

SGL CARBON AKTIENGESELLSCHAFT

Form 20-F/A

April 07, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 1 to
Form 20 F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 For the fiscal year ended December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 For the transition period from to

Commission File Number 1-14398

SGL CARBON AKTIENGESELLSCHAFT

(Exact name of Registrant as specified in its charter)

SGL CARBON CORPORATION

(Translation of Registrant's name into English)

FEDERAL REPUBLIC OF GERMANY

(Jurisdiction of incorporation or organization)

**Rheingastrasse 182
D-65203 Wiesbaden
Germany**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-third of one Ordinary Bearer Share, no par value	New York Stock Exchange
Ordinary Bearer Shares, no par value	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities to be registered pursuant to Section 12(g) of the Act: NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Bearer Shares, no par value

55,835,290

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

Indicate by check mark which financial statement item the registrant has elected to follow

Item 17 Item 18

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

SGL CARBON Aktiengesellschaft

By: /s/ Robert J. Koehler

Robert J. Koehler
Chief Executive Officer
Chairman of the Executive Committee

By: /s/ Dr. Bruno Toniolo

Dr. Bruno Toniolo
Chief Financial Officer
Member of the Executive Committee

Date: April 6, 2004

SGL CARBON AKTIENGESELLSCHAFT
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Independent Auditors' Report

**To the Board of Directors and Shareholders
SGL CARBON Aktiengesellschaft**

We have audited the consolidated balance sheets of SGL CARBON Aktiengesellschaft and subsidiaries („SGL Group ") as of December 31, 2003 and 2002 and the related consolidated statements of operations, cash flows and changes in shareholders' equity for each of the years in the two-year period ended December 31, 2003. These consolidated financial statements are the responsibility of SGL Group management. Our responsibility is to express an opinion on these consolidated statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the SGL Group as of December 31, 2003 and 2002 and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2003, in conformity with International Financial Reporting Standards.

International Financial Reporting Standards vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected the result of operations for each of the years in the two-year period ended December 31, 2003 and shareholders' equity as of December 31, 2003 and 2002 to the extent summarized in notes 34 and 35 to the consolidated financial statements.

Munich, Germany

March 1, 2004 except for notes 34, 35 and 36 as to which the date is April 6, 2004.

BDO Deutsche Warentreuhand

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

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Independent Auditors' Report

**To the Board of Directors and Shareholders
SGL CARBON Aktiengesellschaft**

We have audited the consolidated balance sheets of SGL CARBON Aktiengesellschaft and subsidiaries („SGL Group“) as of December 31, 2001 and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year ended December 31, 2001. These consolidated financial statements are the responsibility of SGL Group management. Our responsibility is to express an opinion on these consolidated statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the SGL Group as of December 31, 2001 and the results of their operations and their cash flows for the year ended December 31, 2001, in conformity with International Accounting Standards.

International Accounting standards vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected the results of operations for the year ended December 31, 2001 and shareholders' equity as of December 31, 2001 to the extent summarized in note 34 to the consolidated financial statements.

Munich, Germany
February 28, 2002

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

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SGL CARBON Aktiengesellschaft
Consolidated Statements of Operations
(in millions, except per share data)

	Notes	2003 US\$	2003 Euro	2002 Euro	2001 Euro
Sales revenue	28	1,319.3	1,046.2	1,112.3	1,233.3
Cost of sales		(1,007.3)	(798.8)	(886.5)	(941.8)
Gross profit		312.0	247.4	225.8	291.5
Selling expenses		(178.4)	(141.5)	(139.4)	(154.5)
Research costs		(26.4)	(20.9)	(25.4)	(31.1)
General and administrative expenses	4	(58.3)	(46.2)	(47.5)	(57.8)
Other operating income (net)	5	0.2	0.1	15.1	10.6
Profit from operations before costs relating to antitrust proceedings and restructuring, net		49.1	38.9	28.6	58.7
Restructuring expenses	6	(13.2)	(10.4)	(8.3)	(41.0)
Profit from operations before costs relating to antitrust proceedings, net		35.9	28.5	20.3	17.7
Costs relating to antitrust proceedings	6	(24.6)	(19.5)	(22.0)	(35.0)
Profit (loss) from operations		11.3	9.0	(1.7)	(17.3)
Net financing costs	7	(92.3)	(73.3)	(25.5)	(48.5)
Profit (loss) before tax		(81.0)	(64.3)	(27.2)	(65.8)
Income tax benefit / (expense)	9	17.8	14.1	3.6	(29.2)
Net loss for the period before minority interests		(63.2)	(50.2)	(23.6)	(95.0)
Minority interests		(0.1)	(0.1)	0.0	(0.2)
Net loss for the period		(63.3)	(50.3)	(23.6)	(95.2)

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Basic earnings per share (EPS) in	10	(2.27)	(1.08)	(4.42)
Diluted earnings per share (EPS) in	10	(2.27)	(1.08)	(4.42)

1) The 2003 financial figures have been translated for the convenience of the reader at an exchange rate of \$ 1.2610 to 1.00, the rate on December 31, 2003.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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SGL CARBON Aktiengesellschaft
Consolidated Balance Sheets

(in millions)

ASSETS	Note	12/31/2003	12/31/2003	12/31/2002
		US\$	Euro	Euro
Noncurrent assets				
Intangible assets	11	124.8	99.0	103.8
Property, plant and equipment	12	515.1	408.5	477.3
Long-term investments	13	36.2	28.7	33.2
		676.1	536.2	614.3
Current assets				
Inventories	14	325.3	258.0	288.4
Trade receivables	15	279.1	221.3	208.1
Other receivables and other current assets	16	73.3	58.1	60.7
Receivables and other current assets		352.4	279.4	268.8
Cash and cash equivalents	17	58.1	46.1	21.5
		735.8	583.5	578.7
Deferred tax assets				
	18	160.4	127.2	93.4
		1,572.3	1,246.9	1,286.4
EQUITY AND LIABILITIES				
Equity/Minority interests				
Issued Capital		71.6	56.8	56.0
Share premium		140.6	111.5	111.3
Retained earnings		(1.8)	(1.4)	52.6
Accumulated deficit/surplus		(63.4)	(50.3)	(23.6)
Equity	19	147.0	116.6	196.3
Minority interests		0.4	0.3	1.4
		147.4	116.9	197.7
Provisions				
Provision for pensions and other employee benefits	20	237.7	188.5	190.6
Other provisions	21	210.1	166.6	149.2
		447.8	355.1	339.8
Liabilities				
Financial liabilities	22	623.6	494.5	448.5
Trade payables		124.7	98.9	110.5
Other liabilities		174.6	138.5	151.2
		922.9	731.9	710.2
Deferred tax liabilities	23	54.2	43.0	38.7
		1,572.3	1,246.9	1,286.4

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- 1) The 2003 financial figures have been translated for the convenience of the reader at an exchange rate of \$ 1.2610 to 1.00, the rate on December 31, 2003.

The accompanying notes are an integral part of these Consolidated Financial Statements

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SGL CARBON Aktiengesellschaft
Consolidated Statements of Cash Flows
(in millions)

	2003	2003	2002	2001
	US\$	Euro	Euro	Euro
Cash flows from operating activities				
Net profit (loss) before taxes	(81.1)	(64.3)	(27.2)	(65.8)
Adjustments to reconcile net profit or loss to net cash provided by operating activities				
Loss on sale of property, plant and equipment	0.3	0.2	(2.8)	1.0
Gain/loss on sale of equity investments	(4.5)	(3.6)	(1.0)	0.0
Depreciation and amortization expense	91.0	72.2	81.4	86.8
Write-downs on noncurrent assets	4.7	3.7	0.0	9.8
Taxes paid	(4.8)	(3.8)	(22.3)	(13.6)
Change in provisions, net	29.5	23.4	(2.8)	16.3
Change in Working capital, net of changes in basis of consolidation:				
Inventories	6.6	5.2	82.7	(26.8)
Write-downs on inventories	0.0	0.0	0.0	15.0
Trade receivables	(28.9)	(22.9)	44.7	33.8
Trade payables	(6.9)	(5.5)	6.8	6.2
Other operating assets / liabilities	16.4	13.1	(10.4)	30.0
Cash provided by operating activities before payment of antitrust fines	22.3	17.7	149.1	92.7
Payments relating to antitrust proceedings	(18.8)	(14.9)	(10.1)	(36.9)
Cash provided /used by operating activities	3.5	2.8	139.0	55.8
Cash flows from investing activities				
Acquisition of property, plant and equipment, and intangible assets (excl. Goodwill)	(58.4)	(46.3)	(53.6)	(96.1)
Proceeds from sale of property, plant and equipment, and intangible assets	2.8	2.2	7.8	3.8
Cost of acquisitions	(2.1)	(1.7)	(0.7)	(5.7)
Proceeds from sale of equity investments	7.2	5.7	5.6	5.5
Cash used in investing activities	(50.5)	(40.1)	(40.9)	(92.5)
Cash flows from financing activities				
Net change in financial liabilities	76.4	60.6	(87.6)	36.5
Dividends paid	0.0	0.0	(0.2)	(0.1)
Net proceeds from capital increase	1.3	1.0	0.8	2.2
Cash provided by financing activities	77.7	61.6	(87.0)	38.6
Cash received from first-time consolidation	0.8	0.6		
Effect of foreign exchange rate changes	(0.5)	(0.3)	(1.7)	0.4
Net increase/decrease in cash and cash equivalents	31.0	24.6	9.4	2.3
Cash and cash equivalents at beginning of year	27.1	21.5	12.1	9.8

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Cash and cash equivalents at end of year	58.1	46.1	21.5	12.1
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1) The 2003 financial figures have been translated for the convenience of the reader at an exchange rate of \$ 1.2610 to 1.00, the rate on December 31, 2003

Cash flow was adjusted for currency impacts, see Note 24 for additional cash flow information.

The accompanying notes are an integral part of these Consolidated Financial Statements

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SGL CARBON Aktiengesellschaft
Consolidated Statements of Changes in Shareholders Equity
(in Euro millions)

	Issued Capital	Share Premium	Retained Earnings	thereof from currency translation	thereof other comprehensive income	Unappropriate surplus/ Accumulated defizit	Equity	Minority interests	Total
Balance at Jan. 1, 2001	54.8	109.5	208.7	15.5		(36.0)	337.0	2.1	339.1
Appropriation of net loss for 2001			(36.0)			(59.2)	(95.2)	0.2	(95.0)
Other recognized gains and losses			(0.6)				(0.6)	(0.7)	(1.3)
Capital increase	0.4	1.8					2.2		2.2
Exchange differences			11.8	11.8			11.8		11.8
Balance at Dec. 31, 2001	55.2	111.3	183.9	27.3	0.0	(95.2)	255.2	1.6	256.8
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)	0.0	(23.6)
Other recognized gains and losses							0.0	(0.2)	(0.2)
Capital increase	0.8						0.8		0.8
Exchange 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 2002			(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 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 are an integral part of these Consolidated Financial Statements

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SGL CARBON Aktiengesellschaft
Notes to the Consolidated Financial Statements
(in millions)

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

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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:

Foreign currency 1 =	ISO-Code	Spot rate	Spot rate	Annual average rate	
		12/31/2003	12/31/2002	2003	2002
US-Dollar	USD	1.2610	1.0415	1.1309	0.9448
British Pound	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, foreign 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.

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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. Interestfree 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

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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 Accounting 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.

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.

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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 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 Zakłady 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

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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.

[Back to Contents](#)**Consolidated income statement 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/expenses, 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

	2003	2002	2001
	€m	€m	€m
Cost relating to antitrust proceedings	19.5	22.0	35.0
Restructuring expenses	10.4	8.3	41.0
	29.9	30.3	76.0

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.

[Back to Contents](#)**7. Net financing costs**

	2003	2002	2001
	€m	€m	€m
Net investment income	(4.7)	(1.8)	3.2
Interest on other securities, other interest and similar income (thereof from subsidiaries)	3.4 (0.0)	2.2 (0.2)	2.5 (0.0)
Interest on borrowings and other interest expense	(26.9)	(27.4)	(28.4)
Interest expense relating to the European Commission	(5.6)	0.0	0.0
Imputed interest on liabilities from antitrust proceedings	(6.2)	3.4	(2.7)
Interest component of additions to pension provisions	(10.5)	(10.4)	(9.9)
Interest expense, net	(45.8)	(32.2)	(38.5)
Amortization of capitalized financing costs	(16.1)	0.0	0.0
Amortization of capitalized costs for the convertible bond	(1.5)	(0.6)	(0.6)
Foreign currency translation of North American antitrust liabilities	12.4	16.3	(6.7)
Foreign currency hedging costs for North American antitrust liabilities	(12.2)	(11.8)	1.6
Expenses for guarantees to the European Commission	(2.4)	(0.9)	0.0
Other financial expenses	(3.0)	5.5	(7.5)
Other financial expenses / net financial income	(22.8)	8.5	(13.2)
Total	(73.3)	(25.5)	(48.5)

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

Costs of material	2003	2002	2001
	€ m	€ m	€ m
Cost of raw materials and consumables used and of good purchased and held for resale	240.0	242.2	297.1
Cost of purchased services	58.5	61.3	78.2
	298.5	303.5	375.3
Staff Costs	2003	2002	2001
	€ m	€ m	€ m
W ages and salaries	261.1	298.1	326.0
Social security contributions, retirement and other benefit costs (thereof for pensions)	84.5 (20.5)	70.1 (18.7)	77.2 (17.3)
	345.6	368.2	403.2

[Back to Contents](#)**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	2001
Production and auxiliary plants	5,034	5,465	6,103
Sales and marketing	593	638	655
Research	232	307	487
Administration, other functions	1,218	1,294	1,246
	7,077	7,704	8,491

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 expense

Deferred tax assets from tax loss carryforwards are generally recognized in the IFRS/IAS consolidated financial statements on the basis of five-year projected earnings before taxes of the individual consolidated companies. The projections reflect uncertainties about certain assumptions and other general conditions and, in exceptional cases, deferred tax assets from tax loss carryforwards have not been recognized.

The tax expense is composed as follows

	2003	2002	2001
	m	m	m
Current Income tax expense			
Germany	0.1	(2.1)	(5.6)
Rest of World	(14.4)	(5.7)	(16.8)
Deferred Taxes			
Germany	22.0	11.1	(1.6)
Rest of World	6.4	0.3	(5.2)
Income tax (expense) / income	14.1	3.6	(29.2)

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

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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	2001
Net loss before tax	(64.3)	(27.2)	(65.8)
Expected tax income at 38.4%	24.7	10.4	25.3
Change in expected tax expense due to:			
- non-deductible expenses (incl. goodwill amortization) and tax-exempt income	(7.3)	(7.6)	(16.4)
- Taxation differences at foreign companies	(0.4)	3.3	(0.5)
- Prior-period taxes	0.4	4.0	(5.2)
- Effects of change in tax rate	0.0	0.0	(0.7)
- Change in valuation allowance against deferred tax assets	0.7	(11.4)	(31.6)
- Other	(4.0)	4.9	(0.1)
= Effective tax benefit (+) / (expense)	14.1	3.6	(29.2)

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 nonrecognition 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; 2001: € (95.2) million) by the weighted average number of shares outstanding (2003: 22,148,078; 2002: 21,813,930 2001: 21,530,563). 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.

[Back to Contents](#)**11. Intangible assets**

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

[Back to Contents](#)**12. Property, plant and equipment**

m	Land, land rights and buildings	Technical equipment and machinery	Other equipm ent, operating and office equipment	Advance payments and assets under development	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 depreciation					
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 depreciation					
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 to 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.

[Back to Contents](#)**13. Noncurrent financial assets**

	Investments in subsidiaries m	Noncurrent financial instruments m	Other noncurrent financial assets m	Total m
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 translation	(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 write-downs:				
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 translation	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 translation	(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 write-downs:				
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 translation	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.

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14. Inventories	Dec. 31, 2003	Dec. 31, 2002
	m	m
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)
	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	Dec. 31, 2003	Dec. 31, 2002
	€m	€m
Customers	204.2	198.1
thereof with more than one year to maturity (2003: €2.2 million; 2002: €0.3 million)		
Subsidiaries	17.1	10.0
	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

	Dec. 31, 2003	Dec. 31, 2002
	€m	€m
Other receivables from subsidiaries	11.6	2.9
Other current assets thereof with more than one year to maturity (2003: €0.2 million; 2002: €0.0 million)	46.5	57.8
	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

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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 refinancing package implemented in 2004.

17. Cash and cash equivalents

	31.12.2003	31.12.2002
	€m	€m
	<u> </u>	<u> </u>
Cash and bank balances	46.1	21.4
Financial instruments	0.0	0.1
	<u> </u>	<u> </u>
	46.1	21.5
	<u> </u>	<u> </u>

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 carryforwards 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:

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	Deferred tax assets	Deferred tax liabilities
	€m	€m
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	0.0	1.3
From tax loss carryforwards	79.3	0.0
Total	127.2	43.0

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19. Equity

The classification of items of equity is presented in the consolidated statement of changes in equity on page F6.

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 preemptive rights with the approval of the Supervisory Board

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- (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

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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 disappplied 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

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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

	Dec. 31, 2003	Dec. 31, 2002
	m	m
Pension provision for corporate commitments	161.0	158.8
Pension provision for severance and termination benefits	15.3	16.4
Other	12.2	15.4
	<u>188.5</u>	<u>190.6</u>

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.

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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

	German Plans		US-Plans	
	2003	2002	2003	2002
Discount Rate	5.5%	6.0%	6.75%	6.75%
Salary growth	2.75%	3.0%	3.0%	3.0%
Expected 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:

Changes in present value of funded obligation	2003	2002
	€m	€m
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)
Changes in basis of consolidation	(3.0)	0.0
Exchange differences	(13.7)	(4.2)
Projected benefit 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 gains/losses	(32.1)	(40.7)
Provision at Dec. 31	161.0	158.8

Pension expenses are composed as follows:

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m	2003	2002	2001
Current service costs	4.7	5.5	5.1
Interest cost	13.6	14.2	14.2
Expected return on plan assets	(3.2)	(4.5)	(5.8)
Amortization of actuarial gains/losses	2.1	0.7	0.2
Pension expenses from defined benefit plans	17.2	15.9	13.7
Pension expenses from defined contribution plans	3.3	2.8	3.6
Pension expenses	20.5	18.7	17.3

21. Other Provisions

m	Taxes	Staff costs	Restructuring and antitrust risks	Miscellaneous	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.

[Back to Contents](#)**22. Liabilities**

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

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

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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 m
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).

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Consolidated cash flow disclosures

24. Disclosures on the consolidated cash flow statement

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.

[Back to Contents](#)**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
- discounts 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

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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.

At December 31, 2003 and 2002, there were also call-in obligations of \$3.8 million and \$3.6 million, respectively, for shares in an unconsolidated subsidiary.

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.

[Back to Contents](#)**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			Total Dec. 31, 2002 m	Fair values	
	Bought Dec. 31, 2003 m	Sold Dec. 31, 2003 m	Total Dec. 31, 2003 m		Total Dec. 31, 2003 m	Total Dec. 31, 2002 m
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.

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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.

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28. Segment reporting

The SGL Carbon Group operates in the following 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 [SGL 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).

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m	CG	GS	CP	SGLT	Other	Consolidation adjustments	SGL CARBON Group
2003							
Net sales revenue	558.0	174.3	186.2	124.9	2.8	0.0	1,046.2
Inter-segment revenue	363.0	46.4	13.0	3.9	47.7	(474.0)	0.0
	<u>921.0</u>	<u>220.7</u>	<u>199.2</u>	<u>128.8</u>	<u>50.5</u>	<u>(474.0)</u>	<u>1,046.2</u>
Total net 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							
Net sales revenue	550.7	195.9	212.4	150.4	2.9	0.0	1,112.3
Inter-segment revenue	396.5	44.5	16.3	4.4	44.4	(506.1)	0.0
	<u>947.2</u>	<u>240.4</u>	<u>228.7</u>	<u>154.8</u>	<u>47.3</u>	<u>(506.1)</u>	<u>1,112.3</u>
Total net 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
2001							
Net sales revenue	619.8	230.7	235.8	135.1	11.9	0.0	1,233.3
Inter-segment revenue	364.6	50.9	19.1	3.6	30.3	(468.5)	0.0
	<u>984.4</u>	<u>281.6</u>	<u>254.9</u>	<u>138.7</u>	<u>42.2</u>	<u>(468.5)</u>	<u>1,233.3</u>
Total net sales revenue	984.4	281.6	254.9	138.7	42.2	(468.5)	1,233.3
Profit / loss from operations *)	78.9	22.3	12.6	(33.7)	(21.4)	0.0	58.7
Investment in property, plant and equipment	45.1	12.6	5.0	26.3	1.6	0.0	90.6
Depreciation and amortization expense *)	38.4	19.2	10.3	17.7	0.3	0.0	85.9
Capital employed	569	274	162	203	5	0	1,213
Debt	152.3	73.4	43.4	54.4	215.4	0.0	538.9

*) before cost of antitrust risks and restructuring expenses.

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m	Germany	Europe excl. Germany	North America	Central and South America	Other	Consolidation adjustments	SGL CARBON Group
2003							
Net sales revenue (by destination)	197.7	352.1	257.0	51.5	187.9	0.0	1,046.2
Net 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 net 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
Investments in property, plant and equipment	7.2	16.3	9.2	0.0	0.1	0.0	32.8
2002							
Net sales revenue (by destination)	216.6	373.8	281.6	63.4	176.9	0.0	1,112.3
Net 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 net 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
Investments in property, plant and equipment	17.1	12.1	11.8	0.1	0.4	0.0	41.5
2001							
Net sales revenue (by destination)	246.0	409.2	315.8	63.1	199.2	0.0	1,233.3
Net sales revenue (by company)							
Third-party customers	457.8	439.7	319.1	8.0	8.7	0.0	1,233.3
Intercompany sales revenue	178.3	237.1	53.1	0.0	0.0	(468.5)	0.0
Total net sales revenue	636.1	676.8	372.2	8.0	8.7	(468.5)	1,233.3
Export sales from Germany	360.7	0.0	0.0	0.0	0.0	0.0	360.7
Capital employed	404	386	410	4	9	0	1,213
Investments in property, plant and equipment	40.0	23.3	26.6	0.0	0.7	0.0	90.6

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[Back to Contents](#)**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 Supervisory Board and Executive Committee 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 bis 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 his 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:

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in T	Base remuneration	Additional remuneration	Total
Prof. Dr. rer. nat. 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
Bert 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 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

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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)

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.

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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

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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	Stock		Stock Option Plan
	SAR	Purchase Plan	
Balance at Jan. 1, 2003	159,950	74,439	999,500
Additions		58,811	258,500
Expired/Returned	(16,100)	(2,392)	
Exercised		(28,924)	
Balance at Dec. 31, 2003	143,850	101,934	1,258,000
Average exercise price ()	45.79	-	35.69
Expiration dates	3/15/2006		2010 to 2013

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Fair value Dec. 31, 2003/	m	0.0	0.0	0.0
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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

[Back to Contents](#)**34. Significant Differences between International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (U.S. GAAP)**

The SGL Carbon Group prepared the consolidated financial statements in accordance with German GAAP (HGB) for the years until Dec. 31, 2000. In 2001 the SGL Carbon Group adopted IFRS and has prepared its consolidated financial statements in accordance with IFRS for all years presented. International Financial Reporting Standards (IFRS) differ in certain significant respects from U.S. GAAP. The significant differences that affect the consolidated net income (loss) and shareholders' equity of the SGL CARBON Group are set out below.

Reconciliation to U.S. GAAP

The following is a summary of the significant adjustments to net income and shareholders' equity which would be required if U.S. GAAP had been applied instead of IFRS. Earnings per share have been presented before Cumulative Change in Accounting Principles. The translation of the 2003 amounts from Euro into U.S. Dollars has been made using the exchange rate as of December 31, 2003 (1.261 USD = 1 €):

All numbers in million except per share data	Note	2003 US-\$	2003 Euro	2002 Euro	2001 Euro
Net loss per IFRS as reported in the consolidated income statement		(63.4)	(50.3)	(23.6)	(95.2)
Adjustments to conform with U.S.-GAAP:					
Business acquisition and goodwill and its disposition	(a)	4.3	3.4	5.1	(2.7)
Internal use software and interest capitalization	(b)	(4.5)	(3.6)	(3.0)	(0.9)
Inventory	(c)	(0.5)	(0.4)	5.8	3.9
Pension provision	(d)	1.6	1.3	(2.1)	(1.1)
Incentive plans	(e)	(1.9)	(1.5)	(2.2)	(4.9)
Restructuring / Early retirement	(f)	2.1	1.7	(7.1)	7.9
First time adoption of IFRS	(g)	0.0	0.0	0.0	(49.3)
Deferred Taxes - IFRS to U.S.-GAAP reconciliation	(h)	1.3	1.0	5.1	(5.7)
Net loss in accordance with U.S.-GAAP		(61.0)	(48.4)	(22.0)	(148.0)
Cumulative Change in Accounting Principles		0.0	0.0	9.4	0.0
Net loss after Cumulative Change in Accounting Principles		(61.0)	(48.4)	(12.6)	(148.0)
Basic earnings per share in accordance with U.S.-GAAP		(2.75)	(2.18)	(1.01)	(6.87)
Diluted earnings per share in accordance with U.S.-GAAP		(2.75)	(2.18)	(1.01)	(6.87)
Equity per IFRS as reported in the consolidated balance sheet		147.0	116.6	196.3	255.2
Adjustments to conform with U.S.-GAAP:					
Business acquisition and goodwill and its disposition	(a)	60.1	47.7	45.2	26.9
Internal use software and interest capitalization	(b)	(3.5)	(2.8)	1.1	4.3
Inventory	(c)	(0.4)	(0.3)	(0.7)	(7.1)
Pension provision	(d)	(32.9)	(26.1)	(26.3)	(11.5)
Incentive plans	(e)	(6.4)	(5.1)	(6.7)	(10.0)
Restructuring / Early retirement	(f)	3.2	2.5	0.8	7.9
First time adoption of IFRS	(g)	0.0	0.0	0.0	0.0
Deferred Taxes - IFRS to U.S.-GAAP reconciliation	(h)	1.3	1.0	0.0	(1.6)
Equity in accordance with U.S.-GAAP		168.4	133.5	209.7	264.1

a) Business Acquisitions and Goodwill and its disposition

Prior to the adoption of IAS 22 (revised 1993) on January 1, 1995, the Group wrote-off all goodwill directly to equity in accordance with IFRS existing at that time. The adoption of IAS 22 (revised 1993) did not require prior period

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restatement. Accordingly, a U.S. GAAP difference exists with respect to the recognition of goodwill and its related amortization before January 1, 1995 and for the amortization of goodwill after January 1, 2002. For the purpose of the reconciliation to U.S. GAAP, the pre-1995 goodwill was amortized through the statement of operations over the estimated useful lives between five and 20 years. Since January 1, 2002 under U.S. GAAP goodwill is no longer being amortized over the estimated useful live but an annual impairment test per SFAS 142 (Goodwill and other Intangible Assets) must be performed. Under IFRS positive and negative goodwill in the amount of 3.9 million were still amortized in 2003 and accordingly a reconciliation difference exists.

The SGL CARBON Group's U.S. GAAP unamortized positive goodwill at December 31, 2003 and 2002 was 125.8 and 136.1 million, respectively (78.1 and 95.3 million, respectively, capitalized under IFRS). The Group did not have any unamortized negative goodwill as of December 31, 2003 and 2002, respectively (0.0 and 4.4 million, respectively, capitalized under IFRS). The remaining balance of negative Goodwill as of January 1, 2002 under U.S.-GAAP was written off and recognized as the effect of a change in accounting principle. The Company estimates that such net goodwill would, at December 31, 2003 and 2002, be allocated among its industry segments as follows: Carbon and Graphite: 47.0 million and 47.5 million, respectively, Graphite Specialties: 22.3 million and 25.4 million, respectively, Corrosion Protection: 18.5 million and 22.4 million, respectively, and SGL Technologies: 38.0 million and 40.8 million, respectively.

As of December 31, 2003, the Company had under U.S. GAAP unamortized goodwill in the amount of 125.8 million, no unamortizable identifiable intangible assets and no unamortized negative goodwill, all of which were subject to the transition provisions of Statements SFAS 141 and 142. Amortization expense related to goodwill and negative goodwill was 0.0, 0.0 and 7.0 million for the years ended December 31, 2003, 2002 and 2001 respectively.

In the first quarter 2003 SGL sold its consolidated subsidiary SGL Risomesa S.p.A., Milan (Italy) and realized the remaining negative goodwill amounting to 1.7 million under IFRS. Under U.S. GAAP the amount was included as a change in accounting principle in 2002.

As noted above for U.S. GAAP purposes, in accordance with SFAS 142, starting January 1, 2002 goodwill is no longer being amortized but tested annually for impairment at the level of reporting units. Goodwill is tested for impairment using a two step process that begins with a determination of the fair value of the reporting unit. The first step is a preliminary test to determine if any potential impairment exists and the second step measures the amount of impairment, if any. For estimating future cash flows, we use our internal budgets. Thereby, considerable management judgement is necessary to identify a triggering event and to estimate future sales and cost of sales which underlie the present value of future cash flows. Accordingly, actual outcomes could vary significantly from such estimates. Factors such as changes in the planned use of assets or closing of facilities or lower than anticipated sales for products could result in shortened useful lives or impairments.

If SFAS 142 had been applied already in 2001, net profit and earnings per share would have been as follows:

		<u>2003</u>	<u>2002</u>	<u>2001</u>
Net loss *) As reported	m	(48.4)	(22.0)	(148.0)
Goodwill amortization	m	0.0	0.0	7.1
Net (loss)/profit *) adjusted	m	(48.4)	(22.0)	(140.9)
Earnings per share basic (EPS) As reported		(2.18)	(1.01)	(6.87)
Goodwill amortization		0.0	0.0	0.33
Earnings per share basic (EPS) adjusted		(2.18)	(1.01)	(6.54)

*) before Cumulative Changes in Accounting Principles

b) Internal Use Software and Interest Capitalization on Tangible Fixed Assets

Statement of Position (SOP) 98-1 (Accounting for the Costs fo Computer Software developed or obtained for internal use) provides U.S. GAAP guidance on accounting for the costs of computer software developed or obtained for internal use. Under U.S. GAAP overhead costs should not be capitalized as costs of internally developed

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software while under IFRS directly allocated overhead costs are allowed to be capitalized. During the year ended December 31, 2003 and 2002 the SGL Carbon Group capitalized software costs in the amount of 6.5 million and 2.7 million, respectively under U.S. GAAP.

U.S. GAAP requires the capitalization of interest costs as part of the historical cost of fixed assets requiring a period of time to construct. Per IFRS benchmark treatment, interest cost (Borrowing Costs) should be recognized as an expense in the period in which they occur. The company has elected to use the IFRS benchmark treatment, which results in a reconciliation difference to U.S. GAAP for the capitalization of borrowing costs. During the years ended December 31, 2003, 2002 and 2001 the SGL Carbon Group did not capitalize interest under U.S. GAAP. The years 2003, 2002 and 2001 include amortization of previous capitalized interest 0.8 million, 0.8 million and 0.9 million respectively.

The estimated aggregate amortization expense for intangible assets under U.S. GAAP for each of the following fiscal years is approximately 7 million, excluding goodwill amortization or potential impairments.

c) Inventory Valuation

IAS 2 "Inventories" identifies two alternatives as benchmark valuation methods, the FIFO method and the weighted-average cost method. The LIFO method is permitted as an allowed alternative. In valuing inventories for IFRS reporting, the company has elected to apply the benchmark method using the weighted average cost method. For certain inventories held in the United States of America, for U.S. GAAP and tax reporting purposes we have elected to value inventories on the LIFO method until December 31, 2001. As of December 31, 2003 and 2002 the company has no inventory valued on a LIFO basis for U.S. GAAP. .

Certain inventories held by one of our U.S. subsidiaries did not meet the requirements as specified under EITF 99-5 (Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements). Under EITF 99-5 costs to perform certain services related to the design and development of the products it will sell under long-term supply arrangements and costs to design and develop molds, dies, and other tools that will be used in producing those products should be expensed as incurred. Accordingly we recorded an U.S. GAAP adjustment of 0.3 million in 2003.

d) Pension Provisions

Under IFRS, pension costs and similar obligations are accounted for in accordance with IAS 19, Employee Benefits . For purposes of U.S. GAAP, pension costs for defined benefit plans are accounted for in accordance with SFAS No. 87 Employers Accounting for Pensions and the disclosure is presented in accordance with SFAS No. 132 Employers Disclosures about Pensions and Other Post-retirement Benefits . SFAS 87 requires that companies located outside the United States adopt the provisions of SFAS 87 for fiscal years beginning after December 15, 1988. Due to the significant period of time which elapsed between the date when SFAS 87 would have been required to be adopted and the time when the SGL Carbon Group first prepared its U.S. GAAP financial information, adoption of the provisions of SFAS 87 as of January 1, 1989 was not feasible. Accordingly, SFAS 87 has been adopted from January 1, 1993. As of the date of adoption, the SGL Carbon Group's total transition obligation was 16.1 million. Such transition obligation is being amortized over a 15 year period. Accordingly, as of December 31, 1993, 5.4 million, representing 5/15 (the elapsed five year period between the required adoption date of January 1, 1989 and December 31, 1993) of the total transition obligation, was recorded directly against U.S. GAAP shareholders' equity.

IAS 19 (Employee Benefits) as applied by the Group is substantially similar to the methodology required under SFAS No. 87. The transition provisions under IAS 19 permit the cumulative effect of an accounting change to be either recognized immediately or delayed and recognized on a straight-line basis over a period of up to five years from the date of adoption of IAS 19 (its transition period ends in 2004 for enterprises adopting IAS 19 as of its effective date). SFAS 87 permitted only delayed recognition of the transition obligation on a straight-line basis over the average remaining service period of plan participants or over 15 years if the average remaining service period is less than 15 years (its transition period ends in 2001 for most enterprises).

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Upon adoption of IAS 19, the company elected to recognize the cumulative effect of an accounting change immediately. Consequently, the amortization of the transition obligation in accordance with SFAS 87, creates a reconciliation difference to U.S. GAAP in the pension liability valuation and corresponding annual pension expense through December 31, 2003. Under IFRS changes in the market value of plan assets are recognized in the calculation immediately, while they are deferred over 5 years under U.S. GAAP.

Under IFRS the interest component of the annual pension expense has been shown as an expense in the financial result, which is below operating profit. Under U.S. GAAP, the interest component of the pension expense is included in operating profit.

The Investment Policy and Strategy, as established by the Pension Plan Committee, is to provide for growth of capital with a moderate level of volatility by investing in assets per the target allocations stated below. The assets will be reallocated quarterly to meet those target allocations. The investment policy will be reviewed on a regular basis, under the advisement of a certified investment advisor, to determine if the policy should be changed.

The expected long-term rate of return for the Plans' total assets is based on the expected return of each of the targeted allocation categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 10% to 11% over the long-term, while cash and fixed income are expected to return between 4% and 6%. Based on historical experience, the Committee expects that the Plans' asset managers will provide a modest (0.5% to 1.5% over a complete market cycle of three- to five-year periods) premium to their respective market benchmark indices.

Under IFRS, the Company included 10.5 million, 10.4 million and 9.9 in 2003, 2002 and 2001, respectively of interest costs associated with the Company's provision for pension and similar obligations in interest expense. U.S. GAAP does not allow the interest cost associated with the provision for pension and similar obligations to be recorded as a component of interest expense.

e) Incentive Plans

IFRS provides that in the absence of a specific International Financial Reporting Standard or an Interpretation of the Standing Interpretations Committee interpretation, management should use its judgement in developing an accounting policy that provides the most useful information to users of the company's financial statements. In making this judgement, management should consider, among others, pronouncements of other standard setting bodies and accepted industry practices. The SGL Carbon Group has elected, for purposes of IFRS reporting, to continue the accounting treatment for the incentive plans discussed below, consistent with prior practices under the German Commercial Code (German GAAP).

The SGL Carbon Group provides a bonus compensation for certain employees meeting specified performance targets. The bonus is satisfied in form of cash for management and in form of SGL Carbon stock for all other employees. The numbers of shares given to the employees is calculated using the market price of the shares. Under IFRS the expense in the income statement is recognized using the nominal value of the shares. The increase in capital is recognized upon issuance of its stock, which generally occurs in the period subsequent to the year to which the performance relates. Under U.S. GAAP the total cost of the bonus is included as an expense and the increase in capital is matched with the period in which the services are rendered.

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	IFRS	U.S. GAAP
Leveraged Executive Asset Plan (LEAP)	In 1996, total cost of the plan of 36.6 million was accounted for as extraordinary expenses. The contribution of Hoechst AG of 25.6 million was accounted for as extraordinary income in 1996.	Annually, one fifth of the total expenditure is accounted for as personnel expenditure. In 1996, the contribution of Hoechst AG was treated as additional paid-in capital without effect on income.
Stock Appreciation Rights Plan (SAR)	With respect to the SAR rights exercisable annually by the members of the Executive Committee, pro rata provisions are made. The exercise of SAR rights by the remaining beneficiaries has no effect on net income as they receive new shares to be issued out of authorized capital.	Compensation expense is recognized for all participants vested during the year in an amount equal to the difference between the ordinary share price and exercise price.

The LEAP plan expired in June 2001. Under IFRS and U.S. GAAP the Long-Term Cash Incentive Plan (LTCI) is accounted for using the same accounting principles.

f) Restructuring / Early retirement

One of the significant differences between the restructuring guidance under IAS 37, Commitments and Contingencies and the relevant U.S. GAAP standards, is found in the criteria for the initial recognition of a restructuring provision. The applicable U.S. GAAP standard is SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities for the year ended 2003, which supersedes Emerging Issues Task Force (EITF) Issue 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) used for all years presented prior to 2003. For employee termination benefits, SFAS 146 and EITF 94-3 require that prior to the date of the financial statements, the benefit arrangement be communicated to employees, including sufficient detail to enable employees to determine the type and amount of benefits they will receive when they are terminated. IAS 37 does not require that the communication to employees be so detailed but rather that the communication simply include the main features of the plan. As a result, there may be situations in which an enterprise following IAS 37 could recognize a restructuring provision before it would be permitted to do so if it were following SFAS 146 / EITF 94-3.

Early retirement contracts in Germany, in which only incremental costs under IFRS are recognized once a binding contractual agreement has been entered into. The early retirement contracts in the SGL Group are generally set up according to the block model. During the employment phase the employee works full time although in this period he or she is only paid according to the part-time agreement. By this means, during the employment phase, the employer builds up arrears amounting to the as yet unpaid output that must be accounted for by accruing a provision. Under U.S. GAAP the complete compensation that the employee receives during the released phase are accrued over the employees remaining service period. The addition to provisions begins with the commencement of the parttime retiree relationship. Until the employment phase ends or the employee enters the released phase, the total compensation and the total accrued amount that the employee will receive during the released phase must be set aside.

g) First Time Adoption of IFRS/IAS

IAS 12 Income Taxes requires recognition of a deferred tax asset if a future realization of a tax benefit is probable. Although the term probable is not defined for purposes of applying IAS 12, the SGL Carbon Group has interpreted the term to indicate a higher level of likelihood than more likely than not (which is the criterion for

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recognition of a deferred tax asset under U.S. GAAP) a level of likelihood is defined under U.S. GAAP as more than 50%. Thus, the recognition of a valuation allowance under IFRS has preceeded the recognition under U.S. GAAP.

Deferred tax assets relating to tax loss carryforwards have been recognized in the IFRS consolidated financial statements on the basis of a five-year projected earnings before taxes of the individual consolidated companies. The projections reflect uncertainties about certain assumptions and other general conditions and, in certain cases, deferred tax assets for tax loss carryforwards have not been recognized.

At initial preparation of IFRS annual financial statements, the recognition of deferred tax assets relating to tax loss carryforwards in the U.S. was adjusted retrospectively for the reporting periods. These adjustments also resulted in changes when compared to the IFRS amounts previously reported in the published quarterly reports. Deferred tax assets relating to tax loss carryforwards in the U.S. were written down in full in the 2001 consolidated financial statements as a consequence of the recession in the USA and the economic situation in the US steel industry. The remaining portion in 2001 of the reconciling item, First time adoption of IFRS/IAS in the amount of 11.7 million represents items which are not related to income taxes. Due to the turnaround in our business in the United States, we recognized a portion of the loss carryforwards and capitalized a deferred tax asset amounting to 10.0 million at the end of 2003 on the basis of a cautious estimate.

h) Deferred Taxes IFRS to U.S. GAAP Reconciliation

The items discussed above create reconciliation differences between the book (according to U.S. GAAP) and tax basis of the assets and liabilities, requiring the recognition of associated deferred tax assets and liabilities. With some exceptions deferred tax assets and liabilities are recognized for all timing differences between the book and tax basis of the assets and liabilities using future statutory tax rates. In addition, a valuation allowance is established when it is more likely than not that deferred tax assets will not be realized.

35. Additional Disclosure Information Required by U.S. GAAP**a. Other Postretirement Benefits**

For purposes of disclosure in accordance with U.S. GAAP, the following information for the SGL Carbon Group's significant other postretirement benefit plans is provided in accordance with the requirements of SFAS No. 106 Employers' Accounting for Postretirement Benefits Other Than Pensions.

Certain of the SGL Carbon Group's U.S. operations provide health care and other benefits to most of their retired employees and their eligible dependents. Minimum service under the plan has been defined as ten years.

Net annual postretirement benefit expense for the postretirement benefit plan included the following components:

	2003 m	2002 m	2001 m
Service cost-benefits attributed to service during the period	0.2	0.2	0.2
Interest cost on accumulated postretirement benefit obligation	1.5	2.0	2.3
Amortization and deferral	0.5	0.0	0.4
	<hr/>	<hr/>	<hr/>
Net periodic postretirement benefit cost	2.2	2.2	2.9
	<hr/>	<hr/>	<hr/>

Following is a summary of the changes in the accumulated benefit obligation for postretirement benefits:

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	2003	2002
	m	m
Benefit obligation at the beginning of the year	27.0	30.5
Foreign currency translation	(4.7)	(4.7)
Service cost	0.2	0.2
Interest cost	1.4	2.0
Curtailement/settlement and Change in Plan provision	0.0	(3.0)
Plan participant contributions	0.4	0.5
Actuarial loss	2.6	5.5
Benefits paid	(3.8)	(4.0)
	<hr/>	<hr/>
Benefit obligation at the end of the year	23.1	27.0
	<hr/>	<hr/>
Unrecognized net loss	(11.5)	(11.4)
Unrecognized prior service cost	0.8	1.0
	<hr/>	<hr/>
Net amount recognized	12.4	16.6
	<hr/>	<hr/>

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. In accordance with FASB Staff Position FAS 106-1, the Company has made a one-time election to defer recognition of the effects of the law in the accounting for its plan under FAS 106 and in providing disclosures related to the plan until authoritative guidance on the accounting for the federal prescription drug subsidy is issued. Any measure of the Accumulated Postretirement Benefit Obligation or Net Periodic Postretirement Benefit Cost in these financial statements does not reflect the effects of the Act on the plan. Authoritative guidance is pending and, when issued, could require the Company to change previously reported information.

The health care cost trends used in determining the accumulated postretirement benefit obligation for 2003 and 2002 were 0.0%. The health care cost trend rate is expected to remain at 0.0%. This assumption has an effect on the amounts reported. For example, increasing the assumed trend by 1% would increase the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit cost for the years ended December 31, 2003 and 2002 by approximately 0.0 million and 0.0 million and 0.2 million, respectively. Decreasing the assumed trend by 1% would decrease the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2003 by approximately 0.0 and 0.0 million, respectively. In determining the accumulated postretirement benefit obligation, the weighted average discount rate used was 6.0% and 6.75% for the years ended December 31, 2003 and 2002, respectively.

b. Income Taxes

In 2000, the German government enacted new tax legislation which, among other changes, reduced the Group's statutory corporate tax rate for German companies from 40% on retained earnings and 30% on distributed earnings to a uniform 25%, effective for the Group's year beginning January 1, 2001. Since the new tax legislation became effective in January 2001, the net profit of German companies has been subject to a standard 25% rate of corporation tax. In September 2002, the German corporation tax rate for fiscal 2003 was increased to 26.5%. The impact of this tax increase, which was limited to one year, was not material 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 corporation tax rate for 2001 and 2002 of 26.4%. Together with the trade tax burden of 12%, the German income tax rate amounts to a total of 38.4%.

Since January 1, 2004, German tax law imposes a so-called minimum taxation (Mindestbesteuerung) in case of existing losses carried forward, a tax of 5% of the domestic dividend income and gains on disposition of corporations for purposes of corporate and trade tax as well as a tightening of debt financing in cases where guarantees are provided by major shareholders. These changes with respect to tax loss carry-forwards, or a denial of the deductibility of certain expenses, could lead to material tax payments for SGL Group companies in Germany from 2004 onwards and significantly impair our deferred tax assets. In addition, deferred tax assets related to German tax loss carryforwards

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could be impaired if the german tax group companies generating these loss carryforwards fail to generate sufficient taxable profits in the future.

Under U.S. GAAP, the effective income tax rate would approximate 23.8%, 17.3% and 96.6 % in 2003, 2002 and 2001.

At December 31, 2003 and 2002, the SGL Group had tax loss carryforwards amounting to approximately 336.4 million and 315.4 million respectively. Some of the tax credit carryforwards have an unlimited carryforward period under local tax laws. Under U.S. GAAP, a deferred tax valuation allowance relating to deferred tax assets recorded for tax loss carryforward was established. The amounts of the tax valuation allowance for the years ended December 2003 and 2002 were 58.5 million and 79.3 million, respectively. The valuation allowances at December 31, 2003 and 2002 are derived primarily from tax loss carryforwards in the United States and the United Kingdom (Scotland), the realization of which is unlikely, based upon projected tax earnings during the next five years. Tax benefits relating to the reduction of the valuation allowance for deferred tax assets will be recognized in the consolidated financial statements of the Group in the period in which they occur.

The reduction in the valuation allowance between 2002 and 2003 relates to the recognition of the company's ability to utilize a portion of the tax loss carryforward in the future (10.0 million) and the differences in the year end foreign currency exchange rates.

The valuation allowances at December 31, 2003 and 2002 are derived principally from tax loss carryforwards in the United States and the United Kingdom, the realization of which is unlikely, based on projected tax earnings in the next five year period. Tax benefits relating to the valuation allowance for deferred tax assets at December 31, 2003 that are subsequently recognized will be reflected in the consolidated statement of operations of the period in which the event occurs.

Under U.S. GAAP, the SGL Carbon Group would have recorded net deferred tax assets at December 31, 2003 and 2002 of 85.2 and 54.7 million consisting of deferred tax assets relating to tax loss carryforwards at December 31, 2003 and 2002 of 79.3 million and 39.7, respectively, and other deferred tax assets of 49.9 and 53.7 million, respectively, and deferred tax liabilities of 44.0 and 38.7 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The evidence considered in determining the valuation allowance includes the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Deferred taxes have not been provided on undistributed earnings of foreign subsidiaries as these amounts are deemed to be permanently reinvested.

c. SFAS No. 130 Reporting Comprehensive Income

SFAS No. 130 requires disclosures regarding comprehensive income. These include all changes in equity not transacted with owners of the business. Comprehensive income is comprised as follows:

	2003	2002
Consolidated net loss US GAAP	m	m
after cumulative change in accounting principles	(48.4)	(12.6)
Other comprehensive income, net of tax		
Change in cumulative translation adjustment	(30.4)	(23.7)
Cash -Flow Hedges	2.7	
Minimum pension liability adjustment	(0.9)	(18.1)
Other comprehensive income	(28.6)	(41.8)
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Comprehensive income/loss (77.0) (54.4)

The other comprehensive income relates to the cumulative translation adjustment, a positive impact from cash -flow hedges and an additional minimum pension liability.

d. Stock Compensation Plans

The costs of the stock compensation plan (for purposes of the calculation of the reconciliation from IFRS to US GAAP) have been calculated pursuant to the provisions of APB Opinion No. 25. SFAS 123 Accounting for Stock Based Compensation (SFAS 123) amended by SFAS 148 requires additional disclosure of the pro -forma income statement impact of the effect of the accounting treatment.

At December 31, 2003, there were a total of 1,258,000 shares (at the end of 2002: 999,500) available for grant under the stock option plan. The per share weighted-average fair value of stock options granted during 2003 was 4.52 and during 2002 were 10.3 and 14.5 at the date of grant using the Black Scholes option -pricing model (excluding a dividend yield assumption) with the following assumptions: 2003 and 2002 - volatility 40%, risk-free interest rate of 5.0%, and an expected life of 6 years.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123 amended by SFAS 148, the Company's net loss would have been increased to the pro forma amounts indicated below:

			<u>2003</u>	<u>2002</u>
Net loss *)	As reported	m	(48.4)	(22.0)
Add:	APB 25 result	m	(0.0)	(0.2)
Deduct:	SFAS 123 expense	m	(3.6)	(3.7)
Net loss *)	Pro forma	m	(52.0)	(25.9)
Earnings per share basic (EPS)	As reported		(2.18)	(1.01)
Earnings per share basic (EPS)	Pro forma		(2.35)	(1.18)

*) before Cumulative Changes in Accounting Principles

e. Non-current assets

Accounts receivable trade due after one year at December 31, 2003 and 2002 amounting to 2.2 million and 0.3 million, respectively and other assets due after one year at December 31, 2003 amounting to 0.2 million would be classified as non-current assets under U.S. GAAP. There were no other receivables or other assets due after one year at December 31, 2003 and 2002 that would be classified as non-current assets under U.S. GAAP.

f. New Accounting Pronouncements

On December 31, 2002 the Financial Accounting Standards Board issued SFAS 148 Accounting for Stock-Based Compensation Transition and Disclosure, which amends the disclosure requirements relating to stock-based employee compensation previously contained in SFAS No. 123. The amendments in SFAS 148 relevant to the SGL Group are effective for all fiscal years ending after December 15, 2002. The disclosure requirements have been included in the additional information provided on U.S. GAAP, see Note 35d to our consolidated financial statements.

In November 2002, FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others was issued. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its

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obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The required disclosures and a roll-forward of product warranty liabilities are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the group's financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of ARB 51. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities or VIEs) and how to determine when and which business enterprise should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The adoption of FIN 46 had no impact on the group's financial statements.

On April 30, 2003, the Financial Accounting Standards Board issued SFAS 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities . This standard amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments and derivative instruments embedded in other contracts and for hedging activities. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of this standard did not have a material impact on the group's financial statements.

On May 15, 2003, the Financial Accounting Standards Board issued SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . Under SFAS 150, certain financial instruments, previously classified as equity are now required to be classified as liability by the issuer. SFAS 150 primarily affects accounting for financial instruments that embody an obligation to repurchase equity instruments that have been issued by the company. SFAS 150 is effective for transactions entered into or modified after May 31, 2003. The adoption of SFAS 150 had no impact on the group's financial statements.

In December 2003 the FASB issued FAS 132 (Revised) (FAS 132-R), Employer's Disclosure about Pensions and Other Postretirement Benefits. FAS 132-R retains disclosure requirements of the original FAS 132 and requires additional disclosures relating to assets, obligations, cash flows, and net periodic pension cost. FAS 132 -R is effective for fiscal years ending after December 15, 2003 except that certain disclosures are effective for fiscal years ending after June 15, 2004.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. In accordance with FASB Staff Position FAS 106-1, the Company has made a one-time election to defer recognition of the effects of the law in the accounting for its plan under FAS 106 and in providing disclosures related to the plan until authoritative guidance on the accounting for the federal prescription drug subsidy is issued. Any measure of the Accumulated Postretirement Benefit Obligation or Net Periodic Postretirement Benefit Cost in this report do not reflect the effects of the Act on the plan. Authoritative guidance is pending and, when issued, could require the Company to change previously reported information.

In January 2004 the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 106-1, Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 which permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Regardless of whether a sponsor elects that deferral, FSP FAS 106-1 requires certain disclosures pending further consideration of the underlying accounting issues. The guidance in FSP FAS 106-1 is effective for interim or annual financial statements of fiscal years ending after December 7, 2003. The adoption of FSP FAS 106-1 had no material impact on the company's consolidated financial statements.

In December 2003, the IASB released revised IAS 32, Financial Instrument: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement . These statements replace IAS 32 (revised 2000),

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and supersede IAS 39 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

In December 2003, as part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released version of those standards: IAS 1, Presentation of Financial Statements, IAS 2, Inventory, IAS 8, Accounting Policy, Changes in Accounting Estimates and Errors, IAS 10, Events after Balance Sheet Date, IAS 16, Property, Plant and Equipment, IAS 17, Leases, IAS 21, The Effects of Changes in Foreign Exchange Rates, IAS 24, Related Party Disclosures, IAS 27, Consolidation and Separate Financial Statements, IAS 28, Investments in Associates, IAS 31, Interests in Joint Ventures, IAS 33, Earnings per Share and IAS 40, Investment Property. The revised standards should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a significant impact on the Company's consolidated financial statements.

On March 31, 2004 the IASB issued International Financial Reporting Standard 3 Business Combinations (IFRS 3), and revised Standards IAS 36 Impairment of Assets and IAS 38 Intangible Assets. Under the new and revised standards all business combinations within the scope of IFRS 3 must be accounted for using the purchase method. The pooling of interests method is prohibited. Costs expected to be incurred to restructure an acquired entity's (or the acquirer's) activities must be treated as post-combination expenses, unless the acquired entity has a pre-existing liability for restructuring its activities. Intangible items acquired in a business combination must be recognised as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably. Identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, must be initially measured at fair value. The amortisation of goodwill and intangible assets with indefinite useful lives is prohibited. Instead they must be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment. IFRS is similar to the SFAS 141 and 142. We are currently evaluating the impact of IFRS 3 on our consolidated financial statements.

On March 31, 2004 the IASB issued requirements relating to asset disposals and discontinued operations. The requirements are set out in International Financial Reporting Standard (IFRS) 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 requires assets that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet. It also requires operations that form a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale. These requirements relating to assets held for sale and the timing of the classification of discontinued operations are substantially the same as the equivalent requirements in SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, which was issued in 2001. The type of operation that can be classified as discontinued under IFRS is narrower than under U.S. GAAP. We are currently evaluating the impact of IFRS 5 on our consolidated financial statements.

On March 31, 2004 the IASB issued an Amendment to IAS 39 Financial Instruments: Recognition and Measurement on Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk. The amendments simplify the implementation of IAS 39 by enabling fair value hedge accounting to be used more readily for a portfolio hedge of interest rate risk (sometimes referred to as a macro hedge) than under previous versions of IAS 39. We are currently evaluating the impact of the amendments on our consolidated financial statements.

We did not consider any other IAS/IFRS pronouncements that are scheduled for adoption after December 31, 2003 to be applicable to the activities of SGL covered by this annual report.

g. Earnings (Loss) per Share

Under U.S. GAAP, earnings per share are calculated and presented in accordance with the provisions of Statement of Financial Accounting Standards No. 128, Earnings per Share, which requires the presentation of both basic and diluted earnings per share information for all periods presented. Basic net income/(loss) per share is computed by dividing net income/(loss), as calculated in accordance with U.S. GAAP, by the weighted average number of shares outstanding of 22,148,078 in 2003, 21,813,930 in 2002 and 21,530,563 in 2001. Diluted net profit/(loss)

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per share includes the effect of incremental shares, if any, that would have been outstanding under the share option plans or other obligations to issue such shares. Due to the fact that there was a loss in all reported periods there was no difference between basic and diluted (loss) per share.

h. Cash Flow Statements - Changes in Corporate Debt

	Year ended December 31,		
	2003 Euro	2002 Euro	2001 Euro
Proceeds from corporate debt	330.0	166.1	276.5
Repayment of corporate debt	(284.0)	(256.5)	(240.0)
	46.0	(90.4)	36.5

i. Derivative financial instruments and fair value of financial instruments

The Company is a limited user of derivative financial instruments. It primarily utilize interest rate swap and cap agreements and forward exchange contracts to manage exposures to interest rate and foreign currency fluctuations. The Company is not party to leveraged derivatives and does not hold or issue derivative instruments for speculative purposes.

The notional/contract amount of derivatives do not represent the amount exchanged by the parties and thus are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged during the term of the derivatives are calculated on the basis of the notional/contract amounts and the other contractual conditions of the derivatives.

Management actively evaluates the credit worthiness of the financial institutions which are counter parties to derivative instruments, and it does not expect any counter parties to default in meeting their obligations under these instruments. The credit exposure of derivative instruments is represented by the unrealized gain in the underlying instrument.

The estimated fair value of on-balance sheet financial instruments (cash, receivables, payables, accrued expenses, other liabilities and long -term debt) are considered to approximate their carrying value because such instruments, except for long-term debt, have short maturity. In the case of long -term debt, interest may be revised periodically to current market rates. At December 31, 2003 and 2002 the estimated fair value of derivative financial instruments has been disclosed in note 27 to the financial statements.

The SGL Group adopted SFAS 133 effective January 1, 2001.

j. Concentration of credit risks

Financial instruments which potentially subject the SGL Group to concentrations of credit risk consist principally of cash and accounts receivable. Management believes, however, that the loss due to credit risk to be incurred by the Company if parties to these financial instruments fail completely to perform according to the terms of the contracts is not material. Due to the refinancing of the Company encumbrances have been installed, please refer to Item 10 C (Material Contracts). The Company estimates an allowance for doubtful accounts based on the credit worthiness of its customers as well as general economic conditions. Consequently, an adverse change in those factors could affect estimates of bad debts.

k. Warranty Obligations

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The Company warrants to the purchasers of its line of products that the product will be free of defects in material and workmanship. The Company records the estimated cost that may be incurred under its warranties at the time the product revenue is recognized based upon the relationship between historical and anticipated warranty costs and sales volumes. The Company periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary. While the Company believes that its estimated liability for product warranties is adequate and that the judgment applied is appropriate, the estimated liability for product warranties could differ materially from actual future warranty costs.

1. Other

No loans to executive committee or supervisory board members were granted as of December 31, 2003.

36. Subsequent Events

In connection with the restructuring and reorganization in the Corrosion Protection business area a new senior management team has been appointed after three Acotec managing directors left the company at the beginning of 2004.

On February 9, 2004 the Company completed a new major financing. Cash received from the capital increase and the other refinancing instruments was used to repay the existing financial debt. The Company's new financing agreements contain provisions requiring, among other things, that it meet certain financial covenants at specified dates. Details to these financing agreements including the covenants are explained in Item 10 C "Material Contracts" and in the exhibit 2 of this annual report.

In accordance with the new loan agreement, a tender offer to the holders of the convertible bond started in February 2004 with an acceptance period until April 5, 2004. The funds for the tender offer are already cash escrowed as part of the new loan agreement.

The successful completion of our refinancing and placement of our capital increase had an impact on our Management Incentive Plans:

The Stock Option Plan provides a dilution protection clause in its terms and conditions. This reduces the strike price of all options by the amount calculated from the average price of the subscription rights for new shares on all trading days during the subscription rights trading period on the Frankfurt Stock Exchange. The average price of the subscription rights was 4,74. Accordingly the strike prices of all options granted between July 2000 and January 2003 have been reduced by €4.74. The Supervisory Board has decided that the 2004 stock options will be granted at a strike price of €8,69. Day of grant is January 16, 2004.

The formula for the reduction of the strike price of stock options is equally applicable to all remaining SARs still outstanding, regardless of whether these entitle to the payment of a difference or to the purchase of a share at the exercise price. This means for example that the strike price of the SARs granted in 1996 is reduced from €33,03 (=DM 64,60) to €28,29.

All participants in the current Matching Shares Plans 2002 and 2003 who invested in SGL Carbon shares out of their annual bonus have participated in the capital increase as all existing shareholders by either exercising their subscription rights and purchasing new shares or selling their subscription rights. Due to the dilution of their entitlement in these Matching Shares, each participant will receive cash compensation in the amount of €4,74 for each matching share when the matching shares are granted (end of March 2004 and end of March 2005).