SGL CARBON AKTIENGESELLSCHAFT
Form 20-F
May 04, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2004
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	**FEDERAL REPUBLIC OF GERMANY**
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organization)

Rheingaustrasse 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 **56,462,749**

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.

Yes No

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

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CERTAIN DEFINED TERMS

SGL CARBON Aktiengesellschaft is organized as a stock corporation under the laws of the Federal Republic of Germany. In this annual report on Form 20-F, we refer to SGL CARBON Aktiengesellschaft and (unless the context requires otherwise) its consolidated subsidiaries as the SGL Group or the Group or the Company. References to SGL are to SGL CARBON Aktiengesellschaft without its consolidated su We refer to the ordinary bearer shares, no par value, of SGL as the Shares .

The following abbreviated references to the Business Areas of the SGL Group will also be used in this Annual Report: CG for the Carbon and Graphite Business Area, GS for the Graphite Specialties Business Area and SGL T or T for the SGL Technologies Business Area. In January 2005 we sold the surface protection business of the former Corrosion Protection Business Area (CP). The remaining business of CP was reclassified to the GS Business Area. The term Business Area is used for reporting purposes, whereas the term Business Unit is used in business-related discussions within this document and both terms define the above reporting units of SGL Carbon Group.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements and information relating to the SGL Group. Words such as anticipate , believe , estimate , expect , intend , plan , project and similar expressions identify forward-looking statements. These statements reflect th our management as well as assumptions made by, and information currently available to, the SGL Group.

Forward-looking statements are subject to risks and uncertainties. If these risks and uncertainties materialize, or if our assumptions prove incorrect, our actual results, performance or achievements could differ materially from any future results, performance or achievements expressed or implied by our forward-looking statements. Factors that could cause our forward-looking statements to prove incorrect include changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by the SGL Group s targeted customers, changes in business strategy and various other factors. See Item 3, Key InformationRisk Factors for a discussion of risks that we believe particularly significant to the Group and our business. We do not intend, and do not assume any obligation, to update these forward-looking statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Since 2002, IFRS is the term for the entire body of accounting standards issued by the International Accounting Standards Board, replacing the earlier IAS, or International Accounting Standards. Individual accounting standards that the IASB issued prior to this change in terminology continue to use the prefix IAS . 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.

We derived the following selected financial data for each of the years in the five-year period ended December 31, 2004 from our consolidated financial statements. We prepared this information in accordance with IFRS or, where indicated, in accordance with U.S. generally accepted accounting principles. IFRS differs in certain significant respects from U.S. GAAP. See Item 5, Operating and Financial Review and Prospects-Significant Differences Between IFRS and U.S. GAAP as well as Notes 35 and 36 to the consolidated financial statements contained elsewhere in this annual report for a discussion of these differences.

As indicated in their reports that appear elsewhere in this annual report, Ernst & Young Aktiengesellschaft, Wirtschaftspruüfungsgesellschaft, independent auditors, have audited our consolidated financial statements for the year ended December 31, 2004 and BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftspruüfungsgesellschaft, independent auditors, have audited our consolidated financial statements for the years ended December 31, 2003 and 2002.

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	As of and for the year ended December 31,					
	2004[1]	2004[2]	2003[2]	2002[2]	2001[2]	2000[2]
	$	€	€	€	€	€
	(in millions; except for per share and certain other data)					
Statement of Operations Data:						
IFRS						
Sales revenue	1,263.3	926.2	915.8	957.3	1,233.3	1,262.5
Cost of sales (3)	(904.9)	663.4	(680.8)	(744.2)	(941.8)	(950.8)
Gross profit	358.4	262.8	235.0	213.1	291.5	311.7
Selling, research and development, administration expenses and other operating income (net) (3)	(242.2)	(177.6)	(178.6)	(177.0)	(232.8)	(232.5)
Costs relating to anti-trust proceedings and restructuring(3)	(27.0)	(19.7)	(28.9)	(26.8)	(76.0)	0.0
Profit/(loss) from operations	89.2	65.5	27.5	9.3	(17.3)	79.2
Result of investments	0.3	0.2	(2.8)	0.3	3.2	0.6
Interest expense (net) (4)	(68.4)	(50.2)	(49.2)	(36.8)	(38.5)	(42.6)
Other financial result	(14.3)	(10.5)	(23.0)	8.9	(13.2)	(17.2)
Income tax benefit (expense)	(1.6)	(1.2)	18.8	(0.3)	(29.2)	(55.7)
Net profit / loss (including minority interests) (5)	5.2	3.8	(28.8)	(18.6)	(95.0)	(35.7)
Discontinued operations	(116.6)	(85.5)	(21.5)	(5.0)		
Net loss attributable to shareholders	(111.4)	(81.7)	(50.3)	(23.6)	(95.2)	(36.0)
Earnings (Loss) per Share (6)		(1.57)	(2.27)	(1.08)	(4.42)	(1.68)
Earnings (Loss) per ADR (6)		(0.52)	(0.76)	(0.36)	(1.47)	(0.56)
U.S. GAAP						
Net loss (11)	(121.0)	(88.7)	(48.4)	(22.0)	(148.0)	(3.3)
Basic loss per Share (6)	(2.32)	(1.70)	(2.18)	(1.01)	(6.87)	(0.15)
Basic loss per ADR (6)	(0.77)	(0.57)	(0.73)	(0.34)	(2.29)	(0.05)
Diluted loss per Share (6)	(2.32)	(1.70)	(2.18)	(1.01)	(6.87)	(0.15)
Diluted loss per ADR (6)	(0.77)	(0.57)	(0.73)	(0.34)	(2.29)	(0.05)
Balance Sheet Data:						
IFRS / IAS						
Working capital (7)	464.4	340.5	380.4	386.0	548.7	565.3
Total assets	1,793.5	1,314.8	1,246.9	1,286.4	1,495.0	1,547.0
Financial debt	568.0	416.4	494.5	448.5	538.9	502.4
Shareholders equity	384.3	281.7	116.6	196.3	255.2	337.0
Weighted average shares(14)	52,152,691	52,152,691	22,148,078	21,813,930	21,530,563	21,376,753
U.S. GAAP						
Total assets	1,850.4	1,356.6	1,294.2	1,333.3	1,531.8	1,629.9

Shareholders equity	386.8	283.6	133.5	209.7	264.1	402.9
Other Data:						
IFRS / IAS						
Gross profit margin (%) (3)	28.4	28.4	25.7	22.3	23.6	24.7
Operating margin (%) (3)	7.1	7.1	3.0	1.0	(1.4)	6.3
Depreciation and amortization	91.3	66.9	65.8	73.5	95.8	83.0
Capital expenditures	50.9	37.3	31.0	39.9	90.6	67.2

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	As of and for the year ended December 31,					
	2004(1)	2004(2)	2003(2)	2002(2)	2001(2)	2000(2)
	$	€	€	€	€	€
	(in millions; except for per share and certain other data)					
Ratio of debt to shareholders equity (%) (8)	114.0	114.0	384.6	217.5	206.4	146.2
Return on capital employed (%)(9)	8.5	8.5	3.4	1.0	(1.4)	6.6
Research and development expenses	26.2	19.2	19.0	24.1	31.1	29.2
Quantity of graphite electrodes sold (thousands of metric tons)	209	209	202	173	175	188
Number of employees worldwide (end of year)	5,109	5,109	5,408	5,674	8,197	8,082
Business Area Data:						
Net Sales (10)						
Carbon and Graphite	757.7	555.5	558.0	550.7	619.8	619.5
Graphite Specialties(12)	321.6	235.8	230.1	253.3	230.7	242.0
Corrosion Protection (12)					235.8	247.3
SGL Technologies (12)	181.7	133.2	124.9	150.4	135.1	151.8
Profit / (loss) from operations (15)						
Carbon and Graphite	133.8	89.7	65.5	54.6	67.4	108.0
Graphite Specialties (12)	22.9	15.2	12.4	5.3	(7.2)	16.9
Corrosion Protection (12)					12.6	(1.4)
SGL Technologies (12)	(11.9)	(10.1)	(13.6)	(11.3)	(33.7)	(17.3)
Profit / (loss) from operations before restructuring expenses (13) (15)						
Carbon and Graphite	122.4	98.1	69.2	54.6	78.9	108.0
Graphite Specialties (12)	20.7	16.8	16.1	10.1	22.3	16.9
Corrosion Protection (12)					12.6	(1.4)
SGL Technologies (12)	(13.8)	(8.7)	(11.8)	(11.3)	(33.7)	(17.3)

(1) Amounts in this column have been translated solely for the convenience of the reader at an exchange rate of €1.00 = $1.3640, the middle rate of exchange on December 31, 2004 as published by Deutsche Bank.

(2) Effective January 6, 2005, we sold the Surface Protection and Plastics Process Technology businesses and present these activities as discontinued operations for 2004. The fiscal years 2003 and 2002 have been adjusted accordingly. All prior years (2001 and 2000) were not restated, show the SGL Group including the discontinued operations and thus are not directly comparable to the years 2002 to 2004. Effective January 1, 2003 we have consolidated SGL Angraph Sp. Z o.o, Poland, a previously non consolidated company. Beginning January 1, 2002, we have consolidated SGL Brakes GmbH and SGL Information-Systems LLC, whose net assets were previously included in other consolidated companies. Beginning January 1, 2001, we have consolidated SGL Information-Services GmbH, SGL Technologies GmbH and RK Technologies International Ltd., which were previously non-consolidated subsidiaries. As of January 1, 2001, we acquired all shares in SGL ACOTEC Ltda (formerly KCH-ANCOBRAS Ltda.), which we have consolidated as of this date. Effective December 31, 2000, we began to consolidate ZEW (renamed to SGL CARBON Polska S.A. in 2003) in our year end balance sheet, although we did not recognize ZEW in our consolidated statement of operations for that year.

(3) Costs relating to anti-trust proceedings and major restructuring expenses for the years under review are presented separately in the statement of operations.

(4) For 2004, 2003 and 2002, we have included the interest component of additions to the pension provision of €13.3 million, €14.0 million and €15.2 million, respectively, as an expense in the financial result (interest expense) in accordance with IFRS. As a Group rule, the interest portion of the allocation to the pension provisions is included in the net financing costs in the United States as well as in Europe. In this matter, we reclassified expenses of €5 million and €6 million from operating expenses to financing costs under IFRS in 2003 and 2002, respectively. Under U.S. GAAP, this interest component is included in

operating profit.

(5) Net profit / loss (including minority interests) and shareholders equity/minority interests include amounts attributable to minority interests. Net loss attributable to minority interests and minority interests in shareholders equity for the years 2004, 2003 and 2002 were €0.0 million, €0.1 million and €0.0 million , respectively, and €0.2 million, €0.3 million and €1.4 million, respectively.

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(6) We have calculated loss per share for each period based upon net loss less amounts attributable to minority interests divided by the weighted average number of Shares outstanding. We have calculated loss per ADR as loss per Share divided by three. Because of the net loss for the year and the resulting lack of any dilutive effect, the diluted loss per Share for 2004, 2003 and 2002 was identical to the loss per Share.

(7) Working Capital as defined as total net inventories plus total net trade receivables, less trade payables. Under U.S. GAAP, working capital at December 31, 2004, 2003 and 2002 would have been €301.6 million, €155.5 million and €41.3 million, respectively.

(8) Total financial debt less cash and cash equivalents, divided by shareholders equity at year-end.

(9) Operating results divided by the amount of goodwill, tangible fixed assets, inventories and trade accounts receivables, less trade accounts payables at the end of the year.

(10) Business area data for sales revenue do not include certain amounts for sales not allocable to a business area. Such sales include sales to employees, R&D services and rental income. For the years 2004, 2003 and 2002 these amounts were €1.7 million, €2.8 million and €2.9 million respectively.

(11) Net loss under U.S. GAAP is presented before cumulative changes in accounting principles in 2002.

(12) As of January 1, 2001, we reorganized our operations into four business areas: Carbon and Graphite, Graphite Specialties (formerly Specialty Graphite), Corrosion Protection and SGL Technologies (formerly Fibers and Composites). As of January 1, 2002, we reclassified our expanded graphite business in Europe from Graphite Specialties to SGL Technologies. Due to the divestiture of the Surface Protection and plastic process technology businesses, the process technology activities from the former Corrosion Protection Business Area (CP) were reorganized and included in the Graphite Specialties Business Area (GS). We have adjusted the corresponding figures for the fiscal years 2003 and 2002 to reflect our current segment reporting structure.

(13) Operating profit (loss) before costs relating to anti-trust proceedings and restructuring for the years 2004, 2003 and 2002 does not include unallocated corporate costs and consolidation adjustments. See Note 28 to the consolidated financial statements.

(14) Weighted average number of shares.

(15) We present Operating Profit (Loss) before cost related to restructuring as a further supplemental measure of our performance. We prepare this figure by adjusting Operating Profit to eliminate the impact of items we do not consider indicative of our ongoing operating performance. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. In addition, in evaluating Operating Profit before cost related to restructuring, you should be aware that in the future we might incur expenses similar to the adjustments in this presentation. Our presentation of Operating Profit before cost related to restructuring should not be construed as an inference that our future results will be unaffected by unusual or non- recurring items. Operating Profit is not a uniformly or legally defined financial measure. It generally represents earnings before financial result and taxes.

Operating Profit (Loss) before cost related to restructuring and antitrust is calculated by adding to Operating Profit certain items of expense that we believe are not indicative of our future operating performance consisting of: (i) restructuring expenses; and (ii) expenses related to antitrust proceedings. We believe these expenses are not indicative of our future operating performance because (i) the restructuring expenses are one-time charges to improve our future performance and (ii) the antitrust expenses are related to one-time fines.

The following table shows Operating Profit (Loss) before cost related to restructuring and antitrust as derived from our net income (loss), on a consolidated level and, with respect to each of our three business areas, as derived from our operating income (loss):

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	As of and for the years ended December 31,		
	2004	2003	2002
	(in millions of €)		
Consolidated net income (loss) before minority interests	€ (81.7)	€ (50.2)	€ (23.6)
Discontinued operations	85.5	21.5	5.0
Consolidated net financing costs	60.5	75.0	27.6
Consolidated income tax expense (benefit)	1.2	(18.8)	0.3
Carbon and Graphite	89.7	65.5	54.6
Graphite Specialties	15.2	12.4	5.3
SGL Technologies	(10.1)	(13.6)	(11.3)
Other	(29.3)	(36.8)	(39.3)
Consolidated operating income (loss)	65.5	27.5	9.3
plus: Restructuring expenses:			
Carbon and Graphite	8.4	3.7	
Graphite Specialties	1.6	3.7	4.8
SGL Technologies	1.4	1.8	
Other	8.3	0.2	
Consolidated restructuring expenses	19.7	9.4	4.8
Consolidated expenses related to antitrust proceedings (only related to Other Segment)	0.0	19.5	22.0
Operating profit before cost related to antitrust and restructuring:			
Carbon and Graphite	98.1	69.2	54.6
Graphite Specialties	16.8	16.1	10.1
SGL Technologies	(8.7)	(11.8)	(11.3)
Other	(21.0)	(17.1)	(17.3)
Consolidated Operating profit before cost related to antitrust and restructuring	€ 85.2	€ 56.4	€ 36.1

Exchange Rates

The following table shows the high, low, average and period-end euro-dollar exchange rates for the five years ended December 31, 2004 and the high and low euro-dollar exchange rates for the six months ended March 31, 2005. In each case, these rates are based on the noon buying rates published by Deutsche Bank. For 1998, the table reflects exchange rates between the dollar and Deutsche Mark translated into euros at the irrevocably fixed Deutsche Mark-euro rate of DM 1.95583 = €1.00. You should not assume that these translated exchange rates would be the same as the dollar-euro exchange rates that would have prevailed during 1998 had the euro existed at that time.

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Period	High	Low	Period Average	Period End
		(in dollars per euro)		
2000	1.0395	0.8286	0.9213	0.9305
2001	0.9548	0.8388	0.8957	0.8820
2002	1.0477	0.8600	0.9448	1.0415
2003	1.2610	1.0371	1.1309	1.2610
2004	1.3640	1.1798	1.2434	1.3640
October 2004	1.2799	1.2278	1.2489	1.2757
November 2004	1.3301	1.2702	1.2990	1.3301
December 2004	1.3640	1.3181	1.3404	1.3640
January 2005	1.3514	1.2938	1.3128	1.3033
February 2005	1.3263	1.2751	1.3017	1.3254
March 2005	1.3420	1.2926	1.3207	1.2962

At April 27, 2004 the euro dollar exchange rate, based on the noon buying rate published by Deutsche Bank was $1.2919 = €1.00. Fluctuations in the euro-dollar exchange rate will affect the dollar equivalent of the Share price in euros on the Frankfurt Stock Exchange and, as a result, are likely to affect the market price of the American Depositary Shares on the New York Stock Exchange as well as the amount of any dividends received by holders of American Depositary Receipts.

Dividends

In 1998, SGL declared and paid a dividend of €1.20 ($1.31) per Share for the 1997 fiscal year. SGL did not declare dividends for the fiscal years 1998-2004.

Except as described herein, holders of ADRs are entitled to receive dividends on the Shares represented by the ADRs evidenced by such ADRs. SGL will pay any cash dividends payable to such holders to JPMorgan Chase Bank, as depositary, in euro; subject to certain exceptions, the depositary will convert these payments into dollars. Dividends paid on Shares and dividends paid to holders and beneficial owners of ADRs are subject to deduction of German withholding tax. See Item 10, Additional Information Taxation . Dividends paid on Shares and dividends paid to holders and beneficial owners of ADRs are subject to deduction of German withholding tax. See Item 10, Additional Information Taxation.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

Potential investors should carefully consider the following specific risk factors along with the other information contained in this annual report before deciding to invest in the SGL Shares. Each of the risks described below could have a material adverse effect on our financial condition and results of operations. In addition, each of these risks could cause our share price to decline, and investors could lose all or part of their investment. The order in which the following risk factors are presented is not an indication of the likelihood of their occurrence.

We face substantial pricing pressure from our competitors.

The industries in which we operate are highly competitive. Competition is based primarily on price, product quality and customer service. Most of our production processes are capital-intensive, which results in high fixed costs. Due to these high fixed costs, a decline in demand or a temporary oversupply generally results in price decreases, rather than in reduced production. The pricing pressure thus has a direct impact on our results. In addition, price decreases can be aggravated by

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temporary imbalances in supply and demand, with an oversupply in stagnating markets. Graphite electrodes, in particular, are subject to strong price competition. In 2004 the average price of our graphite electrodes increased in local currency 1% in Euro and 14% in US$ versus 2003. Our market share could be adversely affected if we increased prices, or a competitor reduced prices, or if we decided to maintain profit margins rather than market share or pursued other competitive strategies.

Continuing competition could prevent us from raising prices or force price reductions, or could reduce our sales volumes. It could also require us to spend more for sales, marketing and research and development. Any of these developments could substantially harm our financial condition and results of operations.

The industries that use graphite electrodes are cyclical, and declines in demand for graphite electrodes could adversely affect our business.

In 2004, we derived approximately 48% of our sales revenue from the sale of graphite electrodes, our core business. We sell our graphite electrodes primarily to the electric arc furnace (or EAF) steel industry. The EAF industry is global and customers are located in every major geographic market. As a result, our customers are affected by changes in global and regional economic conditions. This, in turn, affects the demand for and the price of our graphite electrodes, which are sold to customers in the EAF industry. The economic slowdown in the steel industry, and in particular, the structural crisis in the U.S. steel industry led to an overall drop in the demand for graphite electrodes until mid-2002. This structural crisis in the steel industry led to significant consolidation, with the elimination of several competitors, and consequently to a decline in demand and a shift in demand to larger companies, with increased pricing pressure. With the end of the slowdown in the steel industry in mid-2002 the economic conditions for graphite electrodes producers improved and demand and prices increased again.

The market for graphite electrodes, particularly in Europe and North America, is saturated and continues to grow only in line with overall economic growth and with an increase in the proportion of EAF steel used in general steel production. On the other hand, opportunities for growth do exist in Asian markets, although we have not had a substantial presence in these markets up to now. In addition, demand for our graphite electrodes sold to the EAF steel industries may be adversely affected by technological improvements in those electrodes as well as in the manufacturing operations of our customers, which reduce the rate of consumption or use of our electrodes for a given level of production by our customers. Since the early 1980s there has been a steady gradual decrease in specific consumption the quantity of graphite electrodes consumed per metric ton of steel produced due to improved efficiency in EAF steelmaking processes and equipment design. Since the mid-1990s, increased EAF steel production has offset the decrease in specific consumption, resulting in steady to slightly increasing demand for graphite electrodes. Despite the overall long-term trend, the year-to-year and quarter-to-quarter fluctuations in the demand for graphite electrodes have been significant. We cannot assure you that future improvements in steelmaking processes and technology or a decline in EAF steel production will not result in a net decrease in demand for graphite electrodes. A significant drop in demand for our graphite electrodes could have a material adverse effect on our financial condition and results of operations.

Our financial condition is difficult and we require significant funds for our operations.

In the past seven years, we have had to expense on our income statement approximately €390 million and to spend approximately €290 million on a group level for antitrust proceedings and related civil proceedings for damages (see Management Discussion and Analysis of Financial Condition and Results of Operations Overview Costs relating to antitrust proceedings). During that same time period, we made substantial investments (approximately €210 million) in the context of acquisitions. This has led to a high level of net debt (approximately €321 million as of December 31, 2004). As of December 31, 2004, our debt-to-equity ratio (the ratio between net financial liabilities and equity) was 114% and our equity ratio (the ratio between capital and total assets) was 21.4% .

Compared to December 31, 2001 (€255.2 million), our equity decreased to €196.3 million as of December 31, 2002 and further to €116.9 million as of December 31, 2003, primarily due to our net loss (€23.6 million in 2002 and €50.3 million in 2003) and the negative effects of currency conversion as of the balance sheet date. We have not hedged these negative currency effects, and there can be no

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assurance that there will be no additional decreases in equity as a result of currency effects. In 2002 and 2003, our profit (loss) from operations, even before inclusion of costs relating to antitrust proceedings and restructuring, was not sufficient to cover our cash net financing costs.

At the beginning of 2004, we concluded our new refinancing program. This program included a capital increase resulting in gross proceeds of €266 million, the issuance of subordinated senior notes in an amount of €270 million and certain credit and guarantee facilities of around €330 million. This refinancing has reduced our net financial debt and improved the maturity profile of our financial liabilities.

As of December 31, 2004 our equity amounted to €281.7 million. In 2004, our profit from operations (continuing operations) was with €65.5 million sufficient to cover our cash net financing costs.

Nevertheless, we continue to require significant funds for the SGL Group s operations, financing costs, the payment of antitrust liabilities and other obligations. We cannot assure you that we will be able to generate or obtain sufficient funds needed for our future operations and our other cash requirements, or that we will meet all loan covenants and other obligations in connection with our present financing arrangements. In addition, we cannot assure you that we will be able to refinance our financial liabilities as they mature or that we will be able to negotiate the same or better terms in future loan agreements.

We have substantial amounts of debt. This debt, along with the obligations and covenants contained in our financing arrangements, substantially limits our financial and operating flexibility.

For a detailed description of our debt, you should read the discussion under the captions Capitalization and Management Discussion and Analysis of Financial Condition and Results of Operations.

The conditions of our new syndicated credit facility, as well as the conditions of the senior notes substantially limit our financial flexibility. In particular, these agreements (see detailed description in Item 10, Additional Information Material Contracts) place limits on our ability to incur new debt, grant security to third persons, dispose of material assets, take organizational measures such as mergers, changes of corporate form, joint ventures or similar transactions, or to enter into transactions with related parties. Other limitations generally concern the payment of dividends and the repurchase of own shares. In addition, we must meet a number of financial covenants in the context of our financing agreements. Our substantial debt and our compliance with the covenants contained in our financing agreements could have a material adverse impact on our financial condition and results of operations. They could, for example:

- require us to dedicate a substantial portion of our cash flow from operations to making payments on our debt and other liabilities, which would limit the availability of funds for working capital, acquisitions, joint ventures and other general corporate purposes;
- limit our flexibility in reacting adequately to changes in the carbon and graphite industry or in our competitive environment;
- limit our ability to make investments necessary to maintain or increase our market share in new and established markets;
- place us at a competitive disadvantage compared to those of our competitors who have less debt than we do; and
- limit our ability to borrow additional funds and increase the costs of any such additional borrowings.

In the worst case, an actual or impending inability to pay our debts as they become due and payable could result in our insolvency.

We cannot assure you that we will not have to incur additional debt in the future. Incurring such additional debt could further increase these risks regarding our debt and financing arrangements.

We require a significant amount of cash to service our debt. Our ability to generate sufficient cash depends on a number of factors, many of which are beyond our control.

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Our ability to make payments on or repay our debt and to fund our working capital requirements depends on the availability of financial resources. Our ability to generate cash will depend on our future operating performance, as well as on general economic, financial, competitive, market and other factors, many of which are beyond our control. In particular, our ability to generate adequate cash will depend at least in part on:

- a price increase in the carbon and graphite electrode industry, as well as our ability to maintain and grow our sales revenues in most of our business segments;
- our ability to contain costs and implement further cost savings through our restructuring program and cost saving initiatives; and
- our ability to realize earnings from new technologies and products.

In fiscal years 2002 and 2003, our profit (loss) from operations, even before inclusion of costs relating to antitrust proceedings and restructuring, was not sufficient to cover our net interest expense. For the fiscal year 2004, our net financing cost amounted to €60.5 million. In 2004, our profit from operations (continuing operations) was with €65.5 million sufficient to cover our cash net financing costs.

We cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our debts as they become due or to fund our other liquidity requirements. If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of our debt; or
- forego business opportunities such as acquisitions or joint ventures.

We are party to several antitrust proceedings.

In the past several years, we have faced various court actions and investigations in connection with antitrust violations and have been assessed substantial fines by the U.S. Department of Justice and the European Commission for price fixing in the graphite electrode and specialty graphite industries. As a result of a price-fixing investigation by the U.S. Department of Justice, we are required to pay an antitrust fine of US$135 million, of which US$75.25 million has been paid as of December 31, 2004. The remainder of this fine is to be paid in installments until 2007. It has been recorded on our balance sheet as a liability discounted to its present value at an interest rate between 4% and 6%. In addition, we have paid another antitrust fine of US$10 million that was imposed on our CEO. In mid-2000, we agreed with the Canadian antitrust authorities to pay a fine of C$12.5 million for violating antitrust laws, of which C$3.0 million are still payable in one installment of C$3.0 million in 2005. In July 2001, the European Commission fined us €80.2 million for violating antitrust laws with respect to graphite electrodes. In addition, in December 2002, the European Commission fined us €27.75 million for violating antitrust laws with respect to specialty graphites. We have appealed both fines before the European Court of First Instance. Payment of the fine with respect to graphite electrodes has been suspended, against provision of a security, pending a final court decision. In April, the European Court of First Instance reduced the fine imposed in 2001 in the graphite electrode proceedings from €80.2 million to €69.1 million. Since the judgment of the European Court of First Instance failed to address either the censured gross procedural errors or the internationally recognized prohibition against double jeopardy, we have filed an appeal to the European Court of Justice.

In addition, the European Commission fined us €23.6 million on December 3, 2003 for violating antitrust laws with respect to the Electrical and Mechanical Carbon and Graphite Products area of our operations. This fine brought the total fines by the European Commission against SGL to €131.6 million. We have appealed the amount of the December 3, 2003 fine before the European

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Court of First Instance. In 2004, the European fine (€23.9 million including interest) was deposited on an interest-bearing escrow account of the antitrust authorities until the closure of the legal proceedings.

As part of our accounting as of December 31, 2003, we have reviewed our provisions for antitrust fines and have increased them by €19.5 million in 2003. Our Board of Management believes that the total of these provisions, which are significantly below the €120.5 million aggregate amount of fines, are sufficient as of December 31, 2004 to cover any potential liabilities that could arise from these antitrust proceedings.

In addition, we have spent approximately €140 million in the past several years in defending against and settling a number of civil suits seeking damages as a result of violations of antitrust laws. The majority of these civil suits have been concluded by now; however, there are a number of legal proceedings remaining. See Business Description Legal proceedings Civil suits resulting from antitrust violations. We cannot predict the ultimate outcome of these proceedings.

Due to the existing competitive situation in many of the markets in which we are active, and due to our prior history of antitrust violations, we cannot assure you that we or certain of our subsidiaries or affiliates will not become subject to antitrust investigations by the relevant authorities and will not be required to pay additional fines or be subject to claims for damages from third parties for violations of applicable antitrust laws. An unfavorable result in any of these future or current proceedings could have a material adverse effect on our financial condition and results of operations.

In addition we will be in default under the credit agreements if any new antitrust proceedings are instituted against any member of the SGL Group or if we receive any antitrust fines in an aggregate amount exceeding €2.5 million. However, before accelerating the Facilities the parties will enter into negotiations in good faith for a period not exceeding thirty days.

We are exposed to currency exchange rate risks and interest rate risks.

We generate a significant portion of our sales revenue in U.S. dollars. As a result, a decline in the value of the U.S. dollar compared to the euro will have a negative impact on our sales revenue, which are recorded in euro. Compared to the sales revenue that we generate in U.S. dollars, we incur a relatively small portion of our cost of sales in U.S. dollars. As a result, a U.S. dollar that is weak compared to the euro will have a negative impact on our gross profit and therefore on our result. A medium- to long-term decline in the value of the U.S. dollar relative to the euro and other currencies could also weaken our competitive position as compared to competitors who incur a relatively larger portion of their cost of sales in U.S. dollars. Over the past three years, the value of the U.S. dollar compared to the euro has declined, and many market participants expect this trend to continue.

In the past, we have engaged in hedging transactions only to a limited extent. We have, however, set up hedging arrangements for the majority of our U.S. Dollar transaction exposure in Europe for 2005 to protect ourselves against the risk of fluctuations in currency exchange rates. However, these hedging arrangements can protect us only to a limited extent against a long-term decline of the U.S. dollar. See Management Discussion and Analysis of Financial Condition and Results of Operations Overview Currency exchange exposure . As a result of our issuance of senior notes the average interest rate of our total debt will increase. Under both our current and our new syndicated credit facility the interest rate consists of a combination of a variable basic interest rate and a margin that can be adjusted according to our ability to meet certain fixed financial ratios. Any change in the basic interest rate or in the margin will either increase or decrease our interest rate burden.

We operate globally and face unpredictable international economic conditions, government policies, regulatory controls and changes in public policy that could adversely affect our business.

We operate 25 major manufacturing facilities in 9 countries on two continents and sell our products in approximately 100 countries. In 2004, sales revenue of our products outside Germany accounted for approximately 86% of our total sales revenue. As a result, we are subject to risks associated with operating in foreign countries, including fluctuations in currency exchange rates, declines in regional or global economic activity, limitations, if any, on the conversion of foreign currencies into euro, and the possible imposition of investment and other restrictions by governments.

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In addition, our business is subject to changes in the public policies of individual countries or states, including potential increases in taxes and tax rates.

We must comply with a broad range of regulatory controls on the testing, manufacture and marketing of our products. In some countries, including the United States and member states of the European Union, regulatory controls have become increasingly demanding. We expect that this trend will continue. A proposed new European Union chemicals policy could mandate a significant increase in the testing and assessment of basic chemicals and chemical intermediates, leading to increased costs and reduced operating margins for these products.

Although many regulations and policies increase our costs, changes in public policy and regulations have not had a material adverse effect on the Group during the past decade. However, we cannot assure you that changes in policies or regulations will not harm our operating results or financial condition in the future.

We have made substantial investments in new business areas in the past several years in order to diversify our product portfolio. The success of this strategy depends on the successful development and commercialization of new products, in particular in the SGL Technologies business area.

Our strategy of product portfolio diversification, which we have pursued through our investments into new business areas, requires the successful development of new products, as well as the setting up of a new distribution and marketing network in order for us to be able to tap into new, non-established markets. We are entering into new business areas   in particular with our high technology segment SGL Technologies in which we have little experience and which are subject to rapid product developments and changes.

In the past years, we have made substantial investments into our business area SGL Technologies. For the past three years, the sales revenue for this business area have fluctuated, and we have incurred a net operating loss in each reporting period. Any growth in sales and any increase in profitability in this business area will depend largely on whether and how fast our newly developed products will be able to prevail in the market.

We may encounter supply shortages and increases in the cost of raw materials and energy.

The largest portion of our cost of sales, next to personnel costs, is accounted for by raw materials and energy. We are exposed to commodity price risks through our dependence on various raw materials, such as petroleum coke, coal tar pitch, petroleum pitch, anthracite coal and natural graphite flake as well as energy supplies. We purchase raw material and energy from a variety of sources and generally do not enter into long-term purchase contracts. The principal raw material we use in the manufacture of our products is petroleum coke, an engineered by-product of petroleum refining. The market for petroleum coke, in particular needle coke, is marked by a small number of large suppliers with substantial market influence and the possibility of further consolidations. Although we believe that the raw materials we require will remain available in adequate quantities, the availability and price of raw materials and energy may be affected by new regulations, suppliers   allocations, interruptions in production by suppliers and market conditions. High energy prices continue to significantly influence our costs of production. The new German environmental tax (Ökosteuer) has further increased the cost of energy in Germany. Although we have reduced the impact of price increases for energy and raw materials through increased efficiency and cost savings, we cannot assure you that we will be able to mitigate any future price increases in the same way. A substantial increase in raw material or energy prices, or a continued interruption in energy supplies, could substantially harm our financial condition and results of operations.

We may not realize expected benefits from our continuing restructuring and cost savings programs.

From 2002 on we reorganized our operating structure and continued our restructuring program, which was announced in December 2001, to manage and integrate all our operations within the three global business units. In the context of this restructuring program and the subsequent initiatives, we have expensed substantial restructuring funds to reduce our work force, idled or closed selected production sites, rationalized and specialized our remaining sites, and undertaken other cost reduction initiatives. In addition, we continually strive to reduce costs and increase efficiencies (through our SGL Excellence initiative, our SGL One information systems and other initiatives). These efforts

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could lead to substantial additional restructuring costs in the future. We cannot assure you, however, that we will be able to realize the expected benefits from our restructuring and cost savings programs.

Environmental matters could result in significant increases in costs.

Our operations are subject to various risks associated with manufacturing, including the related storage and transportation of raw materials, products and wastes. We are also subject to numerous domestic and foreign laws and regulations relating to the storage, handling, generation, treatment, emission, release, discharge and disposal of potentially hazardous substances and wastes (see Business Description Government regulation). Environmental and health laws and regulations could lead to the possibility of substantial fines, revocation of applicable permits or orders for environmental cleanup. Any violations of these laws or regulations, or any adjustments to comply with changing laws or regulations, could result in significant expenditures. Environmental laws in particular have continuously been tightened in the past several years. We also expect a potential tightening of environmental laws in those countries that are joined the European Union in 2004 in which we have facilities. As a result, we cannot assure you, that a known, previously unknown or future contamination event, or any new, more stringent regulations or their enforcement by the relevant authorities will not increase our environmental costs in the future. A significant increase in environmental liabilities or costs could materially harm our financial condition and results of operations.

Prolonged work stoppages due to labor disputes could adversely affect our business.

Most of our workforce is covered by collective bargaining agreements. Although we believe that we have satisfactory relations with our works councils and unions, we cannot assure you that we will reach new agreements on satisfactory terms when existing collective bargaining agreements expire. Nor can we assure you that we would reach such new agreements without work stoppages, strikes or similar industrial actions. If industrial actions substantially obstructed our manufacturing operations for an extended period, our business, financial condition and results of operations could suffer material harm.

Disruptions of the business operations, strikes or similar measures at our customers or suppliers sites could also have a material adverse effect on our financial condition and results of operations.

The fluctuations of our business over the course of the year could adversely affect our reported results of operations.

Our sales revenue fluctuates from quarter to quarter due to such factors as changes in customer purchasing patterns, shifts in inventory and production plans, plant shutdowns, fluctuations in energy costs, strikes and work stoppages, and general economic fluctuations in the steel industry. Generally, these factors tend to affect our results of operations adversely. Following a price increase for graphite electrodes, customers tend to reduce their inventories before placing further orders. This tends to reduce our sales revenue during such periods. As a result, our reported results for each quarter may not be indicative of our results for the entire year.

We may not be able to protect the intellectual property critical for the development of SGL Technologies business.

We own over 300 patents registered in the United States, Europe and in other major world markets, and have over 350 patent applications pending for new technologies and processes. In addition, we have obtained licenses to various domestic and foreign patents.

We generally have a number of new patent applications or trademark registration applications pending at any given time relating to product enhancements and new product developments. We do not believe that the success of our established businesses is materially dependent on trade secrets, know-how, patents, trademarks or other proprietary information. However, in the future, competitors may obtain patents for technologies whose use by our competitors could adversely affect our business and financial condition.

The new product lines that we are developing in our SGL Technologies business do rely to a significant extent on such proprietary rights and information. We cannot assure you that any patents or trademarks that we obtain will adequately protect the covered products and technologies. Nor can

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we assure you that our confidentiality covenants and agreements will adequately protect our trade secrets, know-how or other proprietary information not covered by patents or trademarks, or that others will not obtain this information through independent development or other legal means. Furthermore, we cannot assure you that our activities will not infringe on the proprietary rights of others or that we will be able to obtain licenses, on reasonable terms or otherwise, to technology that we need. In addition, we cannot assure you that our proprietary rights and information will not become obsolete as a result of the development of new technologies by our competitors. If we fail to obtain the necessary intellectual property rights or to protect our proprietary information, or if we infringe upon the proprietary rights of others, the business, financial condition or results of operations of our SGL Technologies business could suffer significant harm.

Our pension and retirement obligations could significantly exceed the provisions we have made for these obligations.

We have obligations toward our employees with regard to benefits for the time after the employment relationship has terminated, such as retirement payments, life insurance, medical insurance etc. These benefit plans consist of both defined contribution and defined benefit plans and vary from country to country in which we maintain such plans.

Under the defined contribution plans, the Company makes a fixed payment to a 3rd party service provider who administers the payment of the benefits to the retired employees. After paying these contributions, the Company generally has no further obligations to pay benefits. In the event of a default of the 3rd party administrator, the Company is subject to a secondary liability due to the employment relationship. Defined contributions to such plans are recorded as expense in the financial statement in the year in which the payments were made.

Under our defined benefit pension plans the benefit payments are calculated according to the projected unit credit method under IAS 19. The pension obligations are calculated by a 3rd party independent actuary using assumptions such as interest rates, compensation increases and expected return on plan assets. The basis for these valuations is the legal, economic and tax situation in each country. Actual results may vary from our assumptions and may have an impact on our pension expense and cash flow in future years.

Changes in actuarial assumptions and/or negative developments in the value of the pension funds can have negative impacts on our consolidated financial statements and statement of operations. IAS 19 permits fluctuations between the value of expected pension obligations and the value of the pension funds to be shown only in the notes to the financial statements rather than in the balance sheet. If the cumulative difference in expectations exceeds either plus or minus 10% of the calculated defined benefit pension obligation (10% corridor), the excess amount over 10% must be amortized over the average remaining service time (10 to 15 years) of employees participating in the plan. The Company estimates that with regards to the plans effected in the United States, this amount totals approximately €25 million and will result in an annual expense of approximately €2 million. In addition any shortfall between pension obligation in Germany and the amounts provided on the balance sheet are also subject to the 10% corridor. The Company estimates that such shortfall in Germany totals approximately €11 million and will result in an annual expense of approximately €1 million.

In 2004, 2003 and 2002 the difference between expected and actual return on pension fund assets was €1.7 million, €0.0 million and €(10.2) million, respectively. In 2004 we estimated an expected return on plan assets of €3.4 million, based on an average return of 8.5% . The actual return amounted to €5,1 million. If the return on pension fund assets falls short of expectations, the Company will need to adjust the actuarial assumptions and record the resulting impact in the statement of operations. In addition, based upon revised calculations, the Company may be required to make additional cash contributions to its funded defined benefit plans and/or record a non-cash adjustment to the financial statements.

An obligation to make significantly higher supplementary payments and to record amortization in subsequent years as an expense could have a material adverse effect on our financial condition and results of operations.

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Existing insurance coverage, in particular credit insurance, may prove inadequate.

We aim to cover foreseeable material risks by insurance. Our insurance coverage, however, may prove inadequate to fully cover the risks to which the SGL Group is exposed. For certain risks, adequate insurance coverage may not be available on the market or at reasonable conditions. Our sales revenues are exposed to credit default risks. For this reason and insofar as possible, we cover this risk through insurance to a certain extent (which is limited, for example, in the United States). We use a variety of instruments for this purpose, such as pre-payment, payment guarantees, confirmed letters of credit and credit insurance. We cannot assure you that payment shortfalls from customers (particularly in the steel industry) will not occur in the future.

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ITEM 4.	INFORMATION ON THE COMPANY

INTRODUCTION

SGL Carbon Aktiengesellschaft is incorporated as a stock corporation for unlimited duration under the laws of the Federal Republic of Germany. SGL s registered office is at Rheingaustrasse 182, D-65203 Wiesbaden, Germany, telephone number +49-611-60-29-100. Our English-language home page on the World Wide Web is at www.sglcarbon.com/index.html; this annual report does not incorporate information found on our web site. SGL s agent in the United States for U.S. federal security law purposes is SGL Carbon LLC, located at our North American headquarters, 8600 Bill Ficklen Drive, Charlotte, North Carolina 28269.

History and Development of the SGL Group

Our corporate origins lie in the second half of the 19th century. Two of the earliest industrial manufacturers of carbon products, Gebruüder Siemens & Co. (founded 1872) and the Plania Werke (founded 1896) merged in 1928 into the Siemens Plania Werke AG für Kohlefabrikate. This company and its successors underwent a series of international mergers and acquisitions, becoming Sigri Great Lakes Carbon GmbH, SGL s immediate predecessor company, in 1992. At that time, Hoechst AG was the majority shareholder of Sigri Great Lakes.

On December 21, 1994, Sigri Great Lakes Carbon GmbH became SGL CARBON Aktiengesellschaft through a change in corporate form (*Umwandlung*). In April 1995, SGL s initial public offering took place on the Frankfurt Stock Exchange. SGL became fully independent of Hoechst in June 1996, when Hoechst divested substantially all of its ownership in SGL in a global placement of approximately 10.5 million shares. Approximately 40% of that issue was placed in North America in the form of American Depositary Receipts (ADR s) listed on the New York Stock Exchange under the symbol SGG .

We have completed several acquisitions and divestitures as part of our strategy to enhance our position as the world s largest producer of carbon and graphite products and to concentrate our business on areas where we see growth opportunities. The following are the principal acquisitions and divestitures that we have made since the beginning of 2001:

- As of January 1, 2001, we increased our interest in SGL Acotec (Wuhan) Co. Ltd., a Chinese joint venture, from 70% to 90%. SGL Acotec (Wuhan) is fully consolidated.
- In April 2002, SGL and Tokai Carbon Co. Ltd., Japan formed SGL Carbon Tokai Shanghai, a joint venture for the production, marketing and sales of UHP graphite electrodes for the Chinese market. We hold a 51% interest in this joint venture.

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

- The Electrical Contacts (EC) business of SGL Risomesa S.p.A., Milan (Italy), was sold to the Schunk Group in March 2003. The business activities retained by SGL had been previously transferred to SGL CARBON Specialties S.p.A., Milan (Italy) and continue to be consolidated.
- SGL ANGRAPH Sp. z o.o, Nowy Sacz (Poland), has been consolidated since the beginning of the fiscal year 2003. Four small Acotec companies are no longer consolidated as they are insignificant in overall for the presentation of net assets, financial position and results of operations of the SGL Carbon Group.
- The remaining interests in ZEW Zaklady Elektrod Weglowych S.A., Racibórz (Poland), were acquired in 2003 and the company was then renamed SGL CARBON POLSKA S.A. At the end of fiscal year 2003, SGL CARBON S.A., Nowy Sacz (Poland), was merged into SGL CARBON POLSKA S.A., Racibórz (Poland).

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- As of January 6, 2005 we concluded the sale of the Surface Protection and Plastics Process Technology businesses Surface Protection business, a major part of our business area Corrosion Protection (CP). Certain Process Technology activities, which were also part of CP and which were not part of the sale, are now reported in the business area Graphite Specialties (GS).

Our strategy

Our principal objective is to expand on our competitive strengths to further improve profits and cash flow. To achieve this objective, we have implemented the following strategy:

Increase profitability

We intend to continue the implementation of measures to reduce fixed and variable costs across all of our business areas in order to increase our operating margins and cash flows. To this end, we introduced restructuring programs for our Carbon and Graphite and Graphite Specialties business areas in late 2001, which are to be implemented over a period of six and three years, respectively. The focus of this restructuring is on:

- consolidation and specialization of our production plants;
- optimization of our production and administration processes;
- streamlining of our organizational structure; and
- headcount reduction.

We are also taking analogous measures in order to achieve cost reductions in our other business areas.

Increase efficiency

We launched the SGL Excellence initiative in early 2002 with the aim of improving our core operational and commercial processes. The key objectives of this initiative are the streamlining of production processes, the improvement and alignment of our sales and logistics processes with our customers requirements, as well as the further training and motivation of our workforce. Through this initiative, we seek to achieve continuous and sustained improvements in competitiveness and customer satisfaction.

Improve capital structures:

We aim to reduce the net financial debt of the SGL Group, lower its working capital and improve key financial ratios such as net debt to EBITDA, sales to net working capital and return on capital employed.

In the beginning of 2004 we concluded a comprehensive refinancing package consisting of a capital increase with gross proceeds of €266 million, senior subordinated notes amounting to €270 million and new syndicated loans and guarantees amounting to €330 million. See Item 10, Additional Information Material Contracts for a description of the refinancing. These measures have substantially improved our equity, the net financial debt and the maturity profile of our financial liabilities. Nevertheless, we further intend to continue to reduce our working capital and net financial debt levels over the next years.

Optimize our product portfolio:

To improve our portfolio, we are focusing on further consolidating our strong market position in our established businesses, reducing our sensitivity to general economic conditions and improving our cash flow. As part of this strategy, we aim to strengthen both our technology position and our global presence by entering into joint ventures and strategic alliances. We will also continue to seek to streamline our operations through divestitures of non-core businesses. In this respect we sold our Electrical Contacts business in the course of 2003, and we sold in January 2005 the Surface Protection segment of our Corrosion Protection business. Our SGL Technologies business area will focus primarily on products and markets in which we see significant potential for profitable growth.

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Business Overview

In 2004, we had sales in more than 100 countries; sales outside Germany accounted for approximately 86% of our sales revenue. We currently operate 25 major manufacturing facilities in 9 countries. Our customers are located throughout the industrialized world. Our sales revenue in 2004 amounted to €926.2 million. We organize the business operations of the group into three business areas that reflect the products that we produce and market: Carbon and Graphite, Graphite Specialties and SGL Technologies.

Carbon and Graphite (CG) manufactures and markets graphite electrodes and certain carbon and graphite products (carbon electrodes, cathodes and furnace linings). In 2004, sales revenue for the Carbon and Graphite business area amounted to €555.5 million and EBITDA amounted to €123.0 million.

Graphite Specialties (GS) manufactures and markets graphite products with a wide variety of applications and for a large number of industrial sectors, including high-technology, tool manufacturing, ferrous and non-ferrous metallurgy, high-temperature processes, chemicals, automotive, glass and ceramics. In 2004, sales revenue for the Graphite Specialties business area (including Process Technology) amounted to €235.8 million and EBITDA amounted to €30.0 million.

SGL Technologies (SGLT) manufactures carbon fibers, aerospace and industrial composites, expanded graphite (including yarns and fabrics), carbon ceramic brake discs and fuel cell components. SGL Technologies covers the entire value chain from fibers through to composites. We believe that we are the only major competitor in this market that can cover such a broad product portfolio. In 2004, sales revenue for the SGL Technologies business area amounted to €133.2 million and EBITDA amounted to €3.1 million.

Industry and Market Overview

We are active in a broad range of markets for carbon-based industrial products. Many of the industries served by our established Carbon and Graphite and Graphite Specialties businesses in particular, the steel, aluminum and chemicals industries are mature global industries that tend to grow at approximately the same rate as the economy as a whole and may be marked by cyclicality. Demand for products used in these industries tends to fluctuate with global and regional business cycles as well as with specific industry developments. Our SGL Technologies business area, by contrast, focuses on emerging technologies that we believe have significant potential for growth.

Carbon and Graphite

Our Carbon and Graphite business area serves the metallurgical industries. Our graphite electrodes are a necessary component of electric arc furnace, or EAF, steelmaking, while our cathode blocks and carbon electrodes play an important role in the production of aluminum and other nonferrous metals. We also produce carbon-based furnace linings that help furnaces withstand the extreme temperatures needed in metals production. According to our estimates, the worldwide market for products made by our Carbon and Graphite business area was approximately €3 billion in 2004.

The manufacture of high-quality graphite and carbon electrodes is a mature, capital intensive business that requires extensive process know-how developed over years of experience working with the various raw materials and their suppliers, furnace manufacturers and steelmakers (including working on the specific applications for finished electrodes). It also requires high-quality raw material sources and a developed energy supply infrastructure. There have been no significant new entrants in the manufacture of electrodes since the 1940s. We believe that it is unlikely that there will be significant new entrants into the market for the manufacture of graphite electrodes over the next several years.

Graphite electrodes

Graphite electrode production is our single largest business. Graphite electrodes are a necessary component of EAF steelmaking, the principal technology used in mini-mills. EAF steelmaking consumes graphite electrodes, for which we believe there are currently no substitute products.

Demand for graphite electrodes, therefore, varies directly with demand for finished steel and, in particular, with production of EAF steel. The steel industry generally is cyclical in nature and

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experiences significant fluctuations based on numerous factors. In general, the EAF steel industry, however, has been less cyclical than the blast furnace/basic oxygen furnace production (BF/BOF production) steel industry and has grown fairly steadily since the early 1970s (see below, EAF steelmaking). Volume and percentage of EAF steel to total steel production increased through 2001. During 2002, the percentage of EAF steel production to total steel production declined slightly, despite a significant increase in volume, primarily as a result of a significant increase of steel production in China, where EAF steelmaking currently represents a smaller portion of total steel production. We believe that long-term growth prospects for the EAF steel industry remain favorable. See Operating and Financial Review and Prospects.

Beginning in the 1970s, technological improvements reduced specific consumption, or the quantity of graphite electrodes consumed per metric ton of steel produced. During the same period, graphite electrode manufacturing capacity began to expand. As a result, by the mid-1980s there was significant excess manufacturing capacity in this industry. In the late 1980s and early 1990s, graphite electrode producers began to consolidate, reducing manufacturing capacity. As a result, supply and demand were generally in balance during the 1990s. In the late 1990s, however, external factors began to adversely affect the graphite electrode industry, causing oversupply and price erosion. These factors included the Asian financial crises of 1998- 1999, the structural crisis in the U.S. and Japanese steel industries in 2001 and worldwide recessionary trends in 2002. In the wake of these developments, one graphite electrode producer in Germany became insolvent and one producer in the United States filed for protection under Chapter 11 of the U.S. Bankruptcy Code and eventually went into liquidation.

Technological improvements in equipment design and production process, use of higher quality scrap metals and other raw materials and improvements in the size, strength and quality of graphite electrodes (including improvements developed by the SGL Group) have increased the efficiency and reduced the cost of EAF steel production. According to our estimates, these improved efficiencies have reduced worldwide specific consumption from approximately 6.5 kilograms of graphite electrodes per ton of steel produced in the early 1980s to approximately 2.2 kilograms per ton in 2004. We expect that, as the cost of further marginal improvements in the efficiency of EAF steelmaking increases, the rate of decline in specific consumption will grow slower. We believe that the long-term growth potential of EAF steel will tend to offset reductions in specific consumption, resulting in steady to slightly increased demand for graphite electrodes over the long-term.

According to our estimates, our share of the worldwide market for graphite electrodes was approximately 21% in 2004. We believe that our regular customers for graphite electrodes include most of the world s major EAF steel producers.

EAF steelmaking

Electric arc furnace production and BF/BOF production are the two primary steelmaking technologies. EAF steelmaking operations are commonly referred to as mini-mills because their production capacity is generally smaller than that of BF/BOF facilities. Electric arc furnaces range in size from those producing approximately 25 tons of steel per production cycle, or heat, to those producing approximately 150 tons per heat. Graphite electrodes act as conductors of electricity in the furnace, generating sufficient heat to melt scrap metal or other material used to produce steel. EAF steelmaking is generally regarded as more efficient and cost-effective than BF/BOF steelmaking.

Although EAF production is unlikely to replace BF/BOF altogether, a number of factors have favored its growth at the expense of the older technology. These include lower required investments, lower energy consumption, greater environmental sustainability and technological advances.

Since its development in the 1960s, mini-mill technology has produced a steadily increasing portion of total steel production. Due primarily to the cost-effectiveness of EAF steelmaking, EAF steel production worldwide has grown steadily from 100 million tons in 1972 (approximately 16% of total steel production) to about 341 million tons in 2004 (approximately 32% of total steel production), according to the estimates of market studies. The following table shows worldwide crude and EAF steel production in 1972, in 1980 and from 1990 through 2004.

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Worldwide Steel Production*

Year	Crude[1]	EAF	EAF proportion of crude production
	(in thousands of tons)		(%)
1972	632,009	99,749	16
1980	716,493	160,511	22
1990	770,694	215,124	28
1991	733,974	209,873	29
1992	719,398	210,508	29
1993	726,247	222,511	31
1994	723,958	229,063	32
1995	750,309	245,330	33
1996	750,611	249,741	33
1997	797,135	270,051	34
1998	778,032	266,144	34
1999	789,900	269,150	34
2000	849,200	293,600	35
2001	846,000	295,000	35
2002	903,800	304,600	34
2003	968,300	315,000	33
2004	1,054,000	341,000	32

* Source: International Iron and Steel Institute, 2004 SGL estimate.

(1) Crude steel production refers to total steel production by all methods.

Other Carbon and Graphite products

Carbon electrodes serve as conductors of electricity in a furnace to generate sufficient heat to reduce silicon dioxide in a continuous process. The production of silicon metal in furnaces that use carbon electrodes involves a process similar to that used for graphite electrodes, but at lower temperatures. Demand for carbon electrodes is directly related to the volume of silicon and phosphorus production. Silicon and phosphorus production, and hence demand for carbon electrodes, have been relatively stable since the early 1990s. In 2001, demand declined by approximately 20%, primarily as a result of the energy crisis in Brazil. Demand for carbon electrodes returned to stability in 2002. Our primary markets for carbon electrodes are in the United States, France, Norway, Australia and Brazil. We estimate that our share of the worldwide market for carbon electrodes was approximately 31% in 2004.

Cathode blocks and other products are used to equip electrolysis cells for the production of primary aluminum. Cathode blocks for the production of primary aluminum are produced according to customers specifications and design. We sell cathodes to all major aluminum smelters worldwide. According to our estimates, our share of the worldwide market for cathodes in 2004 was approximately 17%.

Carbon blocks for furnace linings are also produced in a variety of dimensions and grades, depending on the furnace size, the position of the block within the blast furnace and the function the block is required to perform. They are used for bottom lining, wall protection and heat conduction in the hotter areas of blast furnaces. A modern furnace design allows for more than 10 years of furnace operation before the replacement of the linings becomes necessary. Our main markets for furnace linings are Europe, Asia and North America. Furnace linings typically account for a modest portion of our business (for example, approximately 3% of our sales revenue in 2004).

Graphite Specialties