

**Financial Results  
for the Year Ended December 31, 2008—Consolidated**

February 10, 2009

Company name: **Tokai Carbon Co., Ltd.**  
 Listings: Tokyo Stock Exchange, first section  
 Security code: 5301  
 URL: <http://www.tokaicarbon.co.jp/>  
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 Scheduled dates  
 Annual shareholders' meeting: March 27, 2009  
 Commencement of dividend payments: March 30, 2009  
 Submission of financial statements: March 27, 2009

**1. Consolidated Financial Results for the Year Ended December 31, 2008  
(January 1, 2008 to December 31, 2008)**

(Amounts rounded down to the nearest million yen)

**(1) Operating Results**

(percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2008	128,485	9.4	21,618	4.2	18,770	(10.2)	11,084	(2.8)
Year ended December 31, 2007	117,432	18.5	20,745	40.2	20,908	44.7	11,403	43.1

	Net income per share	Net income per share—fully diluted	Return on equity	Ordinary income / Total assets	Operating income / Net sales
	yen	yen	%	%	%
Year ended December 31, 2008	50.43	-	10.4	10.8	16.8
Year ended December 31, 2007	53.42	51.29	11.0	12.4	17.7

Note: Equity method investment gains or losses:  
 Year ended December 31, 2008: ¥ 573 million  
 Year ended December 31, 2007: ¥ 748 million

**(2) Financial Position**

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
December 31, 2008	172,172	104,433	59.7	471.61
December 31, 2007	174,279	111,151	62.8	499.42

Note: Shareholders' equity:  
 December 31, 2008: ¥ 102,714 million  
 December 31, 2007: ¥ 109,516 million

### (3) Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 31, 2008	8,279	(16,567)	9,636	13,274
Year ended December 31, 2007	16,115	(11,707)	(2,335)	13,066

### 2. Dividends

Record date	Dividend per share					Total dividends paid (full year) million yen	Payout ratio (consolidated) %	Dividends / Net assets (consolidated) %
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full-year			
	yen	yen	yen	yen	yen			
Year ended December 31, 2007	-	4.00	-	5.00	9.00	1,943	16.8	1.8
Year ended December 31, 2008	-	5.00	-	5.00	10.00	2,194	19.8	2.1
Year ending December 31, 2009 (forecast)	-	4.50	-	4.50	9.00	-	78.4	-

### 3. Forecast of Consolidated Earnings for the Year Ending December 31, 2009 (January 1, 2009 to December 31, 2009)

(percentage figures year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Interim	42,000	(36.5)	2,500	(79.0)	2,000	(82.9)	800	(88.1)	3.67
Full year	90,000	(30.0)	5,200	(75.9)	5,000	(73.4)	2,500	(77.4)	11.48

### 4. Other Information

(1) Changes affecting the status of significant subsidiaries (scope of consolidation): None

(2) Changes in accounting principles, procedures, and method of disclosure used to prepare the consolidated financial results

- 1) Changes in accordance with amendments to accounting standards: None
- 2) Changes other than the above: None

(3) Number of shares issued (common stock)

1) Number of shares issued at end of the period (including treasury stock):

December 31, 2008:	224,943,104 shares
December 31, 2007:	222,029,384 shares

2) Number of shares held in treasury at end of the period:

December 31, 2008:	7,148,889 shares
December 31, 2007:	2,742,327 shares

## Reference: Overview of Non-Consolidated Financial Results

### 1. Non-Consolidated Financial Results for the Year Ended December 31, 2008 (January 1, 2008 to December 31, 2008)

#### (1) Operating Results

(percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2008	79,954	14.3	11,891	(4.1)	11,494	(13.3)	5,521	(37.1)
Year ended December 31, 2007	69,925	10.6	12,396	16.1	13,263	17.5	8,773	36.3

	Net income per share	Net income per share—fully diluted
	yen	yen
Year ended December 31, 2008	25.12	-
Year ended December 31, 2007	41.10	39.46

#### (2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
December 31, 2008	140,605	91,120	64.8	418.38
December 31, 2007	136,628	97,976	71.7	446.80

Note: Shareholders' equity:  
 December 31, 2008: ¥91,120 million  
 December 31, 2007: ¥97,976 million

### 2. Forecast of Non-Consolidated Earnings for the Year Ending December 31, 2009 (January 1, 2009 to December 31, 2009)

(percentage figures year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Interim	29,000	(26.4)	1,500	(77.9)	1,800	(77.1)	1,000	(81.1)	4.59
Full year	61,000	(23.7)	2,500	(79.0)	3,000	(73.9)	1,600	(71.0)	7.35

#### Appropriate Use of Earnings Forecasts and Other Important Information

These materials contain various forward-looking statements and other forecasts regarding performance and

other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors. For the assumptions underlying the earnings forecasts presented and other information regarding the use of such forecasts, refer to “1) Analysis of Business Results” on page 5-7 in the “Business Results” section.

## 1. Business Results

### 1) Analysis of Business Results

In 2008, much of the world sank into synchronous recession. Subprime mortgage problems, which had been a concern since 2007, steadily mounted from early in the year, ultimately leading to a financial crisis that intensified following the bankruptcy of a major US investment bank in September. As a sharp falloff in US consumer spending ensued, US economic deterioration rapidly spread overseas, precipitating a slowdown in Asian economic growth and recession in Europe. Japan also was hard-hit by ripple effects of the overseas downturn. From September, Japanese corporate profits deteriorated precipitously in the wake of a decline in exports and curtailment of capital spending. Meanwhile, exporters' profitability was further eroded by progressive yen appreciation against the dollar and euro.

Against such a backdrop, the industries in which the Tokai Carbon Group's customers operate (e.g., rubber products, steel, construction machinery, IT hardware) generally fared well until early autumn, both in Japan and overseas. The Group itself also achieved solid growth in sales and profits until the third quarter by maintaining production at nearly full capacity across all business segments and raising sales prices in response to sharp increases in prices of crude oil, coke, and other feed stocks. In the fourth quarter (Oct–Dec), however, all segments experienced a sharp falloff in demand. Meanwhile, the yen's appreciation resulted in a decline in export sales and currency translation losses on assets denominated in foreign currencies. Fourth-quarter sales and profits both fell sharply.

Despite a decline in sales of carbon black and graphite electrodes, particularly in the fourth quarter, 2008 consolidated net sales grew 9.4% to ¥128,485 million by virtue of generally robust sales growth through the third quarter. Cost of goods sold, however, rose to 70.0% of sales, a 1.8 percentage point increase from 2007, due to severe feedstock-price inflation and growth in depreciation charges stemming from capacity expansion, despite sales price increases and cost-cutting efforts. Nonetheless, consolidated operating income grew 4.2% to ¥21,618 million as a result of top-line growth. Ordinary income, by contrast, declined 10.2% to ¥18,770 million, reflecting growth in substantial currency translation losses under the category of non-operating expenses stemming from the yen's appreciation. Net income likewise declined, down 2.8% to ¥11,084 million.

#### **Carbon Products**

Carbon black demand plunged in the fourth quarter, both in Japan and overseas, in the wake of US auto production cutbacks. In the first three quarters of the year, however, carbon black sales grew briskly, driven by strong demand and sales price increases in response to sharply rising feedstock-oil prices. Consolidated net sales of carbon black grew 19.6% to ¥44,287 million in 2008.

Graphite electrode sales also dropped sharply in the fourth quarter in Japan and overseas, largely because unit shipments fell as Japanese and foreign electric-furnace steelmakers cut production in response to a drop in steel demand. Another contributing factor is that export sales were reduced by the currency-translation effect of the yen's precipitous appreciation. Through the third quarter, however, demand was buoyant. Sales price increases, particularly overseas, also contributed substantially to sales growth. For 2008 as a whole, consolidated net sales of graphite electrodes rose 10.9% to ¥47,247 million.

The fine carbon business benefited from major growth in demand from the solar cell industry relative to 2007, but demand from the semiconductor industry contracted. Additionally, the yen's rapid appreciation in the fourth quarter detracted from export sales in yen terms. Fine carbon sales consequently languished despite sales price increases. Consolidated net sales of fine carbon products declined 4.1% to ¥18,509 million in 2008. Installation of additional isotopic graphite production capacity was completed in late August, expanding the Group's annual production capacity to 9,000 metric tons.

The friction materials business saw firm demand from the North American farm machinery industry and manufacturers of construction machinery used in mining, although demand from overseas motorcycle makers fell amid the economic slowdown. In the fourth quarter, however, demand contracted. For the year as a whole, consolidated net sales of friction materials decreased 0.7% to ¥9,224 million.

Overall, the segment's net sales totaled ¥119,268 million, a 10.2% increase from 2007. Its operating income grew 4.8% to ¥19,688 million.

### **Industrial Furnaces and Related Products**

The segment faced headwinds in the form of capital spending cutbacks in IT-related industries, the main source of demand for its products. Capital spending started to slow from early 2008, but from the third quarter IT-related companies halted or postponed capital spending plans in rapid succession, leading to a falloff in demand and, in turn, sales. In the first two quarters, however, the segment achieved solid year-on-year sales growth. Its 2008 consolidated net sales consequently managed to grow 1.9% to ¥8,709 million. Its consolidated operating income was down 1.8% to ¥1,675 million.

### **Other Operations**

Net revenues from other operations (e.g., real estate rental revenues) declined 22.3% to ¥507 million. Operating income increased 3.0% to ¥298 million.

### **Outlook for Year Ending December 31, 2009**

The Group forecasts 2009 consolidated net sales of ¥90,000 million, operating income of ¥5,200 million, ordinary income of ¥5,000 million, and net income of ¥2,500 million, assuming a yen/dollar exchange rate of ¥85. The Group expects to end 2009 with cash and cash equivalents of approximately ¥13,500 million.

On an unconsolidated basis, the Company projects 2009 net sales of ¥61,000 million, operating income of ¥2,500 million, ordinary income of ¥3,000 million, and net income of ¥1,600 million.

## **2) Financial Position**

### **Assets, Liabilities, and Net Assets**

#### **(i) Assets**

At December 31, 2008, consolidated assets totaled ¥172,172 million, a ¥2,107 million decrease from December 31, 2007.

Current assets increased ¥7,651 million from year-end 2007 to ¥90,819 million at December 31, 2008, largely as a result of inventory growth. Over the same timeframe, fixed assets decreased ¥9,758 million to ¥81,353 million at December 31, 2008, largely due to a reduction in investment securities' market value.

#### **(ii) Liabilities**

Consolidated liabilities totaled ¥67,738 million at December 31, 2008, an increase of ¥4,611 million from a year earlier.

Of this total, current liabilities accounted for ¥58,445 million, up ¥10,988 million from a year earlier, mainly as a result of an increase in short-term borrowings. Fixed liabilities accounted for the remaining ¥9,293 million, down ¥6,377 million from a year earlier, largely because of a reduction in deferred tax liabilities.

#### **(iii) Net Assets**

Consolidated net assets totaled ¥104,433 million at December 31, 2008. Relative to year-end 2007, net assets decreased ¥6,718 million, largely owing to a decrease in net unrealized gains on available-for-sale securities.

The Group ended 2008 with a shareholders' equity ratio of 59.7%, a 3.1-percentage point decrease from December 31, 2007.

### **Cash Flows**

The Group ended 2008 with cash and cash equivalents of ¥13,274, a ¥208 million increase from a year earlier. Cash flows and the major sources and uses of cash in 2008 are summarized as follows.

#### **(i) Cash Flow from Operating Activities**

Operating activities provided net cash of ¥8,279 million, ¥7,835 million less than in 2007. The decrease was largely attributable to growth in inventories, trade receivable, and advance payment.

#### **(ii) Cash Flow from Investing Activities**

Investing activities used net cash of ¥16,567 million, ¥4,860 million more than in 2007, mainly to acquire ¥16,436 million in tangible fixed assets.

#### **(iii) Cash Flow from Financing Activities**

Financing activities provided net cash of ¥9,636 million, a ¥11,971 million increase from 2007. The increase primarily reflects a net increase in short-term borrowings of ¥14,828 million.

### **Cash Flow Metrics**

Year ended December 31,	2004	2005	2006	2007	2008
Shareholders' equity ratio (%)	59.5	57.3	59.7	62.8	59.7
Shareholder's equity ratio at market value (%)	63.7	71.9	106.2	126.5	46.8
Ratio of debt to cash flow	1.7	2.2	3.4	1.1	3.3
Interest coverage ratio (times)	41.3	18.9	9.5	18.6	9.0

Notes:

1. The above ratios were calculated as follows using consolidated financial statement data.

Shareholders' equity ratio: shareholders equity / total assets

Shareholders' equity ratio at market value: market capitalization / total assets

Ratio of debt to cash flow: interest-bearing debt / operating cash flow

Interest coverage ratio: operating cash flow / interest expense

2. Market capitalization was calculated by multiplying the Company's year-end closing share price by the number of shares outstanding (net of treasury stock) at year-end.

3. Interest-bearing debt was calculated as the sum of all consolidated on-balance-sheet liabilities upon which interest is payable plus zero-coupon convertible bonds.

4. Operating cash flow and interest expense are respectively "net cash provided by (used in) operating activities" and "interest paid" as reported on Consolidated Statements of Cash Flows.

### 3) Dividend Policy and 2008-09 Dividends

In the aim of increasing shareholder returns, enhancing corporate value, and strengthening the Group's operational foundation, the Company has adopted a policy of setting dividends based on its earnings status viewed from a medium-term perspective, while also maintaining sufficient retained earnings. The Company retains earnings to fund strategic investments in new businesses, including M&A, invest in improving existing operations' efficiency, solidify its financial condition, and maintain stable dividends. For 2008, the Company plans to pay a year-end dividend of ¥5 per share, unchanged from 2007, in addition to the interim dividend already paid. The year-end dividend will bring total 2008 dividends to ¥10 per share, a ¥1 per share increase from 2007.

For 2009, the Company plans to pay total annual dividends of ¥9 per share, consisting of an interim dividend of ¥4.5 per share and year-end dividend of ¥4.5 per share.

### 4) Business and Other Risks

This section describes the Group's business and other risks that are thought to have material influence on investors' decisions. The following does not necessarily cover all the risks associated with the Group. It should be noted that the following contains forward looking statements based on judgments made as of the dissemination date hereof (February 10, 2009).

#### (1) Changes in supply-demand conditions in domestic and overseas markets

The Group operates business globally through active sales operations in both domestic and overseas markets with production bases in Asia, Europe, and the U.S. Therefore, sales of the Group's products are always affected by changes in global and Japanese economic conditions. The Group promotes productivity improvements and cost reductions to maintain a business structure that is not easily affected by changes in business environment. Nevertheless, declines in demand from associated industries and economic slowdowns in regions where the Group's products are sold may have significant negative impacts on the Group's business results and financial standing.

#### (2) Risks associated with overseas operations

The Group is moving forward with expansions into overseas markets, and overseas sales accounted for 51.8% of the Group's consolidated net sales last year. Risks associated with overseas expansion include the worsening of political and economic situations in overseas markets, regulations on imports, unexpected revisions of statutes, deterioration of public order, riots, terrorist attacks, and wars. Such occurrences may affect the Group's business results and financial position. In particular, in recent years the Group has been expanding its carbon black

and fine carbon businesses in China—it has established a carbon black manufacturing and sales base in the country in response to growing demand for tires there and a fine carbon processing and sales base to meet increasing demand for semiconductor-related carbon materials. Therefore, changes in the political and economic climate in China in particular could have a significant impact on the Group’s business results. The Group’s overseas sales are detailed under the “An outline by business segment” heading in the “Business Results and Financial Position” section of this document.

(3) Foreign exchange fluctuations

The Group is engaged in foreign currency denominated transactions in selling its products to overseas customers and in purchasing raw materials from overseas suppliers. Its business is therefore affected by movements in foreign exchange rates. Although the Group hedges foreign exchange related risks through measures such as forward foreign exchange contracts, the effects of rapid fluctuations in exchange rates on business results and financial position cannot be fully eliminated. Given the Group’s current foreign exchange position, appreciation of the yen against major currencies such as the U.S. dollar and Euro tends to adversely affect its business results. Conversely, a weaker yen against these currencies tends to benefit its business results.

(4) Price competition

As a leading company in carbon products—the Group’s main business—the Group aims to provide high quality products at lower prices, thereby further bolstering its competitive advantage, and maintaining a highly profitable business structure. However, moves by competitors such as those to enhance product capabilities and lower selling prices, may expose the Group’s products to fierce price competition, which may lead to a lower market share and declines in net sales at the Group. Such occurrences may have a significant impact on the Group’s business results.

(5) Rise in raw material prices

The Group procures raw materials from a number of domestic and overseas suppliers in order to ensure a stable supply of raw materials and to maintain optimal prices. However, raw material prices may fluctuate significantly depending on the future course of the world economy. The Group is making efforts to minimize the impact of such events on its business results through measures that include strengthening cost competitiveness, passing price rises on to product prices, and cultivating new suppliers. However, in the event of extreme difficulty in procuring raw materials or further hikes in raw material prices, the Group’s business results may be adversely affected.

(6) Research and development

Competing companies supplying products similar those of the Group exist in every sector in which the Group operates. To maintain its competitive edge, the Group first carefully selects target markets and then engages in research and development and the commercialization of new products. However, failure to properly respond to changes in technologies and customer requirements or prolonged development periods may hurt the Group’s growth potential and profitability and adversely affect the Group’s business results and financial standing.

(7) Intellectual property rights

The Group holds a wide variety of patents and trademarks and has acquired ownership of and rights to intellectual property. The Group strives to strictly control its intellectual property and constantly monitors possible infringements by third parties. However, the Group may encounter difficulty in fully protecting its intellectual property rights from infringement by third parties, and this may adversely affect the Group’s business activities. Further, should the Group’s proprietary products inadvertently infringe on the intellectual property rights of other parties, the Group may be liable for damage compensation, and this may affect the Group’s business results.

(8) Environmental regulations

The Group's core businesses are resource- and energy-intensive and have high environmental impacts. Although the Group strives to reduce the environmental load of its businesses by establishing certain facilities, enhancing control structures, and improving productivity, the future application of stricter environment-related legislation and more pronounced demands from society regarding environmental responsibilities may adversely affect the Group's business results and financial standing.

(9) Securities held by the Group

The Group holds shares in financial institutions and certain of its customers and therefore may be affected by stock price movements. The Group does not use hedging instruments to protect itself against movements in stock prices. Information regarding the market value of securities held by the Group is disclosed in the footnotes in the "Business Results and Financial Position" section of this document.

(10) Regulatory environment

The Group operates its business in compliance with laws and regulations, and its operations, both domestic and overseas, are subject to various statutory and regulatory restrictions. Going forward, there may be increased regulatory restrictions related to the environment, recycling,, and international trade. The implementation of such regulations could further restrict the Group's business operations and increase costs, which may affect the Group's business results.

(11) Legal disputes

Although the possibility of new legal disputes with the potential to materially affect the Group's financial position and business results arising is slight, the occurrence of such disputes in the future may have a material impact on the Group's business results.

(12) Natural disasters and large-scale accidents

The Group places strong emphasis on ensuring safety and preventing accidents at its plants, and regards such efforts as a critical element in its manufacturing operations. However, natural and man-made disasters, such as earthquakes, typhoons, floods, and terrorist attacks may hamper the Group's manufacturing operations, severely damage social infrastructure, and lead to other unanticipated situations. If such events occur, the Group's business results may be significantly impacted.

## **Tokai Carbon Co., Ltd.**

Tokai Carbon group (the “Group”) comprises Tokai Carbon Co., Ltd. (the “Company”), 24 subsidiaries, and 6 affiliates. The principal business fields of the Group, and the respective positions of the Company, its subsidiaries, and affiliates within each of these business fields, along with information on linkages with other segments, appear below.

### **Carbon-products**

The Company engages in the production and sale of carbon black for use in automotive tires and other rubber products, artificial graphite electrodes for use in electric arc furnaces for steel production, fine carbon-products (specialty graphite products), friction materials, carbon brushes, and impervious graphite, as well as in the production and sale of other products.

The Company contracts the processing of fine-carbon products to Tokai Fine Carbon Machining Co., Ltd., and Oriental Sangyo Co., Ltd.

Tokai Fine Carbon Machining Co., Ltd., is engaged in the sale of fine-carbon products and artificial graphite electrodes, while Oriental Sangyo Co., Ltd., is engaged in the production and sale of pencil lead-cores.

Tokai Material Co., Ltd., Mitomo Brake Co., Ltd., Daiya Tsusho Co., Ltd., and Tokai Noshiro Seiko Co., Ltd., are engaged in business activities related to friction materials.

Overseas, in Thailand, Thai Tokai Carbon Product Co., Ltd., engages in the production and sale of carbon black. In China, Tokai Carbon (Tianjin) Co., Ltd., engages in the production and sale of carbon black; and Tokai Carbon (Shanghai) Co., Ltd., engages in the sale of fine-carbon products.

In the U.S., Tokai Carbon Electrode Sales, Inc. and Tokai Carbon Electrode Sales LLC. engage in the production and sale of artificial graphite electrodes. Tokai Carbon U.S.A., Inc., and MWI, Inc., engage in the production and sale of fine-carbon products. In Europe, ErftCarbon GmbH engages in the production and sale of artificial graphite electrodes; Tokai Carbon Europe GmbH, Tokai Carbon Europe, Ltd., Tokai Carbon UK Ltd., Tokai Carbon Italia S.R.L, Svensk Specialgrafit AB, Carbon Industrie-Produkte GmbH, and Carbon-Mechanik GmbH engage in business activities related to fine-carbon products.

Furthermore, Tokai Carbon Korea Co., Ltd., established as a joint venture in Korea, is engaged in the production and sale of fine carbon products, while SGL Tokai Carbon Ltd. Shanghai, in China, another joint venture, engages in the processing and sale of artificial graphite electrodes, and Dalian Tokai-Jinqi-Fuji Carbon Co., Ltd., is engaged in the processing and sale of fine carbon products. SGL Tokai Process Technology Pte. Ltd., in Singapore, is engaged in business activities related to impervious graphite.

### **Industrial furnaces and related-products**

Tokai Konetsu Kogyo Co., Ltd., is engaged in the production and sale of industrial furnaces (industrial-use electric and gas furnaces), silicon carbide and alumina refractory materials, and silicon carbide heating elements and ceramic resistors. Erema Sangyo Co., Ltd., Shanghai Tokai Konetsu Co., Ltd., and Heisei Ceramics Co., Ltd., are also involved the field of industrial furnaces and related-products.

### **Other operations**

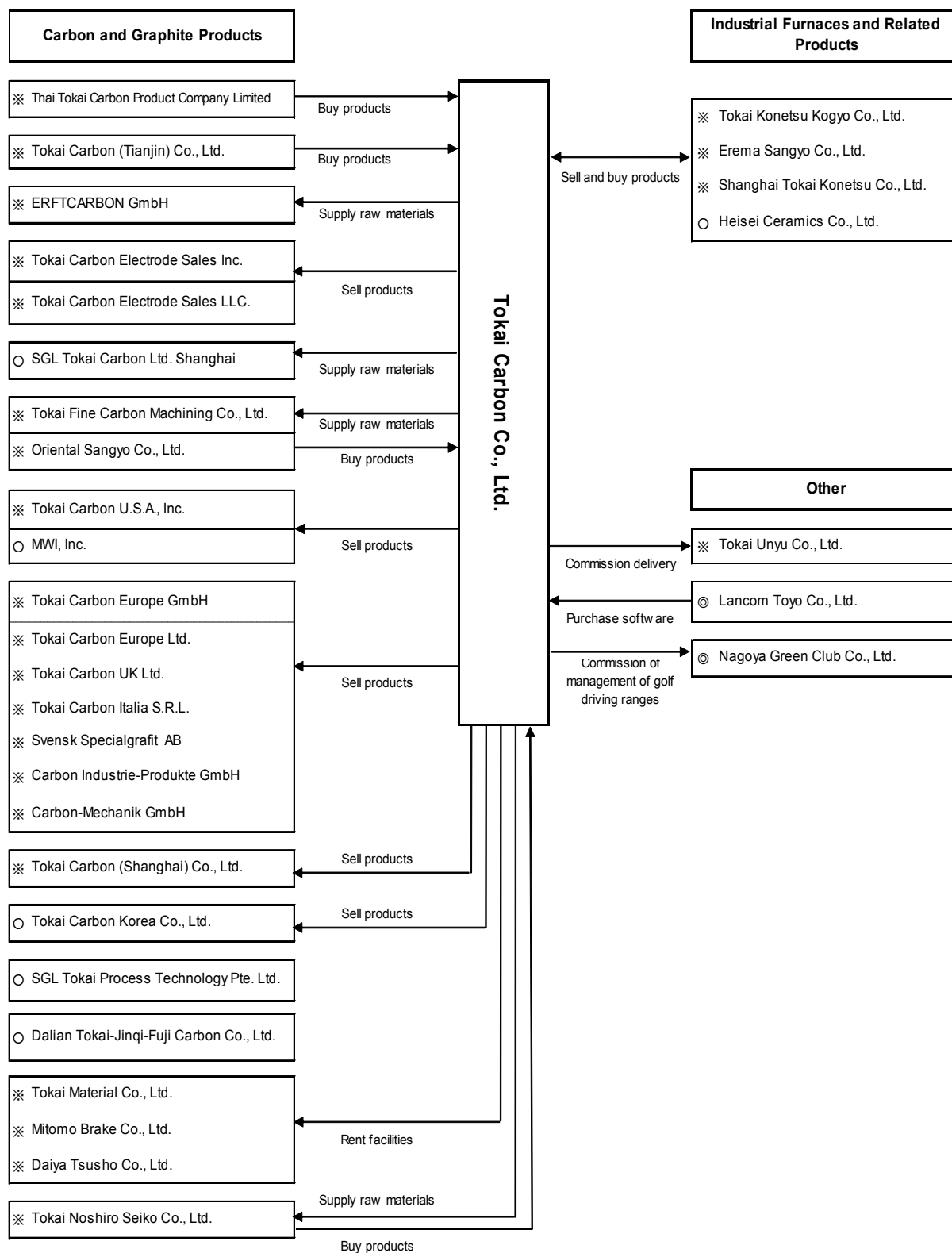
The Company engages in real estate rental operations.

Tokai Unyu Co., Ltd., operates a general-cargo trucking business and cargo handling business. The Company contracts the transportation and packaging of its products to Tokai Unyu.

Lancom Toyo Co., Ltd., engages in the development and sale of computer software.

Nagoya Green Club Co., Ltd., engages in the management of golf driving ranges.

## Group structure



※: Consolidated subsidiaries

◎: Non-consolidated subsidiaries to which the equity method is not applicable

○: Affiliated companies to which the equity method is applicable

## Management Policy

### 1) Basic Corporate Philosophy

The Group operates under the fundamental corporate ideal of "Reliability," and the basic policies governing its activities comprise the principles of fair corporate activity, a harmonious relationship with nature, and international cooperation. The Group's aim is to be the *Global Leader in Carbon Materials* within and outside of Japan by supplying high-quality products with a focus on carbon materials.

Through these corporate activities, the Group has been working to expand its operating base, optimize the utilization of management resources, bolster cost competitiveness, and strengthen technology development capabilities. By achieving sustained earnings growth, the Group seeks to fulfill the expectations of its shareholders, customers, and employees as well as those of local communities and all other stakeholders. The Group contributes to the development of society, acting as a responsible corporate citizen.

### 2) Management Goals and Objectives

The Group considers net sales, operating margin, ROA (recurring profit / total assets), and ROE (net profit / equity) to be important performance indicators.

### 3) Medium Term Management Strategies

The Group currently operates under a new three-year management plan, "T-2009," which began in 2007. The following strategies are being deployed in order to achieve the key management objectives and numerical targets defined under the plan.

#### (1) Aiming to be the global leader in carbon materials manufacturing

To achieve superiority in terms of sizes of sales, earnings power, technical capabilities, and product development capabilities, the Group aims to be the global leader in carbon materials manufacturing. The Group places a priority on activating human resources through frequent personnel exchanges among group companies, including overseas affiliates, and on developing and enhancing the abilities of its personnel to facilitate success in global expansion efforts.

#### (2) Bolstering efforts in research and development-based products and revolutionary technologies

The Group is working to accelerate the development of highly functional and reliable products by promoting joint development with other companies and educational and public institutions as well as by strengthening inter-group and inter-divisional cooperation. The Group also places emphasis on efforts to bolster activities with the potential to drive future growth, such as the reform of business processes and the development of manufacturing technology that allows innovative enhancements to value-added.

#### (3) Emphasizing CSR activities including environmental protection

Building on its sincere efforts to date, and aware of the energy-intensive nature of the industries in which it operates, the Group will further increase its commitment to activities in this area, particularly those aimed at preventing global warming (the reduction of CO2 emission units).

### 4) Issues to Be Addressed

The Japanese economy is in the midst of an unprecedentedly steep downturn amid the unfolding worldwide recession triggered by the global financial crisis. In response, companies have started to shift their focus from cutting production to reducing headcounts. The Japanese economy is expected to remain in recession for a while, under pressure from retrenchment in consumer spending.

Amid such an environment, the Group endeavored to accomplish its "T-2009" 3-year plan's targets by 2008, one year ahead of schedule. Although the Group fell somewhat short of the plan's sales target in 2008 due to drastic deterioration in the operating environment in the fourth quarter, it managed to achieve the plans' 15% operating margin target, 10% ROA target, and 10% ROE target. With demand in customers' industries expected to slacken further in 2009, the plan's final year, the Group recognizes that attainment of the plan's targets will require unprecedentedly prodigious

efforts.

Nonetheless, the Group will continue to make steadfast effort to nimbly and flexibly distinguish itself as the global leader in the carbon materials market. In pursuit of its management priority of sustained growth, the Group will pursue various R&D prospects and measures to strengthen overseas operations and improve cost-competitiveness in accord with its four guidelines (enhancement of value-creation capabilities, fair management, ecological harmony, and internationalism) and its core principle of Reliability. The Group will also continue to endeavor to preserve the environment, promote safety, strengthen corporate governance, and step up CSR (corporate social responsibility) activities. Although the Group will postpone some capacity expansion plans in response to recent deterioration in the demand environment, it intends to forge ahead with selected development projects and capital spending programs (e.g., environmental technologies) to prepare for the future. From 2009, the Group will institute internal controls over financial reporting in compliance with the Financial Instruments and Exchange Act (J-SOX). The Group intends to strengthen its operational foundation through implementation, assessment, and improvement of such controls.

## **5) Other Important Management Issues**

Nothing applicable

## Consolidated Balance Sheets

(millions of yen)

	As of December 31, 2007		As of December 31, 2008	
	Amount	%	Amount	%
<b>Assets</b>				
I. Current assets				
Cash and cash equivalents	13,415		13,629	
Notes and accounts receivable	37,137		36,544	
Inventories	29,542		36,835	
Deferred tax assets	762		678	
Other	2,375		3,246	
Allowance for doubtful accounts	(65)		(115)	
Total current assets	83,167	47.7	90,819	52.7
II. Fixed assets				
1. Tangible fixed assets				
Buildings and structures	13,658		15,058	
Machinery, equipment and vehicles	21,789		23,629	
Furnaces	2,189		2,974	
Land	7,557		7,650	
Construction in progress	4,378		5,785	
Other	1,327		1,375	
Total tangible fixed assets	50,901		56,473	
2. Intangible fixed assets				
Software	790		691	
Goodwill	1,280		960	
Other	23		28	
Total intangible fixed assets	2,095		1,680	
3. Investments and other assets				
Investment securities	35,695		20,858	
Deferred tax assets	281		441	
Other	2,346		1,960	
Allowance for doubtful accounts	(209)		(62)	
Total investment and other assets	38,114		23,198	
Total fixed assets	91,111	52.3	81,353	47.3
Total assets	174,279	100.0	172,172	100.0

(millions of yen)

	As of December 31, 2007		As of December 31, 2008	
	Amount	%	Amount	%
<b>Liabilities</b>				
I. Current liabilities				
Notes and account payable	17,686		18,501	
Short-term borrowings	14,602		26,539	
Current portion of long-term debt	231		546	
Current portion of convertible bonds	1,486		-	
Income taxes payable	4,448		2,384	
Consumption tax payable	12		-	
Accrued expense	2,411		1,834	
Reserve for bonuses	221		235	
Deferred tax liabilities	-		1	
Other	6,356		8,402	
Total current liabilities	47,456	27.2	58,445	33.9
II. Fixed liabilities				
Long-term debt	804		-	
Deferred tax liabilities	10,434		5,063	
Provision for retirement benefits	2,360		2,080	
Reserve for directors' retirement benefits	245		256	
Reserve for executive officers' retirement benefits	68		68	
Provision for environment and safety measures	727		727	
Other	1,030		1,096	
Total fixed liabilities	15,670	9.0	9,293	5.4
Total liabilities	63,127	36.2	67,738	39.3
<b>Net assets</b>				
I. Shareholders' capital				
Common stock	19,693	11.3	20,436	11.9
Additional paid-in capital	16,769	9.6	17,503	10.2
Retained earnings	57,895	33.2	66,778	38.8
Treasury stock	(1,785)	(1.0)	(5,105)	(3.0)
Total Shareholders' capital	92,572	53.1	99,612	57.9
II. Valuation and translation adjustments				
Net unrealized gains/losses on other securities	14,499	8.3	5,912	3.4
Deferred hedge gain/loss	(0)	(0.0)	5	0.0
Foreign currency translation adjustments	2,446	1.4	(2,816)	(1.6)
Total Valuation and translation adjustments	16,944	9.7	3,101	1.8
III. Minority interests	1,635	1.0	1,719	1.0
<b>Total net assets</b>	111,151	63.8	104,433	60.7
<b>Total liabilities and net assets</b>	174,279	100.0	172,172	100.0

## Consolidated Statements of Operations

(millions of yen)

	Year ended December 31, 2007		Year ended December 31, 2008	
	Amount			
I. Net sales	117,432	100.0	128,485	100.0
II. Cost of sales	80,092	68.2	89,906	70.0
Gross profit	37,339	31.8	38,579	30.0
III. Selling, general and administrative expenses				
Selling expenses	5,761		6,201	
General and administrative expenses	10,832	14.1	10,759	13.2
Operating income	20,745	17.7	21,618	16.8
IV. Non-operating income				
Interest income	149		113	
Dividend income	463		498	
Rental income	285		297	
Equity in income of non-consolidated subsidiaries and affiliates	748		573	
Amortization of negative goodwill	125		5	
Other non-operating income	702	2.1	494	1.6
V. Non-operating expense				
Interest expense	863		902	
Foreign exchange loss	322		2,273	
Other non-operating expense	1,126	2.0	1,655	3.8
Ordinary income	20,908	17.8	18,770	14.6
VI. Extraordinary income				
Gain on sale of fixed assets	-		467	
Reversal for allowance for doubtful accounts	-		42	
Gain on change in equity interest	133		-	
Gain on sale of investment securities	90	0.2	-	0.4
VII. Extraordinary losses				
Valuation loss on investment securities	-		469	
Valuation loss on membership rights	2		16	
Loss on sale of fixed assets	-		5	
Loss on sale of subsidiary shares	63		-	
Impairment losses	22	0.1	-	0.4
Income before income taxes	21,043	17.9	18,789	14.6
Income taxes, inhabitants tax, and enterprise taxes	8,755		7,363	
Income taxes adjustments	895	8.2	243	5.9
Minority interests in income (loss) of consolidated subsidiaries	(10)	(0.0)	97	0.1
Net income	11,403	9.7	11,084	8.6

## Statements of Changes in Shareholders' Capital

(January 1, 2007 – December 31, 2007)

(millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' capital
Balance as of December 31, 2006	16,212	13,284	48,295	(1,403)	76,387
Change during the period					
Issuance of new shares	3,481	3,481	-	-	6,962
Cash dividends	-	-	(1,670)	-	(1,670)
Net income	-	-	11,403	-	11,403
Decrease retained earnings due to a decrease in the number of consolidated subsidiaries	-	-	(133)	-	(133)
Purchase of treasury stock	-	-	-	(384)	(384)
Sale of treasury stock	-	3	-	3	7
Net change in items other than shareholders' capital during the period	-	-	-	-	-
Total change during the period	3,481	3,484	9,600	(381)	16,184
Balance as of December 31, 2007	19,693	16,769	57,895	(1,785)	92,572

	Valuation and translation adjustments				Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2006	19,805	(10)	1,705	21,500	1,509	99,397
Change during the period						
Issuance of new shares	-	-	-	-	-	6,962
Cash dividends	-	-	-	-	-	(1,670)
Net income	-	-	-	-	-	11,403
Decrease retained earnings due to a decrease in the number of consolidated subsidiaries	-	-	-	-	-	(133)
Purchase of treasury stock	-	-	-	-	-	(384)
Sale of treasury stock	-	-	-	-	-	7
Net change in items other than shareholders' capital during the period	(5,306)	9	740	(4,556)	125	(4,430)
Total change during the period	(5,306)	9	740	(4,556)	125	11,753
Balance as of December 31, 2007	14,499	(0)	2,446	16,944	1,635	111,151

(January 1, 2008 – December 31, 2008)

(millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance as of December 31, 2007	19,693	16,769	57,895	(1,785)	92,572
Change during the period					
Issuance of new shares	743	743			1,486
Cash dividends			(2,201)		(2,201)
Net income			11,084		11,084
Purchase of treasury stock				(3,385)	(3,385)
Sale of treasury stock		(8)		65	57
Net change in items other than shareholders' capital during the period					
Total change during the period	743	734	8,882	(3,319)	7,040
Balance as of December 31, 2008	20,436	17,503	66,778	(5,105)	99,612

	Valuation and translation adjustments				Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2007	14,499	(0)	2,446	16,944	1,635	111,151
Change during the period						
Issuance of new shares						1,486
Cash dividends						(2,201)
Net income						11,084
Purchase of treasury stock						(3,385)
Sale of treasury stock						57
Net change in items other than shareholders' capital during the period	(8,586)	6	(5,263)	(13,843)	84	(13,758)
Total change during the period	(8,586)	6	(5,263)	(13,843)	84	(6,718)
Balance as of December 31, 2008	5,912	5	(2,816)	3,101	1,719	104,433

## Consolidated Statements of Cash Flows

(millions of yen)

	Year ended December 31, 2007	Year ended December 31, 2008
	Amount	Amount
I. Cash flows from operating activities:		
1. Income before income taxes	21,043	18,789
2. Depreciation and amortization	6,282	8,046
3. Impairment losses	22	-
4. Amortization of goodwill	894	320
5. Amortization of negative goodwill (non-operating income)	(125)	(5)
6. Increase (decrease) in allowance for doubtful accounts	11	(78)
7. Increase in reserve for bonuses	20	14
8. Increase (decrease) in provision for retirement benefits	(2)	100
9. Increase in prepaid pension cost	(4)	(55)
10. Increase (decrease) in reserve for directors' retirement benefits	(0)	10
11. Increase in reserve for executive officers' retirement benefits	0	0
12. Interest and dividends income	(613)	(612)
13. Interest paid	863	902
14. Foreign exchange (gain) loss	40	360
15. Equity in income of non-consolidated subsidiaries and affiliates	(748)	(573)
16. Gain on change in equity interest	(133)	-
17. Gain on sale of investment securities	(90)	-
18. Gain on sale of fixed assets	-	(467)
19. Loss on sale of subsidiary shares	63	-
20. Increase in trade receivables	(3,037)	(2,132)
21. Increase in inventories	(4,273)	(10,368)
22. Increase in trade payables	2,919	2,197
23. Decrease in accrued expenses	-	(257)
24. Increase in accounts payable, other	760	1,040
25. (Increase) decrease in advance payment	644	(461)
26. Decrease in consumption tax payable	(317)	(12)
27. Bonuses paid to directors	(61)	-
28. Other	940	1,186
Subtotal	25,098	17,943
29. Interest and dividends received	675	650
30. Interest paid	(866)	(915)
31. Income taxes paid	(8,792)	(9,399)
Net cash provided by (used in) operating activities	16,115	8,279

(millions of yen)

	Year ended December 31, 2007	Year ended December 31, 2008
	Amount	Amount
II. Cash flows from investing activities:		
1. Increase in time deposits	(200)	(6)
2. Purchase of tangible fixed assets	(10,363)	(16,436)
3. Proceeds from sale of tangible fixed assets	-	536
4. Purchase of intangible fixed assets	(248)	(150)
5. Purchase of investment securities	(1,010)	(415)
6. Proceeds from sale of investment securities	111	-
7. Proceeds from sale of subsidiaries' shares resulting in change in scope of consolidation	58	-
8. Proceeds from acquisition of subsidiaries' shares resulting in change in scope of consolidation	112	-
9. Long-term loans	(246)	(97)
10. Other	78	2
Net cash provided by (used in) investing activities	(11,707)	(16,567)
III. Cash flows from financing activities		
1. Net increase (decrease) in short-term borrowings	(76)	14,828
2. Repayment of long-term debt	(194)	(190)
3. Payment for purchase of treasury stock	(384)	(3,385)
4. Dividend paid	(1,670)	(2,201)
5. Proceeds from minority shareholders	-	548
6. Dividend paid to minority shareholders	(15)	(20)
7. Other	7	57
Net cash provided by (used in) financing activities	(2,335)	9,636
IV. Effect of exchange rate changes on cash and cash equivalents	(19)	(1,140)
V. Increase (decrease) in cash and cash equivalents	2,052	208
VI. Cash and cash equivalents at beginning of the period	10,862	13,066
VII. Increase in cash and cash equivalents due to consolidation of additional subsidiaries	151	-
VIII. Cash and cash equivalents at end of the period	13,066	13,274

**Note on the going-concern assumption**

Not applicable

## Segment Information

### 1. Business segment information

Year ended December 31, 2007 (January 1, 2007 – December 31, 2007)

(millions of yen)

	Carbon and graphite products	Industrial furnaces and related products	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) External sales	108,236	8,543	653	117,432	-	117,432
(2) Inter-segment sales	723	127	613	1,463	(1,463)	-
Total	108,959	8,670	1,266	118,896	(1,463)	117,432
Operating expense	90,180	6,963	976	98,120	(1,433)	96,687
Operating income	18,779	1,706	289	20,776	(30)	20,745
II. Assets, depreciation/amortization, impairment losses and capital expenditure						
Assets	123,248	13,249	1,917	138,415	35,863	174,279
Depreciation and amortization	5,742	247	296	6,287	(4)	6,282
Impairment losses	-	-	22	22	-	22
Capital expenditure	12,696	308	37	13,043	(8)	13,034

Year ended December 31, 2008 (January 1, 2008 – December 31, 2008)

(millions of yen)

	Carbon and graphite products	Industrial furnaces and related products	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) External sales	119,268	8,709	507	128,485	-	128,485
(2) Inter-segment sales	671	169	595	1,436	(1,436)	-
Total	119,939	8,879	1,103	129,922	(1,436)	128,485
Operating expense	100,251	7,204	804	108,260	(1,393)	106,866
Operating income	19,688	1,675	298	21,661	(43)	21,618
II. Assets, depreciation/amortization and capital expenditure						
Assets	135,434	12,515	3,324	151,274	20,897	172,172
Depreciation and amortization	7,624	323	104	8,051	(5)	8,046
Capital expenditure	16,498	800	253	17,551	(7)	17,544

Notes:

1. Method of segmentation

Business segmentation is primarily based on the Company's conventional sales categories. It also takes into consideration such factors as nature of product, method of production and use of the product concerned.

2. Major products by business segment

Business segments	Major products
Carbon and graphite products	Carbon black for rubber products, artificial graphite electrodes for electric arc furnaces, fine-carbon products (specialty graphite products), friction materials, carbon brush, impervious graphite, pencil lead-cores
Industrial furnaces and related products	Industrial electric furnaces, gas furnaces, silicon carbide heating element/alumina refractory, heat-insulating refractory, silicon carbide heating elements, ceramic resistors
Other	Cargo transportation, Property leasing

3. Corporate assets included in "eliminations and corporate" consist primarily of assets associated with surplus funds managed, such as cash and deposits and repurchase agreements, and funds for long-term investment, such as investment securities, etc., at the parent company.

Year ended December 31, 2007: ¥38,182 million

Year ended December 31, 2008: ¥23,126 million

4. Pursuant to the revision of the Corporate Tax Law, depreciation of the assets acquired on or before March 31, 2007 is carried out by the Company and its domestic consolidated subsidiaries based on the Corporate Tax Law that was effective before the revision. Accordingly, after the book value of tangible fixed assets have reached 5% of their acquisition costs, from the following fiscal year, the difference between the amount equal to 5% of the acquisition costs and the memorandum prices is depreciated with the straight-line-method over five years and recorded as depreciation expenses. Due to this, operating expenses related to “carbon and graphite products”, and “industrial furnaces and related products” are higher than otherwise would have been the case by ¥446 million and ¥6 million respectively, and “other” slightly higher, and operating income is lower than otherwise would have been the case by the same amount. .

## 2. Geographic segment information

Year ended December 31, 2007 (January 1, 2007 – December 31, 2007)

(millions of yen)

	Japan	Europe	Asia	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss							
Net sales							
(1) External sales	77,278	22,553	13,168	4,431	117,432	-	117,432
(2) Inter-segment sales	5,430	57	510	36	6,035	(6,035)	-
Total	82,708	22,611	13,679	4,468	123,468	(6,035)	117,432
Operating expense	68,064	17,536	13,197	3,874	102,673	(5,985)	96,687
Operating income	14,644	5,074	482	594	20,795	(49)	20,745
II. Assets	100,250	15,328	19,906	3,767	139,252	35,026	174,279

### Notes:

- Classification method of geographic segment: by geographic proximity
- Major countries or regions in each segment other than Japan:
  - Europe: Germany, United Kingdom, Italy and Sweden
  - Asia: Thailand and China
  - Other: North America
- Corporate assets included in "eliminations and corporate" consist primarily of assets associated with surplus funds managed, such as cash and deposits and funds for long-term investment, (investment securities) at the parent company. These corporate assets amount to ¥38,182 million.

Year ended December 31, 2008 (January 1, 2008 – December 31, 2008)

(millions of yen)

	Japan	Europe	Asia	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss							
Net sales							
(1) External sales	86,139	23,172	15,575	3,597	128,485	-	128,485
(2) Inter-segment sales	6,515	46	940	34	7,538	(7,538)	-
Total	92,655	23,219	16,516	3,632	136,023	(7,538)	128,485
Operating expense	78,414	17,831	15,081	3,175	114,503	(7,636)	106,866
Operating income	14,241	5,388	1,434	456	21,520	98	21,618
II. Assets	117,701	13,559	17,620	3,194	152,074	20,097	172,172

### Notes:

- Classification method of geographic segment: by geographic proximity
- Major countries or regions in each segment other than Japan:
  - Europe: Germany, United Kingdom, Italy and Sweden
  - Asia: Thailand and China
  - Other: North America
- Corporate assets included in "eliminations and corporate" consist primarily of assets associated with surplus funds managed, such as cash and deposits and funds for long-term investment, (investment securities) at the parent company. These corporate assets amount to ¥23,126 million.
- Pursuant to the revision of the Corporate Tax Law, depreciation of the assets acquired on or before March 31, 2007 is carried out by the Company and its domestic consolidated subsidiaries based on the Corporate Tax Law that was effective before the revision. Accordingly, after the book value of tangible fixed assets have reached 5% of their acquisition costs, from the following fiscal year, the difference between the amount equal to 5% of the acquisition costs and the memorandum prices is depreciated with the straight-line-method over five years and recorded as depreciation expenses. Due to this, domestic operating expenses are ¥452 million higher and operating income is lower by the same amount than otherwise would have been the case.

### 3. Overseas sales

Year ended December 31, 2007 (January 1, 2007 – December 31, 2007)

(millions of yen)

	Asia	Europe	Other areas	Total
I. Overseas sales	26,482	19,548	12,393	58,425
II. Consolidated net sales	-	-	-	117,432
III. Ratio of overseas sales to consolidated sales	22.6%	16.6%	10.6%	49.8%

Notes:

1. Classification method of geographic segment: by geographic proximity
2. Major countries or regions in each segment:
  - (1) Asia: Korea, China, Taiwan, Thailand and Indonesia
  - (2) Europe: Germany, United Kingdom, Italy and Sweden
  - (3) Other areas: North America, Middle East, Africa, South America and Oceania
3. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.

Year ended December 31, 2008 (January 1, 2008 – December 31, 2008)

(millions of yen)

	Asia	Europe	Other areas	Total
I. Overseas sales	30,646	21,605	14,269	66,521
II. Consolidated net sales	-	-	-	128,485
III. Ratio of overseas sales to consolidated sales	23.9%	16.8%	11.1%	51.8%

Notes:

1. Classification method of geographic segment: by geographic proximity
2. Major countries or regions in each segment:
  - (1) Asia: Korea, China, Taiwan, Thailand and Indonesia
  - (2) Europe: Germany, United Kingdom, Italy and Sweden
  - (3) Other areas: North America, Middle East, Africa, South America and Oceania
3. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.