous year: TEUR 256).

Capitalised development costs are amortised straight-line over a useful life of 10 years. Amortisation in fiscal year 2011 came to TEUR 63 (previous year: TEUR 53) and is fully contained in the selling, general and administrative expenses. In 2011 there were no impairment expenses in the meaning of IAS 36. In fiscal year 2011, as in the previous year, no other development costs were capitalised as internally generated intangible assets.

Other intangible assets refers mainly to software, that is amortised on a straight-line basis over 3 to 5 years. The item also contains a purchased delivery right, that is amortised straight-line over the term of the contract. Amortisation on other intangible assets in fiscal year 2011 amounted to TEUR 83 (previous year: TEUR 82) and, as in the previous year, is recorded under selling, general and administrative expenses.

(9) Property, plant and equipment

	Land and buildings	Plant and machinery	Operating and office equipment	Payments on account and assets under construction	Total
Acquisition costs as at 1.1.2010	23,709	54,518	8,643	644	87,514
Currency differences	253	427	83	21	784
Additions	475	1,451	505	721	3,152
Disposals	- 27	- 166	- 165	0	- 358
Reclassifications	154	817	- 235	- 736	0
Acquisition costs as at 31.12.2010	24,564	57,047	8,831	650	91,092
Currency differences	- 23	17	21	3	18
Additions	2,176	1,134	604	2,468	6,382
Disposals	0	- 239	- 626	- 47	- 912
Reclassifications	- 215	1,157	69	- 1,011	0
Acquisition costs as at 31.12.2011	26,502	59,116	8,899	2,063	96,580
Accumulated depreciation as at 1.1.2010	8,825	37,559	6,753	0	53,137
Currency differences	119	326	49	0	494
Additions	576	2,231	394	0	3,201
Disposals	- 27	- 141	- 138	0	- 306
Reclassifications	0	0	0	0	0
Accumulated depreciation as at 31.12.2010	9,493	39,975	7,058	0	56,526
Currency differences	- 5	19	20	0	34
Additions	530	2,294	461	0	3,285
Disposals	0	- 346	- 490	0	- 836
Reclassifications	0	246	- 246	0	0
Accumulated depreciation as at 31.12.2011	10,018	42,188	6,803	0	59,009
Net carrying values as at 1.1.2011	15,071	17,072	1,773	650	34,566
Net carrying values as at 31.12.2011	16,484	16,928	2,096	2,063	37,571

The scheduled depreciation on property, plant and equipment is based on the following useful lives:

Years	2011	2010
Land and buildings	10 – 50	10 – 50
Plant and machinery	4 – 20	4 – 20
Operating and office equipment	3 – 15	3 – 15

Loans secured with mortgages on land and buildings amounted to TEUR 5,097 (previous year: TEUR 6,904) as at 31 December 2011. The carrying value of the mortgaged land is TEUR 7,344 (previous year: TEUR 7,346). Plant and machinery with a carrying value of TEUR 1,318 (previous year: TEUR 1,432) has been pledged as collateral in the amount of TEUR 1,279 (previous year: TEUR 1,479).

The “land and buildings” item includes the mine in Sri Lanka.

Within the scope of revaluation on initial consolidation of our participation in Bogala Graphite Lanka Plc. the graphite deposit in Sri Lanka was identified as an asset and was classified under 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 2011, a geological report was issued on the mine indicating a useful life of a further 27 years, i.e. until 2036. Until 2010, the useful life had been expected to extend until 2025. As from 2011 the amortisation period was adjusted in line with the new expert report. The depreciation shown in the cost of sales amounts in 2011 to TEUR 93 (previous year: TEUR 180).

At 31 December 2011 the valuation was reviewed with an impairment test. The value-in-use of the graphite deposit was determined, discounted to present value and compared to the carrying amount. No impairment was indicated. The remaining carrying amount of the graphite deposit on 31 December 2011 was TEUR 2,463 (previous year: TEUR 2,556).

At 31 December 2011 the contractual obligations for the purchase of technical equipment and machinery amounted to TEUR 602 (previous year: TEUR 1,064).

The property, plant and equipment position contains assets with a carrying amount of TEUR 930 (previous year: TEUR 1,046) that were acquired through finance lease contracts. For assets rented under operating leases, expenses were recognised in the current year in the amount of TEUR 185 (previous year: TEUR 177).

(10) Financial assets

The financial assets contain the participation in Zimbabwe German Graphite Mines (Pvt.), Ltd. The costs of acquisition costs came to TEUR 350. In view of the commercial and political situation in Zimbabwe, the market value of the participation was determined at TEUR 0 and the valuation written off in full in previous years.

(11) Inventories

	2011	2010	Change
Graphite segment:			
Raw materials, supplies and consumables	11,665	7,223	60.7 %
Work in progress	776	950	- 18.3 %
Finished goods and merchandise	4,404	3,685	19.5 %
Subtotal: Graphite segment	16,845	11,858	41.6 %
Silicon metal segment:			
Raw materials, supplies and consumables	3,982	2,902	35.5 %
Work in progress	17	17	0.0 %
Finished goods and merchandise	4,111	2,292	79.4 %
Subtotal: Silicon metal segment	8,110	5,211	54.7 %
Total	24,956	17,069	45.6 %

The carrying amounts of the inventories stated at their fair value less selling expenses amount to TEUR 2,154 (previous year: TEUR 4,666). New impairments of TEUR 553 were necessary in the fiscal year. The previous year's impairment in the amount of TEUR 353 was no longer necessary due to sales and was fully caught up.

Under an assignment as collateral of shares in a consolidated company, the inventories of this company indirectly are used as collateral for a loan with a carrying amount of TEUR 1,049 (previous year: TEUR 1,678).

(12) Trade receivables

The carrying amounts of the trade receivables correspond to their fair values. Value adjustments in the amount of TEUR 115 (previous year: TEUR 347) were taken into consideration here.

(13) Other financial assets

	2011	2010	Change
Loans issued (non-current)	290	205	41.5 %
Other financial assets (non-current)	0	5	- 100.0 %
Subtotal (non-current)	290	210	38.1 %
Loans issued (current)	78	46	69.6 %
Financial derivatives	450	117	> 100.0 %
Other financial assets (current)	7	0	not stated
Subtotal (current)	535	163	> 100.0 %
Total	825	373	> 100.0 %

The derivative financial instruments are recorded at their fair value.

(14) Income tax refund claims

	2011	2010	Change
Tax refund claims (non-current)	575	0	not stated
Tax refund claims, domestic, (current)	152	814	- 81.3 %
Tax refund claims, foreign	13	2	> 100.0 %
Total	740	816	- 9.3 %

The change in the non-current and current income tax refund claims related to the reclassification of the long-term portions of the corporation tax credit pursuant to § 37 KStG in Germany. The composition of the income tax refund claims is described in paragraph (33) Income taxes.

(15) Other current assets

	2011	2010	Change
Other tax refund claims	460	448	2.7 %
Reimbursement claims on premiums paid to the employers' third-party liability insurance scheme	172	127	35.4 %
Payments on account on inventories	225	714	- 68.5 %
Prepaid expenses	55	72	- 23.6 %
Suppliers with accounts in debit	24	18	33.3 %
Other assets	157	263	- 40.3 %
Total	1,093	1,642	- 33.4 %

(16) Liquid funds

The item liquid funds contains bank deposits of TEUR 137, access to which is restricted. Substantially these represent collateral that had to be deposited by a subsidiary in order to obtain an export license.

(17) Equity

The development of 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 authorized capital from the year 2009 of up to 1,440,000 shares or 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 (premium) charged in connection with the capital increase in 1997. It has not changed compared to the previous year.

The revenue reserves contain effects not recognised in the income statement as shown in the other comprehensive income. The foreign currency translation reserve shows the effects of the translation of the financial statements of foreign companies that are included in the consolidated financial statements. These translation effects are recognised as other income. In case of a partial or complete disposal of a subsidiary, the foreign currency translation provision is released to the profit and loss account. Differences arising from changes in the market values of financial derivatives comprise solely market value changes of interest and currency hedges that are deemed to be effective in their securing effect. This position also contains deferred taxes resulting from these changes. The equity generated shows the historically generated consolidated profits for the periods less dividend payments of Graphit Kropfmühl Aktiengesellschaft.

(18) Investment grants

The Graphit Kropfmühl group took investment grants of TEUR 357 to income in Germany during 2011. The grants related to various investments and, in particular, to improvements in energy efficiency. They are released to income over the depreciation term of the investment goods being subsidized; in the reporting year the amount released was TEUR 38 (previous year: TEUR 163). The disbursement of the investment grants is subject to certain conditions being met. Essentially, the purpose of the subsidies is to protect long-term employment.

(19) Pension provisions

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. For the employees of domestic group companies, in particular, there is a company pension plan on a defined benefit basis. The amount of these pensions is determined by the length of a time an employee has been with the company and their remuneration, the pensions themselves being financed from provisions. The total pension obligation at 31 December 2011 was not covered by plan assets.

The provisions to be formed are determined in accordance with IAS 19, with valuation on the basis of actuarial expertises. The defined benefit obligation is calculated using the projected unit-credit method. Apart from the biometric bases 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 measurement premises were assumed:

	Germany		Sri Lanka	
	2011	2010	2011	2010
Imputed interest rate	5.5 %	4.95 %	10.0 %	12.0 %
Wage and salary trend	3.0 %	2.5 %	9.0 - 10.0 %	8.0 - 10.0 %
Pension trend	1.2 - 2.0 %	2.0 %	1.2 - 2.0 %	0.0 %
Average fluctuation	0.0 %	0.0 %	4.0 %	5.0 %

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

	2011	2010	2009	2008	2007
Pension obligation as at 01.01	11,449	9,613	9,188	9,306	9,094
Expense for pension claims earned in the reporting year	342	275	329	275	241
Interest expense	556	493	539	479	397
Actuarial gains (-) and losses (+)	- 964	1,454	32	- 409	- 52
Currency equalisation	1	12	- 4	0	- 22
Pensions disbursed	- 402	- 398	- 471	- 463	- 352
Pension obligation as at 31.12	10,982	11,449	9,613	9,188	9,306
Adjustment due to actuarial gains (+) and losses (-)	- 1,039	- 2,085	- 640	- 617	- 974
Net accounting obligation as at 31.12	9,943	9,364	8,973	8,571	8,332

The pension obligations break down as follows:

	2011	2010
Germany	9,783	9,229
Sri Lanka	160	135
Net accounting obligation as at 31.12	9,943	9,364

The corridor method is used to determine the pension expenses. Actuarial gains or losses resulting from the deviation between actually occurring values and the assumptions on which the calculation is based, and which result from changes in actuarial assumptions, are left out of account unless they exceed 10 % of the scope of obligation. The amount exceeding this corridor is distributed over the average remaining time the employees have to serve.

The pension systems gave rise in the Graphit Kropfmühl to a pension expense of TEUR 980 (previous year: TEUR 778), which is made up as follows:

	2011	2010
Expense for pension claims earned in the reporting year, including interest expense	898	768
Actuarial gain (-) / loss (+) realised	82	10
Pension expense	980	778

The expense for the pension claims earned in the reporting year is accounted for mainly under selling, administrative and other expenses.

The total of defined contribution plans comprises the total of employer's contributions to the pension insurance that is required by law in Germany. The payment of contributions does not lead to any other obligations for the Graphit Kropfmühl group. In 2011 the total of statutory pension insurance contributions was TEUR 934 (previous year: TEUR 865).

(20) Other non-current provisions

	2011	2010	Change
Recultivation obligation	3,758	3,228	16.4 %
Other non-current provisions	12	21	- 42.9 %
Total	3,770	3,249	16.0 %

Recultivation obligation
At its Kropfmühl location, Graphit Kropfmühl Aktiengesellschaft has an underground graphite mine. The mining of ore was discontinued in 2005, and since then the operation has been suspended by the competent authority. In view of changes in framework conditions, the Management Board in December 2010 resolved not to close the mine in Kropfmühl before 31 December 2014. In the reporting year, the provision was adjusted in line with the development of costs and interest rates. Due to anticipated cost increases that were determined from average inflation rates for construction work, the settlement amount was calculated from the current scope of obligation. Because of the postponement of the closing of the mine, the settlement amount must be discounted. The expected settlement amount was discounted using an interest rate of 3.5 %. In the prior year, the postponement of the time of closure led to a reversal of the provision of TEUR 621, that was presented under interest income. The annual cost increases and possible findings from the re-estimate of the obligations are allocated to costs of sales. The company disbursed TEUR 78 (previous year: TEUR 104) for reconversion in the reporting year.

RW silicium GmbH has leased a landfill site in Pocking for the disposal of silicon dioxide. Since 2011, there has been a recultivation obligation for this waste disposal site. The company has estimated the costs at TEUR 430. It is expected that the provision will be tapped as from 2012.

	2011	2010
Recultivation obligation as at 01.01	3,228	3,875
Utilisation	- 78	- 104
Re-estimate of the obligation	0	78
Addition / Reversal (-)	510	- 621
Interest roll-up	98	0
Recultivation obligation as at 31.12	3,758	3,228

(21) Other financial liabilities

	2011	2010	Change
Financial derivatives (non-current)	413	514	- 19.6 %
Finance leases (long-term)	544	712	- 23.6 %
Other financial liabilities (non-current)	37	81	- 54.3 %
Other financial liabilities (non-current)	994	1,307	- 23.9 %
Financial derivatives (current)	247	262	- 5.7 %
Finance leases (short-term)	232	207	12.1 %
Costs of the financial statements	347	334	3.9 %
Other financial liabilities (current)	313	338	- 7.9 %
Other financial liabilities (current)	1,139	1,141	- 0.2 %
Total	2,133	2,448	- 12.9 %

(22) Provisions for warranty and restructuring expenses

	Warranty	Restructuring expenses	Total
Balance as at 01.01.2010	133	179	312
Currency differences	0	- 2	- 2
Utilisation	0	- 177	- 177
Reversal	- 133	0	- 133
Addition	0	0	0
Balance as at 31.12.2010	0	0	0
Currency differences	0	0	0
Utilisation	0	0	0
Reversal	0	0	0
Addition	162	0	162
Balance as at 31.12.2011	162	0	162

Warranty obligations comprise obligations for replacement supplies or performances and further expenses that may arise in connection with supplies subject to complaint.

(23) Income tax liabilities

	2011	2010	Change
Tax liabilities, Germany	2,243	133	> 100.0 %
Tax liabilities, foreign	154	73	> 100.0 %
Total	2,397	206	> 100.0 %

(24) Other current liabilities

	2011	2010	Change
Other tax liabilities	663	798	- 16.9 %
Outstanding vacation entitlements	207	167	24.0 %
Employers' third party liability insurance	170	120	41.7 %
Obligations arising from the part-time pre-retirement scheme	247	367	- 32.7 %
Other obligations relating to employees	2,153	667	> 100.0 %
Payments received on account for orders	142	64	> 100.0 %
Remuneration of the supervisory board	95	107	- 11.2 %
Other current liabilities	101	498	- 79.7 %
Total	3,778	2,788	35.5 %

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

(25) Revenues

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

(26) Selling, administrative and other costs

	2011	2010	Change
Selling expenses	1,746	2,021	- 13.6 %
General administrative expenses	8,040	4,804	67.4 %
Research and development costs	876	911	- 3.8 %
Other operating expenses	589	479	23.0 %
Total	11,251	8,215	37.0 %

(27) Other operating income

The other operating income of TEUR 901 includes TEUR 145 from rental and leasing, income from the disposal of property, plant and equipment (TEUR 92), and income from other sales (TEUR 207). In the prior year, this item contained principally income from rental and leasing of TEUR 163, income from the release of investment grants (TEUR 163) and income from other sales (TEUR 120).

(28) Cost of materials

	2011	2010	Change
Expenses for raw materials, supplies and consumables and for purchased merchandise (inventories recognised as expense)	42,021	34,445	22.0 %
Expenses for purchased services	30,856	31,836	- 3.1 %
Total	72,877	66,281	9.9 %

(29) Personnel expenses

	2011	2010	Change
Wages and salaries	14,275	11,443	24.7 %
Social security charges and expenses for pensions and similar benefits	3,255	2,873	13.3 %
Total	17,530	14,316	22.5 %

(30) Workforce

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

	2011	2010	Change
In production	416	403	3.2 %
In sales	26	21	23.8 %
In administration / Research and development	57	54	5.6 %
Total	499	478	4.4 %

(31) Interest income

	2011	2010	Change
Interest income from bank deposits	17	15	13.3 %
Other interest income	17	8	> 100.0 %
Interest income from financial instruments not measured at fair value	34	23	47.8 %
Discount on positive tax balances	39	10	> 100.0 %
Discounting of provisions	0	621	- 100.0 %
Interest income	73	654	- 88.8 %

(32) Interest expense

	2011	2010	Change
Interest expense for non-current financial liabilities	568	664	- 14.5 %
Interest expense for current financial liabilities	578	559	3.4 %
Interest expense for financial instruments not measured at fair value	1,146	1,223	- 6.3 %
Discounting of provisions	110	12	> 100.0 %
Loss on financial instruments measured at fair value	95	109	- 12.8 %
Other interest and financial expenses	107	30	> 100.0 %
Interest expense	1,458	1,374	6.1 %

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

Income taxes are composed as follows:

	2011	2010	Change
Domestic taxes	3,739	376	> 100.0 %
Foreign taxes	209	96	> 100.0 %
Deferred taxes	- 25	391	not stated
Total	3,923	863	> 100.0 %

The taxes of the fiscal year include taxes for previous years in the amount of TEUR 19 (previous year: TEUR 12).

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 according 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, in future, be paid out independently of distributions.

Refunds are disbursed 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 3.20 % (previous year: 3.50 %), the present value on 31 December 2011 was determined to be TEUR 743 (previous year: TEUR 812). The difference resulting from the discount effect in the amount of TEUR 39 (previous year: TEUR 10) was assigned to the net finance costs as interest income.

The computation of the mathematical national income tax expenses uses 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 2011, plus a solidarity surcharge of 5.5 %, and on an average municipal trade tax rate of 341.0 % (previous year: 341 %). The tax rates applied to current taxes in foreign countries range between 11.5 % and 28.2 %.

Reconciliation account

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 and burdens:

	Assets		Liabilities	
	2011	2010	2011	2010
Tax loss carryforwards	97	170	0	0
Fixed assets	23	22	1,376	1,349
Inventories	55	2	0	0
Other assets	21	20	0	0
Pension provisions	460	423	0	0
Recultivation provision	0	0	144	187
Other liabilities	13	17	10	6
Derivative financial instruments	184	216	126	33
Total, unnetted	853	870	1,656	1,575
Netting out	- 635	- 427	- 635	- 427
Net total	218	443	1,021	1,148

Of the deferred taxes, deferred tax assets in the amount of TEUR - 124 (previous year: TEUR – 39) were recognised under other income.

The income taxes in the amount of TEUR 3,923 (previous year: TEUR 863) presented for the year 2011 deviate by TEUR 269 (previous year: TEUR 153) from the calculated tax expense of TEUR 3,654 (previous year: TEUR 710).

The reconciliation of the computed and the presented income tax expense is shown below:

	2011	2010
Earnings before income taxes	13,145	2,555
Computed tax expense	3,654	710
Additional tax burden due to non-deductible expenses	147	119
Tax relief due to tax-free income	- 52	- 36
Additional tax burden due to consolidation bookings without tax effect	0	5
Additional tax due to the adjustments of deferred tax assets on loss carryforwards	11	0
Additional tax due to losses in the current period for which no deferred tax assets were recorded	137	71
Tax relief from the use of previously unrecorded loss carryforwards	- 62	- 28
Out-of-period income taxes	42	12
Tax effect: domestic municipal trade tax	26	26
Effects from tax rate changes on deferred taxes	- 55	0
Effects from deviating tax rates	75	- 16
Income taxes presented	3,923	863

With regard to tax loss carryforwards of foreign subsidiaries in an amount of TEUR 1,779 (previous year: TEUR 1,495), no deferred tax assets have been set up since their use seems uncertain at present.

(34) Minority interests

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

	2011	2010	Change
Profit shares of minority shareholders	21	44	- 52.3 %
Loss shares of minority shareholders	0	0	0.0 %
Minority interests	21	44	- 52.3 %

IV. Other disclosures

(35) Statement of cashflows

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 material non-cash expenses and income and for material 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 disposal of property, plant and equipment. Approximately 71 % (previous year: 43 %) 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 reporting year, acquisitions presented under property, plant and equipment in the amount of TEUR 81 (previous year: TEUR 1,096) 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 leases are classified as non-cash; they are not included in the cashflow from investing activities.

(36) Capital control

The primary target of capital control of Graphit Kropfmühl Aktiengesellschaft is to ensure that it maintains a high credit rating and a good equity ratio in order to support its business operations and maximise shareholder value.

Graphit Kropfmühl Aktiengesellschaft controls its capital structure and, when it makes adjustments, it takes into consideration any changes in general economic conditions. In order to maintain or adapt its capital structure, the company can alter the dividend payments to shareholders, or else seek to raise outside capital. No changes in targets, guidelines, and procedures were made between 31 December 2011 and 31 December 2010.

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, this 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 leverage	31.12.2011	31.12.2010
Financial liabilities	17,086	23,588
Trade payables	10,117	7,841
Less liquid funds	- 1,086	- 1,437
Net financial liabilities	26,117	29,992
Net financial liabilities	26,117	29,992
Total equity	34,474	24,909
Equity and net financial liabilities	60,591	54,901
Debt leverage	43.1 %	54.6 %

In 2011 the company complied with all the minimum requirements for specific financial ratios (interest, debt leverage) that had been agreed with lenders, inclusive of minimum capital requirements.

(37) Additional disclosures on financial instruments

	Carrying value	Valuation in the balance sheet acc. to IAS 39			Fair Value
		Adjusted cost	Fair value in the P&L	Cash-flow hedging	
As at 31.12.2011					
ASSETS					
Available-for-sale financial instruments					
Financial assets	0		0		0
Liquid funds and receivables					
Liquid funds	1,086	1,086			1,086
Trade receivables	9,786	9,786			9,786
Other financial assets	375	375			375
Derivatives with hedge relationship	450			450	450
LIABILITIES					
Financial liabilities					
Liabilities to financial institutions	14,949	14,949			14,975
Trade payables	10,117	10,117			10,117
Liabilities to affiliated entities	4	4			4
Liabilities from finance leases	777	777			808
Other financial liabilities	696	696			696
Derivatives with hedge relationship	413			413	413
Financial instruments held for trading purposes					
Derivatives without any hedge relationship	247		247		247
As at 31.12.2010					
ASSETS					
Available-for-sale financial instruments					
Financial assets	0		0		0
Liquid funds and receivables					
Liquid funds	1,437	1,437			1,437
Trade receivables	10,599	10,599			10,599
Receivables from affiliated entities	12	12			12
Other financial assets	256	256			256
Derivatives with hedge relationship	117			117	117
LIABILITIES					
Financial liabilities					
Liabilities to financial institutions	21,140	21,140			20,850
Trade payables	7,841	7,841			7,841
Liabilities from finance leases	919	919			919
Other financial liabilities	753	753			753
Derivatives with hedge relationship	522			522	522
Financial instruments held for trading purposes					
Derivatives without any hedge relationship	254		254		254

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 discounted cashflow (DCF) model. Customary interest rates were used for future interest and redemption payments.

As in previous years, all derivatives recorded at fair value (interest rate and currency derivatives), were measured according to procedures that are based on indirectly observable influences (interest rate and currency development) (level 2). The market values of the financial investments available for sale are determined according to level 3. In the reporting period, as in the previous year, there were no transfers between measurements at fair value of the different levels (level 1 - 3).

In our measurement of the fair values of interest rate derivatives, we used the mark-to-market valuations of the issuing banks. In order to determine the fair values of currency derivatives (currency forwards), the purchase rate was compared with the closing rate of the hedged currency.

Financial assets

	Carrying value = max. credit risk	thereof: neither impaired not overdue as the closing date	thereof. not impaired at the close date and overdue as follows		
			less than 30 days	between 31 and 90 days	more than 90 days
As at 31.12.2011					
Trade receivables	9,786	8,309	1,319	148	10
Loans extended	375	375			
Financial derivatives	450	450			
Total	10,611	9,134	1,319	148	10
As at 31.12.2010					
Trade receivables	10,599	9,895	646	22	35
Loans extended	256	256			
Financial derivatives	117	117			
Total	10,972	10,268	646	22	35

As in the previous year, as at the balance sheet date there was nothing to indicate that debtors would fail to meet their payment obligations, either with respect to impaired or past due financial assets.

Within the scope of a blanket assignment in the year 2009, trade receivables in the amount of TEUR 6,095 (previous year: TEUR 6,947) were pledged as security for bank loans. At 31 December 2011 the corresponding loans had a value of TEUR 1,376 (previous year: TEUR 1,875). Loans of TEUR 85 (previous year: TEUR 90) held under other financial assets are secured by way of sureties of the city of Hauzenberg.

Adjustments to trade receivables developed as follows:

	2011	2010
Balance as at 01.01	347	331
Currency differences	9	12
Allocation to adjustments	2	111
Use	- 213	- 31
Reversal	- 30	- 76
Balance as at 31.12	115	347

If a default is considered highly probable, e.g. in the event of insolvency, the corresponding trade receivable is written off directly or, when this occurs after an adjustment has been made, it is charged to the adjustment account. In the case of probable default, e.g. where due dates have been materially exceeded, adjustments are allocated to the adjustment account. In 2011, TEUR 28 was written off following the insolvency of one customer.

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:

As at 31.12.2011	Carrying value	Contractually agreed payments flows	2012	2013	2014	2015	2016	thereafter
Fixed interest bank loans [1]	8,002	8,002	2,721	2,131	1,137	625	625	763
Short-term loans and bank overdrafts	6,948	6,948	6,948	0	0	0	0	0
Interest payments	84	819	335	199	127	81	52	25
Trade payables	10,117	10,117	10,117	0	0	0	0	0
Liabilities to affiliated entities	4	4	4	0	0	0	0	0
Interest swaps	660	609	241	218	81	49	17	3
Liabilities from finance leases	776	829	259	248	247	75	0	0
Other financial liabilities	612	612	579	33	0	0	0	0
Obligation from operating leases	0	370	150	113	79	24	4	0
Total	27,203	28,210	21,254	2,942	1,671	854	698	791

As at 31.12.2010	Carrying value	Contractu-ally agreed payments flows	2011	2012	2013	2014	2015	there-after
Fixed interest bank loans [1]	10,258	10,280	2,496	2,495	2,135	1,141	625	1,388
Short-term 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
Trade payables	7,841	7,841	7,841	0	0	0	0	0
Currency forward contracts	9	9	9	0	0	0	0	0
Interest swaps	824	1,029	322	294	241	94	56	22
Liabilities from finance leases	919	1,042	258	256	242	230	56	0
Other financial liabilities	753	753	680	73	0	0	0	0
Obligation from operating leases	0	294	134	91	51	18	0	0
Total	31,565	33,467	23,145	3,540	2,867	1,610	818	1,487

1) In part, variable interest agreements have been made for long-term liabilities to banks. Corresponding interest rate swaps were concluded for these credit contracts, so that these liabilities are classified in their entirety as fixed-interest liabilities. The table above shows all the financial instruments existing on 31 December for which payments had already been contractually agreed. The variable interest payments under the financial instruments were calculated as at 31 December 2011 on the basis of the reference interest rates published by the Bundesbank. Financial liabilities that can be repaid at any time were classified to the earliest time period.

To minimise the liquidity risk, the Graphit Kropfmühl group has access to short-term credit lines in addition to its cash resources. The parent company has credit lines with several regional and international German banks with a total volume of TEUR 17,000 (previous year: TEUR 14,250). Individual subsidiaries furthermore have their own credit lines with an aggregate volume of TEUR 834 (previous year: TEUR 784).

Net gains and losses from financial instruments

The following table shows the net gains and losses from financial instruments:

	2011	2010	Change
Liquid funds	0	0	0.0 %
Available-for-sale financial instruments	0	0	0.0 %
Loans and receivables	- 29	- 87	- 66.7 %
Financial liabilities at adjusted acquisition cost	0	0	0.0 %
Financial instruments held for trading purposes	6	7	- 14.3 %

Interest from financial instruments are presented under interest expenses and income. For the amount of the gains and losses from financial instruments which were not realised, and therefore recorded under other income, and the gains and losses from amounts reclassified to the income statement, see paragraph (38) Risk management and derivative financial instruments.

Net losses from loans and receivables contained changes from adjustments, gains and losses from retirements, and payments receipts and revaluations on receivables that had already been written off.

Net gains/losses from financial instruments held for trading purposes include the changes to fair values (market values) from derivative financial instruments for which the rules on hedge accounting do not apply.

(38) Risk management and derivative financial instruments

Principles of risk management

Because of the nature 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 arising from operating activities, financial transactions, and investments.

To achieve this, the group uses currency forwards and interest rate swaps. These are exclusively for hedging purposes. Derivative financial instruments are not held or issued for speculative purposes.

Hedging transactions are concluded exclusively with credit institutions whose high credit standing is continuously verified by leading rating agencies. This minimises the risk of non-fulfilment of the contractual agreements by the contractual partners (credit risk).

Currency risks

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

Foreign currency risks are hedged when 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 translation of the annual financial statements of foreign 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 companies that involve currency risks.

Currency fluctuations in the financing field are attributable principally to financial liabilities in foreign currencies. In this respect there were no items of importance in 2011.

The operating field involves currency risks especially in procurement, 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.

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

The hedging horizon applied does not, as a rule, 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 26 currency forwards (previous year: 15 currency forward contracts). As at the balance sheet date, currency forwards serving to hedge currency risks had a nominal volume of approx. USD 7.6 million (previous year: USD 4.9 million). The exchange rate development recorded at the balance sheet date resulted in market values totalling TEUR 450 (previous year: TEUR 108); these are presented under other current financial assets. Deferred tax liabilities of TEUR 126 were formed on this amount. 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 342 was recognised under other comprehensive income. The market value of the currency forwards is derived from the average exchange rate at the balance sheet date. If the closing rate is 5 % higher, other equity falls by TEUR 296, and vice versa. Forward currency transactions are always recognised as at the day of settlement.

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 earnings and equity. The period effects are determined by relating the hypothetical changes to 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 exist especially with regard to procurement. In 2011 the purchasing volume in USD amounted to approx. USD 32.9 million (previous year: USD 22.5 million), representing an equivalent value of approx. EUR 23.8 million (previous year: EUR 16.9 million). If the underlying exchange rate should increase (decrease) by 5 %, the input decreases (increases) by approx. EUR 1.2 million. Equity would change correspondingly.

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

These are denominated exclusively in euro, and comprise four fixed-rate-payer swaps; their purpose is to hedge the interest rate change risks of liabilities.

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

Except for the last-mentioned transaction, the interest rate derivatives are recognised as cashflow-hedges.

There is congruency between underlying and hedging transaction of these cashflow hedges. Correspondingly, the market value is recorded under other comprehensive income and therefore separately from the consolidated income statement for the period. For the interest rate swap without hedge accounting the difference from the market value was recognised as interest income in the amount of TEUR 6 (previous year: TEUR 7).

As at the closing date the group recorded the following interest derivatives:

	Nominal amount		Market value		thereof, recognised directly in equity	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Cashflow hedges	8,213	8,124	- 413	- 388	- 413	- 388
Non-cashflow hedges	2,640	3,000	- 247	- 254	0	0
Total	10,853	11,124	- 700	- 642	- 413	- 388

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

If, on 31 December 2011, the interest level for short-term loans had been 1 % higher (lower), the interest expenses would have been TEUR 69 (31 December 2010: TEUR 134) higher (lower). Equity would change correspondingly.

In fiscal year 2011, TEUR 105 (previous year: TEUR 150) was reclassified from other comprehensive income to the consolidated profit for the year. Of this, TEUR 108 (previous year: TEUR 115) was attributed to the "cost of sales" position. TEUR 255 (previous year: TEUR 323) was recognised in the financial result. On the total change, TEUR 42 was accounted as income under income taxes (previous year: TEUR 58 income).

(39) Earnings per share

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

	2011	2010
Period result (in EUR) attributable to shareholders	9,200,141.23	1,648,297.75
Number of shares	2,880,000	2,880,000
Earnings per share (in EUR)	3.19	0.57
Dividend per share (in EUR)	0.00	0.00

(40) Segment reporting

Description of the segments

The **silicon-metal** segment comprises the operating activities of the subsidiary RW silicium GmbH. 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 distribution of so-called high-quality graphite 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., Grafite Kropfmuehl de Moçambique Lda. and Qingdao Kropfmuehl Graphite Co. Ltd.

Graphite products display a variety of properties and consequently the graphite segment supplies the products for very different applications. The products of the graphite segment are supplied to, inter alia, manufacturers of alkali-manganese and lithium-ion batteries, and to companies operating in the fireproof sector of the iron and steel industry. Manufacturers of lubricants and separating agents are also customers of this segment.

Operating segments are defined in line with the Management Board's business allocation plan. Each of the two segments comes under a responsible Management Board member. The manager of the silicon-metal segment is simultaneously the managing director of the subsidiary RW silicium GmbH. The respective managements of the subsidiaries are directly subordinate to the manager of the graphite segment.

The Management Board keeps itself 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 are also based on productivity and sales ratios.

Reconciliation items

The reconciliation items of the segment assets relate to clearing accounts between the reporting segments. Revenue and interest expenses and income between the segments are also shown in this position.

Total revenue is analysed according to geographic aspects that are based on customer locations and determined by management. The following regions are distinguished:

DACH	Germany, Austria, Switzerland
Rest of Europe	Western and eastern Europe, except the countries included under DACH
America	North America (USA, Canada), Central and South America
Asia / Pacific	Asia plus Australia and New Zealand
Rest of the world	all countries not included in other regions and, in particular, Africa

Earnings ratios

The gross result 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 does not contain any interest or tax items. The EBT presented contains all expenses and income attributable to the operating segments except for income taxes.

Other disclosures

The segment assets comprise all the non-current and current assets of an operating segment.

Additions to non-current assets and scheduled depreciation and amortisation refer to the property, plant and equipment and intangible assets contained in the segments. In accordance with IFRS 8.33b, non-current assets do not include any claims from financial instruments resulting from positive market valuations, nor are deferred tax assets included.

The classification by geographic region is determined by the locations of the subsidiaries. The same classification is used as for revenues.

Transactions between segments are accounted for at standard market conditions.

	Silicon metal		Graphite		Reconciliation		Group	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues	77,005	63,607	41,867	33,283	- 4	0	118,868	96,890
DACH	70,925	58,162	22,641	17,043			93,566	75,205
thereof, Germany	57,679	48,399	19,808	14,592			77,487	62,991
Rest of Europe	5,429	4,916	9,140	8,450			14,569	13,366
Asia / Pacific	426	459	7,808	5,766			8,234	6,225
America	198	58	1,272	1,523			1,470	1,581
Rest of the world	27	12	1,002	501			1,029	513
Revenues from other segments	0	0	4	0	- 4	0	0	0
Gross result	15,987	4,144	8,852	6,094	0	0	24,839	10,238
EBITDA	14,611	4,059	3,913	2,629	0	0	18,524	6,688
Recultivation expenses	430	0	81	78			511	78
Restructuring expenses	0	0	52	0			52	0
Currency result	- 17	298	109	203			93	501
Scheduled depreciation and amortisation	1,640	1,552	1,791	1,783			3,431	3,335
EBIT	12,558	2,209	1,879	565	0	0	14,437	2,774
Interest and currency result	- 67	- 182	- 1,225	- 37	0	0	- 1,292	- 219
Interest income	451	59	73	660	- 451	- 65	73	654
Interest expense	- 501	- 539	- 1,408	- 900	451	65	- 1,458	- 1,374
Currency result	- 17	298	109	203			93	501
EBT	12,491	2,027	654	528			13,145	2,555
Impairment charges on inventories and trade receivables	429	394	154	70			583	464
Income from the revaluation of inventories and trade receivables	304	582	79	143			383	725
Segment assets	47,313	40,574	46,585	39,483	- 10,658	- 6,348	83,240	73,709
Additions to fixed assets	1,794	924	5,010	2,544			6,804	5,204
Fixed assets	22,055	21,900	23,346	19,629			45,401	41,529
DACH	22,055	21,900	13,316	10,027			35,371	31,927
thereof, Germany	22,055	21,900	13,278	9,971			35,333	31,871
Rest of Europe	0	0	1,812	2,069			1,812	2,069
Asia / Pacific	0	0	7,354	7,069			7,354	7,069
America	0	0	0	52			0	52
Rest of the world	0	0	864	412			864	412

Information on important customers

IFRS 8.34 requires the degree of dependence on important customers to be declared. The criterion is the exceeding of a 10 % proportion of a company's external revenue by any one customer. A group of companies that are jointly managed must be regarded as a single customer.

Revenues of approximately 37 % of group sales are obtained from one customer, and there is a material dependency.

(41) Contingent liabilities

The following contingent liabilities existed as at the closing date:

	2011	2010	Change
Liability for third party liabilities	224	234	- 4.3 %

The contingent liability related to joint and several liability of several entities with regard to a pension commitment to a third party. The proportion allocatable to the company is recognised under the other non-current provisions. The uncertainty lies in the creditworthiness of the entities concerned. The company considers it unlikely that any the entities involved will fail.

(42) Rental and leasing contracts

Operating leases

Rental and leasing contracts for property, plant and equipment that fulfil the criteria as operating leases (operating and office equipment and buildings) generally 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 rental and lease obligations fall due as follows:

	Due within 1 year		Due in 2 to 5 years		Due in more than 5 years	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Lease obligations	150	134	220	160	0	0

Finance leases

There are various finance leases within the group, most of which serve to finance plant and machinery. In these cases, transfer of ownership at the end of the term has been contractually agreed. These leases have a remaining term between 1 and 5 years.

The due dates of future minimum lease payments and their reconciliation to net present value are set out below:

	Due within 1 year		Due in 2 to 5 years		Due in more than 5 years	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Lease obligations	259	258	570	784	0	0
Less financing costs	- 27	- 51	- 26	- 72	0	0
Net present value	232	207	544	712	0	0

(43) Related party disclosures

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

The members of the board of management in 2011 were:

- Martin Ebeling, resident in Wedel, chairman of the board
- Hans-Detlef Antel, resident in Ruhstorf
- Frank Berger, resident in Schriesheim

The members of the supervisory board in the reporting year were:

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

Rainer Grohe, resident at Otterstadt,
formerly Executive Director of the Galileo Joint Undertaking,
Toulouse, France, and London, United Kingdom
Deputy Chairman

Dr. Michael Witzel, resident at Munich,
lawyer

Klaus Josef Lutz, resident at Munich,
Chairman of the Board of BayWa Aktiengesellschaft,
Munich

Manfred Kneidinger, resident at Kropfmühl,
employee, representative of the employees

Peter Fesl, resident at Kropfmühl,
Industrial employee, representative of the employees

As at 31 December 2011 the following persons held posts in supervisory boards and oversight bodies in the meaning of § 125 (1) sentence 5 AktG:

Name	Office as	Company
Dr. Heinz Schimmelbusch	Chairman of management	AMG Advanced Metallurgical Group N.V., Amsterdam, Netherlands Safeguard International Fund L.P., Wayne, PA, United States of America
	Chairman of the supervisory board	Allied Resource Corporation, Wayne, PA, United States of America PFW Aerospace AG, Speyer Timminco Ltd., Toronto, Canada
	Member of the supervisory board	BMG Capital AG, Frankfurt SASAG AG, Elsteraue
	Member of the advisory council	Allied Technologies GmbH, Frankfurt / Main Allied Carbon Credit GmbH, Frankfurt / Main
Rainer Grohe	Member of the supervisory board	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
	Member of the supervisory board	BMG Capital AG, Frankfurt LOEWE AG, Kronach PFW Aerospace AG, Speyer (until 16.06.2011)
	Member of the advisory council	AP-Stiftung GmbH, Speyer
Klaus Josef Lutz	Chairman of the management board	BayWa AG, Munich
	Chairman of the supervisory board	VK Mühlen, Hamburg „UNSER LAGERHAUS“ WAREN-HANDELSGESELLSCHAFT m.b.H., Klagenfurt, Austria
	Member of the supervisory board	Eramon AG, Gersthofen MAN Nutzfahrzeuge AG, Munich RWA Raiffeisen Ware Austria AG, Vienna, Austria Renerco Renewable Energy Concepts AG, Munich Euro Pool System International B.V., DJ Rijswijk (ZH), Netherlands

As at 31 December 2011, no members of the management board or the supervisory board held more than 1 % of the company shares (German Corporate Governance Codex Point 6.6). Therefore, no classification has been made in terms of Management Board and Supervisory Board.

Scope of relations to related parties

The payments relationships with affiliated entities and persons in 2011 are set out below:

Company	Services received	Services rendered	Receivables (+) Liabilities (-)
AMG Advanced Metallurgical Group	- 17	37	- 4
Total	- 17	37	- 4

The quantity of services disclosed is the scope of trade invoiced or accrued in the relevant financial year or the amount of receivables or liabilities as at the closing date. All transactions were accounted for at conditions identical to those conventionally used between third parties, i.e. at arm's length.

(44) Compensation of the Supervisory Board and the Management Board

Under IAS 24.16, the group's key management compensation figures are those of the members of the active Management Board and Supervisory Board.

The members of the active board were remunerated as follows:

	2011	2010	Change
Payments due short-term	2,315	493	> 100.0 %
Payments after ending of the employment relationship	43	128	- 66.4 %
Total	2,358	621	> 100.0 %

The current service cost resulting from the pension provisions is presented as payments after ending of the employment relationship.

The compensation of the Supervisory Board for fiscal year 2011 amounted to TEUR 85 (previous year: TEUR 90) and contained short-term benefits only.

The total compensation of former members of the Management Board and their surviving dependants amounted to TEUR 211 (previous year: TEUR 144).

The pension commitments ("defined benefit obligations") for former members of the Management Board and their surviving dependants amounted to TEUR 1,934 (previous year: TEUR 2,135).

(45) Events after the balance sheet date

No events occurred after the balance sheet date that would require mention here.

(46) Fees for the audit of the financial statements

The following fees have been recorded as expense for the auditing services rendered in the financial year 2011 for the consolidated financial statements by Ernst & Young GmbH, Wirtschaftsprüfungs-gesellschaft, Stuttgart.

	2011	2010
Audits of financial statements	221	191
Examination of the semi-annual financial statements	45	42
Other verification or advisory services	180	10
Tax consultancy	0	0
Total	446	243

The fees for the audits of financial statements include the fees for the audit of the consolidated financial statements, for the audit of the financial statements of Graphit Kropfmühl Aktiengesellschaft, of RW silicium GmbH and Bogala Graphite Lanka Plc., Colombo, Sri Lanka. Other verification and advisory services comprise the fees for services in connection with potential transactions and for consultancy on special topics.

(47) Waiver of disclosure pursuant to § 264 (3) HGB (German Commercial Code)

In fiscal year 2011 the following domestic subsidiaries made use of the alleviation afforded by § 264 (3) HGB for exemption from disclosure obligations pursuant to §§ 325 ff HGB:

Company	Domicile	Participatory ratio
Edelgraphit GmbH	Bonn	100.0 %
GK Graphit Kropfmühl GmbH	Hauzenberg	100.0 %
RW silicium GmbH	Pocking	100.0 %

(48) List of interests / participations pursuant to § 313 (2) HGB

Affiliated companies that are included in the consolidated financial statements:

Company	Domicile	Participatory ratio
Edelgraphit GmbH	Bonn	100.0 %
GK Graphit Kropfmühl GmbH	Hauzenberg	100.0 %
RW silicium GmbH	Pocking	100.0 %
Branwell Graphite Ltd.	Epping, United Kingdom	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.	Qingdao, People's Republic of China	100.0 %
Graphit Kropfmuehl do Brasil Participações Ltda.	São Bernardo do Campo, Brazil	99.9* %
Share Investments (Pvt.) Ltd.	Colombo, Sri Lanka	100,0 %

As provided for by IAS 28, the following was not included in the consolidated financial statements because, for political reasons, it is not possible to exercise a decisive influence on the business and financial policy of the company:

Company	Domicile	Equity*	Result*	Participatory ratio
Zimbabwe German Graphite Mines (Pvt.) Ltd.	Harare, Zimbabwe	- 58	- 50	50.0 %

*) Information as at 31.12.2006

(49) Declaration pursuant to § 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board made the declaration of conformity relating to the Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) on 16 December 2011 and made this declaration permanently available to shareholders through the internet on 22 December 2011.

Munich, 29 February 2012

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, 29 February 2012

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 2011 to 31 December 2011. 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.

Stuttgart, 9 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Fluck	Dr. Orth
Wirtschaftsprüfer	Wirtschaftsprüfer”

FInancial calendar

Q1 2012 interim report	16 May 2011
Annual General Meeting, Munich	20 June 2012
H1 2012 interim report	08 August 2012
Q3 2012 interim report	14 November 2012
German Equity Forum, Frankfurt	12 - 14 November 2012

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This annual report also is availabe 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 availabe on the internet at www.gk-graphite.com under "Investor Relations / Annual General Meeting / Annual General Meeting 2012" or for inspection at our office in Kropfmühl.

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