

February 21, 2006

Company Name: TOKAI CARBON CO., LTD.
Representative: Shikio Ohtake, Chairman of the Board President & Chief Executive Officer
(Ticker: 5301, First Section of the Tokyo Stock Exchange)

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Company Name: TOKAI KONETSU KOGYO CO., LTD.
Representative: Masaru Akiyama, President
(Ticker: 5361, Second Section of the Tokyo Stock Exchange)

Contact: Kohei Tsuda, Manager
General Affairs, Administration Department
Phone: 03-5827-8711

Execution of Stock-for-Stock Exchange Agreement

TOKAI CARBON CO., LTD. (“Tokai Carbon”) and TOKAI KONETSU KOGYO CO., LTD. (“Tokai Konetsu”) today announced that Tokai Carbon and Tokai Konetsu respectively passed a resolution, at the respective Board of Directors meetings on February 21, 2006, to turn Tokai Konetsu into a wholly owned subsidiary of Tokai Carbon through a stock-for-stock exchange and entered into a stock-for-stock exchange agreement.

1. Purpose of turning Tokai Konetsu into a wholly-owned subsidiary through stock-for-stock exchange

Tokai Konetsu, presently a consolidated subsidiary of Tokai Carbon, was founded as a sister company of Tokai Carbon in 1936 and has ever since expanded its business in the high temperature processing industry for 70 years on the leading edge of fine ceramics production. Especially, its core product, a silicon carbide heating element (EREMA), is the first heating element ever commercialized in Japan. The company has continued to implement improvements and earned a solid reputation as being the topmost manufacturer of heating elements in Japan in terms of quality and production capacity. In addition, its heating equipment is used in the information technology and various other industries and has been extremely successful and earned high reputation.

Further, Tokai Konetsu significantly streamlined its domestic production bases last year in an effort to reinforce its competitiveness, and will also strengthen its production base in Shanghai, China in the future to meet the growing demand for heating elements. In the area of heating equipment and refractories, the company is committed to expanding the business with the focus on the development of new products targeting non-conventional fields.

The Tokai Carbon group provides carbon materials and other high quality products both in domestic and overseas markets with an eye to becoming a leading global provider of carbon materials, acting with the basic policy of fair corporate activities, concordance with the natural environment and international cooperation, in accordance with the corporate philosophy of “Reliability”.

On the other hand, in light of the increasingly intense market competition, we have decided to turn Tokai Konetsu into a wholly-owned subsidiary through a stock-for-stock exchange, recognizing the need to reinforce our cost competitiveness through synergies of combining the silicon carbide business and the manufacturing and use technologies of high temperature industrial furnaces of both companies, as well as to enhance the technology development capabilities.

With the new addition of Tokai Konetsu to our corporate group, we are committed to increasing the corporate value of our entire group by further responding to the expectations of each stakeholder, including our shareholders, customers, employees and local community, as well as contributing to the development of society as a reliable corporation.

2. Terms and conditions of stock-for-stock exchange

(1) Schedule:

February 21, 2006	Approval of stock-for-stock exchange agreement by the Board of Directors
February 21, 2006	Execution of stock-for-stock exchange agreement
March 30, 2006*	Shareholder approval of stock-for-stock exchange agreement (Tokai Konetsu)
June 27, 2006*	Delisting of Tokai Konetsu shares
June 30, 2006*	Submission of Tokai Konetsu share certificates
July 1, 2006*	Stock-for-stock exchange

* The above dates are projected dates subject to change.

Note: This stock-for-stock exchange is executed without the approval of Tokai Carbon shareholders for the stock-for-stock exchange agreement, pursuant to Article 358 Paragraph 1 (simplified stock-for-stock exchange) of the Commercial Code.

(2) Stock-for-stock exchange ratio:

Company Name	Tokai Carbon Co., Ltd.	Tokai Konetsu Kogyo Co., Ltd.
Stock-for-stock exchange ratio	1.00	0.98

Notes:

- a) Share allocation ratio:
0.98 shares of Tokai Carbon common stock will be allocated for each share of Tokai Konetsu common stock. However, no allocation of shares will be made with respect to 8,481,825 shares of Tokai Konetsu stock held by Tokai Carbon.
- b) Rationale for the calculation of the share allocation ratio:
Tokai Carbon commissioned Nomura Securities Co., Ltd. ("Nomura Securities") and Tokai Konetsu commissioned Mitsubishi UFJ Securities Co., Ltd. ("MUFJ Securities"), respectively, to calculate the stock-for-stock-exchange ratio and, taking the results of this calculation into consideration, Tokai Carbon and Tokai Konetsu decided on the above ratio.
The above ratio is subject to change upon discussions between both parties if any material change occurs to any of the conditions of calculation.
- c) Calculation method of the stock-for-stock exchange ratio by third-party institutions:
Nomura Securities performed market price analysis and discounted cash flow (DCF) analysis to evaluate both companies, and calculated the stock-for-stock exchange ratio by comprehensively considering the respective results. MUFJ Securities performed market price analysis and discounted cash flow (DCF) analysis to evaluate both companies, and calculated the stock-for-stock exchange ratio by comprehensively considering the respective results.
- d) Number of shares to be issued by stock-for-stock exchange:
1,245,891 shares of common stock will be issued, and 8,245,891 shares will be allocated after combining the new shares with 7,000,000 shares of common stock held by Tokai Carbon (treasury stock).
- e) Date from which the dividend on the new shares is calculated: July 1, 2006

- f) Cash distribution upon stock-for-stock exchange:
No cash will be delivered in relation to the stock-for-stock exchange.

3. Outline of each company

Trade Name	Tokai Carbon Co., Ltd. (Wholly owning parent) As of December 31, 2005	Tokai Konetsu Kogyo Co., Ltd. (Wholly owned subsidiary) As of December 31, 2005
Business	Carbon Black, Graphite Electrodes, Fine Carbon (Specialty Graphite Products), Friction Materials, and others	Factory furnace and related products, heating element, and others
Date established	April 8, 1918	February 25, 1936
Head office	2-3, Kita Aoyama 1-chome, Minato-ku Tokyo, Japan	10-14, Kita Ueno 1-chome, Taito-ku Tokyo, Japan
Representative	Shikio Ohtake Chairman of the Board President & Chief Executive Officer	Masaru Akiyama President
Capital stock	15,436 million yen	1,400 million yen
Shares issued	204,089,391 shares	16,896,000 shares
Shareholders' equity	80,439 million yen	7,371 million yen
Total assets	123,669 million yen	10,520 million yen
End of fiscal year	December 31	December 31
Number of employees (In addition, the Number of temporary employees)	673 (322)	134 (14)

Major business partners	Supplier Mitsubishi Corporation Sumitomo Corporation Others Customer Bridgestone Corporation Mitsubishi Corporation Others	Supplier Heisei Ceramics Co., Ltd. Chuo Mineceram Others Customer Nichia Corporation Kemet Japan Co., Ltd. Murata Manufacturing Co., Ltd. Others
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Major shareholders and shareholding ratios	1. Japan Trustee Services Bank, Ltd. (trust account) 10.73%	1. Tokai Carbon Co., Ltd. 50.20%
	2. The Master Trust Bank of Japan, Ltd.. (trust account) 6.72%	2. Atsuko Soejima 2.48%
	3. Mitsubishi UFJ Trust and Banking Corporation 3.43%	3. Japan Securities Finance Co., Ltd. 1.86%
	4. The Master Trust Bank of Japan, Ltd. (Employee Pension Trust Account of Mitsubishi Chemical Corporation) 2.89%	4. The Bank of Tokyo-Mitsubishi, Ltd. 1.24%
	5. Mitsubishi Corporation 2.86%	5. Haruki Toyota 0.92%
Account banks	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mitsubishi UFJ Trust and Banking Corporation The Bank of Yokohama, Ltd. Others	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Resona Bank, Limited. Sumitomo Mitsui Banking Corporation Others
Relationship of the companies	Capital relationship	Tokai Carbon holds 50.20% of shares outstanding of Tokai Konetsu.
	Personnel relationship	One (1) director of Tokai Carbon concurrently serves director of Tokai Konetsu.
	Trading relationship	Tokai Carbon and Tokai Konetsu have trading relationship, such as selling and purchasing products to or from each other.

Note: The above information is on a non-consolidated basis.

Consolidated Financial Results (for the three most recent fiscal years)

* In million yen

Fiscal term	Tokai Carbon Co., Ltd. (Wholly owning parent)			Tokai Konetsu Kogyo Co., Ltd. (Wholly owned subsidiary)		
	December 2003	December 2004	December 2005	December 2003	December 2004	December 2005
Net sales *	59,852	67,034	77,760	4,595	7,310	6,354
Operating profit *	6,155	9,414	10,777	227	883	713
Recurring profit *	5,163	9,591	11,069	232	936	833
Current net income *	3,321	2,558	5,296	83	461	740
Current net income per share (yen)	16.04	12.22	26.20	4.35	26.54	43.21
Shareholders' equity per share (yen)	347.43	369.35	436.11	372.30	394.28	445.66

Non-Consolidated Financial Results (for the three most recent fiscal years)

* In million yen

	Tokai Carbon Co., Ltd. (Wholly owning parent)			Tokai Konetsu Kogyo Co., Ltd. (Wholly owned subsidiary)		
	December 2003	December 2004	December 2005	December 2003	December 2004	December 2005
Fiscal term						
Net sales *	45,852	49,375	52,488	4,397	7,048	6,040
Operating profit *	4,584	6,414	7,986	269	831	560
Recurring profit *	4,177	6,873	8,758	286	883	675
Current net income *	2,880	972	4,926	147	414	619
Current net income per share (yen)	13.99	4.61	24.52	8.16	23.77	36.02
Dividend per share (yen)	5.00	5.00	6.00	5.00	6.00	6.00
Shareholders' equity per share (yen)	333.23	348.04	408.93	375.63	394.58	437.18

Note: Dividend per share payable for the term ended December 2005 is an estimated amount.

4. Conditions after stock-for-stock exchange

- (1) Trade name, business, head office location and representative:

The company's trade name, business, head office location and representative will remain the same as described in "3. Outline of each company".

- (2) Capital:

There will be no change in the capital of the two companies after the stock-for-stock exchange.

- (3) Impact on Tokai Konetsu's financial results:

The stock-for-stock exchange will have no immediate material effect on Tokai Konetsu's consolidated financial results, since Tokai Konetsu is already a consolidated subsidiary of Tokai Carbon.