

**Convenience translation**  
**(only the original German version is binding)**

Financial Statements as of March 31, 2017  
and Management Report  
for the Financial Year 2016/17  
of

**Graphite Cova GmbH**  
**Röthenbach a.d. Pegnitz**

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## LIST OF ABBREVIATIONS

AuS	German Audit Standard (Prüfungsstandard des IDW)
BCH	Bavaria Carbon Holdings GmbH, Röthenbach a.d. Pegnitz
BCS	Bavaria Carbon Specialities GmbH, Röthenbach a.d. Pegnitz
BE	Bavaria Electrodes GmbH, Röthenbach a.d. Pegnitz
GmbHG	Gesetz betreffend die Gesellschaften mit beschränkter Haftung
GIBV	Graphite International B.V., Rotterdam, Netherlands
GIL	Graphite India Ltd., Kolkata, India
HGB	German Commercial Code (Handelsgesetzbuch)
IDW	Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf
IDW-AAB	General engagement terms for Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften (German Public Auditors and German Public Audit Firms)
KEUR	Thousand Euro

## A. AUDIT ENGAGEMENT

The Management of

Graphite COVA GmbH,

Röthenbach a.d. Pegnitz

(referred to as "Graphite Cova" or simply "the Company")

engaged us to perform an audit of the annual financial statements as of 31 March 2017 including the underlying books and records, and the management report for the financial year 2016/2017 using generally accepted auditing standards, as well as to provide a written report of our findings.

The audit engagement letter as of 5 December 2016 is based on the resolution of the shareholder's meeting as of 15 March 2017 at which we have been appointed as auditors (Sec. 318 para. 1 sentence 1 of the German Commercial Code).

The Company ranks as a mid-sized corporation as defined by the terms of Sec. 267 para. 2 of the German Commercial Code and is therefore subject to mandatory auditing in accordance with Sec. 316 et seq. of the German Commercial Code.

We confirm that, during the course of our audit, we have observed the independence rules according to Sec. 321 para. 4a HGB.

Our reporting complies with the German Audit Standards for the Issuance of long-form Audit Reports for the Audits of Financial Statements (IDW AuS 450) issued by the Institute of Public Auditors in Germany (IDW).

Our long-form audit report includes our comments on management's assessment of the company's situation as well as findings according to Sec. 321 para. 1 sentence 3 HGB in section B. The audit methodology and audit results are individually reported in sections C and D accordingly. The unqualified opinion is reprinted in section E.

We have attached the audited financial statements, including Balance Sheet (exhibit 1), Income Statement (exhibit 2) and Notes (exhibit 3) as well as the audited management report (exhibit 4) to this audit report.

We have analyzed the legal, economic and tax background of the company in a table format in exhibits 5 to 7.

The performance of our engagement and our liability - also in relation to third parties - are subject to the general engagement terms for auditors and accountancy firms in the version dated 1. January 2002.

## **B. GENERAL FINDINGS**

### **I. Comments on Management's Assessment of the Company's Situation**

Management has commented on the Company's economic situation in the management report (exhibit 4), based on the financial statements as of 31 March 2017 (exhibit 1 to 3) and other documents, especially the budget for financial year 2018.

According to Sec. 321 para. 1 sentence 2 HGB, we as the auditors comment on management's discussion and analysis in the annual financial statements and in the management report. We especially comment on the assessment of going concern and anticipated development in view of the management report. Our comments are based on our own assessment on the company's situation, which we have reached during the course of our audit of the financial statements and the management report.

#### **1. Situation of the Company**

In our opinion, the management report contains the following corestatements:

- The main business of the Company is the worldwide distribution of Graphite Electrodes, Speciality Products, Electrode Coating Services and other Miscellaneous Carbon and Graphite Products, which are solely produced by the sister companies BE and BCS. GC reimburse expenses incurred plus a margin.
- Lower utilization of the worldwide steel capacities continued in 2016. This led to over capacities of Electrodes and a decrease in production and sales volume of Graphite Electrodes. The production of Graphite Electrodes decreased from 9,422 metric tonnes in 2015/2016 to 8,949 metric tonnes in 2016/2017. This represents an utilization of about 51%. Sales volume of Graphite Electrodes also decreased from 9,264 metric tonnes in 2015/2016 to 9,157 metric tonnes in 2016/2017.
- There is a better situation in the sector for speciality products. Compared to prior year revenues for speciality products increased by 16% (kEUR 9,565, prior year: kEUR 8,254). Overall revenues decreased from kEUR 35,955 in 2015/2016 to kEUR 33,313 in 2016/2017.
- Decreased revenues could partially be compensated by decreased expenses. Overall a net loss in the amount of kEUR 5.502 was realized. The net loss is at the prior year level (kEUR 5.348).
- Compared to prior year total assets as of March 31, 2017 increased only slightly (plus 2%). Because of ongoing losses the company has a negative equity for the first time in the amount of kEUR 2.063. These losses were financed by an increase in bank loan (kEUR 19,100, prior year: kEUR 16,300) and a significant reduction in inventories (kEUR 13,780, prior year: kEUR 15,892)

## **2. Future development with its key opportunities and risks**

In our opinion, the management report contains the following corstatements:

- The company is integrated into the risk management system of the parent company. Key factors are the development of the steel industry, the development of the commodity and energy markets and the price policy of the market leaders.
- Consolidation of the electrode industry and the resulting reduction of production capacity has a marginal impact on price levels. In addition individual market leaders and their price behavior are essential.
- The company counters the general market risks as follows. In order to reduce the dependence of the European Market the company started extending the market outside Europe.
- In general, supply contracts for raw materials, gas and electricity are renewed on a timely basis. But there can be a risk for the company due to a price increase in the most important raw materials and their derivatives.
- Due to an improvement in the market and an extension of the market on other continents, the entity expects an increase in the steel industry. For the next financial year, the entity expects revenues above 37 Mio. EUR and an improved result before tax in the amount of -2.5 Mio. EUR.

## **3. Concluding Assessment**

According to the result of our audit and the knowledge gained, the assessment of the company's situation including the risks and opportunities of future development is plausible and derived logically. Management's assessment of the company's situation is adequate and correct.

## **II. Findings in accordance with Sec. 321 para 1 sentence 3 of the German Commercial Code**

The shareholder did not resolve about the approval of the financial statement as of 31 March 2016 and the management report for the financial year 2015/2016 (Sec. 42a para 2 German Limited Liability Company Code) within the first 8 months in 2016.

## **III. Facts that might hamper the company's development or endanger its existence**

According to Sec. 321 para. 1 sentence 3 HGB, we have to report on facts we have discovered during the course of our audit that might hamper the company's development or endanger its existence.

The company has shown a loss of kEUR 5,348 in the prior year. In the current year, the loss amounted to kEUR 5,502. The share capital (fully paid in) and the capital reserves amount to kEUR 16,320. Nevertheless, loss carry forwards amount to kEUR 18,383. Hence, there is a deficit not covered by equity in the amount kEUR 2,063.

Nevertheless, management is considering the company as a going concern, because the company's financing is secured via the financing bank. There is a credit line in the amount of EUR 24 Mio. to the company.

The indirect parent company has provided a credit guarantee in the amount of EUR 24 Mio. until September 30, 2017. An extension for three years is intended.

As of balance sheet date kEUR 19,100 was used up. In the management's opinion the available credit line in the amount of EUR 4,9 is sufficient for the company's future financing. That part of the credit line, which has not been used up can be terminated on short notice. If the bank, contrary to expectations, made use of that termination right, the company's financing and also the existence would be endangered.

We consider management's assessment as plausible. In our opinion, cancellation of the financing through the parent company or the contracting bank would endanger the company's existence.



### **C. PURPOSE, NATURE AND SCOPE OF THE AUDIT**

During our audit, we examined whether the books and records, the annual financial statements as of 31 March 2017 (exhibits 1 to 3) including the management report (exhibit 4) comply with the relevant regulations concerning financial accounting.

Our audit procedures pertaining to the management report were aimed at determining whether it is consistent with the annual financial statements, gives a true and fair view of the Company's situation, and whether it suitably presents the opportunities and risks relating to its future development.

An evaluation of the appropriateness of the insurance coverage, in particular whether all the risks were considered and adequately insured, was not part of our audit engagement.

The maintenance of the books and records and the preparation of the annual financial statements and management report are the responsibility of the Company's management. Our task is to provide an opinion on the documents and information within the official framework of our audit.

We carried out the audit for the annual financial statements from 17 April 2017 to 10 May 2017 on the company's premises in Röthenbach a.d. Pegnitz and in our office in Munich. Subsequently, this audit report was prepared.

To prepare our audit, we have performed an interim audit in March 2017 on the company's premises in Röthenbach a.d. Pegnitz, during which we have mainly assessed the company's internal control over financial reporting.

Our audit was based on the annual financial statements as of 31 March 2016 audited by us which had been rendered an unqualified audit opinion on 12 May 2016 and were approved unchanged by the shareholders' resolution of 15 March 2017.

The documents provided for the purpose of the audit included accounting documents, receipts and confirmation documents from banks as well as the Company's files and records.

The management and other responsible staff members readily provided us with all requested explanations and proofs.

Furthermore, management has provided written confirmation using the standard general representation letter that all declarable assets, liabilities, risks, and deferrals as well as all expenses and revenues, required statements, and contingent liabilities were included in the accounting and in the financial statements under review.

Our audit was carried out in accordance with Sec. 316 et seq. of the German Commercial Code and in compliance with the generally accepted German standards for the audit of financial Statements established by the IDW. Accordingly, we performed our audit with a risk-oriented strategy - however without any specific focus on risk for embezzlement in such a manner that inaccuracies or infringements materially affecting the presentation of the Company's true and fair view of the net assets, financial position, and results of operation are detected with reasonable assurance, if such inaccuracies or infringements had existed.

The audit plan for the key auditing areas was based on our initial estimates of the Company's situation and the efficiency of the internal control system over accounting (risk-oriented audit approach). Our estimates were particularly based on an appreciation of the basic legal and economic

conditions. Through meetings with the managing directors and Company employees we were made aware of market risks, the Company's strategy and the particular risks resulting.

As part of our risk oriented auditing approach our audit focused on the following areas:

- Analysis of the going concern assumption
- Audit of the internal control over financial statement closing, purchase, sales and payroll
- Existence and valuation of inventories
- Existence and cut-off of revenues and trade receivables
- Completeness and valuation of accruals

Basis for our audit procedures was a preliminary assessment of the internal control system. Considering the materiality and efficiency, this implies that timing and extent of analytical procedures, as well as test of details, were limited to selective spot checks depending on the particular auditing areas and organization of the accounting information system. The spot checks were selected in a way that the economic significance of the individual entries in the financial statements were taken into account and gave the opportunity to sufficiently determine whether the statutory regulations had been adhered to.

The audit regarding the existence of assets and liabilities was carried out by attending the physical inventory count and requesting confirmations of banks, lawyers as well as debtors and creditors on random sample basis.

Nature, timing and findings of our detailed audit procedures are included in our working papers.

## **D. FINDINGS ON ACCOUNTING RECORDS AND FINANCIAL STATEMENTS**

### **I. Compliance of Accounting Records and Financial Statements**

#### **1. Accounting Records and Other Audited Documentation**

The Company's accounting is carried out by their own IT system using the standard-software SAP ECC 6.0 of the supplier SAP SE, Walldorf. Payroll accounting is also done in-house within this program.

The internal control system over financial accounting, as set up by the Company, provides an adequate instrument of regulation for the organization and the control of operational processes for business purposes and can sufficiently handle current business volumes. There were no significant organizational changes in the accounting procedures during the reporting period.

The organization of the accounting department and the internal control over financial reporting is sufficient and appropriate to assure a complete, correct, timely, and proper recording of the business transactions. The chart of accounts is sufficiently structured and the records are clear and well ordered. The accounts were correctly carried forward from the previous year's financial statement and were determined as having been kept in order throughout the entire financial year.

The information gathered from other audited documents also presents an orderly picture concerning the books and records and the annual financial statements.

Overall we can determine that the accounting practices in place and the other audited documents (including receipts, internal control and budgeting) all adhere to the applicable, statutory regulations including the Generally Accepted Accounting Principles. The audit has not led to any reservations.

#### **2. Annual Financial Statements**

As of the balance sheet date, the Company was classified as being a mid-sized company as defined by Sec. 267 para. 2 of the German Commercial Code. The annual financial statements as of 31 March 2017 were prepared in accordance with the requirements of German Commercial Code regarding mid-sized companies. The Company partly exercised options for mid-sized companies as laid out in Sec. 274a, 276 and 288 of German Commercial Code.

The balance sheet and the income statement were compiled coherently from the accounting documents and other documents included in the audit. The structure of the balance sheet (exhibit 1) adheres to the scheme provided by Sec. 266 paragraphs 2 and 3 of the German Commercial Code. The income statement (exhibit 2) was compiled applying the cost-summary method according to Sec. 275 paragraph 2 of the German Commercial Code.

In the notes compiled by the Company (exhibit 3), the accounting and valuation methods used for the balance sheet and income statements are sufficiently explained. All legally required data as well as the optional entries for the balance sheet and income statements contained in the notes are fully complete and accurately represented.

The annual financial statements therefore conform to statutory requirements including the German Accepted Accounting Principles. The audit has not led to any reservations.

### 3. Management Report

The management report is consistent with the financial statements and our audit findings and as a whole gives a true and fair view of the Company's situation. Our audit, based on Sec. 317 para 2 sentence 2 of the German Commercial Code, leads us to conclude that the significant opportunities and risks relating to the Company's future development are suitably presented in the management report. The disclosures pursuant to Sec. 289 para 2 and 3 of the German Commercial Code are complete and accurate.

## II. Overall Picture of the Annual Financial Statements

### 1. Conclusion on the Annual Financial Statements

Our audit has concluded that the annual financial statements as a whole - comprising the balance sheet, income statement and notes - give a true and fair view of the net assets, financial position and results of operations in accordance with Generally Accepted Accounting Principles (Sec. 264 paragraph 2 of the German Commercial Code).

### 2. Accounting and Valuation Methods and Constitutive Measures as well as Associated Changes

The following accounting and valuation methods appear material to us:

- The financial statements were set up on the assessment of the company as a going concern (Sec. 252 para. 1 Nr. 2 German Commercial Code).
- The valuation of raw materials is done according to the moving average of purchasing prices, taking into account the strict principle of the lower of cost or market. Valuation of work in progress and finished goods is based on manufacturing costs, which include costs of manufacturing and material, as well as adequate parts of material and facturing overhead and depreciation of fixed assets, if used in the course of production. Risks resulting from a reduction in realizable value and aging are covered by impairment charges.
- The pension accrual is accounted for using the settlement value. Valuation was done under observation of actuarial principle under application of the projected unit credit method. The average interest rate for a duration of 10 years according to Sec. 253 sec. 2 sentence 1 and 2 German Commercial Code amounts to 3,94%. When calculating the settlement value, the tables by Klaus G Heubeck and a fluctuation of 1,5% was used. As of balance sheet date, the provision amounts to kEUR 17 (PY kEUR 15). Due to bankruptcy of the predecessor company, the pension safety net (Pensionssicherungsverein) has taken over part of the pension liability.

The accounting and valuation methods are unchanged compared to prior year.

In addition, please see the comments made in the Notes (exhibit 3).

## **E. AUDIT OPINION AND CONCLUDING STATEMENTS**

Based on the results of our audit of the annual financial statements as of 31 March 2017 (exhibits 1 to 3) and the management report for the financial year 2016/17 (exhibit 4) of Graphite Cova GmbH, Röthenbach a.d. Pegnitz, we have rendered the following unqualified audit opinion, dated 10 May 2017:

The translation of this audit opinion states as follows:

"We have audited the annual financial statements – comprising the balance sheet, the income statement, and the notes to the financial statements – together with the bookkeeping system, and the management report of Graphite Cova GmbH, Röthenbach a.d. Pegnitz, for the financial year from 1 April 2016 to 31 March 2017. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German Commercial Law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ('Handelsgesetzbuch': German Commercial Code) and German Generally Accepted Standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German Principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements, and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position, and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably represents the opportunities and risks relating to future development.

Without qualifying our opinion, we refer to management's discussion in the management report. Under the heading "Risks endangering the company's existence", management elaborates that the upcoming need for funds is planned to be met by bank financing. This in turn is backed up with a collateral guarantee by the indirect parent company. Bank financing as well as granting of the

guarantee are limited in time. Should the guarantee needed to keep up the external bank financing or the bank financing as such not be prolonged or not in the extent needed, albeit not expected, the Company's going concern would be endangered."

We issue the above report on the audit in accordance with the legal provisions and the Generally Accepted Standards for the Issuance of Audit Reports for the Audits of Financial Statements (IDW AuS 450).

Use of the audit opinion presented outside of this audit report requires our prior consent. If the annual financial statements are made public or passed on to a third party in any form other than the official, authenticated form (including translation into any other language), then we will be required to provide a new audit opinion, so long as our audit opinion is to be quoted or the audit itself is referred to (see Sec. 328 of the German Commercial Code).

Munich, 10 May 2017

RSM Altavis GmbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Schirmer  
Wirtschaftsprüferin  
(Certified Public Auditor)

Roller  
Wirtschaftsprüfer  
(Certified Public Auditor)

GRAPHITE COVA GMBH  
RÖTHENBACH A.D. PEGNITZ

BALANCE SHEET AS OF 31 MARCH 2017

	31/3/2017	31/3/2016	31/3/2016
<b><u>ASSETS</u></b>			
<b><u>A. FIXED ASSETS</u></b>			
1. Technical equipment and machinery	3.685.407,00	3.410.408,20	4.000.000,00
2. Other equipment, furniture and fixtures	309.921,00	134.448,00	12.320.000,00
3. Advanced payments and building property, plant and equipment	570.304,20	722.114,94	-7.533.050,48
	4.565.632,20	4.266.972,14	-5.348.243,72
		0,00	0,00
		3.438.705,80	3.438.705,80
<b><u>B. CURRENT ASSETS</u></b>			
I. Inventories			
1. Raw materials	6.898.980,23	6.926.787,06	15.019,00
2. Work in process, unfinished goods	4.805.460,93	6.208.509,83	857.186,84
3. Finished goods	2.275.807,57	2.757.003,94	872.205,84
	13.780.248,73	15.892.299,83	
II. Receivables and other assets			
1. Trade receivables	8.944.565,42	9.684.666,89	16.300.000,00
2. Receivables from affiliated companies	333.737,83	0,00	885.650,54
3. Other assets	352,36	174.631,51	9.308.466,68
	9.278.655,61	9.859.298,40	801.360,87
III. Cash and cash equivalents	1.426.550,44	1.676.040,35	110.617,39
	24.508,37	22.398,40	27.406.095,48
<b><u>C. PREPAID EXPENSES</u></b>			
	2.063.412,28	0,00	
<b><u>D. DEFICIT NOT COVERED BY EQUITY</u></b>			
	31.139.007,63	31.717.007,12	31.717.007,12

**EQUITY AND LIABILITIES**

**A. EQUITY**

- I. Subscribed Capital
- II. Capital Reserve
- III. Profit carried forward
- IV. Net loss
- V. Deficit not covered by equity

	4.000.000,00	4.000.000,00
	12.320.000,00	12.320.000,00
	-12.881.294,20	-7.533.050,48
	-5.502.118,08	-5.348.243,72
	2.063.412,28	0,00
	0,00	3.438.705,80

**B. PROVISIONS AND ACCRUALS**

- 1. Pension accruals
- 2. Other accruals

	16.608,00	15.019,00
	1.148.331,56	857.186,84
	1.164.939,56	872.205,84

**C. LIABILITIES**

- 1. Payables to financial institutions
- 2. Trade payables
- 3. Liabilities to affiliated companies
- 4. Liabilities to shareholders
- 5. Other liabilities
- thereof for taxes: EUR 17.880,40  
(pr. yr.: EUR 31.867,02)

	19.100.000,00	16.300.000,00
	734.800,67	885.650,54
	9.041.006,77	9.308.466,68
	880.344,08	801.360,87
	217.916,55	110.617,39
	29.974.068,07	27.406.095,48

	31.139.007,63	31.717.007,12
	31.139.007,63	31.717.007,12

**GRAPHITE COVA GMBH  
RÖTHENBACH A.D. PEGNITZ**

**INCOME STATEMENTS  
FOR THE YEAR ENDING 31 MARCH 2017**

	<u>2016/2017</u>	<u>2015/2016</u>
	EUR	EUR
1. Sales	33.313.081,41	35.954.501,80
2. Change in inventory	-1.884.242,27	-2.079.081,10
3. Other operating income	91.789,84	393.031,01
- thereof for exchange rate gains: EUR 60940,58 (pr. yr.: EUR 319040,41)		
4. Cost of materials		
a) Cost of raw materials and supplies and of purchased merchandise	-14.365.253,62	-16.936.864,71
b) Cost of purchased services	-16.750.163,14	-16.582.611,55
	<u>-31.115.416,76</u>	<u>-33.519.476,26</u>
5. Personnel expenses		
a) Wages and salaries	-710.821,86	-614.276,87
b) Expenses for social security, pension and other benefits	-148.243,48	-134.851,99
- thereof for pensions: EUR 3.615,88 (pr. yr.: EUR 4.330,06)	<u>-859.065,34</u>	<u>-749.128,86</u>
6. Amortization and depreciation on intangible assets and property, plant and equipment	-516.225,10	-493.115,18
7. Other operating expenses	-4.184.495,37	-4.607.084,10
- thereof for exchange rate losses: EUR 5777,34 (pr. yr.: EUR 287.260,43)		
8. Other interest and similar income	1.442,88	27.662,37
9. Interest and similar expenses	-347.069,37	-375.756,59
8. Result from ordinary activities	<u>-5.500.200,08</u>	<u>-5.448.446,91</u>
10. Taxes	-1.918,00	100.203,19
10. Net result for the year	<u><u>-5.502.118,08</u></u>	<u><u>-5.348.243,72</u></u>



**GRAPHITE COVA GMBH, ROETHENBACH A.D. PEGNITZ**  
**NOTES TO ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR**  
**1. APRIL 2016 TO 31. MARCH 2017**

**A. General Information**

Graphite Cova GmbH ("the Company") is domiciled in Röthenbach a. d. Pegnitz and incorporated in the Register of Companies HRB 21271 maintained by the local civil Court Nuremberg.

The annual financial statements of Graphite Cova GmbH were prepared in accordance with the regulations of the German Commercial Code (HGB) and the Limited Liability Company Act (GmbHG).

For the income statement, the total cost method in accordance with § 275 para. 2 HGB was applied. The company is a medium-sized company according to § 267 para. 2 HGB.

**B. Accounting policies**

The accounting and valuation policies applied in the previous year were retained, insofar as there were no diverging valuations necessary or rather there were no adjustments relating to new requirements of Bilanzrichtlinien-Umsetzungsgesetz (BilRUG). The accounting and valuation of items in the balance sheet and income statement are based on the going concern assumption according to § 252 sec. 1 Nr. 2 HGB.

The **fixed assets** acquired in August 2004 from the insolvency administrator of the Conradt Group, Dr. Pöhlmann, are valued with the acquisition costs, reduced by the regular straight-line depreciation assuming remaining life of assets to be seven years for plant and machinery and ten years for buildings.

Newly acquired **intangible assets and fixed assets** are valued at the acquisition costs reduced by the straight-line depreciation. Assets manufactured in-house are valued according to the production costs considering adequate parts of the required general and administrative costs. Depreciation is done according to the current official tax depreciation tables.

**Low-value assets** with product related acquisition costs of up to EUR 150.00 are depreciated completely in the year of acquisition and shown in the asset table as a disposal. Capital assets with acquisition costs from EUR 150.00 to EUR 1,000.00 are accumulated in a pool item. Depreciation is done in the year of purchase and the following four years.

**Raw materials, supplies and operating materials** as well as **merchandise** are valued at their acquisition costs including incidental acquisition expenses, taking into account the lower of cost or market.

**Work-in-process and finished products** are valued at lower of production cost and net realisable value. The production costs contain, apart from the product related costs, parts of the required material and production related general and administrative costs.

**Accounts receivable and other assets** are accounted with nominal values. Individual risks are considered by valuation allowances. Receivables from deliveries and services are for the most part covered by a credit insurance.

**Cash on hand and bank balances** were measured at nominal value.

The **prepaid expenses** relate to payments made before the reporting date, which represent expenses for a certain period after that date.

The **accruals for pensions and similar rights** are valued using the projected-unit-credit method applying the tables 2005 G of Klaus Heubeck. An interest rate of 3.94 %, a pensions dynamic of 1.50 % and a fluctuation rate of 0.00 % are assumed. § 253 Sec. 2 sentence 1 and sec. 6 HGB were applied, using the average discount rate of the past 10 years. Consequently, the total dividend payout restriction and active difference amounts to KEUR 2.

**Other accruals** with respect to any risk and expected liabilities are accounted in an amount required for the settlement on the basis of a reasonable commercial assessment and are recognized in consideration of anticipated price and cost increase in the future. Accruals with a remaining term of more than one year are discounted using the average market interest rate of the past seven years according to their remaining maturities as published by Deutsche Bundesbank.

The **liabilities** are entered in the balance sheet according to their settlement amount. All liabilities are short-term.

#### **Foreign currency translation**

The conversion of receivables and liabilities in foreign currencies is based on the principles of § 256a HGB [German Commercial Code]. Receivables and liabilities denominated in foreign currency are translated at the average spot exchange rate at the date of the initial account entry.

#### **Deferred taxes**

For discrepancies between the commercial valuation on the one hand and the tax base of assets, debts and accrued and deferred items which can be expected to be settled in later financial years, according to § 274 HGB [German Commercial Code], an overall tax burden resulting from these differences shall be shown in the balance sheet as deferred tax liabilities. An overall tax relief resulting from these differences can be shown in the balance sheet as deferred tax assets. Deferred taxes are valued with a combined tax rate of 27.025 %. This tax rate comprises corporation tax, business tax and solidarity tax. By exercising the option to capitalize deferred taxes no deferred tax assets are shown in the balance sheet.

### **C. Comments on the balance sheet**

#### **Fixed assets**

The development of the fixed assets is stated in the asset table attached to these notes.

#### **Receivables and other assets**

The receivables and other assets have a residual maturity of up to one year in the business year as well as in the previous year. The receivables against affiliated companies relate to receivables from supplies and services. The other assets mainly include receivables from VAT amounting to KEUR 126.

#### **Deferred taxes**

Deferred taxes on pension accruals or tax loss carry forwards are not capitalized, in accordance with § 274 sec. 1 Sentence 2 of the HGB [German Commercial Code]. Deferred taxes are valued with a tax rate of 27.025 %.

**Other reserves and accrued liabilities**

The accrued liabilities mainly consist of accruals for litigation in the amount of kEUR 930 (p.y.: kEUR 750) and annual closing costs in the amount of kEUR 53 (p.y.: kEUR 37).

**Liabilities due to banks**

The liabilities due to banks have a maturity of under a year.

**Payables due to affiliated companies**

Payables due to affiliated companies are related to payables for supplies and services.

**Liabilities to shareholders**

Liabilities to shareholders concern liabilities in connection with patent fees respectively the Trademark (kEUR 881).

**D. Comments on the income statement**

Revenues	2016/2017	2015/2016
	TEUR	TEUR
Domestic	10.840	10.336
European Union	9.412	12.240
Other countries	9.363	12.002
Intercompany business	3.698	1.357
	33.313	35.955

**Other operating income**

The other operating income includes income of kEUR 4 and the other expenses includes kEUR 5 relating to other periods.

**Taxes on income**

Because of loss carried forward there exist no taxes on income.

**E. Other disclosures****Contingencies, Guarantees, other financial obligations**

The company has operating lease arrangements for vehicles including operating vehicles with tenures ranging between three and six years. Operating lease rentals for the financial year 2016/2017 would be kEUR 218 and till the tenure of the leasing kEUR 317. The advantages are the financing as well as the calculability of the costs, disadvantages result from the longer binding to a contract partner.

**Number of employees:**

The average number of employees during the year was 16 white-collar workers.

**Comments on the consolidated accounts**

The annual accounts of the company will be included in the consolidated accounts of Graphite International B. V., Rotterdam, The Netherlands, which is a subsidiary of Graphite India Ltd., Kolkata, India. The consolidated accounts of Graphite India Ltd., Kolkata, India, the ultimate parent company, are published in India at National Stock Exchange and Bombay Stock Exchange in Mumbai.

**Management board**

During the financial year 2016/2017, the management was carried out by:

Makarand Bhalchandra Gadgil, Nasik, India, Bachelor of Technology / Master of Business Administration

Adrian Nikolov Bojilov, Röthenbach / Pegnitz, Graduate Economist

Nitin Shridharrao Deshpande, Nasik, India, Graduate Mechanical Engineer

The company did not pay any compensations to the management. The compensations were paid by Bavaria Carbon Specialities GmbH, Röthenbach a.d. Pegnitz, and Graphite India Ltd., Kolkata, India.

**Proposed appropriation of results**

The net loss of the financial year in the amount of kEUR 5,502 and the retained profit shall be carried forward onto new account.

Röthenbach an der Pegnitz, 10 May 2016

M.B. Gadgil

A.N. Bojilov

N.S. Deshpande

DEVELOPMENT OF FIXED ASSETS DURING THE FINANCIAL YEAR 2016/17

	1. Apr. 2016		ACQUISITION COSTS		31. Mar. 17		1. Apr. 2016		ACCUMULATED DEPRECIATION		31. Mar. 17		NET BOOK VALUE	
	EUR	EUR	Additions	Reclassifications	Disposals	EUR	EUR	EUR	Additions	Disposals	EUR	EUR	EUR	EUR
<b>INTANGIBLE ASSETS</b>														
Concessions, Industrial property rights acquired for a consideration as well as licences to such rights and values	30.698,73	0,00	0,00	0,00	0,00	30.698,73	30.698,73	0,00	0,00	0,00	30.698,73	0,00	0,00	0,00
<b>PROPERTY, PLANT AND EQUIPMENT</b>														
Technical equipment and machines	12.752.390,31	598.212,51	598.212,51	151.810,74	0,00	13.502.413,56	9.341.982,11	475.024,45	0,00	0,00	9.817.006,56	3.685.407,00	3.410.408,20	
Other plants, office fixtures and fittings	445.642,30	217.754,65	217.754,65	0,00	3.737,00	659.659,95	311.193,30	41.200,65	2.655,00	0,00	349.738,95	309.921,00	134.449,00	
Prepayments and assets under construction	722.114,94	0,00	0,00	-151.810,74	0,00	570.304,20	0,00	0,00	0,00	0,00	0,00	570.304,20	722.114,94	
	13.920.147,55	815.967,16	815.967,16	0,00	3.737,00	14.732.377,71	9.653.175,41	516.225,10	2.655,00	0,00	10.166.745,51	4.565.632,20	4.266.972,14	
<b>FINANCIAL ASSETS</b>														
	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	13.950.846,28	815.967,16	815.967,16	0,00	3.737,00	14.763.076,44	9.683.874,14	516.225,10	2.655,00	0,00	10.197.444,24	4.565.632,20	4.266.972,14	

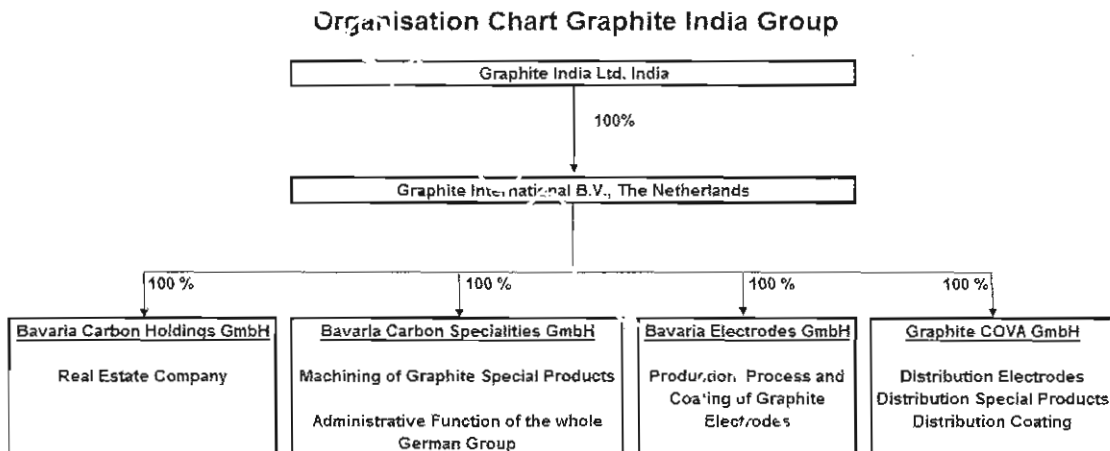
**Graphite Cova GmbH**  
**Röthenbach an der Pegnitz**  
**Management Report for the business year**  
**from 1 April 2016 until 31 March 2017**

**1. Business Model of the Company**

The main business of the Company is to manufacture and market Graphite Electrodes, Speciality Products, Electrode Coating Services and other Miscellaneous Carbon and Graphite Products.

Graphite Electrode is used in electric arc furnace (EAF) based steel mills for conducting current and is a consumable item for the steel industry. Graphite Electrodes remain the main source of revenue for the Company.

**Group Structure**



Graphite Cova is a wholly owned subsidiary of Graphite International BV, the Netherlands, which is a wholly owned subsidiary of Graphite India Ltd., India. Graphite Cova deals with purchases of raw materials and the sale of finished goods to customers. Graphite Cova provides raw materials to group companies Bavaria Electrodes GmbH and Bavaria Carbon Specialities GmbH, for processing of finished goods i.e. graphite electrodes, specialities products, etc.

The company is located in Grünthal 1 - 6, D-90552 Röthenbach an der Pegnitz, Germany.

**a) Business- and Market Conditions**

Lower utilization of steel capacities continued in 2016 led to over capacities of Electrodes. The lower demand for electrodes has led to fierce competition among electrodes manufacturers resulting in drastic reduction in sales price. The Electrodes manufacturers have started adjusting capacities by closing down high cost / inefficient manufacturing facilities which should result in stabilisation of the electrode price in the medium term.

**b) Research and Development**

Graphite India Ltd. pursues research and development activities on an on-going basis at its in-house research and development centre engaged in the innovation of improved products and processes in the field of Graphite and Carbon. R & D initiatives are in areas of raw materials, productivity, process development, reduction in carbon emissions etc. Many of the cost savings achieved were significant and in compliance with the "pollution control and clean environment norms".

**2. Overall Economic Report**

**a) Business Overview / Total Statement**

At Cova, Graphite Electrode production at 8,949 MT was lower as compared to 9,422 MT in 2015 - 2016 and sales at 9,157 MT was lower as compared to 9,264 MT in 2015-2016. In addition to this, Pitch Impregnated electrode sold 2016/17 2,632 MT compared to Nil in 2015-16. Specialties sales at kEUR 9,565 in 2016-17 compared to kEUR 8,254 in 2015-16 were higher by 15.88%. Revenue from coating services in 2016/2017 was higher by 6.35% compared to previous year. The Company incurred a loss after tax of kEUR 5,502 compared to a previous year loss of kEUR 5,348. The loss in 2016/2017 was mainly due to constant low sales prices, even though there was a reduction in the purchase prices of raw material. Deliveries of around 800 MT were cancelled or postponed to the following Financial Year due to non-availability of the credit insurance, non-availability of electrodes and reduced production of a few steel mills. Cova's plan to increase the quantities in the next years is based on the extension of the market in America and Russia and not on the forecast for improvement of the steel industry.

## **b) Economic Overall Situation and Trade Based Market Conditions**

### **i. Economic Overall Situation Frame Conditions**

The economic overall situation in Germany was characterized by growth in gross domestic product of 1.9 % in 2016. Contributed to the modest increase in the gross domestic product have a higher export growth of 2016 in comparison to 2015, the increase in domestic demand due to increased business investment and a significant upturn (2%) in private consumption. Another positive impact came from the continued favourable development in the employment market. The number of employees rose in 2016 for the ten year in a row and reached a new historical level.

### **ii. Trade Based Frame Conditions**

World crude steel production reached 1,628.5 million MT for the year 2016, up by 0.8% compared to 2015. Crude steel production decreased in Europe, the Americas and Africa. Crude steel production increased in the CIS, the Middle East, Asia and Oceania.

Annual production for Asia was 1,125.1 MT of crude steel in 2016, an increase of 1.6% compared to 2015. China's crude steel production in 2016 reached 808.4 MT, up by 1.2% on 2015. China's share of world crude steel production increased from 49.4% in 2015 to 49.6% in 2016. Japan produced 104.8 MT in 2016, down by 0.3% compared to 2015. India's crude steel production for 2016 was 95.6 MT, up by 7.4% on 2015. South Korea produced 63.6 MT of crude steel in 2016, a decrease of 1.6% compared to 2015.

In 2016, the EU (28) produced 162.3 MT of crude steel, a decrease of 2.3% compared to 2015. Germany produced 42.1 MT of crude steel in 2016, down by 1.4% over 2015. Italy produced 23.3 MT in 2016, an increase of 6.0% over 2015. Spain produced 13.7 MT of crude steel in 2016, a decrease of 0.8% compared to 2015.

2016 crude steel production in North America was 111.0 MT, the same amount as in 2015. The US produced 78.6 MT of crude steel, down by 0.3% on 2015.

Crude steel production in the CIS was 102.4 MT in 2016, 0.8% higher than in 2015. Russia produced 70.8 MT of crude steel in 2016, down by 0.1% on 2015. Ukraine recorded an increase of 5.5% with a year-end figure of 24.2 MT.

Annual crude steel production for South America was 39.2 MT in 2016, a decrease of 10.6% on 2015. Brazil produced 30.2 MT in 2016, down by 9.2% compared to 2015.



In 2017:

The World Steel Association released in Oct. 2016 its Short Range Outlook (SRO) for 2016 and 2017. World steel forecasts that global steel demand will increase by 0.2% in 2016, following a contraction of 3.0% in 2015. In 2017, it is forecast that global steel demand will grow by 0.5%.

Commenting on the outlook, the steel industry environment remains challenging, with escalated uncertainties driven by geopolitical situations in various parts of the world.

Weakness in investment globally continues to hold back a stronger steel demand recovery. However, a better than expected forecast for China, along with continued growth in emerging economies, will help the global steel industry to move back to a positive growth path.

Downside risks to this outlook come from the high corporate debt and real estate market situation in China, Brexit uncertainties and possible further escalation of instability in some regions. On a positive note, steel demand in the emerging and developing economies excluding China is expected to accelerate to show 4.0% growth in 2017 thanks to the resilient emerging Asian countries and stabilisation of commodity prices



c) **Situation of the Company**

i. **Profit Situation**

	<b>2016-17 TEUR</b>	<b>% with sales</b>	<b>2015-16 TEUR</b>	<b>% with sales</b>
Net Sales	33,313		35,955	
Other Income	92		393	
Total Income	33,405		36,348	
Operating Expenses	38,042	<b>113.88</b>	40,955	<b>112.67</b>
PBIDT	-4,637	<b>-13.88</b>	-4,607	<b>-12.67</b>
Interest	346	<b>1.04</b>	348	<b>0.96</b>
PBDT	-4,983	<b>-14.92</b>	-4,955	<b>-13.63</b>
Depreciation	516	<b>1.54</b>	493	<b>1.36</b>
PBT	-5,500	<b>-16.46</b>	-5,448	<b>-14.99</b>
Tax	2	<b>0.01</b>	-100	<b>-0.28</b>
PAT	-5,502	<b>-16.47</b>	-5,348	<b>-14.71</b>
Product wise turn-over				
Electrodes	21,978		25,552	
Specialities	9,565		8,254	
Coatings	953		897	

Due to reduction in electrodes demand in Europe, the company has started entering markets outside Europe and Russia.

In spite of available capacity of 17,500 MT of Electrodes, the company could produce only 8,949 MT of Electrodes due to market crises and constant low sales price. In the upcoming future, we are expecting good potential in the North and South America, Russia, etc. We have now entered those markets and sales volume will increase. This can be utilized for the presently unutilized capacity. The positive development in the regions outside Europe can be clearly seen from the increasing sales volume. Our unique coating for graphite electrodes is very interesting, above all for the customers in North and South America. The regular use of coated electrodes requires a longer introduction period, but it will surely lead to a clear increase in the sales volume.

Due to poor electrodes market conditions, production and sales were restricted in 2016/2017 and because of the reduced price per MT, revenue decreased.

The operating expenses decreased mainly due to raw material consumption with reduced raw material rates compared to previous year 2015/2016.

As a result of the low sales prices and reduced volumes the company made losses of kEUR 5,502 in 2016/2017. Also the significant reduction in purchase prices for raw material could only partially compensate the losses.

Present limit of 24 Million from Citibank is sufficient to meet the requirement of business operations.

## ii. Financial Situation

The working capital limit from bank was kEUR 24,000 as at 31 March 2017. Total utilization of fund based limits from the bank was kEUR 19,100 at the end of the year 2016/2017. This consists of short term drawdowns. The interest rate is fixed for each drawdown, based on the EURIBOR plus a margin. The credit line is extended for one year i.e. up to June 2018. That part of the credit line which has not been used can be terminated on short notice. Should the bank make use of that termination right, what we do not expect, the financing and going concern of the company would be in danger.

The total funding is provided by Citibank against a collateral in the form of a Corporate Guarantee of TEUR 24,000 from Graphite India Limited, which is limited until 30 September 2017. This is going to be extended for additional three years.

Utilisation of bank limit by the end of the year is increased to Euro 19,10 mn from Euro 16,30 mn. This increase is due to more requirement of funds in the last quarter for due payments made to vendors.

The risks arising due to foreign currency fluctuations are dealt by way of natural hedging.

### Financial Situation

	31/03/2017	%	31/03/2016	%
	TEUR		TEUR	
Equity	-2,063		3,438	
<b>Return on Equity</b>		<b>Negative</b>		<b>-155.56</b>
Accruals	1,165		872	
Liabilities	29,974		27,406	
<b>Total Debts</b>	<b>31,139</b>		<b>28,278</b>	
<b>Debt Equity Ratio</b>		<b>Negative</b>		<b>822.51</b>

<b>Fixed Assets</b>	4,566		4,267
Stocks	13,780		15,892
Trade Receivables	9,278		9,685
Receivables from affiliated companies	334		0
Other Receivables	1		175
Cash	1,426		1,676
Prepaid Expenses	25		22
<b>SHORT TERM ASSETS</b>	<b>24,510</b>		<b>27,450</b>
Other Accruals	1,165		872
Short term liabilities to Banks	19,100		16,300
Trade Payables	735		886
Payables due to affiliated companies	9,041		9,308
Other Payables	218		111
Payables to Shareholders	880		801
<b>SHORT TERM LIABILITIES</b>	<b>31,139</b>		<b>28,278</b>
<b>Current Ratio</b>		<b>78.71</b>	<b>97.07</b>

Inventory is decreased in current period due to a reduction in Finished goods Euro 0.48 Million, reduction in semi-finished goods by Euro 1.40 million, and decrease in raw materials by 0.23 million.

Trade receivables were decreased due to better collection in the last quarter of 2016/2017.

Trade payables are decreased due to a reduction foreign payables in the current as compared to the previous year.

Other payables are increased in current period due to VAT payable for March 2017.

Other accruals are increased in current period due to increased liability for Kolbemoor.

However, the current ratio decreased compared to the previous year, as indicated above mainly due to a decrease in inventory Euro 2.11 Million and increase in bank borrowing by Euro 2,80 Million.

Reporting period 2016/2017 continued to be crucial for the company, due to a pressure on sales prices, lower demand and hence the year ended with a loss. We expect that electrodes prices will improve in the following year and we can reach an improvement in the result.

**d) Financial and Non-financial Performance Factors**

**i. Financial Performance Factors**

The company recorded for the business year 2016/2017 an annual net loss in the amount of kEUR 5,502 (previous year: TEUR 5,348). The global market for graphite electrodes is dominated by a few producers. Lower Steel production through EAF route resulted in excess capacity of graphite electrodes. Hence, due to the difficult market situation, Graphite COVA GmbH could produce 8,949 MT (i. e. 51%) of its total production capacity of 17,500 MT in the 2016/17.

Due to the low sales prices and reduced volumes the company made losses of kEUR 5,502 in 2016/2017, hence revenues decreased from kEUR 35,955 to kEUR 33,313. However, the reduction in purchase prices for raw material could only partially compensate the loss in revenues.

**ii. Non-Financial Performance Factors**

Product quality has been further stabilised on a level allowing comparison to that of the leading graphite producers. Customer acceptance is encouraging. Customer service has been strengthened. Confidence on the part of customers, suppliers and authorities keeps on growing. However, the capacity of the Company is restricted to graphite electrodes of 550 mm diameter. The technology of steel making has undergone significant advancements. Hence, in tune with the improved quality requirements of customers, it is imperative to scale up and modernize the production facility.

Modernization of production facility will start once the market is improved.

Due to the current crisis in the European market, the company has already started entering new markets to increase the customer base. Accordingly shipments are also made to some customers in Russia, North and South America.

The company has continued initiating rationalisation measures for controlling costs such as Material prices, negotiations of cost of services from third parties etc.

The company has lease agreements with leasing companies mostly for equipment, with duration of 48 to 60 months. Future minimum lease payments are Euro 317 TEUR till 2021.

**e) Comparison to Previous Year**

In the management report for the previous year, the company expected a further positive development of economic growth in 2016/2017 and moderate growth of the entire steel industry. The actual revenue kEUR 33,006 (previous year kEUR 35,955) was due to difficult market conditions and

overcapacity in graphite electrode industry. The sales volume expected in the current year is based on our extended market of North and South America, Russia, etc. and not on the growth of Steel Industries. Expected consolidation of electrode industry and extended new market, company expects growth in sales volume by 10 % approx.

### **3. Supplementary Report**

The investment for modernisation of some tangible assets was kept on hold since FY 2016-17 until the recovery of the economy.

There were no further events with a material influence of the financial statements for the Financial Year 2016/2017.

### **4. Forecast, Chance and Risk Report**

#### **a) Forecast Report**

The Company looks forward to improving its performance in the Financial Year 2017/2018 following favourable business indications of global steel industry as well as brightening and extension of the market in other continents. In 2017, the global steel industry is expected to grow, even though at a lower rate.

With the revival of global industry and extension to new markets, the Company expects growth in sales and an improvement in results. For the business year 2017/2018, the company expects a further positive development of the global consolidation of the market for Graphite Electrodes and expects sales above Euro 37mn, the increase being mainly due to an increase in quantities sold, and a negative annual net result of approx. kEUR 2,490 before tax. The budget 2017/2018 was based on a sales volume of 10,300 MT for finished electrodes and 1,562 MT for pitch impregnated electrodes.

It cannot be excluded that the actual business will diverge from expectations, because of some unforeseeable developments in the economic and commercial environment of the market.

#### **b) Risk Report**

##### **i. Risk Management System**

The company is integrated into the risk management system of the parent company. The implemented risk management system of the company uses appropriate management tools and indicators in the key areas sales and earnings development, raw material management, sales and production control as well as financing and securing of liquidity.

The integrated early detection system based on rolling budgeting is aimed at the early identification of business risks, to analyse and to classify them, to be able to handle issues which threaten the

existence, in time. The management receives information on risk-relevant issues in regular reports. Depending on requirements, supplementary reports to individual circumstances can be created.

Based on the controlling reports and rolling expansions for the current business year all significant developments are presented and explained in detail by the department heads in regular meetings with the management, the current risk situation is discussed and appropriate measures to control the development of the company are defined.

The business development of the company is regularly discussed and coordinated with the parent company Graphite India.

## **ii. General Risks**

It is undeniable that business projections have an inherent element of uncertainty of unknown elements like sudden reversal of positive trends leading to economic slowdown resulting in possible negative growth for steel, automotive and infrastructure industries slowing down which in turn may adversely impact the prospects for our industry.

It is not only the steel industry which plays a quite decisive role but also the development in raw material and energy prices as well as the market leaders' pricing policy influence our performance.

## **iii. Specials Risks**

### **a) Market Risks**

The global market for graphite electrodes is in a consolidation phase. In business year 2014/2015 dominant competitors decided the reduction of production capacity in the amount of 120,000 tons. The reduction of this capacity to adapt to the reduced demand from the steel industry is essential for the consolidation of the industry. The timing and extent of the positive effects of these measures on the consolidation of the industry are fraught with uncertainties. In August 2015, one of the biggest electrode producers – GrafTech, was sold to investment group Brookfield. As a consequence, the electrode stocks which the new owner had taken over, were sold heavily, resulting in a strong decline in prices. The company expects a normalization of the markets in one to two years.

With an estimated reduced total demand for electrodes of approx. 195,000 MT in Europe and an estimated import of Chinese electrodes of approx. 40,000 MT in this market, the company has started extending the market outside Europe. The increased share of sales to customers outside of Europe has proven this decision right. The Company markets Graphite Electrodes under the brand name of 'COVA', which has good acceptance in the market.

Summarising the risk factors, the company expects that the steel and also electrodes market will improve in due course.

**b) Sales Risks**

The product Graphite Electrode involves various manufacturing processes and hence needs to be produced as per requirement of Cova. The production planning is based on expected market developments from the global steel industry and specific requirements of the major steel industry customers. Risks may happen when the actual demand for graphite electrodes deviates from the expectations of the production.

**c) Risks from Energy- and Raw Material Prices**

Company has ensured the supply of basic raw materials like Calcined Petroleum Coke, Binder Pitch and Impregnation Pitch and contracts for regular supply of them are renewable before the end of the existing contracts. The company has also signed the contract for supply of utilities like Gas and Power.

The main raw materials are either petroleum based or coal based. The price of crude and coal and its direct impact on its derivative materials like Needle Coke, Pitch, Furnace Oil, Met Coke, etc. will all tend to impact the input cost in a major way.

The company also does not see any problem in getting raw materials.

**d) Risks arising from the use of financial instruments**

**i. Credit Risks**

Most of the sales are covered by credit insurance and thus the risk of non-payment is mitigated to minimum.

**ii. Currency Risks**

The majority of the sales of graphite electrodes is invoiced in Euros except few customers will be charged in local currency. The currency fluctuations are dealt by the way of natural hedging therefore no currency fluctuation risk arises.

**iii. Interest Rate Risk**

The credit line is used rather short term based on demand. Therefore, the company does not see a major interest rate risk.



**e) Risks endangering the company's existence**

As discussed above, in the long term, Graphite COVA is expecting an improvement in the market for graphite electrodes, in the short term they want to enlarge the markets served so as to reduce the current losses over the years. Though, budgeted losses will exceed current equity by 2017/2018.

The need for funds is expected to be met by the bank financing, which in turn is backed up with a collateral guarantee by the indirect parent company Graphite India Ltd. Bank financing as well as granting of the guarantee are limited in time.

Management expects that, as in the past, the indirect parent company will provide the necessary collateral also in the future and that the bank will prolong its financing.

**c) Opportunity Report**

Through the involvement of society in the globally active group of Graphite India, additional market opportunities generated outside Europe and cost benefits from the globally organized production network. The Company expects significant benefits from the consolidation of the industry in the next one to two years.

**Acknowledgement**

The Management takes this opportunity to place on record its appreciation of the assistance and support extended by all government authorities, consultants, banks, solicitors, customers, vendors and others. The Management also expresses their appreciation for the dedicated and sincere services rendered by employees of the Company.

A special acknowledgement to the technical team and management of Graphite India for extending support from time to time during the year.

Röthenbach an der Pegnitz, 10 May 2017

M. B. Gadgil

A. N. Bojilov

N. S. Deshpande

**LEGAL BACKGROUND**

- Company name                      Graphite COVA GmbH
- Registered seat                      Röthenbach an der Pegnitz
- Commercial Register                      Amtsgericht Nürnberg  
HRB 21271
- Articles of Association                      Latest version dated 28 November 2006
- Financial year                      1 April – 31 March
- Purpose of the company                      Sale and Distribution of raw materials and finished goods, sale and marketing of electrodes and speciality products from graphite or carbon industries. Furthermore, possessing and making available for use as well as rental of production equipment and machines.
- Share capital                      EUR 4,000,000.00 (fully paid in – single shareholder is GIBV)
- Management                      - Bojilov, Adrian Nikolov  
- Gadgil, Makarand Bhalchandra  
- Deshpande, Nitin Shridharrao  
  
If only one director is appointed, he is the sole representant of that company. In the case of appointment of several directors, the company is represented by two directors or by one director together with one proxy
- Shareholder resolutions                      Shareholder resolutions on 15 March 2017
  - Approval of Financial statements as of 31 March 2016
  - Relief of management from their duties for financial year 2015/16
  - Carry on of loss carryforward 2015/16
  - Appointment of RSM Altavis GmbH as auditors for year end 31 March 2017

- Proxies
- Atawane, Ishwar Tukaram
- Renner, Helmut
- Sasle, Suryakant Laxman
- Shenoy, Vittaldas

No material change subsequent to balance sheet date.

## ECONOMIC BACKGROUND

### 1. Intercompany Contracts

Lease agreement regarding immovables from BCH dated 9 September 2004 (start of lease period 13 August 2004). Automatic renewal when no termination is done. Maintenance and smaller repairs need to be covered by the lessee. Leasing costs amount to 30 kEUR per year.

Lease agreement for equipment (mainly production machines and tools) with BE and BCS dated 9 September 2004. Automatic renewal when no termination is done. Lessee has to pay for all repairs, auxiliary costs and insurance. Rent is 15% of acquisition costs per year.

Production agreement with BE and BCS dated 9 September 2004. Automatic renewal if no termination is done. BCS is instructed to produce graphite specialities, BE is instructed to produce graphite electrodes. Fee is cost plus 4%.

General services agreement with BCS dated 9 September 2004. Automatic renewal in case no termination is done. BCS is performing services such as accounting, IT, HR and administration of property. Fee is cost plus 7%, excluding third party costs that are covered directly.

Trademark licensing agreement with GIBV dated 9 September 2004. Non-exclusive trade mark licensing agreement with indefinite life relating to the trademark "COVA". License fee is 1,5% of net revenues per quarter after trade discounts, taxes, claims, and value addition in coating division.

Patent licensing agreement with GIBV dated 9 September 2004. Automatic renewal in case no termination is done. License fee is 1,5% of net revenues per quarter after trade discounts, taxes, claims.

Knowhow licensing agreement with GIL dated 9 September 2004. Non-exclusive knowhow licensing agreement with indefinite life relating to reduction in scrap generation, yield in machining, manufacturing processes and practices and bigger sizes of electrodes (>24 inch) License fee is 1,5% of net revenues per quarter after trade discounts, taxes, claims, and value addition in coating division.

Supply Agreement with GIL dated 1 April 2013 regarding delivery of raw materials, finished goods, unfinished goods and purchase of the same products according to the transfer price guideline.

## **2. Loan contracts**

Contract regarding uncommitted short term credit facility with Citibank, London, in the amount of 24 Mio. EUR. Smaller drawdowns are possible. Interest calculation is done based on the EURIBOR 1 1/360 plus 1%.

Corporate Guarantee from GIL for above mentioned short term credit facility up to 24 Mio. EUR until 30 September 2017. Guarantee fee is 1% of outstanding amount.

## **3. Public law contract**

Contract with State of Bavaria dated 14 July 2004 regarding contamination on the property now belonging to BCH.

## TAX BACKGROUND

- Tax authority Nürnberg
- Tax ID 241/115/52408
- Applicable taxes Value added tax (VAT), trade tax, corporate income tax. Tax group for VAT with BE, BCS and BCH. GC is head of tax group.
- Tax returns and assessments Tax returns for 2016 are not yet filed.
- Tax field audits Tax field audits regarding 2009 – 2013 are taking place at the moment. No results were communicated until our audit was completed.