SGL CARBON GROUP Annual Report 2003

Annual Report **2003**

We Fight to Win

SGL CARBON GROUP

Key Figures

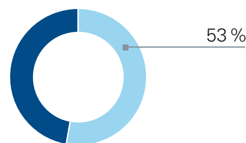
€ million	2003	2002	Change (%)
Sales revenues	**1,046**	**1,112**	**– 6**
Carbon and Graphite	558	551	1
Graphite Specialties	174	196	– 11
Corrosion Protection	186	212	– 12
SGL Technologies	125	150	– 17
Profit from operations[1]	**39**	**29**	**34**
Carbon and Graphite[2]	66	52	27
Graphite Specialties[2]	7	2	250
Corrosion Protection[2]	– 4	5	–
SGL Technologies[2]	– 12	– 12	0
Return on sales (in %)[3]	4	3	
Loss before tax	– 64	– 27	– 137
Net loss for the period	– 50	– 24	– 108
Earnings per share (€)	– 2.27	– 1.08	– 110
Profit from operations before depreciation and amortization (EBITDA)[1]	111	110	1
Cash provided by operating activities[4, 5]	18	149	– 88
Investments in property, plant and equipment	33	41	– 20
Depreciation of property, plant and equipment	64	71	– 10
Research and development costs	21	25	– 16
Working capital[6]	380	385	– 1
Capital employed[7]	888	967	– 8
Equity	117	196	– 40
Total assets	1,247	1,286	– 3
Equity ratio (in %)[8]	9	15	
Gearing[9]	3.8	2.2	
Number of employees (at end of year)	6,926	7,360	– 6
Market capitalization (at end of year)	295	175	69

[1] Before provisions for antitrust risks and restructuring expenses
[2] Before restructuring expenses
[3] Ratio of profit from operations to sales revenues
[4] After adjustments for exchange rate effects and before antitrust payments
[5] Please refer to page 56
[6] Carrying amounts of inventories and trade receivables less trade payables
[7] Carrying amounts of property, plant and equipment, intangible assets and working capital
[8] Ratio of equity to total assets
[9] Ratio of financial liabilities less cash and cash equivalents to equity

Overview of Business Areas

Carbon and Graphite [CG]

Share of Group Sales

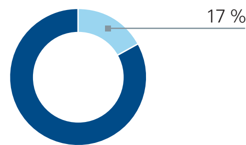


Products/Applications
- Graphite Electrodes
- Cathodes
- Carbon Electrodes
- Furnace Linings

Customer Industries
- Aluminium
- Metallurgy
- Steel

Graphite Specialties [GS]

Share of Group Sales

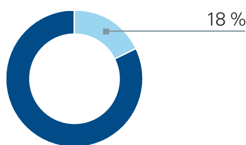


Products/Applications
- Semiconductors
- Mechanical Carbon
- Technical Carbon

Customer Industries
- Chemicals
- Energy Technology
- Glass and Ceramics
- Semiconductor Technology
- Mechanical Engineering
- Metallurgy

Corrosion Protection [CP]

Share of Group Sales

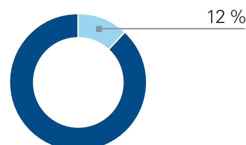


Products/Applications
- Surface Protection
- Process Technology

Customer Industries
- Plant Construction
- Chemicals
- Energy
- Metallurgy
- Pharmaceuticals
- Transportation
- Environmental Protection

SGL Technologies [T]

Share of Group Sales



Products/Applications
- Aerospace Applications
- Brake Discs
- Fuel Cell Components
- Carbon Fibers, Yarns and Fabrics
- Expanded Graphite
- Industrial Composites

Customer Industries
- Automotive
- Chemicals
- Elektronics
- Energy
- Aircraft Construction
- Semiconductors
- Defence

SGL Carbon is one of the leading global manufacturers of carbon and graphite products. Our largest and most profitable Business Area provides electrodes for electric arc furnaces (EAFs) used in electric steel production, and cathodes for the aluminum industry. We sell the products from our 35 manufacturing facilities in more than 100 countries around the world. Our challenge – and our goal – is to meet the demands of the global market, day in, day out.

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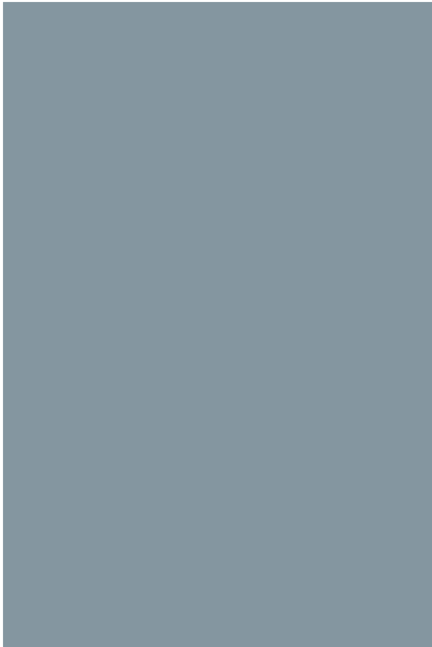

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Robert J. Koehler
Chairman of the Executive Committee

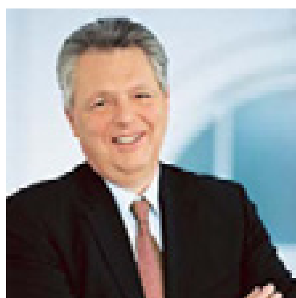
Responsible for:
Corporate Development and Strategy,
Corporate Communications,
Investor Relations, Management Development

Business development in 2003

Questions to the Chairman of the Executive Committee, Robert J. Koehler

Mr. Koehler, how did SGL Carbon fare in fiscal 2003?
Conditions in our core business, Carbon and Graphite (CG), improved as expected. We posted record sales in 2003 of over 200,000 tons of graphite electrodes. However, exchange rate movements put a stick in the spoke of our wheel. The weak US dollar alone slashed our profit from operations by around €20 million. On top of this, our Graphite Specialties (GS) and Corrosion Protection (CP) Business Areas were hit by continued sluggish demand in their target industries. The recovery expected for the second half of the year did not materialize, which also affected our profit from operations negatively. Last but not least, the SGL Technologies Business Area (SGL T) was faced with unexpected start-up and certification costs for new products and production processes. As a result, we were unable to achieve our goal of reducing the losses in SGL Technologies.

But couldn't you see these difficulties coming?
Who could have foreseen at the end of 2002, when we were doing our planning, that the dollar would take such a nosedive against the euro? I think this caught a lot of other companies by surprise, too. What is more, almost all the economic experts at the time were predicting an economic recovery for the second half of 2003, but this never happened. On the other hand, we regard the unplanned start-up and certification costs at SGL T as basically positive. For one thing, the new orders in which we are investing today will increase our sales revenue and earnings in the future. For another, we have increased the efficiency of our production processes and cut costs as a result.



Dr. Bruno Toniolo
Responsible for:
Group Treasury,
Group Accounting,
Management Reporting,
Information Services,
Internal Audit,
Risk Management,
Western Europe

Theodore H. Breyer
Responsible for:
Carbon und Graphite,
America, Purchasing

Dr. Hariolf Kottmann
Responsible for:
Graphite Specialties,
Corrosion Protection,
Asia, Eastern Europe,
SGL Excellence

Dr. Klaus Warning
Responsible for:
SGL TECHNOLOGIES GmbH,
Human Resources, Legal,
Research and Development,
Technology, Environmental
Protection, Health and Safety

What will happen with Corrosion Protection?

We have been reviewing our Corrosion Protection business since the fall of 2003. Back in 1998, we established this young Business Area in the hope that the chemical industry in particular would outsource the planning and construction of facilities in this small market segment to external service providers. We based our business model for industrial corrosion protection on this. However, this trend ground to a halt when the recession started to bite in 2001/ 2002. In addition, our customer industries drastically reduced their maintenance spending. We have now reacted to this by initiating a restructuring process. We have adapted CP's business strategy and organizational structures to the changed conditions by separating our Surface Protection and Process Technology Business Lines and repositioning them.

Why did SGL Technologies record the largest drop in sales revenue?

The decline in sales revenue at our SGL T growth area is mainly attributable to exchange rate movements. After all, 60% of SGL T's sales revenue comes from US production, and we manufacture and process our carbon fibers in the UK. On top of this, SARS and the war in Iraq negatively impacted orders from the aerospace and defense industries. On the other hand, our partnerships with the automotive industry progressed well: for example, we signed a development partnership with Audi for a carbon-ceramic brake disc for large sedans.

Why did the Company's balance sheet ratios deteriorate during the year?

It is true that our gearing – the ratio of net financial liabilities to equity – did rise year-to-year to 3.8. However, this was primarily due to the decline in equity. Our equity ratio fell to 9% at the end of 2003 as a result of the weak dollar, costs relating to antitrust proceedings and restructuring expenses as well as the increased financing costs. This was one of the main reasons why we decided on a capital increase. Following our successful restructuring measures, our balance sheet ratios are healthy once again (see the next section, "Refinancing", for further details).

The capital increase doubled SGL Carbon's market capitalization and has made us an interesting prospect again for many institutional investors – we had disappeared off their radar screens because of our low market capitalization.

Why did SGL Carbon undertake yet another refinancing operation?
In the agreement signed at the end of 2002 with our creditor banks, all we did was bundle all bilateral, short-term credit lines into a single syndicated loan with a term of two-and-a-half years. This didn't help our equity ratio, nor did it improve our debt profile, and so you can't really call it refinancing. We knew at the time that this step – which secured our liquidity for two-and-a-half years – would have to be followed by a more far-reaching refinancing package when the time was right. The goal of these measures would be to improve our balance sheet ratios, our debt profile and the final maturities of our liabilities. However, we only had one shot at tapping the capital markets in the foreseeable future, and so the move had to be a comprehensive one that would meet all our needs. This is why we referred to it as a "liberating move".

What does the year 2004 hold?
We are confident that our Company will do well in 2004. The overall economy is improving, and we are anticipating a slight upturn that should have a positive effect on Graphite Specialties. Demand for CG products, and especially for graphite electrodes and cathodes, remains strong, and we are forecasting further price increases for graphite electrodes. We expect SGL T to approach break-even now that the start-up years in which losses were incurred are behind it – in other words, it should be able to cover most of its depreciation and amortization costs. We intend to drive ahead as planned with CP's new positioning as well as with our restructuring and cost-cutting measures in all areas. We have also hedged our activities against unplanned exchange rate movements. On the whole, therefore, we are expecting to do much better at an operational level than in 2003.

What operational and financial targets have you set for the next few years?
We have set ourselves the following medium-term goals for the period up to 2006/2007: we want to grow sales revenue by 3–4% per year and increase our EBITDA margin – which we define as the ratio of our profit from operations (before depreciation and amortization) to sales revenue – to around 15%. In terms of our financial objectives, we intend to further reduce our net debt, and are aiming to achieve an EBITDA ratio of 2.5. EBITDA would then exceed our annual interest payments by a factor of about four.

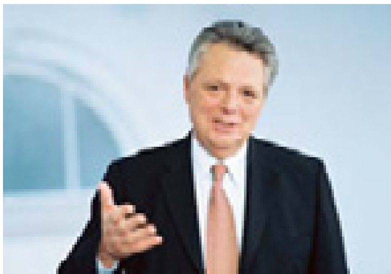
How do you intend to achieve these targets?
First, we want to improve performance by implementing additional restructuring and cost-cutting measures. We saved a further €32 million in the past fiscal year after the substantial savings of €66 million made in 2002. By 2009, we want to have reduced our costs by an additional €100 million compared to 2003. Second, as I already mentioned, we are aiming to increase our sales revenue while maintaining and expanding our market leadership. We will do this by improving our efficiency and further optimizing our product portfolio.

Refinancing

Questions on refinancing to the CFO, Dr. Bruno Toniolo

What concrete measures have you taken?
We have developed a highly innovative refinancing concept together with the banks. This consists of three elements: a capital increase, a corporate bond and a syndicated loan. The banks underwrote all three components very early on, at the beginning of December 2003.

What were the goals of this refinancing package?
The main goals of the refinancing package were to improve our balance sheet structures and to ensure adequate financing for the next five to eight years. We also redeemed our old syndicated loan, which has significantly reduced our dependence on the banks.



» This refinancing package keeps us flexible and creates a stable basis for our long-term, internationally oriented strategy. «

Dr. Bruno Toniolo, Member of the Executive Committee

Was the refinancing a success?
All in all, it was successful. We achieved or exceeded our targets for all the measures undertaken.

Why did the capital increase raise more money than expected?
The capital increase was a success: 99.9% of the pre-emptive rights to the new SGL Carbon shares were exercised by existing and new shareholders. We were able to raise the original guaranteed minimum subscription price from €6 to €8. This brought us a gross figure of €266 million – much more than the €200 million we had initially anticipated.

What's in it for our shareholders?
At first glance, we were asking a lot of our shareholders – after all, we increased the share capital by 150%, and that, of course, diluted their shareholdings. Nevertheless, the capital increase went very well. The share price was €12 at the start of the subscription period – i.e. after the rights issue had been priced in – which made the subscription offer attractive for shareholders. The capital increase enabled us to boost our equity ratio and reduce our gearing at the same time. This has put us back on the radar screen for a large number of investment companies that had previously avoided our stock on account of our balance sheet ratios.

Why did you call the rating for the bond unsatisfactory?

We were surprised by the grading the rating agencies gave us. However, many other German companies have similar problems with rating agencies treating pension reserves as financial liabilities. This naturally pushes up debt and has a negative impact on the bond rating.

Was the bond offering a success?

Yes. Thanks to brisk demand, we were able to place the corporate bond earlier than expected and in euros only, even though it was originally intended for issue in the US as well. The bond is due to mature in February 2012 and has a coupon of 8.5% – an interest rate normally charged on bonds with a much better rating than ours. In other words, the market simply ignored the rating the agencies gave us.

What about the third pillar of the refinancing package – the syndicated loan?

The syndicated loan of €330 million has been furnished by a banking consortium over a term of five to six years. Only €50 million of the total available of this loan – €240 million – has been drawn on to date; the remainder is available in the form of bank guarantees and a credit line. Another loan of €90 million, placed in US dollars, covers most of the debts of our US subsidiary SGL Carbon LLC.

Why was the package so large – €866 million in total?

The main objective of the capital increase is not to repay debts but to strengthen our equity, and hence to improve our balance sheet. The bond and the syndicated loan are designed not only to meet our current financial liabilities but also to repay our convertible bond, as well as covering the maximum possible risks under our antitrust problems. The refinancing package has enabled us to put our balance sheet in order and to secure our liquidity for the next five to eight years.

Will the refinancing push up your interest payments?

The interest expense for the bond and the syndicated loan will be around €35 million a year – slightly higher than before.

How would you sum up the refinancing package?

The fact that the refinancing was successfully completed demonstrates the confidence the financial market have in our Company – a key milestone. What we now have to do is to significantly improve our operating result so as to justify the trust placed in us.

From left: Dr. Michael Riedel (Quality Leader), Peter Zimmer, Dr. Hans Bohnen, Ulrich Wislsperger, Marc Heuell (Master Black Belts)

SGL Excellence

Facts and figures for 2003

Employees:

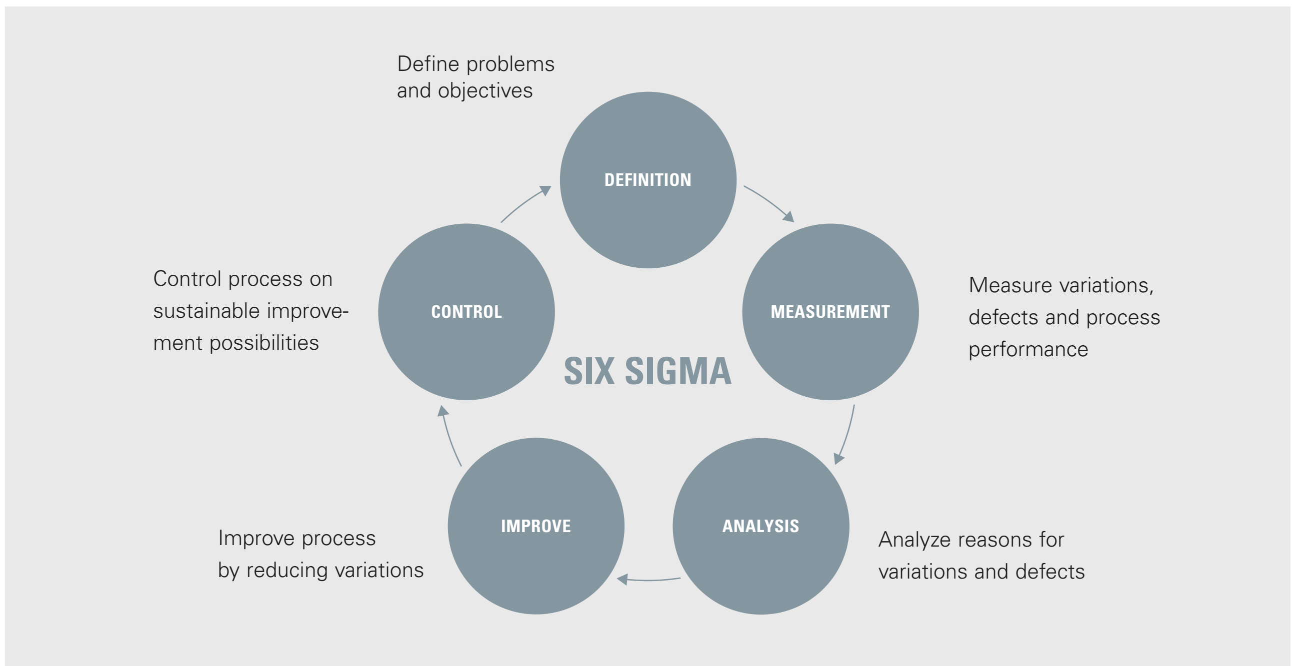
- More than 950 employees have been trained in the SIX SIGMA methodology
- More than 40 employees have been trained as Black Belts
- More than 170 employees have been trained as Green Belts

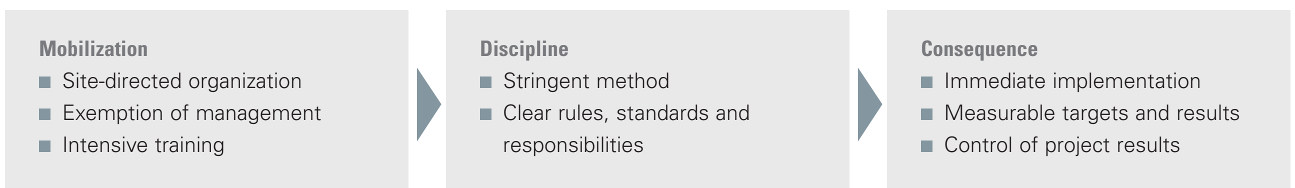
Projects:

- More than 120 projects have been completed
- More than 70 projects are ongoing
- More than 80 projects are in the initial stage

SIX SIGMA

The name stands for a methodology that measures and analyzes workflows and processes within the enterprise on the basis of a clear definition of objectives, and thus rapidly identifies clear, profitable improvements. The DMAIC cycle, a continuous control loop, is the defined, proven approach used in SIX SIGMA:





Green Belt project: Optimizing production control for PTS products

Customer demands for deliverability and flexibility make optimized work in progress essential for large scale production of PTS (press-to-size) products at our site in Bonn, Germany.

Our SIX SIGMA team headed by Guido Becker solved the problem by introducing a pull production for large-scale production. Pull production changes the way of detailed planning and scheduling. Material and information flows are presented in a different way, allowing them to be controlled directly at the shop-floor level.

The following improvements were made:

- Improved delivery service
- Reduced inventories
- Increased productivity

In 2002, SGL Carbon launched a Group-wide improvement initiative called SGL Excellence. In this interview, Executive Committee member Dr. Hariolf Kottmann reports on progress to date, the focal points in 2003 and the goals for 2004.

Dr. Kottmann, how would you rate the SGL Excellence initiative today, two years after its launch?
We have made real progress in the past two years. In 2003 alone, our SGL Excellence projects generated improvements of over €19 million – a resounding success in my opinion. We are now much closer to our goal of establishing a culture of continuous improvement throughout the Company.

We also made real progress in 2003 in raising acceptance of the initiative within the Company. More and more, our employees are recognizing that we actually make things happen!

What did you focus on in 2003?
In 2003, like 2002, we focused squarely on increasing productivity and reducing costs, implementing a large number of successful projects. We also concentrated on anchoring the SGL Excellence initiative more firmly within the SGL Carbon Group by further strengthening our SIX SIGMA organization. For example, at the beginning of 2003, four Master Black Belts were selected to support the Business Units and in particular to help our project managers in their work.

» We are now much closer to our goal of establishing a culture of continuous improvement throughout the Company. «

Executive Committee member Dr. Hariolf Kottmann is responsible for SGL Excellence.

How is SIX SIGMA perceived in practice at SGL Carbon?
A methodology like SIX SIGMA that is designed to ensure efficient project implementation can only be successful if it is accepted by the employees, which is why we have trained over 950 employees during the past two years. Our Green and Black Belts have worked on more than 270 projects. And this successful project work means that SIX SIGMA is being increasingly accepted and used as a methodology.

What will you be concentrating on in 2004?

In 2004, we will systematically continue the projects we have started, and SIX SIGMA is and will continue to be the methodology of choice here. Up to now, the main focus of the projects in all the Business Units has been on "operational excellence", with the spotlight on cost-cutting and productivity gains. We intend to continue this, but at the same time we will also try to concentrate more and more on the key commercial processes between us and the market, i.e. our customers. This means that "commercial excellence" will gradually become our focus. If we can create value for our customers and if our customers recognize and appreciate this, we will drive up our sales revenue and earnings.
Here, too, our employees with their experience and skills will take center stage.

Green Belt project:
Optimizing maintenance

Using the SIX SIGMA methodology, Jan Czech and his team at Nowy Sacz in Poland were able to find the optimum solution for improving maintenance.

The project team took a close look at maintenance processes and developed ideas for improvement using state-of-the-art concepts such as TPM (Total Productive Maintenance) and RCM (Reliability-Centred Maintenance). The team focused on the following improvements:

- **Reduced maintenance effort:**
  Weak points in the machinery were identified and corrected through improved servicing or engineering.
- **Optimized servicing activities:**
  Servicing programs were revised using historical data analysis to minimize machine failures and avoid unnecessary work.
- **Improved forecasting of machine failures:**
  Statistical models have improved forecasts of machine failures, allowing necessary maintenance work to be planned more efficiently.

These measures have enabled the Nowy Sacz plant to reduce maintenance costs by 10%.

Jan Czech and his team started the project to reduce external maintenance costs in April 2003. The estimated annual net benefit of €t100 will be achieved in full, with savings of €t45 being produced in 2003. To achieve the improvements, the team members are using a number of tools including RCM (Reliability-Centred Maintenance), TPM (Total Productive Maintenance), and 5S (workplace organization).

Group Management Report

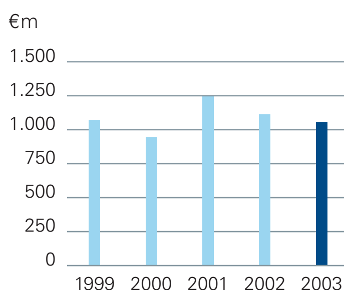
Business developments within the Group

Refinancing successfully completed

On February 9, 2004, we successfully completed our refinancing package totaling €866 million. The refinancing concept is based on three pillars: a capital increase of around €266 million (33.3 million shares), a corporate bond of €270 million due in 2012, and syndicated credit lines and guarantees of up to €330 million with a term of five to six years.

The core element of the transaction was the capital increase approved by a large majority of our shareholders at the Extraordinary General Meeting on January 15, 2004. We were able to set the subscription price at €8 instead of the €6 originally planned, thus generating €266 million from the capital increase. This resulted in much higher gross proceeds than initially expected and allowed us to reduce the principal of the bond from the originally scheduled €300 million to €270 million. The placement was a resounding success even though the bond received what we consider to be an unsatisfactory rating (Moody's: Caa1, Standard & Poor's: CCC+). Due to strong demand, we were able to place all the bonds earlier than expected, and at a comparatively low interest rate of 8.5%. The third pillar of our financing concept consists of syndicated loans of €330 million with a term of five to six years. These lines are granted to us by an underwriting syndicate. Our existing syndicated loan of €495 million has now been fully repaid. In accordance with the new loan agreement, a tender offer was made to the bondholders of our outstanding convertible bond of €134 million due in 2005. In addition, the loans provide full coverage for the maximum amount of all antitrust fines, along with any related interest payments and currency hedging costs. Our refinancing package therefore covers all known financial risks, creates a balanced maturity structure for our liabilities extending up to 2012 and substantially improves our equity base. It enables us to concentrate on our operating activities in the long term.

Consolidated sales revenue



Economic environment remains challenging

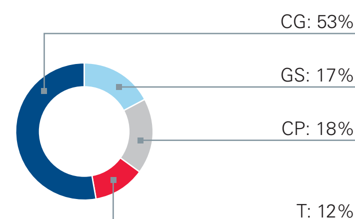
The war in Iraq, the rise of the euro against the US dollar and British pound sterling in the course of the year and ongoing pronounced consumer reticence in the face of an uncertain economic situation all left their mark on the global economy in 2003. While the US and Japan experienced an upturn in the second half of the year, forecasts for the eurozone, which did not see a recovery, had to be revised.

The weak state of the global economy also affected most of our customer industries in the Graphite Specialties (GS), Corrosion Protection (CP) and SGL Technologies (SGL T) Business Areas. One result was a further drop in capital spending in key sectors such as the chemical industry and mechanical and plant engineering. Demand in the electronics and aviation industries and in semiconductors remained at its previous low levels.

In contrast, global steel production continued to recover as against 2002, with electrosteel accounting for an estimated 33% of production. This is primarily due to continued strong demand for and production of steel in China, as well as to the ongoing recovery of the US steel industry, which was profiting from protectionist measures by the US government.

Global demand for graphite electrodes in the year under review increased by approximately 18 kmt (+2%) year-to-year. Our Carbon and Graphite business benefited by the insolvencies of one of our German competitors and of a smaller competitor in the US. We were able to gain more than many of our competitors from this reduction in supply, growing our market share year-to-year in the US in particular.

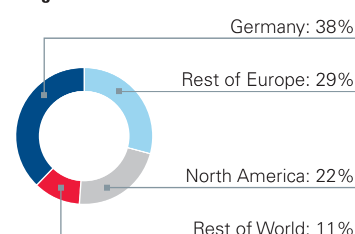
Sales revenue by Business Area



Consolidated sales revenue down from 2002 due to exchange rates and weak demand

At €1,046 million, consolidated sales revenue fell by €66 million or almost 6% year-to-year. The US dollar's dramatic slide against the euro of nearly 20% (annual average rate: $1.131/€ in 2003 compared to $0.945/€ in 2002) negatively impacted consolidated sales revenue by around €83 million; after adjustment for exchange rate effects, however, the Group's sales revenue rose by 2%. In addition, weak demand led to a downturn at CP and, to a lesser extent, at SGL T, hitting sales revenue by roughly €32 million. These exchange-rate- and demand-driven reduction could only be offset in part by positive volume developments at CG, where sales revenue rose by €53 million.

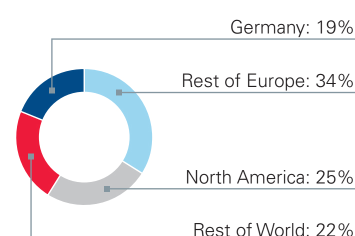
Sales revenue by region
Origin



This led to the following shift in the sales revenue structure of our Business Areas: the share of sales revenue attributable to Carbon and Graphite rose from 50% to 53%, while the share attributable to Graphite Specialties slid from 18% to 17%. Corrosion Protection dropped from 19% to 18% and SGL Technologies from 13% to 12%.

Regional sales revenue remained unchanged year-to-year, with 19% being generated in Germany, 34% in the rest of Europe, 25% in North America and 22% in the rest of the world.

Sales revenue by region
Destination



Gross profit up despite decrease in sales revenue and negative exchange rate effects

€m	**2003**	2002
Sales revenue	1,046.2	1,112.3
Cost of sales	– 798.8	– 886.5
Gross profit	**247.4**	**225.8**
Gross return on sales (%)	23.6	20.3

Gross profit rose by €22 million or 10% to €247 million. The gross return on sales – the ratio of the gross profit to sales revenue – increased from 20% to over 23%. The main driver behind the increase in gross profit was the continued success of our cost-cutting programs.

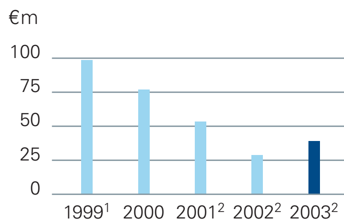
In addition volume developments in the CG Business Area also had a positive effect. However, the rise of the euro and continuing weak demand in main customer industries had a negative impact.

Selling expenses rose from €139 million to €142 million (2%) due to the substantial increase in shipments of graphite electrodes. In contrast, we reduced our research and development costs as planned in the period under review from €25 million to €21 million following the completion of the development of our carbon-ceramic brake discs and the start of operations at our new brake disc production facility in Meitingen. General and administrative expenses were also down €1 million to €46 million. At €15 million, net other operating income was lower than in the previous year. This difference was mainly due to the drop in income from the release of provisions and the insurance compensation received in 2002.

Profit from operations up substantially year-to-year

Profit from operations before costs relating to antitrust proceedings and restructuring expenses rose from €28.6 million in 2002 to €38.9 million in 2003, an increase of approximately 36%.

Profit from operations



[1] HGB (German Commercial Code)
[2] before costs relating to antitrust proceedings and restructuring expenses

The systematic cost-cutting programs being continued as part of our restructuring measures and our Group-wide improvement initiative, SGL Excellence, made a substantial contribution to this improved income situation, accounting for savings of €32 million. The sale of our electrical contacts business also had a positive effect. However, the sharp rise of the euro against the US dollar, the Polish zloty and British pound sterling impacted profit from operations by around €18 million. Special factors such as additional certification costs for the carbon fibers we produce in-house as part of our brake disc production activities as well as higher-than-expected program costs for new projects for the US aerospace industry negatively impacted profit from operations by €4 million.

Profit from operations by Business Area[1]

€m	**2003**	2002	Change (%)
CG	66	52	27
GS	7	2	250
CP	– 4	5	–
T	– 12	– 12	0
Corporate Costs	– 18	– 18	0
Group	**39**	**29**	**34**

[1] before restructuring expenses

Restructuring expenses
During the year under review, the Group spent a total of €10 million (previous year: €8 million) on ongoing restructuring efforts. Our main focus was on measures for improving efficiency and productivity at our sites in France, Italy, Poland and Germany. In the course of these activities, we had to reduce our total headcount by 434 to 6,926. The sale of our electrical contacts business in early 2003 and other changes in the basis of consolidation resulted in a drop in the workforce of 147 employees. In addition to this, we concluded 44 new partial early retirement contracts in Germany. While these increased provisions in the year under review, they will reduce our costs going forward.

In spite of the charges entailed by these activities, we were able to improve our profit from operations after restructuring expenses by 40% to €28.5 million.

Costs relating to antitrust proceedings
As part of its investigation into anti-competitive behavior in the graphite industry, which has been running since 1997, the European Commission imposed a fine of €23.6 million on SGL Carbon AG in December 2003. This relates to "electrical and mechanical carbon and graphite products". We do not believe that this fine is justified and have appealed against the decision with the European Court. In this context, we have increased the existing antitrust provisions by €19.5 million as a precautionary measure. This figure also includes appropriate provisions for legal costs.

These special factors notwithstanding, we increased our profit from operations, both before and after costs relating to antitrust proceedings and restructuring.

€m	**2003**	2002	Change (%)
Profit from operations before costs relating to antitrust proceedings and restructuring	**38.9**	**28.6**	**36**
Restructuring expenses	– 10.4	– 8.3	– 25
Profit from operations before costs relating to antitrust proceedings	**28.5**	**20.3**	**40**
Costs relating to antitrust proceedings	– 19.5	– 22.0	11
Profit/loss from operations	**9.0**	**– 1.7**	**–**

The consolidated profit from operations after costs relating to antitrust proceedings and restructuring amounted to €9 million during the period under review (previous year: loss from operations of €2 million).

Net financing costs hit by high one-time charges

Net financing costs in fiscal year 2003 totaled €73 million, compared with €26 million in the prior year.

€m	**2003**	2002
Net investment income	– 4.7	– 1.8
Interest income	3.4	2.2
Interest on borrowings	– 26.9	– 27.4
Imputed interest on liabilities from antitrust proceedings in North America	– 6.2	3.4
Accrued interest on European antitrust proceedings	– 5.6	0.0
Interest component of additions to pension provisions	– 10.5	– 10.4
Refinancing expenses	– 16.1	0.0
Deferred costs of convertible bond	– 1.5	– 0.6
Exchange rate effect on liabilities for North American antitrust proceedings and hedging instruments	0.2	4.5
Expenses for EU guarantees	– 2.4	– 0.9
Other net financing costs/net financial income	– 3.0	5.5
Net financing costs	**– 73.3**	**– 25.5**

Higher net financing costs were primarily due to the costs of the refinancing measures implemented at the end of 2002. These were fully expensed during the year under review, as the refinancing package described above had already been successfully implemented at the time the consolidated financial statements were being prepared. The non-cash accrued interest on liabilities from the North American antitrust proceedings increased costs by a further €6 million. In the previous year, the rescheduling of the payment plan had led to a positive one-time contribution of €3 million.

At the end of 2003, we accrued the interest potentially payable in connection with the European antitrust fines for the first time.

Exchange rate effects relating to our North American antitrust liabilities and associated hedging activities resulted in income of €0.2 million during the period under review (2002: €4.5 million).

The increase in other net financing costs is mainly due to the one-time gain in 2002 from the release of the fair value of an option in that year.

In contrast, the interest on borrowings remained at the prior-year level (€27 million). Higher average annual financial liabilities and a slightly higher average interest rate of 4.7% (previous year: 4.4%) were offset by the non-recurrence of interest charges on receivables sold in 2002.

Net loss after tax widens year-to-year

The tax benefit for fiscal year 2003 resulted from the recognition of tax loss carryforwards. These exceeded the tax liabilities resulting from positive earnings contributions by foreign companies which could not be offset against loss carryforwards

from other companies. Due to the clear turnaround in our business in the United States, we recognized a first part of the loss carryforwards on the basis of a cautious estimate. As in the past, we did not recognize deferred tax assets on the losses we incurred in Scotland. The addition to the provision for antitrust risks was treated as a non-tax-deductible expense for consolidated reporting purposes. During the year under review, we lodged an appeal with the German financial authorities against the tax treatment of the fine imposed by the US antitrust authorities, and in this context we recognized deferred tax assets for this for the first time. When calculating the latter, however, we only recognized a partial amount on the basis of external tax opinions and our best estimate of the probability of their realization. All in all, the net loss for the year widened to €50 million (previous year: €24 million), while earnings per share fell to € –2.27 as a result (previous year: € –1.08).

Business Area developments

Carbon and Graphite [CG]: Results up due to cost-cutting and positive volume effects despite weak dollar

€m	**2003**	2002	Change (%)
Sales revenue	558	551	1
Profit from operations before depreciation and amortization	101[1]	90	12
Profit from operations	66[1]	52	27
Return on sales (%)	12[1]	9	
Investments in property, plant and equipment	21	23	– 9
Depreciation and amortization expense	35	38	– 8
Research and development	7	8	– 13
Employees (Dec. 31)	2,826	3,041	– 7

[1] before restructuring expenses

CG sales revenue totaled €558 million in 2003, up 1% on the previous year. The positive volume effects for graphite electrodes more than made up for lower revenues due to unfavorable exchange rates. The graphite electrodes sales volume increased by 17% to 202,000 tons (2002: 173,000 tons), which resulted in a full capacity utilization in 2003. The average price in euros continued to fall due to exchange rate effects. However, we were able to increase our average prices in local currencies for 2003 by 2% in euros and 7% in US dollars as against their low in the fourth quarter of 2002. The lack of new projects in the aluminum industry, the decline in demand in the silicon metal industry and US dollar translation effects impacted sales revenue from cathodes and carbon electrodes. In contrast, our sales revenue from furnace linings hit €20 million for the first time (previous year: €14 million).

Profit from operations rose in fiscal year 2003 to €66 million (previous year: €52 million), primarily due to our cost-cutting measures and the substantial increase in the volume of graphite electrodes sold. These more than compensated for the effects of the rise of the euro, which reduced earnings by around €18 million, valuation allowances on customer receivables amounting to almost €5 million and a decline in the volumes of cathodes and carbon electrodes sold.

After restructuring expenses, profit from operations amounted to €63 million. The expenses were related to headcount reductions in Poland and Italy, as well as to the conclusion of partial early retirement contracts with employees at our German sites.

Graphite Specialties [GS]: Special factors positively impacted profit from operations

€m	**2003**	2002	Change (%)
Sales revenue	174	196	– 11
Profit from operations before depreciation and amortization[1]	20	18	11
Profit from operations[1]	7	2	250
Return on sales (%)[1]	4	1	
Investments in property, plant and equipment	6	6	0
Depreciation and amortization expense	13	16	– 19
Research and development	3	5	– 40
Employees (Dec. 31)	1,353	1,476	– 8

[1] before restructuring expenses

In addition to the ongoing economic weakness in our customer industries (semiconductor technology, metals, chemicals, and mechanical and plant engineering), 2003 sales revenue declined by 11% to €174 million due to the sale of our electrical contacts business and the weakness of the US dollar.

At €7 million, profit from operations before restructuring expenses was €5 million higher year-to-year. The proceeds from the sale of our electrical contacts business and the first-time consolidation of our Polish company SGL ANGRAPH were the main positive factors. Adjusted for these effects, profit from operations would have been €2 million lower than in the previous year, since cost savings of €6 million only partially compensated the impact of the decline in demand. After restructuring expenses, profit from operations fell to €4 million (previous year: loss from operations of €3 million). Restructuring measures in the year under review focused on the closure of our production capacities in Grenoble, France.

Corrosion Protection (CP): Weak demand continues

€m	**2003**	2002	Change (%)
Sales revenue	186	212	– 12
Profit from operations before depreciation and amortization[1]	4	15	– 73
Loss/profit from operations[1]	– 4	5	
Return on sales (%)[1]	– 2	2	
Investments in property, plant and equipment	2	2	0
Depreciation and amortization expense	8	10	– 20
Research and development	3	2	50
Employees (Dec. 31)	1,888	2,034	– 7

[1] before restructuring expenses

In fiscal 2003, CP sales revenue fell again, dropping 12% to €186 million. This was mainly caused by muted investment by our key customer industries, an overall drop in repair and maintenance expenditure and the postponement of orders in the chemical, energy and environmental industries. All CP product areas were affected.

Profit from operations before restructuring expenses declined from €5 million in 2002 to a loss of €4 million in the year under review. This was primarily due to lower capacity utilization, which could only be partially offset by ongoing rationalization measures. We implemented additional cost-cutting measures resulting in restructuring expenses of €2 million at our German plants in Siershahn, Bornum and Meitingen and at our French site in Grenoble. The result from operations after restructuring expenses therefore declined in the year under review to €–6 million.

SGL Technologies [T]: Start-up and certification costs impacted earnings

€m	**2003**	2002	Change (%)
Sales revenue	125	150	– 17
Profit from operations before depreciation and amortization	4[1]	5	– 20
Profit from operations	– 12[1]	– 12	0
Return on sales (%)	– 10[1]	– 8	
Investments in property, plant and equipment	4	9	– 56
Depreciation and amortization expense	16	17	– 6
Research and development	7	9	– 22
Employees (Dec. 31)	805	757	6

[1] before restructuring expenses

In the past fiscal year, sales revenue fell by 17% to €125 million. The main cause apart from lower demand in the fiber area caused by cyclical effects was the weak US dollar: SGL T generates and invoices around 60% of its sales revenue in the dollar zone. The drop in orders from the civil aerospace sector due to economic uncertainties also impacted sales revenue in 2003.

Our loss from operations of €–12 million remained at last year's level and we were therefore yet unable to achieve our original target of breaking even in 2003. This was mainly due to additional start-up costs for new orders from the US aerospace and defense industry, and higher-than-expected certification costs for the carbon fibers produced by SGL T and used in brake disc manufacture. Taken as a whole, these factors impacted earnings by about €4 million during the year under review.

Restructuring expenses in 2003 amounted to approximately €2 million and related almost exclusively to our US subsidiary HITCO CARBON Composites, Inc. The main measures taken related to the streamlining of administrative functions at the Gardena facility. In addition, non-cash write-downs of inventories were charged for legacy programs.

Balance sheet structure

€m	2003	%	2002	%
Assets				
Noncurrent assets	536	43	614	48
Inventories	258	21	288	22
Receivables, other assets	407	32	362	28
Cash and cash equivalents	46	4	22	2
Total assets	**1,247**	**100**	**1,286**	**100**
Equity and liabilities				
Equity	117	9	196	15
Provisions	355	28	340	26
Financial liabilities	494	40	449	35
Other liabilities	281	23	301	24
Total equity and liabilities	**1,247**	**100**	**1,286**	**100**

Total assets at the end of 2003 amounted to €1,247 million, down €39 million compared with December 31, 2002. Exchange rate effects totalled €68 million.

The main reasons for the €78 million decline in noncurrent assets were the foreign currency translation of our US noncurrent assets (€44 million) and depreciation and amortization in excess of capital expenditures (€28 million). We were able to maintain our working capital (net carrying amounts of inventories and trade receivables less trade payables) at the prior-year level. Taking the sale of receivables at the end of 2002 into account, we reduced our working capital by €46 million, €21 million of which was attributable to currency translation effects.

€m	Dec. 31, 2003	Dec. 31, 2002	Change
Inventories	258	288	– 30
Trade receivables	221	208	+ 13
Trade payables	99	111	– 12
Working capital	380	385	– 5

Net financial liabilities (financial liabilities less cash and cash equivalents) totaled €448 million as of December 31, 2003. Our gearing – the ratio of net financial liabilities to equity – rose to 3.8 (previous year: 2.2). In addition to exchange rate effects, costs relating to antitrust proceedings and restructuring expenses, equity was impacted by net financing costs, falling from €196 million to €117 million in the year under review. As a result, the equity ratio fell to 9% (previous year: 15%).

Liquidity and capital resources

Long-term refinancing successfully completed in February 2004

In the year under review, our recognized net financial liabilities (financial liabilities less cash and cash equivalents) rose by €21 million from €427 million to €448 million. Adjusted for the sale of receivables at the end of 2002, which amounted to €41 million, we reduced our net financial liabilities by €20 million.

We reduced our working capital (inventories and trade receivables less trade payables) adjusted for the sale of receivables by a further €46 million in the year under review. At €46 million, capital expenditures on property, plant and equipment and intangible assets were again lower than the depreciation and amortization expense (€72 million). At €15 million, payments relating to antitrust proceedings were €4 million higher than in the previous year.

Cash provided by operating activities after adjustment for exchange rate effects but before payments relating to antitrust proceedings dropped to €18 million, compared with €149 million in the previous year. Cash used in investing activities fell to €40 million from €41 million in the previous year.

Profit from operations before depreciation and amortization (EBITDA), antitrust risks and restructuring expenses amounted to €111 million, up €1 million year-to-year. All four Business Areas made a positive contribution to this development – including SGL Technologies, which was established in 2000, for the first time.

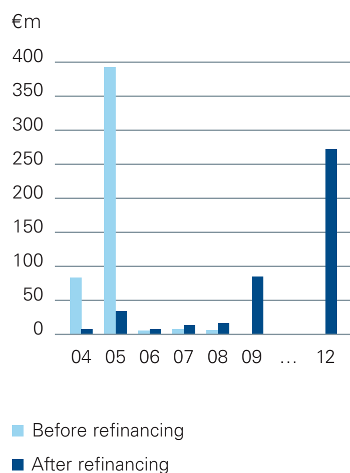
Cash provided by financing activities is attributable to the increased utilization of our credit lines. This is reflected in our increased cash position on the one hand and in the higher financial liabilities on the other.

At the end of 2003, we put our comparatively short-term financing on a long-term footing under the management of Credit Suisse First Boston (CSFB). The short-term financing had taken the form of a syndicated loan negotiated in December 2002 and due to mature in 2005. The new refinancing package is based on three pillars: a capital increase, corporate bonds and new syndicated loans.

Income statement, summary

€m	**2003**	2002
Sales revenue	1,046	1,112
Cost of sales	– 799	– 886
Gross profit	**247**	**226**
Selling/administrative/general expenses	– 208	– 197
Profit from operations	**39**	**29**
Costs relating to antitrust proceedings and restructuring expenses	– 30	– 30
Net financing costs	– 73	– 26
Loss before tax	**– 64**	**– 27**
Income tax benefit	14	3
Net loss for the period	**– 50**	**– 24**

Maturity structure of the financial debts



The capital increase comprised 33,277,437 new shares, which were placed on the capital market at a price of €8 per share. After deduction of the transaction costs, the net proceeds from the capital increase resulted in around €244 million for the Company. This will improve our equity ratio to approximately 25%. The corporate bond in the amount of €270 million has a term of eight years (due in 2012) and an interest rate of 8.5%. The syndicated loans comprise credit lines of up to €330 million with terms of five to six years. They include guarantees of the maximum amount payable in connection with the EU antitrust fines including any additional interest payments. Corresponding amounts for outstanding payments to the North American antitrust authorities have been paid into an escrow account set up specifically for this purpose. This guarantees the Company's entire financing requirements and the payment of all antitrust fines including interest – regardless of whether any court rulings turn out to be more favorable for SGL – and hence rules out future liquidity risks in this area. The funds earmarked to buy back our convertible bond as agreed under the refinancing package have also been made available separately.

The new syndicated loans are granted subject to the condition that the Group complies with standard bank covenants, such as the ratio of net financial liabilities (financial liabilities less cash and cash equivalents) to EBITDA and EBITDA to interest expense.

Capital expenditures

€m	**2003**	2002
CG	21	23
GS	6	6
CP	2	2
T	4	9
Other	0	1
Group	**33**	**41**

Capital expenditures and depreciation

Capital expenditures at replacement level

Following the completion of SGL T's major capital expenditure programs, we continued to streamline capital expenditures in property, plant and equipment as planned. They amounted to €33 million in the year under review, i.e. €31 million lower than depreciation. 64% of these investments were attributable to CG, 18% to GS, 6% to CP and 12% to SGL T. Capital expenditures in property, plant and equipment were primarily for replacement and normal preservation.

Capital expenditures in intangible assets during the past fiscal year related primarily to the costs for the development of our global SAP system platform, "SGL ONE", on which we spent around €9 million in 2003. After development was completed, the system successfully went live at our companies in Spain and North America on January 1, 2004. This new Group-wide IT system will be introduced at our other European companies in the course of 2004.

Capital expenditures in 2004 up slightly on previous year

We expect Group capital expenditures to total around €50 million in the coming year. Expenditure on software development will decrease, while investments in property, plant and equipment will increase slightly. We expect that Group capital expenditures in 2004 will be approximately €20 – €25 million lower than depreciation.

Research and development

Further increases in efficiency and the start of full scale production of our carbon-ceramic brake discs cut research and development expenses to €21 million (previous year: €25 million).

R&D-Costs

€m	2003	2002
CG	7	8
GS	3	5
CP	3	2
T	7	9
Other	1	1
Group	**21**	**25**

CG: Process optimization and customer orientation provide competitive edge; new investigative techniques lead to new products

In the year under review, we focused our efforts on a large project designed to improve the quality of our graphite electrodes. Building on our broad application expertise and our product knowledge, we now offer customers solutions with even better product and process features.

The selective use of forming techniques is helping us to continuously optimize production processes. Particularly energy-intensive processes such as longitudinal graphitization can be optimized in terms of process length and product yield. Our investigations have also improved our understanding of the design of blast furnaces. We will continue to use forming techniques for process optimization.

We rounded off our range of furnace linings by introducing a microporous quality with low thermal conductivity and maximum resistance to pig iron. This enables our customers to save energy in their blast furnace operations. In cooperation with SINTEF, we also developed and patented a process for determining cathode consumption in the electrolysis process. This new process allows realistic estimates of the useful life of aluminum cells, thus improving product development efficiency.

GS: Qualification of new raw materials and production processes improves material quality and cuts costs

In the area of isostatically pressed materials, we successfully positioned a new brand for pressure sintering on the market. The standardization of block measurements was a crucial step in development, leading to cost savings and improved capacity utilization during carbonization.

In the area of extruded materials, we successfully concluded the development of a new brand for nuclear engineering applications.

CP: Hard rubber lining with elastic qualities

We have developed a hard rubber lining with an elongation at tear ten times that of the current state of the art. As this minimizes susceptibility to cracking, hard rubber linings can now also be used in road tankers, opening up new areas of application.

Modular concept for epoxy-based floor coating

A wide variety of floor coatings are available for use with concrete subsurfaces. At present, different products are employed for different application stages. We have now succeeded in combining primer, scratch filler and topcoat for the first time to produce a two-component system in a simple modular design.This makes both logistics and application much easier. SGL ACOTEC is the first provider of an epoxy module concept on the market.

SGL T: Own carbon fibers in carbon-ceramic brake discs

Broader market penetration of our carbon-ceramic brake discs depends on further reductions in material and process costs. The successful conclusion of enhancements to carbon fibers from our production facility in Scotland for use in carbon-ceramic brake discs was a crucial step in this process. This means that we now cover the entire value chain, from fibers through to the finished component.

Innovative graphite seals meet stricter legal requirements

The German government's new technical regulation on air pollution ("TA-Luft") prescribe much lower leakage limits for sealing joints in the chemical and petrochemical industries. To meet these requirements, we have developed and successfully launched innovative seals and sealing systems based on expanded graphite. These new sealing systems reduce emissions, thus also making a major contribution to environmental protection.

Optimized gas diffusion layers improve fuel cell performance

Carbon fiber diffusion layers ensure equal distribution of hydrogen and oxygen in fuel cells. We substantially improved the homogeneity and thickness consistency of gas diffusion layers by optimizing all steps in production. Our customers are now able to build more efficient fuel cell stacks. This development will enable us to further cement our already excellent market position in the field of gas diffusion layers.

Environmental protection, health and safety

The SGL Carbon Group complies with the laws and regulations on environmental protection and occupational health and safety in force in all countries in which it operates.

We consider ourselves obliged to continuously improve our testing systems, environmental protection, and health and safety in the workplace by constantly optimizing our processes. We do this by setting targets and monitoring their achievement. Total expenditures on environmental protection, health and safety in the workplace and risk prevention in the period under review amounted to €28 million. Of this figure, €4 million was invested in new installations and measures relating to technical environmental protection installations, while ongoing operating costs totaled €18 million. Expenditures on health and safety in the workplace and technical risk prevention amounted to €6 million.

Work accidents and days lost

	2003	2002	2001	2000
Accidents per 200,000 hours worked	2.2	2.4	1.9	1.4
Days lost per 200,000 hours worked	51	80	65	38
Safety Performance Index	8,154	21.542	12,164	3,561

One of our main goals is occupational safety, and hence accident prevention. To achieve this, we support our Group managers and staff in their efforts to ensure a safe working environment. We have an efficient Group-wide reporting system for all types of accidents; this includes investigating the cause of the accident and then taking appropriate countermeasures. The measures we implemented considerably improved occupational safety during the year under review.

Since 1995, we have been emphasizing forward efforts to reduce emissions and all forms of waste at all SGL sites by at least 30%. We are also continuing to successively reduce our consumption of process water and energy.

Many of our products help to protect the environment by making efficient use of resources. Examples include graphite electrodes for energy-saving recycling of scrap iron into steel, foils and oxidized fibers as substitutes for asbestos, and production equipment such as heat exchangers, separation columns, and pumps for processing and recycling highly corrosive media. Fuel cell components help reduce automobile exhaust emissions, carbon components reduce weight in aircraft and automobile construction, and carbon-fiber-reinforced silicon-carbide materials help reduce weight and improve safety when used in carbon-ceramic brake discs.

Risk report

Our risk management system (RMS) is comprised of a series of distinct but interlinked planning, monitoring and information systems. These cover all areas of the Company, and are continuously adapted to reflect changes in conditions. The RMS is based on an integrated planning process, value-based key ratio systems and control reports. The operating units and central service departments are responsible for identifying the respective key risks for the entire medium-term planning period, and for determining their financial impact and initial probability of occurrence. Defining countermeasures before the risk occurs is an integral part of our RMS. Key risks are examined and countermeasures are agreed and introduced as part of the target-setting meetings held between the Executive Committee and the operating units and central service departments. A rolling evaluation of the likelihood of key risks occurring takes place on a quarterly basis; any new risks which may have arisen are also identified, and countermeasures are examined by the responsible operating units and service departments.

Individual risks are aggregated by Corporate Controlling on a quarterly basis or ad hoc as required, and discussed at meetings of the Executive Committee. For its part, the Executive Committee informs the Supervisory Board about risk development and risk management at regular intervals. In addition, the Internal Audit department, which is independent of these processes, examines all components of the risk management system at appropriate intervals. The areas of responsibility for risk management are set out in Group guidelines.

Operational risks

The main operational risks for 2004 relate to the expected economic recovery and the revival of demand in our customer industries. Negative developments in these areas would impact our prices and sales volumes. Other operational risks relate to higher than anticipated raw materials, energy and personnel costs. All of our businesses, and especially our growth businesses, are subject to technological development risks. The market may grow at a lower rate than anticipated, and planned cost reductions may not occur. These factors are monitored on an ongoing basis within the businesses and via quarterly reports to the Executive Committee, which provide details of material variances.

Financial risks

We have significantly reduced our financial risks with the successful conclusion of our new refinancing package in early 2004. However, we still have to comply with certain covenants, and non-compliance could result in the suspension of this agreement, with the effect that a short-term extension of these coverage ratios would then have to be negotiated with the banks. This could lead to additional costs or, in the case of repeated instances of non-compliance, to the termination of the credit lines. We are countering this risk with a tough liquidity policy, plus rolling liquidity and financial planning based on the earnings and cash flow estimates provided by the operating units, which are updated on an ongoing basis. Our existing credit facilities, including the syndicated loans and the corporate bonds, cover the Group's foreseeable financing requirements.

We are also exposed to financial risks in the form of changes in interest and exchange rates, which we hedge using derivative financial instruments. Risk minimization is the overriding principle behind all our activities involving derivatives, which are employed exclusively for hedging purposes. The trading and monitoring functions are kept separate, and we also perform regular risk appraisals in this area.

Risks arising from antitrust proceedings

The antitrust proceedings in the US and in Canada have been concluded. Our appeals to the European Court of First Instance against the fine imposed by the European Commission in July 2001 with regard to graphite electrodes and the fine imposed in December 2002 with regard to specialty graphite are still pending. We appealed to the European Court at the start of 2004 against the fine imposed in December 2003 with regard to electrical and mechanical carbon and graphite products. The outcome of these proceedings remains uncertain at present.

Events after the balance sheet date

New management at Corrosion Protection

As part of our strategic review, the Corrosion Protection Business Area is being restructured; this will result in a clearer organizational separation between its Surface Protection and Process Technology Business Lines. These measures will enable these areas to better meet the different challenges of their respective markets. On top of this, the managers and employees of the business lines can now fully focus their efforts on the necessary restructuring measures, which entail further cost-cutting and sales revenue growth measures. In connection with this restructuring and reorientation process, we appointed new management for this Business Area; three managing directors of SGL ACOTEC GmbH left the company at the beginning of 2004.

Outlook for 2004

Economic recovery becoming visible

We are expecting to see the start of a moderate recovery in 2004 that should have a positive effect on the global economy. The upturn in growth in the United States and the economic recovery in Japan should now be followed by gradual recovery in Europe. However, there are risks associated with these forecasts. We expect that investment demand in the chemicals, plant and process technology and semiconductors industries will only start to pick up as the year progresses. In the steel industry, in contrast, we are forecasting steady development throughout the year based on 2003 levels. For the Group's result from operations year-to-year we anticipate a further significant improvement. We expect our cost-cutting measures, higher prices for graphite electrodes, demand-driven improvement at GS and a further substantial increase in sales revenue and the result at SGL Techno-logies to have a positive effect.

CG: Stable demand

We do not expect any significant change in demand for steel in the United States, in Europe and Asia in 2004, and we believe that sales volumes of graphite electrodes will remain more or less stable as a result. Our order books are confirming these projections and we are assuming that our production capacity will be fully utilized through the end of the first quarter of 2004. We do not anticipate any major changes to the volumes of cathodes and carbon electrodes sold. The consolidation of the graphite electrodes industry, which began in 2003, has resulted in a tightening in supply. In light of these developments, we believe that we will be able to successfully implement the price increases for graphite electrodes that we have already announced. We have hedged our expected net position from sales invoiced in US dollars and raw materials purchases denominated in US dollars for our European business using currency forwards at a rate of $1.15/€ for the year 2004 as a whole. Our ongoing restructuring program will further improve our cost position. Consequently, we are forecasting a further improvement in our result.

GS: Initial signs of a recovery in demand
We are anticipating a moderate economic recovery in our customer industries (mechanical engineering, metal processing and semiconductor technology) in the course of 2004. Incoming orders and booked business are beginning to pick up. In addition the continued centralization of our machining activities and additional savings to be implemented as part of our SGL Excellence initiative will be key factors for the expected profit improvement.

CP: Business reorganization
At the end of 2003, we conducted an extensive review of the strategic orientation of our CP Business Area. The systems approach that CP has followed since it was founded in 2000 has to be reviewed and aligned with the radical shift in customer behavior. As a result, we are considering the options open to us, including the sale of certain activities, extensive restructuring measures and outsourcing opportunities. We will discuss the strategic reorientation and related measures in detail within the Group and announce them in mid-2004 at the latest.

SGL T: Further reduction in losses
For 2004 as a whole, we are forecasting a further increase in sales revenue from our carbon fibers and carbon-ceramic brake discs, as well as from the defense business operated by our US subsidiary HITCO. Savings from quality and production improvements are expected to further reduce the loss from operations. For example, the full certification of in-house carbon fibers will significantly reduce production costs for our carbon-ceramic brake discs. Our goal is to approach break-even in the SGL T Business Area.

Liquidity and capital resources
The new financial framework offered by our refinancing package will provide us with sufficient funds to cover peaks in financial demand during the year.

Our compliance with the loan covenants set by the banks is assured by the expected improvement in our profit from operations and a renewed cap on capital expenditures in 2004.

Annual financial statements of SGL Carbon AG (condensed*)

Balance Sheet

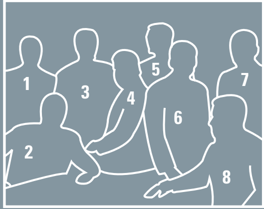
€m	**Dec. 31, 2003**	Dec. 31, 2002
ASSETS		
Intangible assets/property, plant and equipment	43	34
Noncurrent financial assets	366	379
Noncurrent assets	**409**	**413**
Receivables and other assets	350	486
Cash, marketable securities, prepaid expenses	38	1
Current assets	**388**	**487**
Total assets	**797**	**900**
EQUITY AND LIABILITIES		
Equity	198	245
Provisions and Special tax-allowable reserves	126	96
Financial liabilities	320	358
Other liabilities	153	201
Total equity and liabilities	**797**	**900**

Income Statement

€m	**2003**	2002
Net investment income	8	28
Other expenses, net	– 35	– 6
Result of ordinary activities	**– 27**	**22**
Extraordinary result	– 19	– 20
Taxes	– 3	– 2
Net loss for the year	**– 49**	**0**
Loss brought forward from previous year	– 9	– 9
Withdrawal retained earnings	58	0
Accumulated deficit	**0**	**– 9**

* according to HGB-German Commercial Code

Our annual report contains statements on future developments that are based on currently available information and that involve risks and uncertainties that could lead to actual results deviating from these forward-looking statements. These risks and uncertainties include, for example, unforeseeable changes in political, economic and business conditions, particularly in the area of electrosteel production, the competitive situation, interest rate and currency developments, technological developments and other risks and unanticipated circumstances. We see other risks in price developments, unexpected developments relating to acquired and consolidated companies, ongoing restructuring measures and unforeseeable occurrences in conjunction with the reviews to be performed by the European antitrust authorities. SGL Carbon does not intend to update these forward-looking statements.



(1) Armin Bruch,
Commercial

(2) Dr. Hubert Jäger,
Technology

(3) Dr. Eric Guajioty,
Business Team
Electrodes

(4) Steven Denhof,
Human Resources

(5) Dr. Dieter Klein,
Operations

(6) Dr. Jürgen Köhler,
Business Team Cathodes,
Furnance Linings

(7) Theodore H. Breyer,
Business Unit Chairman

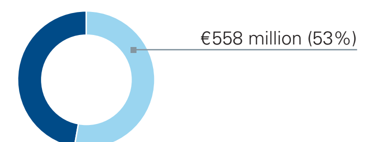
(8) Scott Carlton,
Controlling

We provide our customers with innovative products and superior service. We have reduced our costs by €60 million over the last three years and will continue on the path of productivity improvement and cost reduction by unleashing the potential of our human capital across the globe.

Carbon and Graphite [CG]

The Carbon and Graphite Business Area's core products are graphite electrodes, which are used for steel production in electric arc furnaces. We also manufacture cathodes for use in aluminum production and carbon electrodes for use in metallurgy. Furnace linings for pig iron production round out our product portfolio.

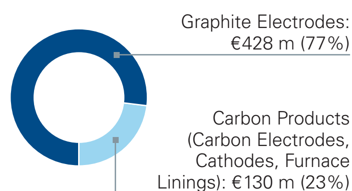
Share of Group Sales Revenue



2003 saw further growth in steel production around the world. In particular, CG benefited from the positive effect of sustained strong demand for and production of steel in China, and the continued recovery of the US steel industry. However, the weak US dollar eroded most of the positive growth in graphite electrode volumes. Despite this, we significantly improved our profit from operations year-on-year thanks among other things to cost savings from our restructuring programs and our Group-wide improvement initiative SGL Excellence, which turned out to be much higher than expected.

CG

Sales revenue by Business Line



Record sales revenue after adjustment for exchange rate effects

At €558 million, CG's sales revenue rose by 1% in 2003 compared to 2002. Graphite electrode sales volumes increased by 17% and prices in local currency by 4%. The strong demand for graphite electrodes was mainly driven by the recovery in Asia and North America, stock replenishment by customers, the high level of steel production, and consolidation within the electrode industry. The insolvencies of two of SGL Carbon's competitors, CGG and Conradty, for example, reduced capacity by around 50,000 tons. However, the increase in CG's volumes and prices was almost fully offset by the weak US dollar, which lost 18% of its 2002 value. Adjusted for exchange rate effects, CG's 2003 sales revenue climbed 12% year-to-year.

Profit from operations up 27%

CG's profit from operations developed extremely well in 2003, jumping 27% to €66 million (2002: €52 million). This was largely due to price and volume increases, as well as cost savings from restructuring measures. Key factors holding down profit from operations were bad debt losses in North America (€4 million) and the weak US dollar (€18 million).

Record rise in graphite electrodes volumes

At 202,000 tons, sales volumes of graphite electrodes were up almost 30,000 tons year-to-year. Compared to 2002, average revenue from graphite electrodes rose 4% in local currencies, but fell 2% in euros.

Cost-cutting right on course

The restructuring and cost-cutting program approved at the end of 2001 was designed to reorganize our global graphite business and improve its efficiency. These measures are continuing to bear fruit: in fiscal 2003, we cut costs by a total of €17 million thanks to our restructuring program and the SIX SIGMA projects implemented as part of the SGL Excellence initiative.

Business line performance

CG's individual Business Lines recorded mixed results in the year under review. The market for carbon electrodes remained sluggish, continuing its downward trend. Sales revenue failed to meet expectations due to a sharp drop in prices. As a result, we intend to reduce production costs in this area substantially.

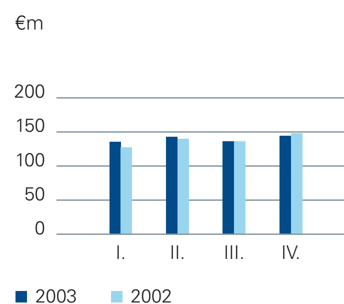
The cathodes market has now become aware of the high quality of our Polish products. In 2003, our cathodes business benefited to a lage extend from stable demand from the aluminum industry, although it too was impacted by the slide of the dollar.

The furnace linings segment continues to benefit from our market positioning as a "preferred supplier", as well as from the high quality of our products – we sold out completely during the year under review. In addition to the developments in our graphite electrodes business already mentioned, our low-cost production sites have now achieved an outstanding cost per ton ratio, plus extremely high quality.

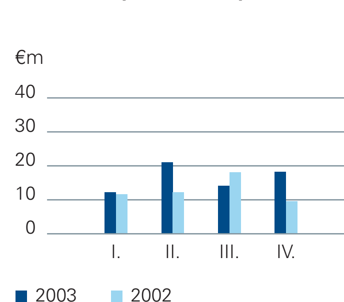
Outlook for 2004

Going forward, we expect prices for graphite electrodes to increase further in 2004. We believe that lower costs will continue to give a significant competitive edge. We aim to maintain our market share at 2003 levels, and are not expecting the market to grow in 2004. On the whole, we hope to increase our profit from operations significantly in 2004.

Sales revenue by quarter



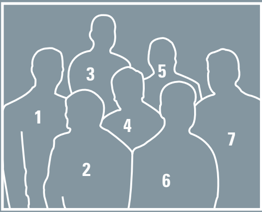
Profit from operations by quarter



Key figures CG

€m	**2003**	2002	Change (%)
Sales revenue	558	551	1
Profit from operations before depreciation and amortization	101[1]	90	12
Profit from operations	66[1]	52	27
Return on sales (in %)	12[1]	9	
Capital expenditures	21	23	– 9
Depreciation and amortization	35	38	– 8
Research and development	7	8	– 13
Employees (Dec. 31)	2,826	3,041	– 7

[1] before restructuring expenses



(1) Dr. Gerd Wingefeld,
Machining Services

(2) Beate Hillebrecht-Harris,
Human Resources

(3) Dr. Martin Schwarz,
Feedstock

(4) Markus Mirgeler,
Marketing & Sales

(5) Dr. Christfried Schlosser,
Technology / Innovation

(6) Volker Rechtmann,
Business Administration

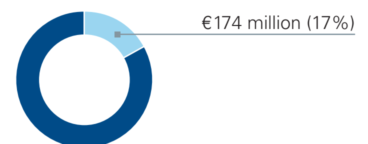
(7) Dr. Hariolf Kottmann,
Business Unit Chairman

We are the "pioneers" of the Group-wide SGL Excellence initiative. This has enabled us to achieve a permanent reduction in our costs and working capital and to increase productivity over the past two years. We will continue our efforts in this area to strengthen our international competitiveness. We also intend to compensate for recent fluctuations in demand in Europe and North America by offering innovative products and services, with the focus firmly on our customers.

Graphite Specialties [GS]

The Graphite Specialties Business Area produces customized products for a wide range of industries, including the semiconductor and automotive sectors and metallurgy. We focus on products with a high level of value added, such as technical carbon products for high-tech applications, including semiconductor materials. We also develop mechanical carbons for use as sealing rings, and bearing and pump components for the automotive and engineering sectors.

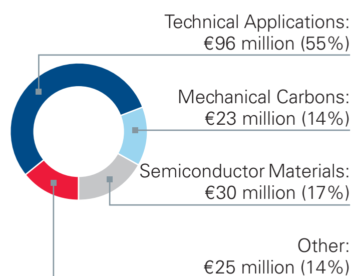
Share of Group Sales



Our expectations that GS's key markets – semiconductors, mechanical and plant engineering and the chemical sector – would pick up in the second half of 2003 did not materialize. Instead, price and exchange rate effects combined to push down GS sales revenues in the period under review. However, improvements resulting from SGL Excellence, our Group-wide optimization program, generated substantial cost savings.

GS

Sales revenue by Business Line



Divestitures contribute to lower sales revenue

At €174 million, GS sales revenue was down 11% year-to-year. The sale of our electrical contacts business in early 2003 contributed five percentage points to this drop. Exchange rate effects, falling prices and changes to the product mix, along with the generally weak economy, also left their mark.

Poor demand hits profit from operations

GS's profit from operations before restructuring expenses rose from €2 million to €7 million year-to-year. Poor demand in its key industries – semiconductors, chemicals and mechanical engineering – affected capacity utilization and consequently impacted earnings, especially in the US. Continued destocking in our customer industries also took its toll. In contrast, the consolidation of SGL ANGRAPH, Poland, and the sale of our electrical contacts business had a positive one-time effect.

Successful restructuring and cost-cutting programs

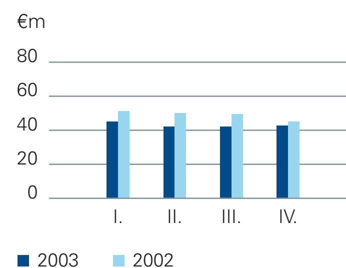
The restructuring measures introduced at GS at the end of 2001 and the associated cost-cutting programs were continued with considerable success in fiscal year 2003. The Group-wide SGL Excellence initiative and additional restructuring efforts led to total savings of almost €6 million. Of this figure, nearly €4 million is attributable to a wide range of SIX SIGMA projects. This enabled us to partly offset the decline in demand.

Customer relationships further intensified

GS further strengthened its customer ties in 2003, focusing on the automotive and energy industries in particular. This improved margins and led to long-term supply agreements for high-tech applications. For example, GS produces state-of-the-art components for hydraulic systems for the world's largest automotive suppliers. These parts are used in large, heavy automobiles such as sport utility vehicles (SUVs), among other things.

The electronic materials segment performed extremely well. As a supplier of high-quality specialty graphite for lithium ion batteries, we are profiting from the growing global demand for high-tech electronic equipment such as cellular phones, laptops and digital cameras. In 2003, global demand for graphite for lithium ion batteries grew by 25% year-to-year – the background to GS's 90% increase in production as compared to 2002. We are anticipating annual market growth of between 10% and 20% over the next five years, and GS and its partners intend to capture a share of this.

Sales revenue by quarter



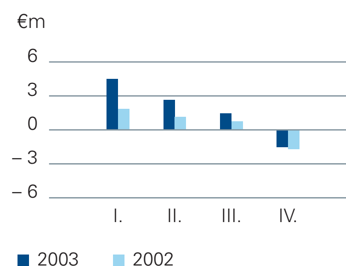
New customer relationship management (CRM) software

During the year under review, we introduced a state-of-the-art software for customer relationship management throughout our sales and marketing organization. The new system is further improving response times to customer requests, optimizing on-time delivery and slashing inventory costs.

Outlook for 2004

We do not expect 2004 to bring a radical economic recovery. In all probability, sales revenue in our traditional core business will remain at the prior-year level. However, we do expect a number of new products to generate additional growth. We also aim to exploit the recovery in our North American business that started emerging in the year under review, and to drive up sales revenue and earnings in 2004. Internally, GS's goal for the current year is to optimize market and hence customer-oriented workflows in line with our motto: "focus on customers – add value for customers." This means we will shift the focus of our project activities from operational excellence to commercial excellence, without neglecting our existing activities.

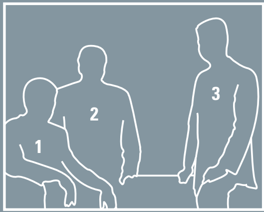
Profit from operations by quarter



Key figures GS

€m	**2003**	2002	Change (%)
Sales revenue	174	196	– 11
Profit from operations before depreciation and amortization[1]	20	18	11
Profit from operations[1]	7	2	250
Return on sales (in %)[1]	4	1	
Capital expenditures	6	6	0
Depreciation and amortization	13	16	– 19
Research and development	3	5	– 40
Employees (Dec. 31)	1,353	1,476	– 8

[1] before restructuring expenses



(1) Dr. Günter Hermann,
Head of Process Technology

(2) Dr. Hans Joachim Bühler,
Head of Surface Protection

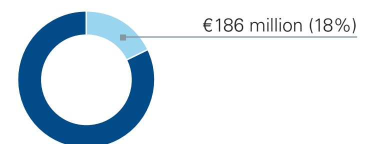
(3) Dr. Konstantin Krämer,
Finance / Business Administration

The sharp drop in maintenance and capital expenditures by our customers over the past two years has impacted our business. Although we have adapted our cost base to the cyclical downturn, this was not enough to achieve a positive operating result in 2003, since the markets for industrial corrosion protection are also experiencing structural change. We have therefore reorganized our business and are treating this development as a challenge and opportunity to reposition ourselves.

Corrosion Protection [CP]

The Corrosion Protection Business Area supplies products and systems offering protection against aggressive and corrosive media. Our product portfolio ranges from heat exchangers, columns and synthesis units to corrosion-resistant materials such as rubber linings, acid-proof linings, coatings, and customized plastics and pumps. We also offer our customers in the chemical and environmental protection sectors end-to-end systems for industrial corrosion protection.

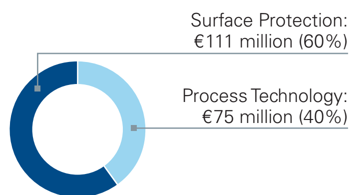
Share of Group Sales Revenue



In 2003, the CP Business Area experienced a radical and sustained change in the global industrial corrosion protection environment. As a result, we shall be adapting and developing the business strategy that CP has pursued since it was founded in 2000 – a systems approach based on "one-stop shopping for corrosion protection" – to reflect this fundamental shift in investment and maintenance behavior in our target industries. 2004 will therefore be a year of restructuring for CP, during which it will refocus on the market's new requirements.

CP

Sales revenue by Business Line



Downturn hits sales revenue and earnings

We had expected demand to pick up in the second half of 2003 following a cyclically weak first six months, but this forecast was proven wrong at the end of the third quarter, mainly due to lower volumes caused by the economic slowdown and structural problems. Ongoing low levels of investment by the plant engineering and chemical industries and continued muted maintenance spending left their mark on CP's sales revenue, which dropped 12% year-to-year to €186 million. As a result, CP posted a loss from operations of €4 million in 2003, a drop of €9 million year-to-year.

Reasons for restructuring

SGL ACOTEC GmbH was formed from the merger of SGL Carbon's former corrosion protection activities and the KCH Group acquired in 1999. Its goal at that time was to expand its materials base and consolidate its positioning as a global systems provider of graphite process equipment and coatings for corrosion protection. In addition to cost synergies, the company planned double-digit growth rates based on new service offerings, a technology and market lead, and its global presence. ACOTEC was established as an independent subgroup within the SGL Carbon Group to provide an appropriate organizational framework for this anticipated growth.

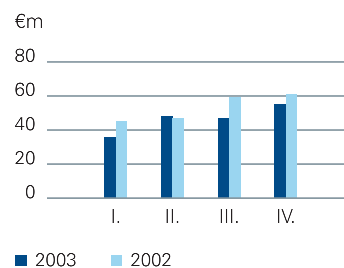
While the company achieved its cost-cutting targets after the merger, it was unable to meet growth expectations or leverage market synergies. This was mainly due to the dramatic change in industry and competitive dynamics in the field of industrial corrosion protection. These changes include increasing market globalization and accelerated outsourcing of basic chemicals production to low-wage countries. This resulted, among other things, in a shrinking domestic market with severe price pressure. In response to the general economic downturn, our customer industries – chiefly power plants and the chemical industry – drastically reduced their capital expenditure. The previous trend towards outsourcing maintenance and repairs to third parties was halted or actually reversed. As no long-term improvement in these adverse market conditions became visible at any point in 2003 and none is expected for 2004, we are adapting our business strategy and CP's organizational structures to reflect the changed environment.

The reorganization of the Corrosion Protection Business Area is based on a clearer organizational distinction between the Surface Protection (SP) and Process Technology (PT) Business Lines. This will enable these two areas to meet the different challenges of their respective markets more successfully. On top of this, managers and employees in the areas in question can now fully focus their efforts on the necessary restructuring measures, which entail further cost cuts as well as increased sales revenue growth. In connection with the restructuring and reorganization a new senior management team has been appointed: three ACOTEC managing directors left the company at the beginning of 2004.

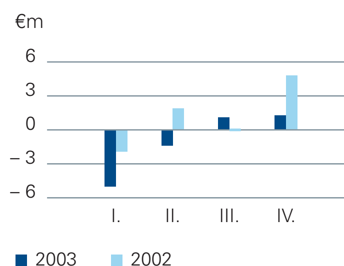
Outlook for 2004

Given the current restructuring process, it will only be possible to provide a detailed outlook when we have completed our review of the entire business. In 2004, however, we are expecting the situation to improve considerably due to the restructuring measures already initiated and the SGL Excellence programs. At present, we expect sales revenue to remain at 2003 levels.

Sales revenue by quarter



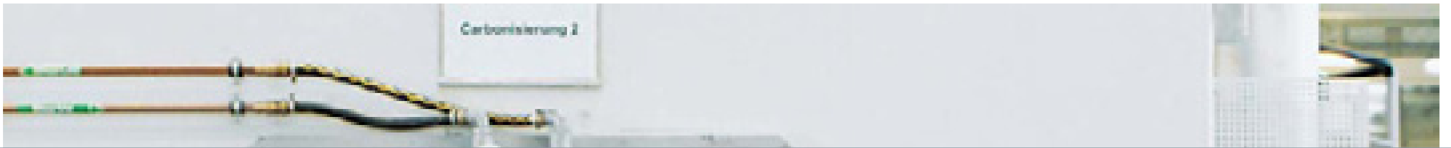
Profit from operations by quarter



Key figures CP

€m	**2003**	2002	Change (%)
Sales revenue	186	212	– 12
Profit from operations before depreciation and amortization[1]	4	15	– 73
Profit from operations[1]	– 4	5	
Return on sales (in %)[1]	– 2	2	
Capital expenditures	2	2	0
Depreciation and amortization	8	10	– 20
Research and development	3	2	50
Employees (Dec. 31)	1,888	2,034	– 7

[1] before restructuring expenses



(1) Dr. Jan Verdenhalven,
Managing Director

(2) Gernot Hochegger,
Managing Director

(3) Dr. Klaus Warning,
Business Unit Chairman

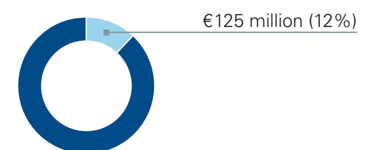
(4) Stefan Holzamer,
Human Resources

The automotive industry needs innovative suppliers. Our carbon-ceramic brake discs and carbon-ceramic clutches help make modern cars safer, lighter, and more comfortable. We are currently the only company in the world offering series production of these high-performance products. Our carbon-ceramic factory in Meitingen has been audited by leading car manufacturers and complies with the demanding VDA 6.1 and ISOI 9001-2000 quality standards. Developing innovative solutions for new markets is the basic mission of SGL Technologies within the SGL Carbon Group.

SGL Technologies [T]

SGL Technologies, our newest Business Area, has long-term growth potential. SGL T covers the entire value chain from fibers through to composites. We believe we are the only provider in the market with such an extensive product portfolio. SGL Technologies specializes in aerospace products, the defense sector, the automotive industry and power generation. Our products include carbon-fiber-reinforced components for planes, carbon-ceramic brake discs, fuel cells and expanded graphite for heat and cold storage. Some of our best-known customers are Porsche, Airbus and Boeing.

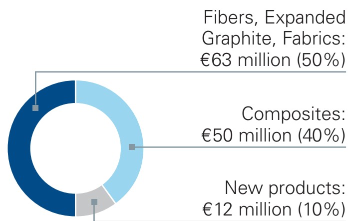
Share of Group Sales Revenue



Business at SGL Technologies was hit by three main factors in 2003: the impact of SARS on the global economy, the war in Iraq on the civil aviation sector, the development of the US dollar, British pound sterling, and start-up costs for new orders and certification expenses relating to the continued development of existing projects. Given this situation, we did not manage to come close to breaking even in the year under review. However, SGL T fully met its technological targets and cost-cutting goals for 2003.

T

Sales revenue by Business Line



Sales revenue impacted by exchange rate movements

In 2003, sales revenue fell by 17% year-to-year from €150 million to €125 million, mainly due to dollar and sterling exchange rate developments. SGL T generates around 60% of its sales revenue with US products in US dollars; in addition, its carbon fibers are produced and processed in the UK, which means they are influenced by movements in sterling. The cyclical decline in volumes also impacted sales revenue. In particular, SARS and the war in Iraq reduced the number of civil aviation orders for carbon aircraft components and carbon fibers for aircraft brakes.

New projects and production optimization hit earnings

A change in the product mix, project delays and one-time effects all took their toll on earnings in 2003. High start-up costs were incurred for new orders, such as for the Airbus A-380. However, these are typical of the aviation industry and are basically a positive development, as they will boost our sales revenue and earnings in the long term. Additional costs were incurred in relation to the certification of more efficient, lower-cost production technology for carbon-ceramic brake discs. Here, too, we regard these costs as investments in future sales revenues and earnings.

Highlights of 2003

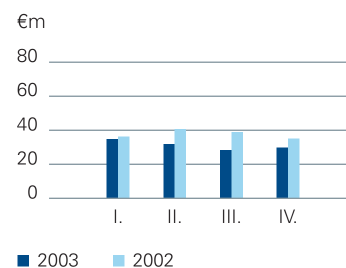
SGL T has bundled its strengths along the value chain running from carbon fibers through to complex carbon-fiber-ceramic composites into three Business Lines: automotive, energy, and aerospace and defense. Within these Business Lines, SGL T's high-tech products and materials are used in a wide variety of applications. The three areas performed as follows during the past fiscal year:

Automotive

- SGL T signed a development partnership with Audi for a carbon-ceramic brake disc for large sedans.

- We made further progress in the development, production and use of light, hard carbon materials for armoring large sedans.
- Through its US subsidiary HITCO, we further strengthened its position as a supplier of carbon-carbon brake discs for several Formula 1 teams including McLaren-Mercedes, Minardi-Ford, Jordan-Honda, Renault and Toyota. Starting in 2004, SGL T – via HITCO – will also be the sole supplier for the brake discs used in Deutsche Tourenwagen Masters (DTM) racing cars.

Sales revenue by quarter



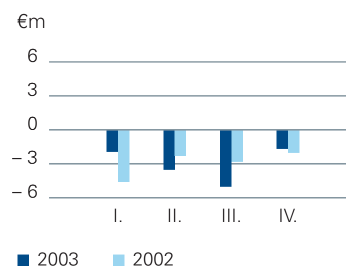
Energy

- We are now a leading global market supplier of fuel cell components, and especially of the gas diffusion layer (GDL). The commercial use of fuel cells in stationary applications is expected to begin in 2006.
- SGL T and leading manufacturer Webasto have launched a new air conditioning and cooling technology for trucks based on a carbon heat exchanger.

Aerospace and defense

- New orders totaling USD 17 million for secret US government defense projects will be supplied over the coming years under a Special Security Agreement concluded with the US defense department.

Profit from operations by quarter



Positive effects of cost-cutting programs and outlook

In the year under review, we cut costs by improving quality and production in a number of SIX SIGMA projects that were implemented as part of our ongoing Group-wide SGL Excellence program. Dramatic improvements were achieved in our carbon-ceramic brake discs and carbon fiber activities in particular. The savings made at in 2003 totaled close to €4 million. We expect to substantially reduce our losses in 2004 and are aiming to break even.

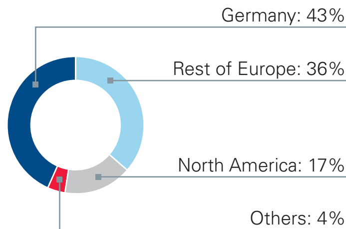
Key figures T

€m	**2003**	2002	Change (%)
Sales revenue	125	150	– 17
Profit from operations before depreciation and amortization[1]	4	5	– 20
Profit from operations[1]	– 12	– 12	0
Return on sales (in %)[1]	– 10	– 8	
Capital expenditures	4	9	– 56
Depreciation and amortization	16	17	– 6
Research and development	7	9	– 22
Employees (Dec. 31)	805	757	6

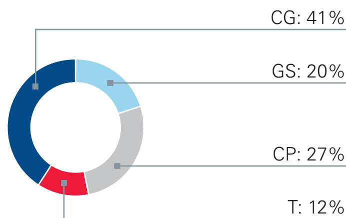
[1] before restructuring expenses

Human Resources

Employees by region
(as of Dec. 31, 2003)



Employees by Business Area
(as of Dec. 31, 2003)



Headcount reduced again

The SGL Carbon Group employed 6,926 people at the end of 2003, 434 less than at the end of the previous year. The drop was primarily due to portfolio adjustments and cost-cutting measures.

The number of people employed in our established businesses – Carbon and Graphite, Graphite Specialties and Corrosion Protection – declined by 484 to 6,067 at the end of the year under review (December 31, 2002: 6,551). Due to the production of components for the new Airbus A-380, the workforce at SGL Technologies grew by 48 to 805 (December 31, 2002: 757).

Strong participation in stock purchase plans

In 2003, we distributed 413,768 shares worth €4,894,875 as part of our bonus program for non-executive employees.

The "matching shares" bonus program introduced in 2001 for members of the Executive Committee and approximately 150 Group managers was offered again in 2003, the third time in a row. Roughly half of the ligible personnel invested up to 50% of their annual bonus in SGL Carbon stock. After a two-year lock-up period, they will receive a matching number of shares from the Company. The Executive Committee and Group managers invested a total of €735,763 in SGL Carbon shares in the year under review as part of this bonus program.

The two-year lock-up period for shares belonging to partcipants in of the 2001 matching shares program ended in March of the year under review. They received a total of 26,998 matching SGL Carbon shares from the Company.

More trainee positions

Given the overall shortage of trainee positions in Germany and our need to ensure a supply of qualified employees in the future, we increased the number of trainee positions in our Company by eight. In 2003, a total of 152 young people received in-depth, practical vocational training at SGL Carbon's German facilities. In this way, SGL is not only meeting its social responsibility but can also offer trainees career prospects within the Company.

Creating a common management culture

Our management programs are designed to create a common understanding of what management means to us and to accelerate our focus on a global, multicultural corporate culture. Last year, as part of our Group-wide management initiative, we organized ten workshops for more than 150 Group managers from all levels of the SGL Carbon Group. The training programs developed for these workshops encourage managers to take responsibility for the Group as a whole and help create a common understanding of what management means to us.

As part of our mentoring concept, senior Group managers provide support for employees in special workshops. These are designed to enable the exchange of management information across Business Area boundaries, allowing participants to work together on specific and Company-wide problems.

"360° feedback" is a management tool that elicits evaluations of a particular employee from his or her colleagues, management and customers. These opinions are then compared with the employee's appraisal of himself or herself. This type of feedback is used to ensure the continuous development of our Group managers.

Spotlight on employees

Our SGL Excellence initiative has laid the foundations for a cross-border personnel development concept. Our new SGL competency model is designed to promote and help develop the Company's four core competencies – communicative competence, trust, adaptability and customer orientation – as well as other specific skills related to particular functions. This model provides the Company with a uniform global platform that can be used to establish annual performance objectives. It also allows employees and management to work together to attain these goals, facilitating systematic performance evaluations and addressing development needs on both sides.

We built on this competency model by introducing MPG® (Managing Personal Growth), a comprehensive tool that can be used all over the world. MPG® is designed to support employees and Group managers alike in creating concrete development plans together. This involves analyzing the strengths and weaknesses profile of each employee in detail and comparing this with the requirements of the specific position or task.

MPG® concentrates on employees' individual development in relation to their present tasks, with the initiative always coming from the employees in question. They decide whether or not take part, and what the discussion of their development should cover. In this way, MPG® promotes a sense of responsibility for human resources development that is shared by both Group managers and employees.

During 2003, we conducted workshops at our sites in Bonn (Germany), Chedde (France) and La Coruña (Spain), which met with a positive response from the almost 50 attendees. Twenty employees from seven countries were trained as internal training managers to implement MPG® throughout the Group. The new tool will be implemented step by step at all our sites over the next few years.

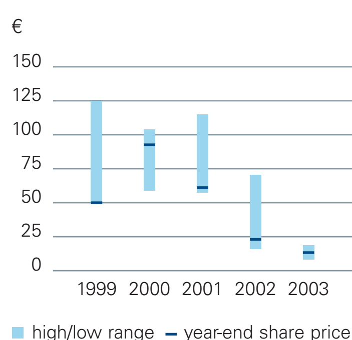
Staff costs

€m	**2003**	2002
Compensation	261	298
Social security payments and welfare costs	64	51
Pension plan costs	21	19
Total	**346**	**368**

Our Shares

Stock markets around the world recovered in 2003 after a difficult 2002. The DAX rose 37%, closing the year at 3,965 points. While performance during the first six months was muted, the markets picked up sharply in the second half of the year in anticipation of an economic upturn. This was mainly due to Anglo-American investors, who bet that European stock markets would rise.

Development of share price



SGL Carbon's shares clearly outperformed the DAX and MDAX indices in the first eight months of the year. Their annual high of €18.60 (end of August 2003) was more than double their price on the closing date of 2002. This was due in particular to increasing interest from US investors. At the beginning of November, our share price fell abruptly in heavy trading following the announcement of an extensive refinancing package and a further possible antitrust fine by the EU Commission, before leveling off at around €13 at the end of the year. Our shares closed 2003 at €13.30, up 66% from their 2002 closing price of €8.01. In line with this, SGL Carbon's market capitalization rose from €175 million at the end of 2002 to €295 million. Daily trading volumes almost doubled year-to-year, with an average of 152,213 shares being bought and sold in the XETRA electronic system (2002: 78,000 shares).

Communications stepped up for refinancing package

We substantially increased our investor relations activities for the financing package announced at the end of 2003, which consists of a capital increase, the issue of corporate bonds and a syndicated loan. Roadshows in Germany and other countries were held in the run-up to the capital increase. In particular, we were able to win over the investment funds co-underwriting the capital increase with this innovative financing package.

At the Extraordinary General Meeting on January 15, 2004, a majority of 99.6% of our shareholders voted in favor of the proposed capital increase. This cleared the way

Key figures for SGL Carbon shares

€	**2003**	2002
Earnings per share	– 2.27	– 1.08
Equity per share	5.27	8.96
Equity ratio (%)	9	15
Return on sales (%)	4	3
Share price: high	18.60	28.70
Share price: low	8.20	5.10
Share price: year-end	13.30	8.01
Number of shares (units)	22,184,958	21,864,450

for implementation of the comprehensive financing package. A total of 33 million shares were sold at a subscription price of €8 each, generating an approximate €266 million (gross) for the Company.

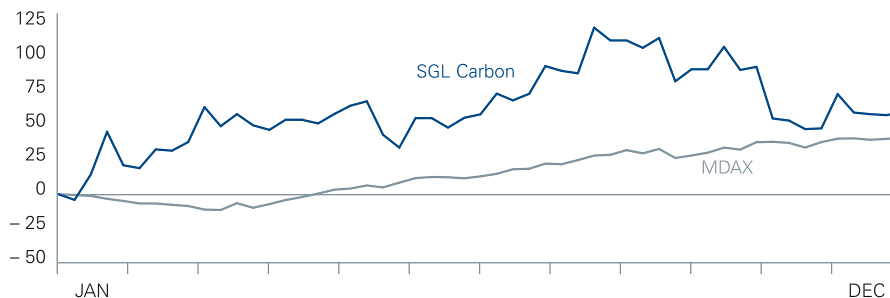
Shortly after the Extraordinary General Meeting, we presented our corporate bonds to investors in a series of roadshows. Since the net income from the capital increase was greater than expected, we were able to reduce the size of the bond issue to €270 million. Due to strong demand, the bonds were issued in euros only and sold out earlier than expected. They mature in February 2012 and have a loan interest at 8.5%.

Broader shareholder base

Following the issue of 33 million new shares of the capital increase, the share price leveled off at around €10. Existing shareholders were able to buy new shares of SGL Carbon at an attractive subscription price. On the whole, the shareholder base is likely to have expanded, with British – and German – investment companies being among the probable buyers. The improvement in the economy and the forecast increase in our result from operations should be reflected long-term in SGL Carbon's share price.

SGL Carbon share price 2003 (indexed) vs. MDAX

(Index: Jan. 2, 2003 = 0)



Corporate Governance

Corporate governance updated

SGL Carbon AG updated its Corporate Governance Principles in line with the additions to the German Corporate Governance Code in the year under review. The provisions of the Sarbanes-Oxley Act (SOA) applicable to German companies were either largely integrated into the Principles or incorporated in separate accounting guidelines. The main changes relate to the individualized disclosure of the compensation paid to the Executive Committee and the Supervisory Board in the notes to the consolidated financial statements, as well as to the explanation of the compensation system for the Executive Committee on the Internet and in the annual report. In addition, the Chairman of the Supervisory Board will report to the Annual General Meeting on the principles behind the compensation system following the changes made to it. The regulations governing the Audit Committee were adapted to meet the requirements of the German Corporate Governance Code. Above and beyond this, our Corporate Governance Principles comply with almost all of the non-mandatory suggestions made in the German Corporate Governance Code.

The declaration of conformity in accordance with section 161 AktG (German Stock Corporation Act) can be found on page 95 of the Notes to the consolidated financial statements, and on the Internet at
www.sglcarbon.com/CompanyProfile/CorporateGovernance.html.

A new Supervisory Board Committee – the Technology Committee – was created to advise the Executive Committee on fundamental questions concerning technology. These include the Company's research and development portfolio, related resource management issues, the technology situation in individual product areas and projects of particular significance for the Company. This new committee further intersifies the Supervisory Board's already extensive and detailed activities.

Compliance with US capital market regulations

We have set up a Disclosure Committee to oversee compliance with the provisions of the IASs and US GAAP as required by the Sarbanes-Oxley Act. This Committee will also review and – if necessary – improve the efficiency of our internal accounting control system. In addition, the regulations governing the Supervisory Board's Audit Committee and those governing relationships with the Company's auditors have been brought into line with the requirements of the SOA, and among other things, a code of ethics for financial matters has been passed.

Consolidated Financial Statements and Notes

for fiscal year 2003

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Consolidated Income Statements

€m	Note	2003	2002
Sales revenue	28	1,046.2	1,112.3
Cost of sales		– 798.8	– 886.5
Gross profit		**247.4**	**225.8**
Selling expenses		– 141.5	– 139.4
Research costs		– 20.9	– 25.4
General and administrative expenses	4	– 46.2	– 47.5
Other operating income, net	5	0.1	15.1
Profit from operations before costs relating to antitrust proceedings and restructuring, net		**38.9**	**28.6**
Restructuring expenses	6	– 10.4	– 8.3
Profit from operations before costs relating to antitrust proceedings, net		**28.5**	**20.3**
Costs relating to antitrust proceedings	6	– 19.5	– 22.0
Profit/loss from operations		**9.0**	**– 1.7**
Net financing costs	7	– 73.3	– 25.5
Loss before tax		**– 64.3**	**– 27.2**
Income tax benefit	9	14.1	3.6
Net loss for the period before minority interests		**– 50.2**	**– 23.6**
Minority interests		– 0.1	0.0
Net loss for the period		**– 50.3**	**– 23.6**
Basic earnings per share (EPS) (in €)	10	– 2.27	– 1.08
Diluted earnings per share (EPS) (in €)	10	– 2.27	– 1.08

The accompanying notes to the consolidated financial statements are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

€m	Note	Dec. 31, 2003	Dec 31, 2002
ASSETS			
Intangible assets	11	99.0	103.8
Property, plant and equipment	12	408.5	477.3
Noncurrent financial assets	13	28.7	33.2
Noncurrent assets		**536.2**	**614.3**
Inventories	14	258.0	288.4
Trade receivables	15	221.3	208.1
Other receivables and current assets	16	58.1	60.7
Receivables and other current assets		279.4	268.8
Cash and cash equivalents	17	46.1	21.5
Current assets		**583.5**	**578.7**
Deferred tax assets	**18**	**127.2**	**93.4**
Total assets		**1,246.9**	**1,286.4**
EQUITY AND LIABILITIES			
Issued capital		56.8	56.0
Share premium		111.5	111.3
Retained earnings		– 1.4	52.6
Accumulated deficit		– 50.3	– 23.6
Equity	19	116.6	196.3
Minority interests		0.3	1.4
Equity and minority interests		**116.9**	**197.7**
Provisions for pensions and other employee benefits	20	188.5	190.6
Other provisions	21	166.6	149.2
Provisions		**355.1**	**339.8**
Financial liabilities		494.5	448.5
Trade payables		98.9	110.5
Other liabilities		138.5	151.2
Liabilities	**22**	**731.9**	**710.2**
Deferred tax liabilities	**23**	**43.0**	**38.7**
Total equity and liabilities		**1,246.9**	**1,286.4**

The accompanying notes to the consolidated financial statements are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statements[1]

€m	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss before tax	– 64.3	– 27.2
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss/gain on sale of property, plant and equipment	0.2	– 2.8
Gain on sale of noncurrent financial assets	– 3.6	– 1.0
Depreciation and amortization expense	72.2	81.2
Write-downs of noncurrent financial assets	3.7	0.2
Taxes paid	– 3.8	– 22.3
Changes in provisions, net	23.4	– 2.8
Changes in working capital		
Inventories	5.2	82.7
Trade receivables	– 22.9	44.7
Trade payables	– 5.5	6.8
Other operating assets/liabilities	13.1	– 10.4
Cash provided by operating activities before payment of antitrust fines	17.7	149.1
Payments relating to antitrust proceedings	– 14.9	– 10.1
Cash provided by operating activities	**2.8**	**139.0**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property, plant and equipment and intangible assets	– 46.3	– 53.6
Proceeds from sale of property, plant and equipment and intangible assets	2.2	7.8
Payments for noncurrent financial assets	– 1.7	– 0.7
Proceeds from sale of noncurrent financial assets	5.7	5.6
Cash used in investing activities	**– 40.1**	**– 40.9**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in financial liabilities	60.6	– 87.6
Dividends paid	0.0	– 0.2
Net proceeds from capital increase	1.0	0.8
Cash provided by/used in financing activities	**61.6**	**– 87.0**
Cash provided by first-time consolidations	0.6	0.0
Effect of foreign exchange rate changes	– 0.3	– 1.7
Net increase in cash and cash equivalents	24.6	9.4
Cash and cash equivalents at beginning of year	21.5	12.1
Cash and cash equivalents at end of year	**46.1**	**21.5**

[1] adjusted for currency translation effects

The accompanying notes to the consolidated financial statements are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

€m	Issued capital	Share premium	Retained earnings	thereof from currency translation	thereof other comprehensive income	Accumulated deficit	Equity	Minority interests	Total
Balance at Jan. 1, 2002	**55.2**	**111.3**	**183.9**	**27.3**	**0.0**	**– 95.2**	**255.2**	**1.6**	**256.8**
Appropriation of net loss for 2002			– 95.2			71.6	– 23.6		– 23.6
Other recognized gains and losses							–	– 0.2	– 0.2
Capital increase	0.8						0.8		0.8
Exchange rate differences			– 36.1	– 36.1			– 36.1		– 36.1
Balance at Dec. 31, 2002	**56.0**	**111.3**	**52.6**	**– 8.8**	**0.0**	**– 23.6**	**196.3**	**1.4**	**197.7**
Balance at Jan. 1, 2003	**56.0**	**111.3**	**52.6**	**– 8.8**	**0.0**	**– 23.6**	**196.3**	**1.4**	**197.7**
Appropriation of net loss for 2003			– 23.6			– 26.7	– 50.3	0.1	– 50.2
Other recognized gains and losses			2.7		2.7		2.7	– 1.2	1.5
Capital increase	0.8	0.2					1.0		1.0
Exchange rate differences			– 33.1	– 33.1			– 33.1		– 33.1
Balance at Dec. 31, 2003	**56.8**	**111.5**	**– 1.4**	**– 41.9**	**2.7**	**– 50.3**	**116.6**	**0.3**	**116.9**

The accompanying notes to the consolidated financial statements are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1 Summary of accounting policies

Description of business

SGL CARBON Aktiengesellschaft ("SGL Carbon" or "the company") together with its subsidiaries (the "SGL Carbon Group") is a global manufacturer of carbon and graphite products. See note 28 for further information on business activities.

Basis of presentation

The consolidated financial statements of the SGL Carbon Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs) – formerly known as the International Accounting Standards (IASs) – issued by the International Accounting Standards Board (IASB), incorporating the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). All standards to be applied for fiscal year 2003 have been complied with. References to IFRSs/IASs relate to the IFRSs/IASs in force, as amended. Application of the IFRSs/IASs was possible because consolidated financial statements prepared in accordance with internationally accepted accounting standards such as the IFRSs/IASs qualify as exempting consolidated financial statements as defined by section 292a of the HGB (German Commercial Code) introduced in 1998.

As in the previous year, the 2003 consolidated financial statements were prepared in euros (€) and are presented in millions of euros (€m), rounded to the nearest €0.1 million.

Consolidation methods

The annual financial statements of the companies consolidated were prepared in accordance with uniform accounting policies. Interim financial statements are used for one subsidiary with a differing balance sheet date. Except for four subholding companies and two small companies, all financial statements have been audited and certified by independent auditors.

Subsidiaries are consolidated using the purchase method of accounting, under which the acquisition cost of the interests in the subsidiaries is eliminated against the equity of the subsidiaries attributable to the parent company at the date of acquisition. Hidden reserves or liabilities are recognized, and any remaining excess of cost of acquisition over net assets acquired is recognized as goodwill from capital consolidation and reduced by straight-line amortization over its expected useful life. In accordance with IAS 22, any negative goodwill is deducted from goodwill on the face of the balance sheet and amortized in other operating income over the useful life of the amortizable asset. Goodwill arising prior to 1994 has been charged directly to reserves.

Companies or joint ventures representing an interest of between 20% and 50% and over which the parent company has a significant influence are accounted for at equity.

Intercompany receivables and liabilities, intercompany profits and losses, as well as intragroup sales revenue, expenses and income are eliminated. In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences arising from consolidation.

Foreign currency translation

Foreign currency receivables and liabilities in the single-entity financial statements are translated at the middle rates at the balance sheet date. The associated derivatives are measured separately at their fair values at the balance sheet date in accordance with IAS 39.

The annual financial statements of companies domiciled outside the eurozone are translated into euros in accordance with IAS 21. For all SGL Carbon Group companies, translation is effected on the basis of the local currency, as the companies are classified as foreign entities. Balance sheet items of annual financial statements that are not prepared in euros are translated at the middle rates prevailing at the balance sheet date; income statement items are translated at average rates for the year.

Exchange differences resulting from the application of different exchange rates in the income statements and the balance sheets, as well as differences from the translation of net assets at rates differing from those applied in the prior-year period, are taken directly to retained earnings.

Changes in the exchange rates of currencies that are material to the consolidated financial statements are presented below:

Currencies	middle rates at the balance sheet date			Average rate	
1€ =	ISO-Code	**Dec. 31, 2003**	Dec. 31, 2002	**2003**	2002
US dollar	USD	1.2610	1.0415	1.1309	0.9448
Sterling	GBP	0.7070	0.6502	0.6919	0.6288
Canadian dollar	CAD	1.6290	1.6385	1.5818	1.4826
Polish zloty	PLN	4.7170	4.0202	4.4561	3.8894

Financial instruments

The SGL Carbon Group uses all standard financial instruments such as interest rate swaps, interest rate options, forreign currency forwards and foreign currency options only for hedging purposes and to reduce risk.

All financial derivatives are measured at cost when the transaction is executed. They are subsequently remeasured at their fair values at the balance sheet date. The hedged balance sheet items are also measured individually at their fair values at the balance sheet date. Presentation in the income statement is based on the underlying transaction. Cash flows from future US dollar transactions were hedged for fiscal year 2004. The gains or losses on the effective portions of the hedges are recorded directly in equity after deduction of deferred taxes and reported separately under other comprehensive income.

Intangible assets

Purchased intangible assets are carried at cost and amortized over an expected useful life of three years. Purchased goodwill is capitalized and amortized over its expected useful life of 20 years. Internally generated intangible assets are capitalized at cost and amortized using the straight-line method over their expected useful life where future economic benefits are expected to flow to the Company. Development costs are only capitalized in individual cases and are generally expensed directly when incurred. The costs incurred in adapting the SAP R/3 system to produce an integrated Group-wide system will be capitalized and amortized over its estimated useful life following completion in 2004.

Property, plant and equipment

Property, plant and equipment is capitalized at cost depreciated on a straight-line basis. Production costs also include an appropriate share of materials and production overheads. Borrowing costs are not included in production costs. Repair costs are expensed directly when incurred. Contracts in which the lessee bears all significant opportunities and risks from the use of the leased asset, and which are hence classified as finance leases, are carried at their fair values or, if lower, at the net present value of the minimum lease payments. All other leases are treated as operating leases and, as a result, the lease payments are expensed when incurred. The range of standard useful lives is as follows: buildings 10 to 41 years, technical equipment and machinery 4 to 25 years, other equipment, operating and office equipment 3 to 15 years.

Additions to items of movable plant and equipment in the first half of the year are depreciated at the full-year rate; additions in the second half of the year are depreciated at half the full-year rate. Low-value assets are written off in full in the year of acquisition and reported as disposals in the statement of changes in noncurrent assets. The resulting effects on net assets, financial position and results of operations are insignificant.

Noncurrent financial assets

Noncurrent financial assets are carried at cost, net of any write-downs incurred. Significant equity investments are carried at equity. Companies no longer consolidated are carried at their net book value. Interest-free and low-interest long-term receivables are discounted at a standard market rate for risk-free instruments.

Inventories

Inventories are carried at cost using the weighted average cost method and written down to the lower net realizable value where required. Net realizable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Specific valuation allowances are also charged for inventory risks. In addition to directly attributable costs, production costs also include appropriate shares of materials and production overheads, as well as depreciation and write-downs. Directly attributable costs include labor costs, including pensions, amortization and directly attributable material costs. Borrowing costs are not capitalized. Construction contracts whose outcome can be reliably estimated and which have a material effect are measured using the percentage of completion method in accordance with IAS 11.

Advertising and sales promotion expenses as well as other customer-related expenses are expensed directly when incurred. Provisions are recognized for the estimated cost of product warranties after the date of sale of the product concerned.

Receivables and other current assets

Receivables and other current assets – trade and other receivables – are carried at their principal amount, net of any bad debt allowances calculated on the basis of the probable default risk. Bills receivable and other long-term receivables are discounted.

The carrying amounts of assets are reviewed where there are indications that the carrying amount of an asset exceeds its value in use or net selling price (impairment test). The carrying amount is written down if it is higher than the recoverable amount.

Provisions for pensions and other employee benefits

Provisions for pensions and other employee benefits from defined benefit plans are measured by independent actuaries using the projected unit credit method and reflect future salary and pension increases in accordance with IAS 19. The interest component of the addition to pension provisions is carried under net financing costs. Payments under defined contribution plans are recognized as expenses at the time of payment.

Other provisions

Other provisions are recognized in accordance with IAS 37 for obligations to third parties that will probably be required to be settled, and where the amount of the obligation can be reliably estimated. Long-term provisions are discounted. Restructuring provisions are recognized where a formal restructuring plan has been adopted and publicly announced in sufficient detail. The accounting for our stock option plans and recognition of provisions for obligations from stock option plans are described in note 31.

The SGL Carbon Group recognizes provisions for environmental protection obligations where it is probable that such an obligation exists and its amount can be reasonably estimated. Any possible insurance compensation payments are not deducted when recognizing such liabilities.

Liabilities

Liabilities are carried at their notional amount or at the higher redemption amount at the balance sheet date. Interest-free or low-interest liabilities due after more than one year are discounted to the balance sheet date. One-time fees for long-term loan agreements are amortized over the term of the loan agreement.

Deferred income

Government grants are recognized only if there is sufficient certainty that the SGL Carbon Group will comply with the conditions attached to them and that the grants will be received. The amounts are carried in deferred income and recognized as income as the associated expenses are incurred.

Income and expenses

Income and expenses of the fiscal year are recognized when realized and incurred. Sales revenue is recognized at the time of transfer of risk, generally after delivery of the products or rendering of the services, net of any discounts and rebates granted. The percentage of completion method in accordance with IAS 11 is applied to significant construction contracts. Operating expenses are recognized when the service is utilized or at the time when they are incurred. Interest income and expenses are accrued. Dividends are generally recognized at the time of distribution.

To enhance the quality of presentation of earnings power, costs relating to antitrust proceedings and restructuring are disclosed separately on the income statement.

Deferred taxes

Deferred income taxes are calculated using the balance sheet liability method. Deferred tax assets and liabilities are presented separately on the balance sheet to reflect the future tax effect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and in the tax return. Deferred tax assets and liabilities are calculated on the basis of the tax rates expected to be enacted when the temporary differences reverse. The effects of changes in tax rates are recognized at the time new tax laws are enacted. Deferred tax assets are only recognized for tax loss carryforwards where future utilization is probable.

Estimates and assumptions

Preparation of financial statements requires management in certain cases to make estimates and assumptions regarding the amounts of receivables, liabilities and provisions, the disclosure of contingent liabilities and reported amounts of income and expenses. Actual amounts may differ from those estimates.

2 Explanation of significant differences between German accounting principles and the International Financial Reporting Standards in the SGL Carbon Group

The significant differences between the IFRSs/IASs and the German Commercial Code (HGB) that are relevant to the SGL Carbon Group are as follows:

- Under the HGB, goodwill may be capitalized and amortized over generally 15 years or eliminated directly against the reserves (as was the case in the SGL Carbon Group until 1994). The IFRSs/IASs require goodwill to be capitalized and amortized over a maximum of 20 years. The cost of integrating the company acquired is not a component of the cost of acquisition in accordance with the IFRSs/IASs. The resulting goodwill and goodwill amortization charges are correspondingly lower.

- Under the IFRSs/IASs, internally generated intangible assets are capitalized if future economic benefits are expected to flow to the enterprise.

- Depreciation of movable items of plant and equipment had to be changed to the straight-line method of depreciation.

- Leased items of property, plant and equipment that are attributable to the SGL Carbon Group as the beneficial owner in accordance with the criteria set out in IAS 17 are capitalized and depreciated. The associated liabilities are expensed.

- Foreign currency translation under the HGB is based on the imparity principle: foreign currency receivables must be translated at the rate prevailing at the transaction date or at the lower rate at the balance sheet date. Foreign currency liabilities must be translated at the rate prevailing at the transaction date or at the higher rate at the balance sheet date. The IFRSs/IASs require all foreign currency receivables and liabilities to be translated at the middle rate at the balance sheet date. Any resulting gains and losses are recognized in income.

- Deferred taxes are recognized and measured using the balance sheet liability method in accordance with IAS 12, in contrast to the HGB. Under this method, assets and liabilities from amounts of future income taxes recoverable or payable must be recognized using the future enacted tax rates. This also includes the recognition of deferred tax assets from tax loss carryforwards if it is probable that taxable profits will be available against which the deferred tax asset can be utilized.

- Under the IFRSs/IASs, pension provisions are calculated to reflect future salary and pension increases (projected unit credit method). A "corridor approach" is used for the recognition of actuarial gains and losses. Under German law, the provision is calculated using the net present value method in accordance with section 6a of the EStG (German Income Tax Act). IFRSs/IASs pension provisions are generally higher than HGB pension provisions.

- Recognition of provisions under the IFRSs/IASs requires that future utilization of the provision is probable. Under the HGB, provisions may also be recognized for possible obligations. The IFRSs/IASs do not permit provisions for future internal expenses.

- Under the IFRSs/IASs, long-term provisions and liabilities must be discounted, producing a lower carrying amount. The accrued interest on the liability relating to the North American antitrust proceedings calculated each quarter reduces net profit or increases net loss before tax in subsequent years compared with the HGB result.

3 Acquisitions/divestitures and basis of consolidation

As of January 1, 2001, all shares in SGL ACOTEC Ltda., São Paulo (Brazil) – formerly KCH-ANCOBRAS Ltda. – were acquired in exchange for a 38% interest in Larrondo Inversiones S.L. at a purchase price of €1.8 million. In addition, the interest in SGL ACOTEC (Wuhan) Co. Ltd., Wuhan (China), was increased from 70% to 90%. €0.9 million was paid for the acquisition of the 20% interest to the partner continuing to hold the 10% interest.

Tokai Carbon Co. Ltd., Tokyo (Japan), a third-party enterprise, acquired a 49% interest in the joint venture which has been operating under the name SGL Tokai CARBON Ltd., Shanghai (China), since July 2002. The 51% interest remaining in the hands of SGL Carbon is carried at cost and is not consolidated.

All shares in SGL PanTrac Gesellschaft für elektrische Kontakte mbH, Berlin (PanTrac), were sold to E-CARBON S.A., Brussels (Belgium), a third-party enterprise, and were transferred in January 2003. PanTrac was still fully consolidated in the consolidated financial statements for fiscal year 2002.

The electrical contacts (EC) business belonging to SGL Risomesa S.p.A., Milan (Italy), was sold to the Schunk Group by way of a contract in March 2003 and the company was deconsolidated. The business activities retained by SGL had been previously transferred to SGL CARBON Specialties and continue to be consolidated.

SGL ANGRAPH Sp. z o.o, Nowy Sacz (Poland), has been consolidated since the beginning of the fiscal year. Four small Acotec companies are no longer consolidated as they are insignificant in overall for the presentation of net assets, financial position and results of operations of the SGL Carbon Group.

The remaining interests in ZEW Zaklady Elektrod Weglowych S.A., Racibórz (Poland), were acquired in 2003 and the company was then renamed SGL CARBON POLSKA S.A. At the end of fiscal year 2003, SGL CARBON S.A., Nowy Sacz (Poland), was merged with SGL CARBON POLSKA S.A., Racibórz (Poland).

Basis of consolidation

All significant subsidiaries under the legal or constructive control of SGL Carbon have been consolidated. At December 31, 2003, seven (2002: eight) German and 36 (2002:43) foreign subsidiaries were consolidated in addition to SGL Carbon AG. Compared with 2002, four foreign subsidiaries were consolidated for the first time, and six foreign subsidiaries were merged. In addition, one German and one foreign subsidiary were sold, and four foreign subsidiaries were no longer consolidated because they were deemed to be insignificant. The two subsidiaries consolidated for the first time are companies that were previously unconsolidated. 26 subsidiaries were not consolidated because they are insignificant overall for the presentation of net assets, financial position and results of operations. One joint venture was carried at equity. The significant consolidated subsidiaries are listed on page 96.

Consolidated Income Statements and Consolidated Balance Sheet Disclosures

Note 28 presents a breakdown of sales revenue by Business Area.

4 General and administrative expenses

During the year under review, general and administrative expenses were reduced further compared with the previous year. The savings are primarily due to a reduction in variable remuneration components and lower costs at Group companies in the United Kingdom and North America resulting from exchange rate effects.

5 Other operating income, net

Other operating income is primarily composed of income from the disposal of noncurrent assets (€4.0 million) among other things, resulting from the sale of the electrical contacts business, income from the reversal of provisions (€2.9 million), the amortization of negative goodwill (€2.7 million), exchange rate gains (€1.8 million), income from changes in bad debt allowances on receivables (€1.2 million), and insurance compensation (€0.4 million).

The major items of other operating expenses are amortization of goodwill (€6.6 million), exchange rate losses (€4.6 million), additions to provisions (€1.5 million), and losses on the disposal of noncurrent assets (€1.0 million).

6 Costs relating to antitrust proceedings and restructuring expenses

€m	**2003**	2002
Costs relating to antitrust proceedings	19.5	22.0
Restructuring expenses	10.4	8.3
Total	**29.9**	**30.3**

The costs relating to antitrust proceedings relate primarily to an increase in the provisions for fines of €27.8 million and €23.6 million imposed by the European competition authorities in fiscal years 2002 and 2003, respectively.

The restructuring expenses in fiscal year 2003 relate to workforce reduction expenses of €3.7 million incurred in the CG Business Area in Italy, Germany and Poland, expenses of €2.7 million incurred in the GS Business Area in relation to the closure of a facility in France in particular, as well as expenses totaling €2.0 million in the CP Business Area due to measures implemented in Germany and France, costs of €1.8 million in SGL T for adjustments at HITCO, and other expenses amounting to €0.2 million.

7 Net financing costs

€m	2003	2002
Net investment income	– 4.7	– 1.8
Interest on other securities, other interest and similar income	3.4	2.2
(thereof from subsidiaries)	(0.0)	(0.2)
Interest on borrowings and other interest expense	– 26.9	– 27.4
Interest expense relating to the European Commission	– 5.6	0.0
Imputed interest on liabilities from antitrust proceedings	– 6.2	3.4
Interest component of additions to pension provisions	– 10.5	– 10.4
Interest expense, net	**– 45.8**	**– 32.2**
Amortization of capitalized financing costs	– 16.1	0.0
Amortization of capitalized costs for the convertible bond	– 1.5	– 0.6
Foreign currency translation of North American antitrust liabilities	12.4	16.3
Foreign currency hedging costs for North American antitrust liabilities	– 12.2	– 11.8
Expenses for guarantees to the European Commission	– 2.4	– 0.9
Other financial expenses	– 3.0	5.5
Other net financing costs/net financial income	**– 22.8**	**8.5**
Total	**– 73.3**	**– 25.5**

Net financing costs include non-cash expenses amounting to €26.6 million. At the end of 2003, we deferred the interest potentially payable in connection with the European antitrust fines. Other net financing costs/net financial income relate to net exchange rate gains and losses on financial transactions and to write-offs of refinancing costs totaling €16.1 million capitalized at the end of 2002/beginning of 2003. The costs incurred in 2003 for the refinancing in 2004 of the syndicated loans and the high-yield bond were also deferred and will be amortized over the estimated term of the loans.

8 Other disclosures

Cost of materials

€m	2003	2002
Cost of raw materials and consumables used and of goods purchased and held for resale	240.0	242.2
Cost of purchased services	58.5	61.3
Total	**298.5**	**303.5**

Staff costs

€m	2003	2002
Wages and salaries	261.1	298.1
Social security contributions, retirement and other benefit costs	84.5	70.1
(thereof for pensions)	(20.5)	(18.7)
Total	**345.6**	**368.2**

Other taxes

Other taxes are reported in the appropriate functional expense. The total expense was €6.9 million in 2003 and €9.8 million in 2002.

Breakdown of employees

Annual average number of employees:	2003	2002
Production and auxiliary plants	5,034	5,465
Sales and marketing	593	638
Research	232	307
Administration, other functions	1,218	1,294
Total	**7,077**	**7,704**

The reduction in the average number of employees is due to the additional restructuring measures implemented in the year under review, particularly in the CG and CP Business Areas, and to changes in the basis of consolidation.

9 Income tax benefit

The tax benefit is composed as follows (€m):	2003	2002
Current income tax expense		
Germany	0.1	– 2.1
Rest of world	– 14.4	– 5.7
Deferred taxes		
Germany	22.0	11.1
Rest of world	6.4	0.3
Total	**14.1**	**3.6**

Deferred tax assets from tax loss carryforwards in Scotland were still not recognized in the period under review. As a result of the turnaround in our businesses in the USA, a portion of the loss carryforwards there were recognized on the basis of a conservative estimate. This turnaround was due to the completion of our restructuring program in CG and GS in 2003, and the price increases in our core graphite electrode business which were successfully implemented in the US market. This led to a tax income of €10.0 million in 2003.

German corporations are subject to a standard 25% rate of corporation tax for profits distributed and retained. In September 2002, the rate of German corporation tax for fiscal 2003 was increased to 26.5%. The impact of this tax increase, which was limited to one year, was not of material importance and has therefore not been included in the calculation of deferred taxes. A solidarity surcharge of 5.5% is added to the corporation tax rate, resulting in an aggregate corporate tax rate for 2002 and 2003 of 26.4%. German corporations are also subject to a trade tax. The trade tax rate depends on the municipality in which the company has its operating facilities. Trade tax generally amounts to between approximately 15% and 20% of the taxable trading profit, depending on the municipality's tax assessment rate. Trade tax is deductible as an operating expense in the calculation of the company's income that is subject to corporation tax. Including the average trade tax burden of 12%, the German income tax rate amounts to a total of 38.4%.

€m	2003	2002
Net loss before tax	**– 64.3**	**– 27.2**
Expected tax benefit of 38.4%	**24.7**	**10.4**
Change in expected tax income due to:		
Non-deductible expenses (incl. goodwill amortization) and tax-exempt income	– 7.3	– 7.6
Taxation differences at foreign companies	– 0.4	3.3
Prior-period taxes	0.4	4.0
Change in valuation allowance on deferred tax assets	0.7	– 11.4
Other	– 4.0	4.9
Effective tax benefit	**14.1**	**3.6**

Since the income tax burden differs from country to country, these taxation differences are disclosed separately in the reconciliation above. The prior-period taxes are the result of refunds for taxes paid in the past due to successful appeals to the tax authorities. The valuation allowance charged on deferred tax assets relates primarily to the non-recognition of deferred tax assets in Scotland in fiscal years 2002 and 2003 and the loss carryforwards in the USA, which were partially recognized for the first time in 2003. The partial recognition of loss carryforwards in the USA in the amount of €10.0 million was offset against the valuation allowance on deferred tax assets, which was initially calculated at €–9.3 million, resulting in the positive balance of €0.7 million disclosed here.

10 Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss attributable to SGL Carbon shareholders (2003: €–50.3 million; 2002: €–23.6 million) by the weighted average number of shares outstanding (2003: 22,148,078; 2002: 21,813,930). The weighted average number of shares outstanding is calculated from the number of shares outstanding at January 1 plus the new shares issued in February 2003 (see note 19).

In both fiscal years, share options were outstanding (see note 31). The diluted earnings per share in accordance with IAS 33.40 were identical to the basic earnings per share; this was due in particular to the net loss recorded in both fiscal years.

11 Intangible assets

€m	Industrial rights, software and similar rights	Goodwill	Negative goodwill	**Total**
Historical cost:				
Balance at Jan. 1, 2003	**34.4**	**132.2**	**– 11.4**	**155.2**
Change in basis of consolidation	– 0.3	– 4.5	4.6	– 0.2
Currency translation	– 1.2	– 11.0	0.3	– 11.9
Additions	12.9	0.6	0.0	13.5
Disposals	– 1.5	– 0.3	4.1	2.3
Balance at Dec. 31, 2003	**44.3**	**117.0**	**– 2.4**	**158.9**
Cumulative amortization:				
Balance at Jan. 1, 2003	**21.5**	**36.9**	**– 7.0**	**51.4**
Change in basis of consolidation	– 0.2	– 0.6	2.9	2.1
Currency translation	– 1.2	– 4.0	0.3	– 4.9
Additions	3.8	6.6	– 2.7	7.7
Disposals	– 0.5	0.0	4.1	3.6
Balance at Dec. 31, 2003	**23.4**	**38.9**	**– 2.4**	**59.9**
Carrying amount at Dec. 31, 2003	**20.9**	**78.1**	**0.0**	**99.0**
Historical cost:				
Balance at Jan. 1, 2002	**24.0**	**140.6**	**– 8.3**	**156.3**
Change in basis of consolidation	0.0	0.0	0.0	0.0
Currency translation	– 1.0	– 8.5	– 3.1	– 12.6
Additions	12.0	0.1	0.0	12.1
Disposals	– 0.6	0.0	0.0	– 0.6
Balance at Dec. 31, 2002	**34.4**	**132.2**	**– 11.4**	**155.2**
Cumulative amortization:				
Balance at Jan. 1, 2002	**18.5**	**31.3**	**– 4.7**	**45.1**
Change in basis of consolidation	0.0	0.0	0.0	0.0
Currency translation	– 1.2	– 1.8	0.0	– 3.0
Additions	4.8	7.4	– 2.3	9.9
Disposals	– 0.6	0.0	0.0	– 0.6
Balance at Dec. 31, 2002	**21.5**	**36.9**	**– 7.0**	**51.4**
Carrying amount at Dec. 31, 2002	**12.9**	**95.3**	**– 4.4**	**103.8**

Industrial rights, software and similar rights are mainly comprised of purchased and internally developed software. Additions in the year under review relate mainly to the development of a standardized Group-wide SAP system (SGL ONE). The aim of the SGL ONE project is to replace a large number of legacy systems with a single, fully integrated global SAP system. A total of €9.3 million was capitalized in 2003 for the SGL ONE project (2002: €4.9 million). Negative goodwill is amortized in the income statement over the expected remaining useful life. Goodwill amortization is contained in other operating expenses. There was no requirement for write-downs from impairment testing.

12 Property, plant and equipment

€m	Land, land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under construction	Total
Historical cost:					
Balance at Jan. 1, 2003	**372.0**	**1,023.9**	**131.4**	**29.6**	**1,556.9**
Change in basis of consolidation	– 1.3	– 1.0	– 2.0	0.1	– 4.2
Currency translation	– 16.8	– 53.5	– 2.6	– 1.2	– 74.1
Reclassifications	0.0	0.0	0.0	0.0	0.0
Additions	4.9	35.4	3.4	– 10.9 *	32.8
Disposals	– 3.3	– 35.9	– 7.4	– 0.1	– 46.7
Balance at Dec. 31, 2003	**355.5**	**968.9**	**122.8**	**17.5**	**1,464.7**
Cumulative amortization:					
Balance at Jan. 1, 2003	**203.7**	**764.8**	**110.9**	**0.2**	**1,079.6**
Change in basis of consolidation	– 0.7	– 1.8	– 1.5	0.0	– 4.0
Currency translation	– 5.3	– 31.0	– 1.9	0.0	– 38.2
Reclassifications	0.4	– 0.4	0.0	0.0	0.0
Additions	9.4	48.4	6.7	0.0	64.5
Disposals	– 3.1	– 35.4	– 7.2	0.0	– 45.7
Balance at Dec. 31, 2003	**204.4**	**744.6**	**107.0**	**0.2**	**1,056.2**
Carrying amount at Dec. 31, 2003	**151.1**	**224.3**	**15.8**	**17.3**	**408.5**
Historical cost:					
Balance at Jan. 1, 2002	**395.8**	**1,106.6**	**142.5**	**52.9**	**1,697.8**
Change in basis of consolidation	– 10.9	– 36.4	– 8.5	0.0	– 55.8
Currency translation	– 19.3	– 61.4	– 3.2	– 2.2	– 86.1
Reclassifications	10.1	0.0	0.0	– 10.1	0.0
Additions	2.6	43.7	6.1	– 10.9	41.5
Disposals	– 6.3	– 28.6	– 5.5	– 0.1	– 40.5
Balance at Dec. 31, 2002	**372.0**	**1,023.9**	**131.4**	**29.6**	**1,556.9**
Cumulative amortization:					
Balance at Jan. 1, 2002	**214.5**	**811.3**	**118.3**	**0.2**	**1,144.3**
Change in basis of consolidation	– 10.0	– 34.3	– 8.5	0.0	– 52.8
Currency translation	– 7.1	– 38.1	– 2.2	0.0	– 47.4
Reclassifications	0.0	0.0	0.0	0.0	0.0
Additions	10.3	52.4	8.6	0.0	71.3
Disposals	– 4.0	– 26.5	– 5.3	0.0	– 35.8
Balance at Dec. 31, 2002	**203.7**	**764.8**	**110.9**	**0.2**	**1,079.6**
Carrying amount at Dec. 31, 2002	**168.3**	**259.1**	**20.5**	**29.4**	**477.3**

* Balance of additions of €19.9 million and reclassifications of operational equipment of €30.8 million.

Investments in property, plant and equipment declined by €8.7 million in the year under review, from €41.5 million to €32.8 million. Material additions relate to the replacement of capital assets for our plants in Germany, the United States, Poland and Italy. Capitalized leased assets relate to land and buildings and to technical equipment, and amount to €1.1 million at December 31, 2003.

13 Noncurrent financial assets

€m	Investments in subsidiaries	Noncurrent financial investments	Other noncurrent financial assets	**Total**
Historical cost:				
Balance at Jan. 1, 2003	**32.8**	**2.5**	**5.4**	**40.7**
Change in basis of consolidation	1.2	0.0	0.0	1.2
Currency translations	– 1.5	0.0	– 0.1	– 1.6
Reclassifications	0.0	0.0	0.0	0.0
Additions	1.0	0.0	0.7	1.7
Disposals	– 1.7	0.0	– 0.5	– 2.2
Balance at Dec. 31, 2003	**31.8**	**2.5**	**5.5**	**39.8**
Cumulative amortization:				
Balance at Jan. 1, 2003	**7.2**	**0.0**	**0.3**	**7.5**
Change in basis of consolidation	0.0	0.0	0.0	0.0
Currency translations	0.0	0.0	0.0	0.0
Additions	3.7	0.0	0.0	3.7
Disposals	– 0.1	0.0	0.0	– 0.1
Balance at Dec. 31, 2003	**10.8**	**0.0**	**0.3**	**11.1**
Carrying amount at Dec. 31, 2003	**21.0**	**2.5**	**5.2**	**28.7**
Historical cost:				
Balance at Jan. 1, 2002	**27.3**	**2.7**	**5.2**	**35.2**
Change in basis of consolidation	11.0	0.0	0.0	11.0
Currency translations	– 1.7	0.0	0.1	– 1.6
Reclassifications	0.0	– 0.3	0.3	0.0
Additions	0.6	0.1	0.0	0.7
Disposals	– 4.4	0.0	– 0.2	– 4.6
Balance at Dec. 31, 2002	**32.8**	**2.5**	**5.4**	**40.7**
Cumulative amortization:				
Balance at Jan. 1, 2002	**1.2**	**0.0**	**0.0**	**1.2**
Change in basis of consolidation	6.0	0.0	0.0	6.0
Currency translations	0.0	0.0	0.1	0.1
Additions	0.0	0.0	0.2	0.2
Disposals	0.0	0.0	0.0	0.0
Balance at Dec. 31, 2002	**7.2**	**0.0**	**0.3**	**7.5**
Carrying amount at Dec. 31, 2002	**25.6**	**2.5**	**5.1**	**33.2**

Other noncurrent financial assets relate primarily to the capitalized surrender value of reinsurance policies. The changes in the basis of consolidation in the year under review relate to the carrying amounts of subsidiaries which are no longer consolidated due to immateriality. There are no advance payments on noncurrent financial assets. In fiscal year 2003, the carrying amount of an unconsolidated subsidiary was written down by €3.5 million as the company has streamlined and reorganized its activities.

14 Inventories

€m	Dec 31, 2003	Dec 31, 2002
Raw materials and supplies	71.8	83.1
Work in progress	137.8	147.9
Finished goods and goods purchased and held for resale	47.1	54.5
Cost in excess of billings	7.7	9.3
Advance payments	0.6	1.1
less payments received	-7.0	-7.5
Total	**258.0**	**288.4**

Cost in excess of billings relates to customer-specific production contracts measured at cost. The total amount of inventories carried at net realizable value amounts to €1.9 million. Reversal of write-downs were only recognised to a limited extent.

15 Trade receivables

€m	Dec 31, 2003	Dec 31, 2002
Customers	204.2	198.1
(thereof with more than one year to maturity)	(2.2)	(0.3)
Subsidiaries	17.1	10.0
Total	**221.3**	**208.1**

Trade receivables are reported net of specific allowances for doubtful accounts amounting to €7.8 million as of December 31, 2003 and €9.6 million as of December 31, 2002. In the CG segment, valuation allowances in the amount of €4.6 million were charged on receivables from customers in Canada, Switzerland and other receivables. No general valuation allowances were recognized. There were no trade receivables from associates. In fiscal year 2003, the sales of receivables reported in the previous year amounting to €41.2 million were reduced completely.

16 Other receivables and other current assets

€m	Dec 31, 2003	Dec 31, 2002
Other receivables from subsidiaries	11.6	2.9
Other current assets	46.5	57.8
(thereof with more than one year to maturity)	(0.2)	(0.0)
Total	**58.1**	**60.7**

Other current assets relate primarily to recoverable taxes amounting to €17.5 million, positive fair values of financial derivatives totaling €12.9 million, prepaid expenses of €3.3 million, insurance claims, short-term loans receivable, purchase price receivables for noncurrent assets sold, and miscellaneous receivables. Due to the new refinancing program approved by the Company in December 2003, the capitalized financing costs for the old syndicated loan were written off at the end of fiscal year 2003. Costs of €0.2 million were deferred as of December 31, 2003 for the refinanc-ing package implemented in 2004.

17 Cash and cash equivalents

€m	Dec 31, 2003	Dec 31, 2002
Cash and bank balances	46.1	21.4
Financial instruments	0.0	0.1
Total	**46.1**	**21.5**

The increase in cash and bank balances as compared to the prior year is primarily due to the increase in SGL CARBON AG's cash and cash equivalents.

18 Deferred tax assets

Deferred tax assets from tax loss carryforwards are recognized in the consolidated IFRS/IAS financial statements on the basis of a five-year projection of earnings before taxes at the level of the individual consolidated subsidiaries or fiscal entities for tax purposes. Uncertainties about certain assumptions and other general conditions are reflected in the projection and lead in exceptional cases to deferred tax assets from tax loss carryforwards not being recognized.

Tax loss carryforwards relate primarily to accumulated corporation tax loss carryforwards of approx. $199 million in the US and of approx. €139 million in Germany. As the law currently stands, the tax loss carryforwards in Germany can be utilized for an unlimited period. In the US, the tax loss carryforwards expire between 2018 and 2023. These tax loss carryforwards are measured at the expected future tax rates. Valuation allowances are charged on the gross amounts calculated in this way to obtain the amounts likely to be utilized in the future.

Deferred tax assets from loss carryforwards in Scotland were not recognized during preparation of the consolidated IFRS/IAS financial statements. As a result of the turnaround in our businesses in the USA, a portion of the loss carry-forwards were recognized on the basis of a conservative estimate. This increased deferred tax assets by €10.0 million in 2003.

Deferred tax assets were also recognized for timing differences in profit and loss resulting from consolidation adjustments and for temporary differences in carrying amounts at the Group subsidiaries resulting from provisions for onerous contracts not allowable for tax purposes and for other measurement differences under the IFRSs/IASs. In the event of doubts about the tax-deductibility of expenses, an equivalent valuation allowance is charged against the calculated deferred tax assets. Most deferred tax assets have more than one year to maturity.

Deferred tax assets and liabilities as of December 31, 2003 are derived from tax loss carryforwards or differences between the tax accounts and the IFRS/IAS financial statements as follows:

€m	Deferred tax assets	Deferred tax liabilities
Noncurrent assets	14.7	18.2
Inventories	0.9	7.2
Receivables/other assets	3.0	3.9
Pension provisions	9.8	0.0
Other provisions	9.6	5.7
Liabilities	9.9	6.7
Comprehensive income		1.3
From tax loss carryforwards	79.3	
Total	**127.2**	**43.0**

19 Equity

The classification of items of equity is presented in the statement of changes in equity on page 57.

The Company's share capital amounted to €56,793,492.48 as of December 31, 2003 and is composed of 22,184,958 no par-value ordinary bearer shares, each with a notional value of €2.56.

An increase in the share capital of the Company requires a resolution by the Annual General Meeting adopted by a simple majority. Moreover, the Annual General Meeting may authorize the Executive Committee to increase the share capital of the Company with the consent of the Supervisory Board within a period of five years by issuing shares in a certain aggregate amount (authorized capital). Finally, shareholders may approve the creation of conditional capital, but only to issue conversion or subscription rights to holders of convertible bonds, to prepare a merger with another company or to issue stock options to employees and members of the management of the Company or of an affiliated company by way of a consent and authorization resolution. Each of these shareholders' resolutions pertaining to the creation of authorized or conditional capital require a majority of three quarters of the share capital represented at the Annual General Meeting when the resolution is passed. The nominal amount of the authorized capital created by the shareholders may not exceed one half of the share capital existing at the time of registration of the authorized capital in the commercial register. The total nominal amount of the conditional capital created by the shareholders, the issuance of which was authorized by the shareholders, may not exceed one half of the share capital existing at the time of the adoption of the resolution relating to the conditional capital increase. The total nominal amount of the conditional capital for the issuance of stock options to employees and members of the management of the Company or of an affiliated company may not exceed 10% of the share capital existing at the time of the adoption of the resolution relating to the conditional capital increase.

Extraordinary General Meeting on January 15, 2004

The Extraordinary General Meeting on January 15, 2004 adopted the following resolutions, among others:

- that the Company's share capital will be increased from €56,793,492.48 by €85,190,238.72 to €141,983,731.20 against cash contributions by issuing 33,277,437 no-par value bearer shares;
- that an underwriting syndicate will subscribe for the new shares at the notional amount of €2.56 per share, with the obligation that they offer the shares to the existing shareholders at a ratio of three to two (three new shares for two existing shares) and at a subscription price of at least €6.00 (the indirect pre-emptive right). The subscription period ended two weeks after public notification of the subscription offer in the electronic version of the German Federal Gazette;
- that the new shares shall carry full dividend rights as of fiscal year 2004; and
- that the Executive Committee is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its implementation, in particular the subscription price. The underwriters are authorized to sell those shares that are not subscribed within the subscription period to institutional investors as part of a private placement.

The resolution relating to the capital increase was registered in the commercial register of the Wiesbaden local court on January 16, 2004; the implementation of the capital increase was registered on February 3, 2004.

Authorized capital

The Executive Committee is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by a total of up to €6,107,691.52 (authorized capital I) by issuing new shares against cash and/or non-cash contributions on one or several occasions until April 29, 2007. The shareholders are to be granted pre-emptive rights. The Executive Committee is authorized, with the approval of the Supervisory Board, to exclude fractional shares from the shareholders' pre-emptive rights. Furthermore, the Executive Committee can disapply pre-emptive rights with the approval of the Supervisory Board

(i) to the extent necessary to enable the holders of options or convertible bonds that have been issued by the Company or by a wholly owned direct or indirect subsidiary to be granted subscription rights for shares to the same extent to which they would be entitled following the exercise of the options or conversion rights or after fulfillment of conversion obligations;

(ii) if the new shares are issued to employees of the Company or affiliated companies within the meaning of sections 15 ff. of the Aktiengesetz (German Stock Corporation Act – AktG). However, for this purpose the share capital can only be increased by a total of no more than €1,664,000.00 by issuing a total of up to 650,000 new no-par value shares on one or several occasions;

(iii) if the new shares are issued to employees of the Company or affiliated companies within the meaning of sections 15 ff. of the AktG who participate in the Matching Shares Plan of the Company. However, for this purpose the share capital can only be increased by a total of no more than €587,499.52 by issuing a total of up to 229,492 new no-par value shares on one or several occasions;

(iv) if the new shares are issued as part of a capital increase against non-cash contributions for the acquisition of companies, divisions of companies, or equity interests in companies; and

(v) for a total of no more than €5,597,299.20 if the new shares are issued as part of a capital increase against cash contributions at an issue price that is not significantly lower than the market price.

The Executive Committee is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by a total of up to €21,058,304.00 (authorized capital Ia) by issuing 8,225,900 new no-par value shares against cash contributions and/or non-cash contributions on one or several occasions until May 2, 2006. The Executive Committee is authorized, with the approval of the Supervisory Board, to exclude fractional shares from shareholders'

pre-emptive rights. In addition, the Executive Committee can disapply pre-emptive rights entirely with the approval of the Supervisory Board in order to issue new shares against non-cash contributions for the purpose of acquiring companies or interests in companies.

The Extraordinary General Meeting on January 15, 2004 adopted a resolution to cancel the authorized capital Ia insofar as it permits a capital increase against cash contributions. As a result, a capital increase from authorized capital Ia will only be possible against non-cash contributions in the future. The shareholders instructed the Company's Executive Committee not to register this change to the Company's Articles of Association until after the completion of the capital increase that was resolved by the January 15, 2004 Extraordinary General Meeting has been registered in the commercial register.

Conditional capital

Based on a resolution of the Annual General Meeting on April 27, 2000, the share capital of the Company was conditionally increased by a further €3,840,000.00, composed of 1,500,000 bearer shares with a notional value of €2.56 per share. The conditional capital increase will only be implemented to the extent that holders of warrants relating to bonds with warrants or holders of conversion rights from convertible bonds, which are issued by the Company or a wholly owned direct or indirect subsidiary of the Company on the basis of the authorizing resolution of the Annual General Meeting on April 27, 2000, exercise their option or conversion rights, or to the extent that holders of convertible bonds with a conversion obligation fulfill their conversion obligation, where those convertible bonds are issued by the Company or a wholly owned direct or indirect subsidiary of the Company on the basis of the authorizing resolution of the Annual General Meeting on April 27, 2000. The new shares carry dividend rights as of the beginning of the fiscal year in which they are created through the exercise of conversion rights or options or through the fulfillment of conversion obligations.

Based on a resolution of the Annual General Meeting on April 27, 2000, the share capital of the Company was conditionally increased by an additional nominal amount of up to €4,096,000.00. The conditional capital increase will be implemented only by issuing up to 1,600,000 new shares carrying dividend rights from the beginning of the fiscal year in which they were issued and will only be implemented insofar as the holders of options issued within the scope of the stock option plan of the Company based on the authorization of April 27, 2000, exercise their rights to purchase shares.

Based on a resolution of the Annual General Meeting on May 3, 2001, the share capital of the Company was conditionally increased by a further €5,520,499.20, composed of 2,156,445 bearer shares. The conditional capital increase will only be implemented to the extent that holders of bonds with warrants or holders of conversion rights from convertible bonds, which are issued by the Company or a wholly owned direct or indirect subsidiary of the Company on the basis of the authorizing resolution of the Annual General Meeting on May 3, 2001, exercise their option or conversion rights, or to the extent that holders of convertible bonds with a conversion obligation fulfill their conversion obligation. The new shares carry dividend rights as of the beginning of the fiscal year in which they are created through the exercise of conversion rights or options or through the fulfillment of conversion obligations.

Authorization to acquire own shares

By resolution of the Annual General Meeting on April 30, 2003, the Executive Committee was authorized to acquire, until October 29, 2004, no-par value shares of the Company totaling up to 10% of the share capital as of April 30, 2003. The purchase price of one no-par value shares (excluding transaction costs) may not be more than 10% above or below the average closing price of the Company's shares in the XETRA securities trading system (or a comparable successor system) on the last five trading days prior to the acquisition or undertaking to acquire the shares. If the shares are acquired via a public offering, the purchase price per share (excluding transaction costs) may not, as a matter of principle, be more than 15% above or below the average closing price of the Company's shares in the XETRA securities trading

system (or a comparable successor system) on the fifth to the ninth trading days prior to the publication of the offering. The volume of the public offering can be limited. Where the shares tendered to the Company as the result of a public offering exceed the stipulated volume, the number of shares accepted must be proportional to the number of shares offered. Preferred acceptance of lesser numbers of shares (up to 100 shares per shareholder) can be stipulated. Public offerings must comply with the regulations of the Wertpapiererwerbs- und Übernahmegesetz (German Securities Acquisition and Takeover Act), insofar as and to the extent that these are applicable.

In addition, the Executive Committee was authorized to sell acquired own shares by means other than the stock market or an offering to all shareholders if the shares are sold at a cash price that is not significantly less than the market price of shares of the Company carrying the same rights at the time of the sale; this authorization is limited to a total of no more than 10% of the Company's share capital. All shares issued in accordance with Article 3 (6) of the Articles of Association for which pre-emptive rights have been disapplied in accordance with section 186 (3) sentence 4 of the AktG must be included. Also to be included are the shares to be issued as the result of the exercise of options or conversion rights arising from convertible bonds or bonds with warrants issued in accordance with the disapplication of shareholders' pre-emptive rights under section 186 (3) sentence 4 of the AktG. Furthermore, the Company was authorized to make available, on the expiry of the two-year lockup period, the own shares it acquired to members of the Executive Committee while disapplying pre-emptive rights as part of the Matching Shares Plan resolved by the Annual General Meeting on April 27, 2000 under agenda item 8. In this case, the shares must be offered and transferred by the Supervisory Board. However, no more than 20,000 shares may be transferred for this purpose. The Executive Committee was authorized to offer the own shares for sale while disapplying pre-emptive rights to employees of the Company or a Group company. Moreover, the Executive Committee was authorized to retire the own shares without an additional resolution by the Annual General Meeting. Each of these authorizations can be exercised either in full or in part. The own shares may be acquired for one or several of the reasons listed.

The Supervisory Board can determine that measures taken by the Executive Committee in reliance on this resolution by the Annual General Meeting may only be taken with its approval. The Executive Committee may use the authorization to allocate acquired shares in the context of the Matching Shares Plan only if and to the extent that the Supervisory Board has made such a resolution and has given its approval. To date, the Executive Committee has not made use of this authorization.

Convertible bonds

The Company currently has convertible bonds outstanding in the aggregate principal amount of €133,650,000, which it issued on September 18, 2000 at par. The bonds bear interest at 3.5% annually. The bonds may be converted into shares at any time between October 18, 2000 and September 4, 2005. Each bond in the amount of €1,000 can be converted into 11.2233 shares (subject to adjustment of the conversion price). The bonds will mature on September 18, 2005 provided that they have not been repaid or converted at an earlier date. The conditions of the convertible bond provide for protection against dilution. The conditional capital described above in the amount of up to €3,840.000 was created in order to collateralize the option rights. The Company plans to repurchase the convertible bonds from the bondholders in the context of a public tender offer.

Following the reclass of retained earnings in the amount of €58,000,000, SGL Carbon AG's net accumulated deficit is zero.

On March 10, 2003, the Company bought 300,000 own shares at €2.56 each. These shares resulted from the capital increase approved on January 31, 2003 by the Executive Committee with the consent of the Supervisory Board on February 11, 2003 and were for use by employees. In March 2003, a total of 20,508 new shares were also issued to employees of SGL Carbon AG and its affiliates as a non-cash contribution as part of the 2001 Matching Shares Plan. The employees participating in the 2001 Matching Shares Plan contributed their bonus claims to the value of

€249,582.36 to the Company as a non-cash contribution. €52,500.48 of this amount consisted of issued capital, while the remaining €197,081.88 was credited to the share premium. Following the implementation of the Bonus and Matching Shares Plan, the Company's portfolio has comprised of 264 own shares at the balance sheet date.

On February 4, 2004, the Executive Board resolved to increase the share capital by €896,000 by issuing 350,000 new shares using part of the authorized capital (authorized capital I). The new shares are for use by employees and carry dividend rights for fiscal year 2003. In addition, the Company will issue 22,895 new shares as a non-cash contribution to employees of SGL Carbon AG and its affiliates in March 2004 as part of the 2002 Matching Shares Plan. The new shares carry dividend rights for fiscal year 2004.

20 Provisions for pensions and other employee benefits

€m	Dec 31, 2003	Dec 31, 2002
Pension provisions for corporate commitments	161.0	158.8
Pension provisions for severance benefits	15.3	16.4
Other	12.2	15.4
Total	**188.5**	**190.6**

The employees of the SGL Carbon Group are covered by various worldwide pension plans which provide for the retirement benefit to the employee and their spouse. Some of the arrangements are tied to the remuneration level of the employees, others involve fixed amounts that depend on the classification of the employees (in terms of both salary class and grade level in the corporate hierarchy). Certain arrangements also provide for future increases based on indexed inflation.

The different pension plans covering the employees of SGL Carbon AG, SGL Carbon GmbH and SGL Acotec GmbH (formerly SGL Technik GmbH) were standardized as of April 1, 2000. Retirement benefits for employees that arose prior to April 1, 2000 are not affected, and the financial obligations arising under these pension plans remain within the SGL Carbon Group, where they are covered by provisions. The basis of the amended pension plan is the legally independent pension fund for employees of the Hoechst Group, which is funded by employee and employer contributions. The contributions of the SGL Carbon Group to this pension fund are determined by a certain formula based upon the contributions paid into this pension fund by the employees. The payments by subsidiaries to such defined contribution pension plans are expensed as incurred in the period concerned.

In the case of defined contribution pension plans, the company pays contributions to pension insurance funds on the basis of statutory or contractual provisions. The company has no obligations other than to pay the contributions. Current contribution payments are recognized as operating expenses in the period concerned.

The provisions for defined benefit plans are calculated using the projected unit credit method. Measurement is based on the legal, economic and tax circumstances in the country concerned. Most of the obligations from current pensions benefits and entitlements under pension plans in the European companies are covered by the provisions carried on the balance sheet. The North American subsidiaries have country-specific pension plans which are largely covered by pension funds. At certain subsidiaries in the SGL Carbon Group, the provisions also cover amounts for post-employment medical care as well as severance payments. The future benefit obligations are calculated using actuarial methods based on conservative estimates of the relevant parameters. Recognition of actuarial gains and losses uses the 10 %

corridor rule. Personnel turnover is determined on a company-by-company basis. The actuarial measurements are based on country-specific mortality tables. Pension provisions amounting to around €13 million have a term of less than one year.

The following parameters are applied to the most significant countries, Germany and the USA:

Calculation basis and parameters for pension provisions in %	**German plans 2003**	German plans 2002	**US plans 2003**	US plans 2002
Discount rate	5.5	6.0	6.75	6.75
Salary increase	2.75	3.0	3.0	3.0
Expected long-term rate of return on plan assets	–	–	8.5	9.0

Changes in the present value of funded obligations and in plan assets for pension provisions for direct commitments are presented below:

€m	**2003**	2002
Changes in present value of obligations:		
Present value at Jan. 1	**244.8**	**234.8**
Current service cost	4.7	5.5
Interest cost	13.6	14.2
Actuarial gains/losses	0.0	6.6
Benefits paid	– 12.4	– 12.1
Other changes	– 3.0	0.0
Exchange differences	– 13.7	– 4.2
Present value of obligations at Dec. 31	**234.0**	**244.8**
Changes in plan assets		
Plan assets at Jan. 1	**45.3**	**51.6**
Return on plan assets	3.2	– 5.7
Contributions paid	2.9	2.9
Benefits paid	– 3.4	– 3.7
Exchange differences	– 7.1	0.2
Plan assets at Dec. 31	**40.9**	**45.3**
Funding status	**193.1**	**199.5**
Unrecognized actuarial losses	– 32.1	– 40.7
Pension provision at Dec. 31	**161.0**	**158.8**

Reinsurance policies were entered into with two large insurance companies in fiscal year 2003 relating to the Company's pension obligations to members of the Executive Committee. At December 31, 2003, the capitalized surrender value included in the pension provisions totaled €3.2 million. The proceeds arising from these reinsurance policies were pledged to the respective Executive Committee members. Pension expenses are composed as follows:

€m	**2003**	2002
Current service cost	4.7	5.5
Interest cost	13.6	14.2
Expected return on plan assets	– 3.2	– 4.5
Amortization of actuarial losses	2.1	0.7
Pension expenses from defined benefit plans	**17.2**	**15.9**
Pension expenses from defined contribution plans	3.3	2.8
Pension expenses	**20.5**	**18.7**

21 Other provisions

€m	Taxes	Staff costs	Restructuring and antitrust risks	Miscel-laneous	**Total**
Balance at Jan. 1, 2003	**2.3**	**43.3**	**75.8**	**27.8**	**149.2**
Changes in basis of consolidation	– 0.2	– 0.7	0.0	– 0.7	– 1.6
Utilized	– 1.6	– 24.6	– 1.3	– 16.1	– 43.6
Released	– 0.4	– 1.6	0.0	– 5.4	– 7.4
Additions	2.7	25.9	19.5	26.0	74.1
Other changes	0.0	– 2.1	– 1.8	– 0.2	– 4.1
Balance at Dec. 31, 2003	**2.8**	**40.2**	**92.2**	**31.4**	**166.6**
(thereof with a term of less than one year)	(1.5)	(33.1)	(92.2)	(26.8)	(153.6)

The provisions for taxes contain amounts for tax risks of fiscal years not yet finally assessed by the tax authorities. Provisions for staff costs relate to provisions for annual bonuses, jubilee benefits, partial retirement and outstanding vacation.

Although we filed an appeal with the European Court in relation to the antitrust fine on our electrical contacts activities levied by the EU in December 2003, we have examined the provisions for antitrust risks in their entirety and increased them by €19.5 million (2002: €22.0 million). At the end of 2003, we deferred the estimated interest to be paid in connection with the European antitrust fine and reported this amount under other provisions.

Miscellaneous other provisions relate to various risks, including provisions for bonuses, rebates and burdensome contracts amounting to €6.1 million (2002: €7.2 million), provisions for interest relating to European antitrust proceedings amounting to €5.6 million (2002: €0.0 million), provisions for warranties amounting to €0.3 million (2002: €2.0 million), provisions for environmental costs amounting to €2.4 million (2002: €3.4 million), and provisions for other risks.

22 Liabilities

€m	Dec 31, 2003	Dec 31, 2002
Bank loans and overdrafts	360.8	313.5
Convertible and exchangeable bonds	133.7	135.0
Financial liabilities	**494.5**	**448.5**
Trade payables	**98.9**	**110.5**
(thereof due within one year)	(98.9)	(110.5)
(thereof to subsidiaries)	(0.7)	(0.4)
Customer advances received	1.8	0.8
(thereof due within one year)	(1.8)	(0.8)
Payable to subsidiaries	5.5	6.0
(thereof due within one year)	(5.5)	(6.0)
Miscellaneous other liabilities	131.2	144.4
Other liabilities	**138.5**	**151.2**
Total	**731.9**	**710.2**

133,650 bonds with warrants of €1,000 each were issued as part of a convertible bond on September 18, 2000 at 100% of the principal amount. They bear interest at 3.5% p.a. on their principal amount. The bonds with warrants can be converted at any time into fully paid-up, no-par value bearer shares of SGL Carbon AG in the period from October 18, 2000 to September 4, 2005. Each bond with warrants in the principal amount of €1,000 can be converted into 11.2233 shares subject to adjustment of the conversion price. In accordance with the new loan agreement, a buy-back offer will be made to the holders of the convertible bonds in 2004.

The weighted average rate of interest on financial liabilities was 4.7% for 2003 (previous year: 4.4%).

Bank loans and overdrafts amounting to €153.7 million as of December 31, 2003 bore interest at fixed rates of up to 7.4%. The remaining bank loans relate mainly to short-term € and USD loans at rates of interest of between 3.9% and 4.9%.

In December 2002, SGL Carbon and various of its German and foreign Group subsidiaries entered into a syndicated loan agreement totaling €510 million with a term of two and a half years. This amount included the bank guarantee to the European Commission and a working capital facility. This was repaid in February 2004 via the new refinancing program.

The refinancing program of approximately €866 million that the Company approved in December 2003 and implemented in January and February 2004 comprises in addition to the capital increase the issue of high-yield bonds of approx. €270 million and the conclusion of new syndicated loans amounting to around €240 million and $116 million. The syndicated loans have been granted subject to the condition that the Group complies with standard bank covenants, such as the amount of equity, fixed charge coverage and the ratio of net debt to EBITDA and EBITDA to interest expense. Non-compliance with the covenants or other obligations in the loan agreement may result in additional expenses and, if repeated, the lenders could demand repayment of the loan ahead of schedule. Various assets, in particular property, plant and equipment, inventories and receivables were pledged as security for the loan.

Based on the credit lines in place at December 31, 2003 within the framework of the syndicated loans and the amounts used as of the balance sheet date, the SGL Carbon Group had credit lines of €41 million available.

In fiscal year 2003, the advance payments received totaling €7.0 million were offset against the corresponding inventories for each individual project (2002: €7.5 million). The other liabilities primarily relate to discounted liabilities for North American antitrust proceedings amounting to €61.0 million (2002: €80.9 million), wages and salaries amounting to €7.6 million (2002: €16.3 million), negative fair values of financial derivatives of €25.3 million (2002: €12.2 million), and taxes amounting to €9.5 million (2002: €6.4 million). Social security liabilities amounted to €8.2 million (2002: €6.7 million).

The maturity structure of the total amounts of financial and miscellaneous other liabilities due in each of the next five years and the remainder thereafter is presented below; these relate to the syndicated loan entered into at the end of 2002/start of 2003:

€m	2004	2005	2006	2007	2008	With more than five years to maturity
Financial liabilities	83.9	392.7	4.8	8.4	4.2	0.5
Miscellaneous other liabilities	84.0	21.0	20.0	6.2	0.0	0.0

Deferred grants from third parties as defined by IAS 20 amounted to €1.3 million as of December 31, 2003 (2002: €1.6 million). €0.2 million was recognized in income during the year under review. There are no deferred gains on sale and leaseback transactions.

23 Deferred tax liabilities

Deferred tax liabilities result from differing depreciation and amortization methods applied in the tax accounts and in the IFRS/IAS financial statements, from capitalized finance leases, and from measurement differences in the carrying amounts of inventories between the tax accounts and the IFRS/IAS consolidated financial statements. Most deferred tax liabilities have more than one year to maturity. Deferred taxes from items consisting of cash flow hedges in 2003 charged directly to equity amount to €1.3 million (see also note 18).

Consolidated Cash Flow Disclosures

24 Disclosures on the consolidated cash flow statements

The consolidated cash flow statements present changes in the cash and cash equivalents of the SGL Carbon Group through inflows and outflows of cash and cash equivalents over the course of a reporting period. Cash flows are classified by operating, investing and financing activities. The effects of first-time consolidation and deconsolidation were eliminated. The presentation is supplemented by a reconciliation to cash and cash equivalents as reported in the balance sheet. The amounts of foreign subsidiaries whose reporting currency is other than the Euro have generally been translated at average rates for the year in the cash flow statement, while cash and cash equivalents are translated at the closing rate, as in the balance sheet.

Cash provided by operating activities includes interest received in the amount of €3.4 million and interest paid in the amount of €26.9 million. Net taxes paid after refunds amounted to €3.8 million. Bank loans and overdrafts were increased by €47.6 million for financing purposes, while Group debt fell by €1.3 million due to the repayment of commercial paper.

Cash used includes payments for the acquisition of companies. A total of €1.7 million was paid for the acquisition of noncurrent financial assets.

Other Disclosures

25 Commitments and contingencies

There were no liabilities on bills as of December 31, 2003 or in the previous year. There were guarantee obligations of €35.5 million at December 31, 2003 (December 31, 2002: €45.0 million). Other financial obligations from orders relating to approved capital expenditures commitments amounted to €3.2 million and €21.1 million at December 31, 2003 and 2002, respectively. Certain of these capital projects involve expenses to be incurred after more than one year.

A number of collateral agreements were entered into with creditors in conjunction with the refinancing project at the start of 2003. These entailed the pledging of equity interests in the majority of Group companies. The rights of use for intangible assets have been assigned for all German companies, and liens entered for SGL CARBON AG and two US companies in the amount of €397.5 million. Inventories and movable plant and equipment amounting to €378.1 million were assigned as collateral. For the above-mentioned companies, trade receivables and receivables from unconsolidated subsidiaries totaling €170.3 million were assigned as collateral. In addition, receivables from subsidiaries included in the consolidated financial statements in the amount of €547.5 million and bank balances amounting to €40.7 million were pledged as collateral by individual companies. Similar collateral agreements will be entered into under the new financing package to be implemented in 2004.

There were also rental and lease obligations for land and buildings, IT equipment, motor vehicles and other items of property, plant and equipment amounting to €9.1 million and €12.3 million at December 31, 2003 and 2002, respectively. At December 31, 2003, the minimal annual lease payments are as follows:

€m	2004	2005	2006	2007	2008 and thereafter
Operating leases	2.2	1.3	0.7	0.5	3.3
Finance leases	0.3	0.3	0.2	0.2	0.2
discount included	– 0.1				
Present value of finance leases	**1.1**				

There were no payments received from subleases in the two fiscal years. The finance leases relate solely to leased items of property, plant and equipment that were entered into under standard leasing arrangements without special purchase options. There were provisions for environmental protection obligations at a number of the SGL Carbon Group's production sites, principally in North America, in the amount of €2.4 million and €3.4 million at December 31, 2003 and 2002, respectively.

A number of legal actions, court proceedings and law suits are pending or may be instituted or asserted in the future, including those arising from alleged defects in the products of the SGL Carbon Group, from product warranties and environmental protection matters.

Litigation is subject to many uncertainties, and the outcome of individual cases cannot be predicted with any certainty. There are reasonable indications to suggest that the SGL Carbon Group may be adversely affected by rulings in certain cases. Identifiable risks are adequately covered by the recognition of corresponding provisions.

Pending antitrust proceedings and claims

The antitrust proceedings in the US and in Canada have been concluded. Following negotiations with the US antitrust authorities, we obtained a payment extension in 2002 for our remaining obligations. According to the original repayment schedule, we would have had to pay a total of $65 million in 2002 and 2003. Under the revised plan, a total of $15 million was repaid in these two years. The postponement of payments totaling $50 million to the period 2004 – 2007 will further improve the Company's financial position.

In December 2002, the European Commission imposed a fine of €27.75 million on SGL Carbon AG for anti-competitive practices in the graphite specialties market. We have filed an appeal with the European Court of Justice, citing in particular double jeopardy and gross unreasonableness. Additional provisions of €22 million were recognized in 2002 to cover these antitrust risks.

In December 2003, the European Commission imposed a fine of €23.64 million on SGL Carbon AG for anti-competitive practices in the market for electrical and mechanical carbon and graphite products. We have filed an appeal against this decision as well with the European Court of Justice. The provisions for antitrust proceedings, including legal costs have been increased by €19.5 million in this context in 2003.

26 Related party disclosures

In the course of its business activities, the SGL Carbon Group renders services to related companies and persons. In turn, these persons and companies deliver goods or render services to the SGL Carbon Group as part of their business. All these transactions are settled on an arm's length basis. Receivables from unconsolidated subsidiaries and associates amount to €28.6 million, and the corresponding liabilities amount to €6.2 million. Details are presented in the notes to the relevant balance sheet and income statement items.

In August 2001, Paul W. Pendorf was appointed Chief Executive Officer of HITCO CARBON Composites, Inc. Mr. Pendorf has a 6% minority interest in this company. The SGL Carbon Group granted Mr. Pendorf a loan, secured by the proceeds from the future sale of his shares in HITCO, to finance the purchase price. The related shareholders' agreement of August 3, 2001, which was replaced and updated by a substantially similar agreement on September 5, 2003, also provides, among other things, for additional options that can be exercised by either side in certain specific cases or (with the exception of HITCO) after no more than three years at a price fixed according to a specific formula. Specifically, SGL CARBON LLC and HITCO hold a call option granting them the right to acquire Mr. Pendorf's shares in HITCO, and Mr. Pendorf holds a put option granting him the right to sell his HITCO shares to SGL CARBON LLC. Mr. Pendorf may only exercise his option on or after September 5, 2006.

Mr. Pendorf is also a shareholder of AMT II Corp. ("AMT II"), a company that entered into a management services agreement with HITCO in 2001. This agreement was amended and replaced in the summer of 2003 by a new agreement that calls for a manager to be made available on a temporary basis. In addition, an option agreement from August 2001 was terminated, whereby an option of AMT II to acquire 43% of the shares of HITCO expired.

27 Information on financial instruments

Financial instruments are contracts that give rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. According to IAS 32, these include primary financial instruments, such as trade receivables, trade payables, financial assets and financial liabilities. They also include derivatives used to hedge interest rate or foreign currency risks.

Primary financial instruments

Primary financial instruments are carried on the balance sheet. Financial instruments carried as assets are reported at cost, net of any valuation allowances required. Financial instruments carried as liabilities are reported at their notional amount or at the higher redemption amount.

The credit or default risk results from the risk that a counterparty is unable to meet its obligations. As we do not generally enter into set-off agreements with our customers, the amounts reported on the balance sheet represent the maximum default risk.

Foreign currency risks arise where receivables or liabilities are denominated in a currency other than the company's local currency. Hedging occurs firstly as a result of naturally closed positions, where a foreign currency receivable in the SGL Carbon Group is matched by one or more liabilities in the same currency with equivalent maturities and amounts. Derivatives are used only for hedging purposes for foreign currency risks not covered by natural hedges.

Derivatives

The SGL Carbon Group may be exposed to risks from changes in interest rates and exchange rates during the course of its business activities. Derivatives are used purely for hedging purposes and to reduce such risks. No financial instruments are held for trading purposes. The use of such instruments is governed by internal instructions. Risk is estimated and monitored continuously.

SGL is exposed to foreign currency risks on account of purchase and sale transactions, intragroup loans and the liability to the US Department of Justice that are not denominated in its functional currency (euros). Although aggregate currency risk effects can be partially offset, SGL hedges against certain material foreign currency risks by way of currency forwards and currency options.

A credit risk may take the form of a decline in value of SGL's assets if a counterparty is unable to meet the contractual obligations agreed when a financial instrument was concluded. The sum of the amounts disclosed as assets constitutes SGL's maximum credit risk. To reduce the credit risk, financial instruments are entered into exclusively with internationally recognized financial institutions. In addition, all transactions are monitored by the Company's central finance department.

SGL hedges against credit risks in relation to customer receivables as far as possible (this is only partially the case in the US, for example). Various instruments such as cash in advance, payment bonds, confirmed documentary credits or loan insurance are used. In Q3 2003, receivables totaling €4.0 million mainly relating to two long-term customers in Canada and Switzerland were written off. Whereas no major bad debt losses had been incurred in the whole of fiscal 2002 and in the first half of 2003, the customers in these two isolated cases have gone into receivership or are the subjects of similar proceedings. SGL will leverage the knowledge it has gained from these bad debt losses to further optimize its risk management system.

Notional amounts

The notional amounts are the aggregate of all underlying purchase and sale amounts involving non-Group third parties. The amounts presented in the following table therefore do not represent the amounts exchanged by the parties and, as a result, are not an indication of the SGL Carbon Group's liabilities under these financial instruments.

The notional amounts and fair values of the financial instruments as of December 31, 2003 and 2002 were as follows:

	Notional amounts				Fair values	
€m	**Bought Dec. 31, 2003**	**Sold Dec. 31, 2003**	**Total Dec. 31, 2003**	Total Dec. 31, 2002	**Total Dec. 31, 2003**	Total Dec. 31, 2002
Foreign currency contracts:						
USD currency forwards	0.0	146.8	146.8	174.2	10.8	5.7
GBP currency forwards	0.3	46.3	46.6	52.6	0.4	0.8
Other currency forwards	11.1	2.2	13.3	7.4	– 0.2	0.2
Currency options	93.2	88.1	181.3	192.7	– 22.4	– 10.2
Participating forward contracts	0.0	0.0	0.0	0.8	0.0	0.0
Interest rate contracts:						
Interest rate swaps	0.0	100.0	100.0	103.2	– 1.3	– 0.7
Interest rate options	70.0	0.0	70.0	15.3	0.0	0.0

Currency forwards and options are primarily used to hedge existing and future foreign currency receivables and liabilities. The objective of hedging transactions in the SGL Carbon Group is to reduce the risks from exchange rate fluctuations inherent in its receivables and liabilities denominated in foreign currency. The underlying transactions in the individual foreign currencies are almost fully hedged on the basis of the net position per currency. The maturities are based on the maturities of the underlying transactions and range from several days to several months.

Up to the start of December 2003, hedges were entered into to hedge against the US dollar earnings risk for fiscal year 2004. As a result, a total of $97 million is hedged at a rate of approximately $1.15/€ for 2004.

Forecasted US dollar transactions in fiscal year 2004 are hedged by a cash flow hedge. The gains on the effective portion of these hedges as of December 31, 2003 are recognized directly in equity after deduction of deferred taxes and reported separately in other comprehensive income.

The fair value of derivatives is the price at which one party would assume the rights and/or obligations from another party. Fair values are measured as follows on the basis of the market information available at the balance sheet date using standard market valuation methods:

- Currency hedges are measured on the basis of reference rates and reflect forward premiums and discounts. Currency options are measured using recognized option pricing models.
- Interest rate contracts are measured on the basis of discounted expected future cash flows, with market rates of interest applied for the remaining maturity of the instruments.
- Interest rate options are measured using recognized option pricing models (incl. Black-Scholes).

The fair values are determined by independent financial service providers. In the case of derivatives, there is a credit risk in the amount of the positive fair values of the derivatives.

A zero cost option was entered into to hedge the USD liability from the antitrust fine. The premium to be paid for buying the option matches the premium resulting from the sale of the option. This USD option had "knocked in" at December 31, 2003, which means that SGL will have to acquire the USD at $0.90/€.

The SGL Carbon Group conducts interest rate option and swap transactions to optimize its financing costs. In fiscal years 2003 and 2002, the SGL Carbon Group used interest rate swaps to convert part of its financial liabilities from fixed-interest liabilities into floating rate liabilities.

Other hedging instruments are recognized in accordance with IAS 39.103. Hedges are measured at cost at inception. Changes in the fair values of derivatives from subsequent remeasurement are recognized immediately as income and the carrying amount of the hedged item is adjusted. Gains or losses from the remeasurement of interest rate hedges designated as fair value hedges of floating bank loans are also recognized as income.

28 Segment reporting

The SGL Carbon Group operates in the following Business Areas:

Carbon and Graphite [CG]
Graphite electrodes and carbon products (electrodes, cathodes, furnace linings)

Graphite Specialties [GS]
Products for industrial applications, mechanical carbons and electrical contacts, carbon fibers/composites

Corrosion Protection [CP]
Process technology and surface protection

and

SGL Technologies [T]
Graphite foils, carbon fibers, expanded graphite and fabrics, composites, carbon-ceramic brake discs and fuel cell components.

External sales revenue relates almost exclusively to revenue from the supply of products. Trading revenues or other revenues are insignificant. Intersegment revenue is generally based on market-driven transfer prices, less selling and administrative expenses. In exceptional cases, cost-based transfer prices may be used. The Other segment relates to companies that primarily render services to the other Business Areas, and includes SGL Carbon AG. Consolidation adjustments relate to the elimination of intersegment transactions. Non-cash expenses resulted primarily from the increase in antitrust provisions in the amount of €19.5 million in the Other segment. Certain information on the businesses of the SGL Carbon Group is presented below (primary segment reporting format in accordance with IAS 14.50 ff).

€m	CG	GS	CP	T	Other	Consolidation adjust-ments	SGL Carbon Group
2003							
Sales revenue	558.0	174.3	186.2	124.9	2.8	0.0	1,046.2
Intersegment sales revenue	363.0	46.4	13.0	3.9	47.7	– 474.0	0.0
Total sales revenue	921.0	220.7	199.2	128.8	50.5	– 474.0	1,046.2
Profit/loss from operations*	66.4	6.7	– 4.3	– 12.0	– 17.9	0.0	38.9
Investment in property, plant and equipment	21.2	5.4	2.2	4.0	0.0	0.0	32.8
Depreciation and amortization expense	34.4	13.4	8.4	15.8	0.2	0.0	72.2
Capital employed	419	167	106	180	16	0	888
Debt	123.0	48.9	30.9	52.7	239.0	0.0	494.5
2002							
Sales revenue	550.7	195.9	212.4	150.4	2.9	0.0	1,112.3
Intersegment sales revenue	396.5	44.5	16.3	4.4	44.4	– 506.1	0.0
Total sales revenue	947.2	240.4	228.7	154.8	47.3	– 506.1	1,112.3
Profit/loss from operations*	51.9	1.9	4.8	– 11.7	– 18.3	0.0	28.6
Investment in property, plant and equipment	22.6	6.3	2.5	9.3	0.8	0.0	41.5
Depreciation and amortization expense	38.5	15.6	9.8	17.2	0.1	0.0	81.2
Capital employed	462	199	135	202	– 31	0	967
Debt	103.3	44.5	30.1	45.1	225.5	0.0	448.5

* before costs relating to antitrust proceedings and restructuring expenses

€m	Germany	Europe excl. Germany	North America	Central and South America	Other	Consolidation adjust-ments	SGL Carbon Group
2003							
Sales revenue (by destination)	197.7	352.1	257.0	51.5	187.9	0.0	1,046.2
Sales revenue (by company)							
Third-party customers	401.5	402.7	234.4	1.6	6.0	0.0	1,046.2
Intercompany sales revenue	162.5	260.1	51.1	0.0	0.3	– 474.0	0.0
Total sales revenue	564.0	662.8	285.5	1.6	6.3	– 474.0	1,046.2
Export sales from Germany	384.4	0.0	0.0	0.0	0.0	0.0	384.4
Capital employed	316	320	243	0	9	0	888
Investment in property, plant and equipment	7.2	16.3	9.2	0.0	0.1	0.0	32.8
2002							
Sales revenue (by destination)	216.6	373.8	281.6	63.4	176.9	0.0	1,112.3
Sales revenue (by company)							
Third-party customers	409.5	422.9	267.8	5.1	7.0	0.0	1,112.3
Intercompany sales revenue	179.4	269.5	56.8	0.0	0.4	– 506.1	0.0
Total sales revenue	588.9	692.4	324.6	5.1	7.4	– 506.1	1,112.3
Export sales from Germany	369.3	0.0	0.0	0.0	0.0	0.0	369.3
Capital employed	304	338	312	4	9	0	967
Investment in property, plant and equipment	17.1	12.1	11.8	0.1	0.4	0.0	41.5

29 List of shareholdings

The list of shareholdings is filed with the Wiesbaden commercial register. It will also be available for inspection at the Annual General Meeting of SGL CARBON Aktiengesellschaft on April 30, 2004.

30 Remuneration of the Executive Committee and the Supervisory Board of SGL Carbon AG

The remuneration for the members of the Executive Committee includes a fixed and a variable component. The remuneration of the Executive Committee and the number of shares held are as follows:

	Base salary €t	Bonus €t	SGL shares no.	Stock options 2000 to 2003 no.
R.J. Koehler	424	280	10,608	100,000
T.H. Breyer	294	200	13,330	60,000
Dr. H. Kottmann	284	170	5,734	45,000
Dr. B. Toniolo	294	200	3,558	60,000
Dr. K. Warning	294	200	11,340	60,000
Total	1,590	1,050	44,570	325,000

As Mr. T. Breyer performs most of this activities in the US, he receives his compensation in US-Dollars. His basic contractual salary of €294 thousand and his bonus of €200 thousand are expensed in the consolidated financial statements at a total of €464 thousand on account of exchange rate effects. Dr. H. Kottmann's salary was adjusted to the same base salary as the other ordinary Executive Committee members as of April 1, 2003.

The remuneration paid to the Executive Committee members in fiscal year 2003, including payments in kind, totaled €2,667 thousand.

The members of the Executive Committee also receive a variable compensation component in the form of rights from management incentive plans. The stock options attributable to the members of the Executive Committee include options granted under the stock option plan between 2000 and 2003 that have not yet expired (see note 31).

The total remuneration of former members of management and their surviving dependents amounts to €0.1 million. Provisions of €1.1 million have been recognized for pension obligations to former members of management and their surviving dependents. The active members of the Executive Committee hold shares in SGL Carbon AG as part of their private assets. At December 31, 2003, these totaled 38,690 shares and 17,640 ADRs, corresponding to a total of 44,570 shares.

The total remuneration of the Supervisory Board amounted to €0.3 million. In 2003, the following amounts were payable:

€t	Base remuneration	Additional remuneration	Total
Prof. Dr. Utz-Hellmuth Felcht Chairman	40	9	49
Franz Schaffer Deputy Chairman (until April 30, 2003)	30	4	34
Heinz Schroth Deputy Chairman (since April 30, 2003)	20	5	25
Hans-Georg Bartel (died Nov. 20, 2002)	14	0	14
Peter Fischer	20	1	21
Dr.-Ing. Claus Hendricks	20	5	25
Hansgeorg B. Hofmann	20	11	31
Jürgen Kerner	6	1	7
Dr.-Ing. Hubert Lienhard	20	5	25
Jacques Loppion	20	3	23
Lutz Mühring (until April 30, 2003)	20	2	22
Josef Scherer (since April 30, 2003)	0	2	2
Edelbert Schilling (since April 30, 2003)	0	2	2
Karl-Heinz Schneider	9	0	9
Andrew H. Simon	20	3	23
Hans-Werner Zorn (since Feb. 27, 2003)	0	5	5
Total	**259**	**58**	**317**

Additional remuneration consists of meeting attendance and committee membership allowances. The base remuneration of Supervisory Board members appointed for the first time in 2003 will be paid in 2004. Mr. Hansgeorg Hofman received an additional payment of €33 thousand in fiscal year 2003 under a temporary consultancy agreement concluded with the approval of the Supervisory Board.

31 Management and employee incentive plans

At present, SGL has a total of five different management and employee incentive plans. The Long-Term Incentive Plan, which was approved in 1996, originally consisted of the Stock Appreciation Rights Plan (the "SAR Plan") and the Long-Term Cash Incentive Plan (the "LTCI Plan"). While the exercise period of the SAR Plan will not end before 2006, the LTCI Plan had a maturity of three years and ended on December 31, 1998. The current Long-Term Cash Incentive Plan is valid for the period 2002-2004 (the "LTCI Plan 2002–2004"). Since 1996, a Share Ownership Plan has been set up each calendar year for all non-exempt employees of SGL Group. This was suspended in the year under review due to the capital increase implemented at the beginning of 2004. Furthermore, the Company's Annual General Meeting on April 27, 2000 resolved to introduce a Share Plan (also called the Matching Shares Plan) and a Stock Option Plan. The Share Plan was introduced in March 2001. The Stock Option Plan, implemented in July 2000, superseded the SAR Plan, whose vesting period ended in 2001, and has a maturity of five years.

Stock Appreciation Rights Plan (SAR)

Under the SAR Plan, the members of the Executive Committee and certain senior managers of the SGL Group have been granted stock appreciation rights ("SARs"). Each SAR represents (i) with respect to a participant who is a member of the Executive Committee, the right to receive an amount equal to the difference between the average share price as officially quoted on the Frankfurt Stock Exchange on March 16 of the year in which the option is exercised and the respective exercise price, which, prior to adjustment for dilution, ranges from €33.03 to €102.26 and (ii) with respect to a participant who is an employee of the SGL Group, the right to purchase one share at the respective exercise price.

One SAR is equivalent to one share. The total number of shares associated with the SAR Plan is 840,500, or approximately 3.79% of all shares outstanding. SARs representing a total of 781,200 shares have been allocated to the members of the Executive Committee and 60 senior managers as of January 1, 2004. Of these SARs, 637,350 had been exercised as of December 31, 2003.

Under the SAR Plan, an option representing a specific number of SARs (a "SAR Option"), as determined by the Executive Committee, or by the Supervisory Board if the beneficiary was a member of the Executive Committee, was allocated to each beneficiary at the beginning of the SAR performance cycle (January 1, 1996 – December 31, 2000). The SARs allocated via this SAR Option vested within the vesting period (January 1, 1997 – January 1, 2001) on January 1 for the preceding fiscal year in five equal annual tranches of 20% each. Each vested SAR can be exercised during the period from March 1 to March 15 of each year, but no later than March 15, 2006, or upon termination of service (as described below). Executive Committee members exercising SAR Options must utilize a portion of the net proceeds corresponding to 15% of the gross proceeds to purchase shares of the Company via the stock market. To this end, SGL will instruct a financial institution to acquire the shares for the account and in the name of the member of the Executive Committee. SGL or the relevant consolidated subsidiary will provide the financial means to effect the purchase directly to the financial institution and deduct the amounts from the monies due to the beneficiary exercising the SAR. The financial institution will retain these shares on behalf of the member of the Executive Committee for the next twelve months. The remaining net proceeds will be paid to the member of the Executive Committee.

All of the shares purchased by a participant who is an employee of the SGL Group upon exercise of an SAR must immediately be resold by this employee. An exception is made for the number of shares that must be purchased with 15% of the gross proceeds from the sale of all the shares. Such retained shares may not be sold and are blocked for a period of twelve months.

Long-Term Cash Incentive Plan (LTCI Plan)

Under the LTCI Plan 2002–2004, the members of the Executive Committee and 36 senior managers are granted cash premiums by SGL provided that certain performance targets are met during a three-year period. The current plan period is 2002 through 2004. The maximum total bonus amounts to €7.8 million. The performance target that the SGL Group must reach in order for participating senior managers and Executive Committee members to be entitled to the maximum bonus under the LTCI Plan was set at a 2.3 to 1 ratio of net debt to EBITDA.

The minimum requirement for the payment of any bonus is a ratio of 3.6 to 1. The committee that is responsible for the administration of the LTCI Plan 2002–2004 may change this performance target at the beginning of any year. Beneficiaries under the LTCI Plan 2002–2004 must use a portion of the net proceeds of the plan corresponding to 15% of the gross proceeds to buy shares of SGL. To this end, SGL will instruct a financial institution to acquire the shares for the account and in the name of the relevant beneficiary. The Company will provide the financial means to effect the purchase of the shares directly to the financial institution from the beneficiary's bonus payments. These shares will subsequently be deposited with the financial institution on behalf of the beneficiary for a period of twelve months. The remaining proceeds will become due for payment on April 30, 2005.

In relation to the means of calculation, the Supervisory Board meeting on December 5, 2003 specified that any capital increase implemented is to be neutralized in the calculation of the performance target. The meeting of the Executive Committee on December 22, 2003 also approved the same measure for senior management. The provisions recognized for the Executive Committee and senior managers in 2002 were reversed during the year under review.

Share Plan

In March 2001, SGL implemented a share plan (the "Share Plan") for the members of the Executive Committee and the top three levels of management below the Executive Committee. Under the plan, participants may invest up to 50% of their annual bonus in shares of the Company. If they hold these shares for at least two years, they will receive the same number of shares (the matching shares) a special bonus.

The Company's Share Plan was adopted by its shareholders at the Annual General Meeting held on April 27, 2000. The maximum number of shares that may be reserved for the issuance of shares under the plan shall not exceed 250,000 new shares provided by authorized capital. The Share Plan was implemented effective March 31, 2001. At the end of March 2003, for the first time, 20,508 new shares were issued from the capital increase from authorized capital to the senior managers and officers participating in the Share Plan during 2001; 6,490 already outstanding shares, acquired on the stock market, were granted to members of the Executive Committee.

In order to participate in the plan, the selected employees and members of the Executive Committee must acquire shares on the stock market prior to the start of the plan in an amount not exceeding 50% of their bonuses under SGL's annual bonus plan at the then current price of the shares in the XETRA securities trading system on the Frankfurt Stock Exchange. The shares acquired in the stock market are held for the beneficiaries in a blocked custody account for a two-year lock-up period. The beneficiaries may not dispose of the shares during the lock-up period if they wish to retain their entitlements to be granted matching shares at the end of the plan (as described below).

After the lock-up period, the Company grants each participant a number of new matching shares from authorized capital (or, for the members of the Executive Committee, from a share buy-back) in an amount equal to the number of shares held for the benefit of each beneficiary in the blocked custody account. The contribution in kind by the beneficiaries consists of a claim for the bonus payment payable at the end of the lock-up period. After the end of the lock-up period, the participants receive the released shares and the matching shares.

The 76 members of the Executive Committee and senior managers who participated in the 2003 Share Plan as of March/April 2003 have purchased a total of 58,811 shares on the stock market in connection with the Share Plan.

Stock Option Plan

SGL's shareholders adopted the Stock Option Plan at their Annual General Meeting held on April 27, 2000. The maximum number of shares that may be reserved for issuance under the Plan may not exceed 1,600,000 shares from conditional capital. The options may be granted until the end of the year 2004. The Stock Option Plan was implemented effective July 2000.

The Supervisory Board administers the plan for the members of the Executive Committee. Under the Stock Option Plan, the Supervisory Board is authorized to grant options on shares to members of the Executive Committee. The Executive Committee administers the Stock Option Plan for approximately 150 senior managers and officers of SGL and

its consolidated companies. For this purpose, under the Stock Option Plan, the Executive Committee is authorized to grant options to those senior managers of SGL as it determines, and to members of the management and senior managers of its consolidated companies. In both cases, the Supervisory Board or the Executive Committee will offer and transfer new shares upon exercise of the options from the conditional capital created for that purpose.

The stock options will be allocated as follows:

- Executive Committee up to 30%;
- Senior managers of the Company up to 20%;
- Members of management of consolidated companies up to 20% and
- Remaining senior managers of consolidated companies up to 30%.

If any of the groups mentioned above is not granted its maximum number of options, the remaining options may be distributed to the beneficiaries of the next or previous group in addition to the maximum number of options that are distributed to that group, so that the total volume of options are exhausted. The Executive Committee or, to the extent that members of the Executive Committee are affected, the Supervisory Board, will decide on the allocation of any remaining options. However, no more than 30% of the available options may be distributed to the members of the Executive Committee.

The options have a term of ten years starting on the date of grant and will expire, without compensation, if they are not exercised before this period elapses. The options may not be exercised until a two-year lock-up period has elapsed. This period begins on the day following the date of grant, resulting in an exercise period of eight years. During the exercise period, the options can only be exercised on trading days during defined trading windows. For each tranche of options, there will be two trading windows of ten days each in which options may be exercised following our public reporting dates. These trading windows will be determined by the Supervisory Board if members of the Executive Committee are granted options, and by the Executive Committee for options granted to the remaining participants. Options may be exercised only if the SGL Group has met its performance targets at the time the options are exercised. The performance target is the increase in the total shareholder return of SGL's shares. The Stock Option Plan defines total shareholder return as the share price plus reinvested dividends plus the value of the options. Total shareholder return must increase by at least 15% against the exercise price for options to be exercisable.

The exercise price to be paid by beneficiaries under the Stock Option Plan will be calculated based upon the average closing price of the shares in the XETRA securities trading system of the Frankfurt Stock Exchange for the last 20 trading days before the relevant options are granted, excluding transaction costs.

The options are subject to certain terms and conditions of sale, namely, beneficiaries must retain a minimum number of shares of SGL equal to 15% of the gross proceeds from the sale of the subscribed shares (which equals the difference between the subscription price and the exercise price of all options exercised by the participants) for an additional twelve months. The conditions of the Stock Option Plan provide for protection against dilution.

The number of options granted, and their respective subscription prices before dilution-related adjustments, are as follows:

- as of July 3, 2000, 234,500 options were granted to the members of the Executive Committee and 151 senior managers at a subscription price of €72.45;
- as of January 16, 2001, 257,000 options were granted to the members of the Executive Committee and 155 senior managers at a subscription price of €57.82;
- as of January 16, 2002, 261,000 options were granted to the members of the Executive Committee and 170 senior managers at a subscription price of €25.00;
- as of August 12, 2002, 247,000 options were granted to the members of the Executive Committee and 154 senior managers at a subscription price of €17.65; and
- as of January 16, 2003, 258,500 options were granted to the members of the Executive Committee and 168 senior managers at a subscription price of €8.35.

A total of 1,258,000 options have been granted to participants under the Stock Option Plan. None of these options have been exercised to date.

Changes in the equity compensation plans are as follows:

Number of shares/options	SAR	Share Plan	Stock Options Plan
Balance at Jan. 1, 2003	**159,950**	**74,439**	**999,500**
Additions	0	58,811	258,500
Expired/returned	– 16,100	– 2,392	0
Exercised	0	– 28,924	0
Balance at Dec. 31, 2003	**143,850**	**101,934**	**1,258,000**
Average exercise price €	45.79	–	35.69
Expiration dates	March 15, 2006		2010 to 2013
Fair value at Dec. 31, 2003 (€m)	0.0	0.0	0.0

The SAR and Stock Option Plans are "out of the money". This means that the fair value is zero, because the exercise price is higher than the current market price. The shares issued under the Share Plan were expensed in the consolidated financial statements. The various equity compensation programs resulted in a net expense of €0.8 million in fiscal year 2003.

32 Exemption in accordance with section 264 (3) of the HGB

The following companies, which are included in the consolidated financial statements of SGL Carbon AG, made use of the provision in section 264 (3) of the HGB:

- SGL CARBON GmbH, Meitingen
- SGL CARBON Beteiligung GmbH, Wiesbaden
- SGL TECHNOLOGIES GmbH, Meitingen
- SGL BRAKES GmbH, Meitingen
- SGL INFORMATION-SERVICES GmbH, Augsburg.

33 Declaration of conformity with the German Corporate Governance Code (section 285 (16) of the HGB)

SGL Carbon AG's Executive Committee and Supervisory Board approved the following declaration of conformity pursuant to section 161 AktG in their meeting on September 18, 2003:

SGL Carbon AG's Corporate Governance Principles comply with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 21, 2003 with the following exceptions:

- Section 2.3.4.: Internet broadcasting is currently not justifiable for cost reasons.
- Section 3.8. para. 2: The D&O insurance policy taken out by the Company for the Executive Committee and the Supervisory Board does not include a deductible. As a matter of principle, we believe that the agreement of a deductible is not a suitable method of improving responsible conduct by the Executive Committee and the Supervisory Board. In addition, such deductibles are not customary abroad or in many German companies.
- Section 4.2.3. para. 2 sentence 4: The agreement of a cap on stock options by the Supervisory Board is irrelevant at present since the value of the options issued is extremely low.
- Section 4.2.3. para. 3 sentence 2: The value of stock options can only be disclosed once a generally valid, uniform measurement method exists.
- Section 5.4.5. para. 2: SGL Carbon AG's Articles of Association provide for fixed compensation for Supervisory Board members and additional remuneration for members serving on committees. We believe that this provision is appropriate for our Company and that it should not be changed in the foreseeable future.

Above and beyond this, SGL Carbon AG's Corporate Governance Principles comply with almost all of the non-binding suggestions made in the Corporate Governance Code.

Wiesbaden, March 1, 2004
SGL CARBON AG
The Executive Committee

34 Significant consolidated subsidiaries

			Interest %	Interest held via	Equity €m	Sales revenue €m	Employees at Dec. 31, 2003
1.	SGL CARBON AG	Wiesbaden (Germany)					
2.	SGL CARBON Beteiligung GmbH	Wiesbaden (Germany)	100.0	1	197	0	0
3.	SGL CARBON GmbH	Meitingen (Germany)	100.0	1	55	535	1,512
4.	SGL TECHNOLOGIES GmbH	Meitingen (Germany)	100.0	1	7	30	151
5.	SGL BRAKES GmbH	Meitingen (Germany)	100.0	4	9	11	82
6.	SGL ACOTEC GmbH	Siershahn (Germany)	100.0	1	63	129	1,153
7.	KCH Beteiligungs GmbH	Siershahn (Germany)	100.0	6	36	0	0
8.	SGL Carbon Holdings B.V.	Rotterdam (Netherlands)	100.0	2	82	0	0
9.	SGL CARBON Polska S.A.	Racibórz (Poland)	100.0	8	75	110	914
10.	SGL ANGRAPH Sp.z o.o.	Nowy Sacz (Poland)	100.0	9	5	10	94
11.	SGL CARBON S.p.A.	Milan (Italy)	99.7	2	46	105	445
12.	SGL CARBON S.A.	La Coruña (Spain)	99.9	2	50	79	152
13.	SGL CARBON SAS	Passy/Chedde (France)	100.0	1	29	45	173
14.	SGL CARBON GmbH & Co.	Steeg (Austria)	100.0	1	13	43	137
15.	RK Carbon International Ltd.[1]	Wilmslow (UK)	100.0	4	– 5	23	134
16.	SGL TECHNIC Ltd.[2]	Muir of Ord (UK)	100.0	15			
17.	P.G. Lawton Ltd.[2]	Halifax (UK)	100.0	15			
18.	SGL ACOTEC SAS	Grenoble (France)	100.0	7	16	30	262
19.	SGL Carbon Specialties S.p.A.	Milan (Italy)	100.0	2	1	5	20
20.	SGL CARBON Ltd.	Alcester (UK)	100.0	1	3	9	38
21.	SGL CARBON LLC.	Charlotte (USA)	100.0	2	103	153	537
22.	M.G.P. LLC	Sinking Spring (USA)	100.0	21	14	6	35
23.	HITCO CARBON Composites, Inc.	Gardena (USA)	94.0	21	36	42	265
24.	SGL TECHNIC Inc.	Valencia (USA)	100.0	21	35	29	158
25.	SGL Canada Inc.	Lachute (Canada)	100.0	1	14	53	88
26.	SGL ACOTEC S.a.r.l.	Safi (Morocco)	100.0	18	1	4	156
27.	SGL ACOTEC Ltd.	Sandbach (UK)	100.0	7	2	13	83
28.	SGL ACOTEC S.p.A.	Milan (Italy)	100.0	7	2	6	35
29.	SGL ACOTEC Inc.	Strongsville (USA)	100.0	7	3	13	55
30.	SGL ACOTEC (Wuhan) Co. Ltd.	Wuhan (China)	90.0	6	– 1	4	124

[1] subgroup-data
[2] included in subgroup No. 15

Auditors' Report

We have audited the consolidated financial statements of SGL Carbon Aktiengesellschaft for the fiscal year January 1 to December 31, 2003, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes. The preparation and content of the consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion, based on our audit, as to whether the consolidated financial statements are in conformity with International Financial Reporting Standards (IFRS).

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the Group management report prepared by the Company's management for the fiscal year January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole the Group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. We also confirm that the consolidated financial statements and the Group management report for the fiscal year January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a Group management report in accordance with German law.

Munich, March 1, 2004

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Goppelt	Sucker
Wirtschaftsprüfer	Wirtschaftsprüfer

Prof. Dr. Utz-Hellmuth Felcht
Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Shareholders,

In the year under review, the Supervisory Board of SGL Carbon AG addressed the development of the Company in detail. We advised the Executive Committee and monitored its management of the Company's business. We were involved in decisions of material importance. The Executive Committee reported to us regularly and in a comprehensive, timely manner.

Focus of discussion

In the four Supervisory Board meetings, we were informed of the Company's economic and financial development, risk management and important business events. The discussions between the Executive Committee and the employee representatives in the Supervisory Board prior to each meeting were supplemented by corresponding advance discussions between the Executive Committee and the shareholder representatives. All members of the Supervisory Board were present for at least half of the meetings. Between the meetings, the Executive Committee reported on significant transactions and the relevant interim financial statements. In addition, the Chairman of the Supervisory Board held regular discussions with the Executive Committee and the members of the Supervisory Board. I was informed of the items discussed and resolutions passed at Executive Committee meetings, which were discussed with me as necessary.

The main topics covered in the discussions were planning, the Company's economic and financial situation, and the status and development of current cost-cutting measures. We provided ongoing support for the efforts of the Executive Committee to implement a fundamental, long-term refinancing package including a capital increase. To this end, an extraordinary meeting of the Supervisory Board was held on November 17, 2003, and a Refinancing Committee was set up to advise the Executive Committee. Following an extensive review of the situation, we unanimously approved the refinancing concept presented to us in the meeting on December 5, 2003.

Corporate Governance

We addressed the changes in the law regarding corporate governance in both Germany and the United States in a number of meetings. In our September meeting, we adapted SGL Carbon AG's Corporate Governance Principles, which were introduced in the previous year, to comply with the new version of the German Corporate Governance Code dated May 2003 and – as far as possible – with the provisions of the US Sarbanes-Oxley Act (SOA). The tasks of the Audit Committee were also redefined as part of this process. We resolved the declaration of conformity in accordance with section 161 of the AktG (German Stock Corporation Act) in the same meeting. This is contained in the notes to this Annual Report and is published on the Internet together with a summary of our Corporate Governance Principles.

In the December meeting, we discussed the results of the audit of our efficiency as well as a number of fundamental considerations on how to improve the work of the Supervisory Board and the cooperation between the Supervisory Board and the Executive Committee. The Executive Committee did not take part in this dis-

cussion. The special Ad Hoc Committee and the entire Supervisory Board also kept itself informed of the status of the ongoing antitrust investigations into anti-competitive behavior and of the related risks for the Company. These included the new fine by the EU Commission levied on a non-core area of our Graphite Specialties business. The Supervisory Board would like to note that SGL Carbon AG's Corporate Governance Principles contain a "Global Antitrust Compliance Policy", which is backed up by intensive Group-wide training of about 600 employees and is strictly implemented.

Committee meetings

The Supervisory Board's Audit Committee met twice during the year under review. The December meeting dealt with the extended tasks of the Audit Committee and analyzed the fees for the auditors of the 2002 and 2003 financial statements. The services provided by the auditors that did not relate to the annual financial statements were approved by the Audit Committee. At the meeting in March 2004, in the presence of the auditors, the Audit Committee dealt in particular with the annual financial statements and was informed of the proper accounting treatment for derivative financial instruments.

The key issues discussed at the four Personnel Committee meetings were the extension of Dr. Hariolf Kottmann's Executive Committee contract, bonus and remuneration issues, the renewal of the Company's expiring incentive plans, and the modification of existing incentive plans. The extension of the Stock Option Plan for the Executive Committee and senior management, which is due to expire in 2004, in the form of the "Stock SAR Plan" was approved.

The Strategy Committee reviewed SGL Technologies' recently updated strategy and discussed the key measures for increasing sales revenue and income over the next few years in detail with the Executive Committee.

The newly founded Technology Committee discussed the Company's development portfolio and SGL Technologies' research priorities.

Annual financial statements for 2003

The Supervisory Board satisfied itself both in the Audit Committee and in the plenary session held on March 1, 2004 that the accounting, the annual financial statements of SGL Carbon AG and the consolidated financial statements as of December 31, 2003, as well as the management reports of SGL Carbon AG and the SGL Carbon Group, were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, and that they were issued with an unqualified audit opinion. The audit engagement was conducted in a due and proper manner. The audit reports on the consolidated and annual financial statements were submitted to us in a timely manner. The Audit Committee examined these documents in detail; we ourselves have also reviewed them. No objections were raised following the Audit Committee's concluding results and our own review. The Supervisory Board approved the annual financial statements prepared by the Executive Committee; the annual financial statements of SGL Carbon AG have therefore been formally adopted.

Appointments to the Supervisory Board and Executive Committee

The five-year term of the Supervisory Board elected at the 1998 Annual General Meeting ended with the Annual General Meeting on April 30, 2003. The appointment of all existing shareholder representatives was confirmed for the 2003 – 2008 period. The employee representatives in the Supervisory Board had already been elected in March 2003. The Supervisory Board members Mr. Lutz Mühring (IG Metall) and Mr. Franz Schaffer, who retired, have been replaced by Mr. Edelbert Schilling and Mr. Josef Scherer.

The Chairman of the Supervisory Board was confirmed in office at the organizational meeting of the new Supervisory Board on April 30, 2003. Mr. Heinz Schroth was elected Deputy Chairman, replacing Mr. Franz Schaffer. I would like to thank Mr. Schaffer as the oldest serving Supervisory Board member of SGL Carbon AG and its predecessor companies for his constructive, trust-based cooperation in this body. At the organizational meeting, the committee required under section 27 (3) of the Mitbestimmungsgesetz (German Co-determination Act) was also elected, and all other committees were newly appointed. In compliance with the German Corporate Governance Code, Mr. Andrew Simon was elected to replace me as Chairman of the Audit Committee.

In the meeting on March 7, 2003, Dr. Hariolf Kottmann was reappointed to the Executive Committee of SGL Carbon for the period from April 1, 2004 to March 31, 2007.

Wiesbaden, March 1, 2004
The Supervisory Board

Prof. Dr. Utz-Hellmuth Felcht
Chairman

Supervisory Board

Prof. Dr. rer. nat. Utz-Hellmuth Felcht
Chairman
Chairman of the Board of Management of Degussa AG, Düsseldorf, Germany
Member of the Board of Management of RAG AG, Essen, Germany
- Internal board memberships:
Goldschmidt AG[1], Essen, Germany
SKW Metallurgie AG[1], Trostberg, Germany
Degussa Corporation USA[1], Parsippany, USA
Degussa (China) Co., Ltd.[1], Peking, China
Degussa Japan Co., Ltd.[1], Tokyo, Japan
RÜTGERS AG[1], Essen, Germany (since May 26, 2003)
RAG Coal International, Essen, Germany (since June 6, 2003)
STEAG AG, Essen (since June 6, 2003)
- External board memberships:
Gerling-Konzern Globale Rückversicherungs-AG, Cologne, Germany (until June 2003)
Gerling-Konzern Versicherungs-Beteiligungs-AG, Cologne, Germany (since June 2003)

Franz Schaffer
(until April 30, 2003)
Deputy chairman
Metalworker, SGL CARBON GmbH, Meitingen
- Other board memberships:
Ökumenische Sozialstation Meitingen und Umgebung gGmbH, Meitingen
Wohnungsbau GmbH Markt Meitingen, Meitingen (all Germany)

Heinz Schroth
Deputy Chairman
(since April 30, 2003, before member)
Business Administrator, SGL ACOTEC GmbH, Meitingen, Germany

Peter Fischer
Lawyer, SGL CARBON AG, Wiesbaden, Germany

Dr.-Ing. Claus Hendricks
Former Member of the Board of Management of Thyssen Krupp Steel AG, Duisburg
- Internal board memberships:
Edelstahlwerke Witten-Krefeld GmbH, Witten
Krupp Edelstahlprofile GmbH, Siegen
- External board memberships:
Pro Lean Consulting AG, Düsseldorf
SKW Metall Chemie GmbH, Trostberg
TSTG GmbH, Duisburg
(all Germany)

Hansgeorg B. Hofmann
Banker,
Entrepreneur,
Great Britain
- External board memberships:
adv.orga Beteiligungen AG, Munich, Germany
Equinet AG[1], Frankfurt/Main, Germany

Jürgen Kerner
Authorized Representative of IG Metall Verwaltungsstelle Augsburg, Augsburg
- External board memberships:
Fujitsu-Siemens Computers GmbH, Munich
IWKA – Aktiengesellschaft, Karlsruhe (all Germany)

Dr.-Ing. Hubert Lienhard
Member of the Board of Management of Voith AG, Heidenheim, Germany
Internal board memberships:
- Voith Turbo Beteiligungs GmbH & Co. KG, Heidenheim, Germany
Voith Paper Holding GmbH & Co. KG, Heidenheim, Germany
Voith Fabrics Inc., Raleigh, NC, USA
- External board memberships:
Sulzer AG, Winterthur, Switzerland

Jacques Loppion
Président du Conseil d'Administration Groupe SNPE S.A., Paris, France
- External board memberships:
Algéco S.A., Paris Groupe Gascogne, Saint-Paul-les Dax S.A.I. Golf, Saint-Nom-la-Bretèche (all France)
KME AG, Osnabrück, Germany

Lutz Mühring
(until April 30, 2003)
Authorized Representative of IG Metall Verwaltungsstelle, Augsburg, Germany
- Other board membership:
WBG Wohnungsbaugesellschaft Bonn mbH, Bonn, Germany

Josef Scherer
(since April 30, 2003)
Chemical Laboratory Assistant, SGL CARBON GmbH, Meitingen, Germany

Edelbert Schilling
(since April 30, 2003)
Technical Assistant, SGL ACOTEC GmbH, Siershahn, Germany

Andrew H. Simon OBE MBA
Consultant and Supervisory Board Member in various companies
- External board memberships:
Associated British Ports plc., London
Brake Bros. Ltd., Ashford
Dalkia UK plc., London
Ascent Investments Ltd.[1], London
(all Great Britain),
Kaffee Partner Holding GmbH[1], Osnabrück, Germany
Finning International Inc., Vancouver, Canada

Hans-Werner Zorn
(since February 27, 2003)
Technician Mechanical Engineering, SGL CARBON GmbH, Bonn, Germany

[1] Chairman of the Supervisory Board

Executive Committee

Robert J. Koehler (Chairman)
Chief Executive Officer SGL CARBON AG
- Responsible for:
  Corporate Development and Strategy,
  Corporate Communications,
  Investor Relations, Management Development
- External board memberships:
  Benteler AG[1], Paderborn, Germany
  Wacker-Chemie GmbH, Munich, Germany
  Pfleiderer AG, Neumarkt/OPF., Germany
  Axa Lebensversicherungs AG, Cologne, Germany
  New Russia Fund, ING-Barings, Luxembourg

Theodore H. Breyer
- Responsible for:
  Carbon and Graphite,
  America, Purchasing
- Internal board memberships:
  HITCO CARBON COMPOSITES Inc., Gardena, USA
  SGL CARBON S.p.A., Milan, Italy
  SGL CARBON S.A., La Coruña, Spain
  SGL CARBON LLC., Charlotte, USA

Dr. Hariolf Kottmann
- Responsible for:
  Graphite Specialties,
  Corrosion Protection,
  Asia,
  Eastern Europe,
  SGL Excellence
- Internal board memberships:
  SGL ACOTEC GmbH[1], Siershahn, Germany
  SGL CARBON ASIA PACIFIC Sdn Bhd[1], Kuala Lumpur, Malaysia
  SGL CARBON Japan Ltd.[1], Tokyo, Japan
  SGL TOKAI CARBON Ltd.[1], Shanghai, China
  SGL CARBON Far East Ltd.[1], Shanghai, China

Dr. Bruno Toniolo
Chief Financial Officer SGL CARBON AG
- Responsible for:
  Group Treasury,
  Group Accounting,
  Management Reporting,
  Information Services,
  Internal Audit,
  Risk Management,
  Western Europe
- Internal board memberships
  Radion-Finanziaria S.p.A., Milan, Italy
  SGL CARBON Finance, Dublin, Ireland
  SGL CARBON POLSKA S.A.[1], Racibórz, Poland
  SGL CARBON S.A., La Coruña, Spain
  SGL CARBON S.p.A., Milan, Italy
  SGL CARBON GmbH[1], Meitingen, Germany
  SGL ACOTEC GmbH, Siershahn, Germany

Dr. Klaus Warning
- Responsible for:
  SGL TECHNOLOGIES GmbH,
  Human Resources,
  Legal,
  Research and Development,
  Technology,
  Environmental Protection,
  Health and Safety
- External memberships:
  Commerzbank AG/Advisory Council Hesse, Frankfurt am Main, Germany
  University Ilmenau/Advisory Council, Ilmenau, Germany
  European Carbon and Graphite Association (ECGA)/Board of Directors, Brussels, Belgium

[1] Chairman of the Supervisory Board

Management

Business Units

Carbon and Graphite
Armin Bruch
Dr. Franz Berger
Scott Carlton
Dr. Reinhard Janta
Dr. Dieter Klein
Dr. Alberto Martinez

Graphite Specialties
Markus Mirgeler
Volker Rechtmann
Dr. Christfried Schlosser
Dr. Martin Schwarz
Dr. Gerd Wingefeld

Corrosion Protection
Dr. Günter Hermann
Dr. Thomas Kosack
Bodo Mierke
Frank Schulten

SGL Technologies
Dieter Fial
Gernot Hochegger
Dr. Jan Verdenhalven

Corporate Service Functions

Corporate Planning and Coordination
Dr. Joachim Heins-Bunde

Group Accounting
Wilhelm Hauf

Group Treasury
Reinhard Damerow

HR-Senior Management/Legal
Helmut Mühlbradt

Corporate Center HR
Beate Hillebrecht-Harris

Group Information Services
Thomas Werner

Corporate Technology
Dr. Doug Wilson

Group Quality Leader
Dr. Michael Riedel

Group Purchasing
Dave Kucharski

Global Environment, Health and Safety
Dr. Richard Neuert

President SGL CARBON LLC
Peter Hoffman

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These materials are available on written request from:
SGL CARBON AG, Corporate Communications,
Rheingaustrasse 182, 65203 Wiesbaden, Germany

- **Annual Report** (German/English)
- **Form 20-F** (English, primarily for shareholders in the US and analysts)
- **Shareholder's Letters for Q1, Q2 and Q3** (German/English)

These materials and additional information are also available via our homepage:
www.sglcarbon.com

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Morgan Guaranty Trust, Company of New York, 60 Wall Street, New York, NY 10260, USA

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SGL CARBON worldwide

Major consolidated companies

EUROPE

Germany
SGL CARBON AG, Wiesbaden
SGL CARBON Beteiligung GmbH, Wiesbaden
SGL CARBON GmbH, Meitingen
SGL TECHNOLOGIES GmbH, Meitingen
SGL BRAKES GmbH, Meitingen
SGL ACOTEC GmbH, Siershahn
KCH Beteiligungs GmbH, Siershahn

Austria
SGL CARBON GmbH & Co., Steeg

France
SGL CARBON SAS, Passy/Chedde
SGL ACOTEC SAS, Grenoble

Great Britain
RK Carbon International Ltd., Wilmslow
SGL TECHNIC Ltd., Muir of Ord
P. G. Lawton Ltd., Halifax
SGL CARBON Ltd., Alcester
SGL ACOTEC Ltd., Sandbach

Italy
SGL CARBON S.p.A., Milan
SGL ACOTEC S.p.A., Milan
SGL CARBON Specialties S.p.A., Milan

Netherlands
SGL Carbon Holdings B.V., Rotterdam

Poland
SGL ANGRAPH Sp.zo.o., Nowy Sacz
SGL CARBON Polska S.A., Racibórz

Spain
SGL CARBON S.A., La Coruña

AFRICA/ASIA

Morocco
SGL ACOTEC S.a.r.l., Safi

China
SGL ACOTEC (Wuhan) Co. Ltd., Wuhan

Upcoming Events

2004

March 16 Annual Report,
Year-End Press Conference and Analyst Meeting, Frankfurt am Main,
Conference Call

March 30 Form 20-F

April 30 Annual General Meeting, Wiesbaden

May 13 Q1 Shareholders' Letter, Conference Call

August 11 Q2 Shareholders' Letter, Conference Call

November 11 Q3 Shareholders' Letter,
Fall Press Conference and Analyst Meeting, Frankfurt am Main,
Conference Call

2005

March 15 Year-End Press Conference (to be confirmed)

April 27 Annual General Meeting (to be confirmed)

SGL CARBON AG

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