

**Financial Results**  
**for the Three Months of the Year Ending December 31, 2011—Consolidated**  
**[Japan GAAP]**

May 9, 2011

**Company name: Tokai Carbon Co., Ltd.**  
**Listings:** Tokyo Stock Exchange, first section  
**Security code:** 5301  
**URL:** <http://www.tokaicarbon.co.jp/>  
**Representative:** Yoshinari Kudo, President and CEO  
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**Scheduled dates**  
**Scheduled Date for Submission of Quarterly Report:** May 12, 2011  
**Commencement of dividend payments:** —  
**Supplementary reference documents to support the** Yes  
**quarterly financial statements:**  
**Explanatory meeting to discuss the quarterly financial** Yes (for institutional investors and  
**statements will be held:** analysts only)

**1. Consolidated Financial Results for the End of the Three Months of the Year Ending December 31, 2011 (January 1 to March 31, 2011)**

(Amounts rounded down to the nearest million yen)

**(1) Operating Results (Cumulative)**

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended March 31, 2011	24,994	(0.9)	2,416	15.2	2,483	21.2	1,079	(16.9)
Three months ended March 31, 2010	25,223	51.7	2,097	557.9	2,049	179.4	1,299	72.7

	Net income per share	Net income per share—fully diluted
	yen	yen
Three months ended March 31, 2011	5.06	—
Three months ended March 31, 2010	5.97	—

**(2) Financial Position**

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
As of March 31, 2011	155,355	107,226	67.3	489.49
As of December 31, 2010	155,304	105,605	66.6	484.53

Note: Shareholders' equity:  
 As of March 31, 2011: ¥ 104,541 million  
 As of December 31, 2010: ¥ 103,482 million

## 2. Dividends

Record date	Annual dividend				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full-year
Year ended December 31, 2010	yen —	yen 4.00	yen —	yen 4.00	yen 8.00
Year ending December 31, 2011	—				
Year ending December 31, 2011(forecast)		4.00	—	4.00	8.00

Note: No revision of dividend forecast in the quarter under review

## 3. Forecast of Consolidated Earnings for the Year Ending December 31, 2011 (January 1 to December 31, 2011)

Note: Revision of forecast of earnings in the quarter under review: Yes  
Forecast of consolidated earnings in the quarter under review is not provided, given the difficulties in calculating reasonable forecast at this point. For more information, please refer to “1. Qualitative information related to consolidated quarterly earnings results (3) Qualitative information related to forecasts of consolidated results” on page 6 in the “Attachments” section.

## 4. Other Information (For more information, please refer to “2. Miscellaneous” on page 6 in the “Attachments” section)

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

Newly consolidated: \_\_\_ company (companies) (name of company )

Excluded from consolidation: \_\_\_ company (companies) (name of company )

Note: changes in specified subsidiaries that involved changes in the scope of consolidation.

### (2) Application of simplified accounting practices and specific accounting methods: Yes

Note: The “Yes/no” item indicates whether or not the item has applied the simplified accounting practices and accounting methods specific to the preparation of quarterly financial statements.

### (3) Changes in accounting principles, procedures, and method of disclosure

1) Changes in accordance with amendments to accounting standards: Yes

2) Changes other than the above: None

Note: The “Yes/no” item indicates whether or not the principles, procedures and methods of disclosure for quarterly consolidated financial statements incorporated in the “significant changes in methods of disclosure used to prepare quarterly consolidated financial statements” were changed.

**(4) Number of shares issued (common stock)**

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

As of March 31, 2011:	224,943,104 shares
As of December 31, 2010:	224,943,104 shares

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

As of March 31, 2011:	11,372,307 shares
As of December 31, 2010:	11,368,713 shares

3) Average number of shares during the period (quarterly cumulative period):

Three months ended March 31, 2011:	213,572,834 shares
Three months ended March 31, 2010:	217,764,305 shares

**\*Status of conducting the “Quarterly Review”**

At the time that these quarterly financial results were released, the review process for disclosing quarterly consolidated financial statements under the Financial Instruments and Exchange Act had been completed.

**\*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, please refer to “1. Qualitative information related to consolidated quarterly earnings results” on page 5 in the “Attachments” section.

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\*The company intends to conduct an explanatory meeting for investors on the date indicated below. The documents distributed during that explanatory meeting will be posted on the company website at the earliest possible opportunity.

- Explanatory meeting for analysts: May 16, 2011 (Monday)

## 1. Qualitative information related to consolidated quarterly earnings results

### (1) Qualitative information related to consolidated operating results

During the first quarter under review (from January 1 to March 31, 2011), although the Japanese economy continued to suffer from a difficult employment and income environment, partial recovery was seen such as rising exports and improvement of corporate earnings with the rebound of the global economy. However, the Great East Japan Earthquake that occurred on March 11, 2011 has made the outlook uncertain.

Under these circumstances, the industries in which the Tokai Carbon Group's customers operate (e.g., rubber products, steel, IT hardware, and industrial machinery) had shown a gradual recovery of demand before the Great East Japan Earthquake, but demand is on the decrease due to the lower level of production activities after the quake.

As a result, consolidated net sales in the first quarter under review decreased by 0.9% year-on-year to ¥24,994million. Operating income increased by 15.2% year-on-year to ¥2,416 million and ordinary income rose 21.2% year-on-year to ¥2,483 million. Quarterly net income decreased by 16.9% year-on-year to ¥1,079 million, partly because of the extraordinary losses of ¥710 million.

The performance of our principal business segments is as follows:

Please note that the Group has changed its segmentations since the beginning of the period under review. For the matters related to business segments as part of the segment information disclosure, please refer to 3. Quarterly consolidated financial statements (5) Segment information. Because of the change, the year-on-year comparison is not available and thus not provided.

#### **Carbon Black**

Demand has been favorable due to steady level of production of automotive and tire industries both within and outside of Japan. However, because of the damage and operation suspensions at Tokai Carbon Ishinomaki Plant by the Great East Japan Earthquake, domestic sales volume for March had a significant decline.

As a result, net sales in the carbon black segment were ¥10,105 million, and operating income in the segment was ¥1,376 million.

#### **Carbon and Ceramics**

##### Graphite Electrodes

World crude steel production remained above 100 million tons per month. The shipment to domestic customers increased year-on-year driven by the robust demand primarily in the specialty steel sector, but exports have declined. In addition, export prices remained low partly due to the appreciation of the yen. As a result, net sales of graphite electrodes were ¥7,035 million.

##### Fine Carbon

Although the domestic sales suffered a decline due to the impact of the Great East Japan Earthquake, overall sales have been favorable based on the strong demand in different industries including solar cells and semiconductors centering around China, Korea and other Asian countries. As a result, net sales of fine carbon products were ¥4,651 million.

Consequently, net sales in the carbon and ceramics segment were ¥11,686 million, and operating income in the segment was ¥1,210 million.

#### **Other Operations**

##### Friction Materials

Although there was a sales decrease for some customers due to the impact of the Great East Japan Earthquake, sales for construction machinery markets, our major client segment, have increased with continued demand growth for construction machinery in emerging countries. As a result, net sales of friction materials were ¥1,999 million.

#### Industrial Furnaces and Related Products

Although demand from major clients in IT-related industries has been picking up, and capital investment is also on a recovering trend, a full-scale recovery has not yet been seen. Accordingly, sales remained at a low level. As a result, net sales of industrial furnaces and related products were ¥1,005 million.

#### Others

Net sales from property leasing and other business were ¥197 million.

As a result, net sales in the other operations segment were ¥3,202 million, with the operating income in the segment of ¥175 million.

### **(2) Qualitative information related to changes in consolidated financial position**

As of March 31, 2011, consolidated assets totaled ¥155,355 million, a ¥51 million increase from previous fiscal year-end. Current assets totaled ¥81,794 million, a ¥109 million increase from the 2010 fiscal year-end, reflecting an increase in cash and deposits despite the decrease in notes and accounts receivable. Fixed assets totaled ¥73,560 million, a decrease of ¥58 million from the 2010 fiscal year-end, which was mainly due to declines of tangible fixed assets.

Consolidated liabilities totaled ¥48,128 million at March 31, 2011, a decrease of ¥1,569 million from the 2010 fiscal year-end. Of this total, current liabilities accounted for ¥36,975 million, up ¥8,349 million from the 2010 fiscal year-end, mainly as a result of the increase of current portion of long-term debt. Fixed liabilities totaled ¥11,153 million, a decrease of ¥9,918 million from the 2010 fiscal year-end, which was mainly due to a decrease in long-term debt.

Consolidated net assets totaled ¥107,226 million at March 31, 2011, an increase of ¥1,620 million from the 2010 fiscal year-end. This is primarily attributable to increased retained earnings, foreign currency translation adjustments, and minority interests.

Consequently, the shareholders' equity ratio increased 0.7 percentage point from the end of December 2010 to 67.3%.

### **(3) Qualitative information related to forecasts of consolidated results**

Operations at Tokai Carbon Ishinomaki Plant, which suffered damage from the earthquake and tsunami, are still suspended. The Group is in the process of developing restoration plans while assessing the level of damage. In addition, the impact of the Great East Japan Earthquake and potential power restrictions on the Group and industries in which the Group's customers operate is uncertain. Therefore, the forecast is not provided in this material, given the difficulties in calculating a reasonable forecast at this point.

Information related to forecast will be disclosed promptly once sufficient details become available.

## **2. Miscellaneous**

### **(1) Change in significant subsidiaries**

Not applicable

Erema Sangyo Co., Ltd., a subsidiary of the Company, changed its corporate name to Tokai Konetsu Engineering Co., Ltd. effective January 1, 2011.

### **(2) Application of simplified accounting practices and specific accounting methods**

Simplified accounting practices

Method of calculating income taxes and deferred tax assets and liabilities

The calculation of the amount of income taxes paid is based on a method to limit to material terms added/subtracted items and tax deduction items.

The determination of the recoverability of deferred tax assets is based on the future earnings

forecast that was used in the previous consolidated fiscal year's account settlement and tax planning, assuming there are no significant changes in the business environment and in occurrence of temporary differences after the fiscal 2010 year-end.

**(3) Changes in accounting principles, procedures and method of disclosure**

Changes in accounting policy

Application of Accounting Standard for Asset Retirement Obligations

Beginning in the first quarter under review, the Company has applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008). The effect of this adoption on operating income and ordinary income was not material, but the relevant amount, ¥55 million in total, was posted as extraordinary losses.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(millions of yen)

	As of the End of the First Quarter under Review (March 31, 2011)	Summarized Consolidated Balance Sheet as of the End of the Previous Fiscal Year (December 31, 2010)
	Amount	Amount
<b>Assets</b>		
Current assets		
Cash and cash equivalents	16,035	12,076
Notes and accounts receivable	27,726	31,494
Merchandise and finished goods	9,648	9,171
Work in process	16,295	15,413
Raw materials and supplies	9,392	9,282
Deferred tax assets	856	688
Other	1,892	3,622
Allowance for doubtful accounts	(52)	(65)
Total current assets	81,794	81,684
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	14,932	15,155
Machinery, equipment and vehicles, net	19,304	20,189
Furnaces, net	2,603	2,542
Land	7,084	7,087
Construction in progress	6,106	5,053
Other, net	882	886
Total tangible fixed assets	50,913	50,916
Intangible fixed assets		
Software	438	465
Other	24	24
Total intangible fixed assets	463	490
Investments and other assets		
Investment securities	20,384	20,451
Deferred tax assets	236	244
Other	1,617	1,570
Allowance for doubtful accounts	(54)	(54)
Total investment and other assets	22,183	22,212
Total fixed assets	73,560	73,619
<b>Total assets</b>	<b>155,355</b>	<b>155,304</b>

(millions of yen)

	As of the End of the First Quarter under Review (March 31, 2011)	Summarized Consolidated Balance Sheet as of the End of the Previous Fiscal Year (December 31, 2010)
	Amount	Amount
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	14,131	15,051
Short-term borrowings	6,366	5,992
Current portion of long-term debt	10,285	280
Income taxes payable	920	1,350
Accrued expenses	1,202	1,222
Reserve for bonuses	665	175
Deferred tax liabilities	0	—
Other	3,404	4,553
Total current liabilities	36,975	28,625
Fixed liabilities		
Long-term debt	2,139	12,162
Deferred tax liabilities	4,163	4,209
Provision for retirement benefits	2,573	2,411
Reserve for directors' retirement benefits	126	226
Reserve for executive officers' retirement benefits	36	58
Provision for environment and safety measures	924	924
Other	1,190	1,080
Total fixed liabilities	11,153	21,072
Total liabilities	48,128	49,698
<b>Net assets</b>		
Shareholders' capital		
Common stock	20,436	20,436
Additional paid-in capital	17,502	17,502
Retained earnings	71,613	71,387
Treasury stock	(7,127)	(7,126)
Total Shareholders' capital	102,424	102,200
Valuation and translation adjustments		
Net unrealized gains/losses on other securities	5,647	5,823
Deferred hedge gain/loss	(0)	0
Foreign currency translation adjustments	(3,530)	(4,541)
Total valuation and translation adjustments	2,117	1,282
Minority interests	2,685	2,123
Total net assets	107,226	105,605
<b>Total liabilities and net assets</b>	155,355	155,304

**(2) Quarterly Consolidated Statements of Operations**  
**(Consolidated three months of the year)**

(millions of yen)

	Previous Consolidated Three Months (From January 1 to March 31, 2010)	Consolidated Three Months under Review (From January 1 to March 31, 2011)
	Amount	Amount
Net sales	25,223	24,994
Cost of sales	19,745	19,369
Gross profit	5,477	5,625
Selling, general and administrative expenses	3,379	3,208
Operating income	2,097	2,416
Non-operating income		
Interest income	7	8
Dividend income	42	46
Rental income	71	69
Equity in income of non-consolidated subsidiaries and affiliates	28	—
Foreign exchange gains	25	183
Other non-operating income	104	98
Total non-operating income	278	407
Non-operating expense		
Interest expense	153	141
Equity in loss of non-consolidated subsidiaries and affiliates	—	70
Other non-operating expense	174	129
Total non-operating expense	327	340
Ordinary income	2,049	2,483
Extraordinary income		
Reversal of allowance for doubtful accounts	—	4
Gain on sales of fixed assets	9	—
Total extraordinary income	9	4
Extraordinary losses		
Loss on disaster	—	619
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	55
Impairment loss	—	25
Loss on valuation of investment securities	—	6
Loss on valuation of membership	—	4
Total extraordinary losses	—	710
Income before income taxes	2,058	1,776
Income taxes, inhabitants tax, and enterprise taxes	718	730
Income taxes adjustments	(17)	(80)
Total income taxes	701	649
Income before minority interests	—	1,127
Minority interests in income (loss) of consolidated subsidiaries	57	47
Net income	1,299	1,079

### (3) Quarterly Consolidated Statements of Cash Flows

(millions of yen)

	Previous Consolidated Three Months (From January 1 to March 31, 2010)	Consolidated Three Months under Review (From January 1 to March 31, 2011)
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes	2,058	1,776
Depreciation and amortization	2,102	1,962
Impairment loss	—	25
Increase (decrease) in allowance for doubtful accounts	6	(14)
Increase (decrease) in reserve for bonuses	454	489
Increase (decrease) in provision for retirement benefits	29	22
(Increase) decrease in prepaid pension cost	(56)	(56)
Increase (decrease) in reserve for directors' retirement benefits	(45)	(100)
Increase (decrease) in reserve for executive officers' retirement benefits	(13)	(22)
Interest and dividends income	(50)	(54)
Interest paid	153	141
Foreign exchange (gain) loss	(19)	(28)
Equity in (income) loss of non-consolidated subsidiaries and affiliates	(28)	70
Loss on disaster	—	619
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	55
(Increase) decrease in trade receivables	266	4,113
(Increase) decrease in inventories	1,297	(1,195)
Increase (decrease) in trade payables	(356)	(1,090)
Other	(78)	(708)
Subtotal	5,721	6,004
Interest and dividends received	47	60
Interest paid	(184)	(173)
Payments for loss on disaster	—	(4)
Income taxes paid	(1,773)	(1,119)
Net cash provided by (used in) operating activities	3,811	4,767
Cash flows from investing activities:		
Proceeds from withdrawal of time deposits	202	53
Purchase of tangible fixed assets	(1,802)	(2,601)
Purchase of intangible fixed assets	(13)	(36)
Purchase of stocks of subsidiaries and affiliates	—	(210)
Other	15	(2)
Net cash provided by (used in) investing activities	(1,596)	(2,796)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	935	250
Repayment of long-term debt	(2)	(137)
Dividend paid	(871)	(854)
Proceeds from minority shareholders	—	511
Cash dividends paid to minority shareholders	—	(52)
Other	(22)	(1)
Net cash provided by (used in) financing activities	39	(283)
Effect of exchange rate changes on cash and cash equivalents	(4)	328
Increase (decrease) in cash and cash equivalents	2,249	2,014
Cash and cash equivalents at beginning of the period	8,977	14,005
Cash and cash equivalents at end of the period	11,227	16,020

**(4) Notes on the going-concern assumption**

Not applicable

**(5) Segment Information**

**Business segment information**

Previous Consolidated Three Months (From January 1 to March 31, 2010)

(millions of yen)

	Carbon and graphite products	Industrial furnaces and related products	Other	Total	Elimination or corporate	Consolidated
Net sales						
(1) External sales	24,156	971	95	25,223	—	25,223
(2) Inter-segment sales	33	13	134	181	(181)	—
Total	24,189	985	229	25,405	(181)	25,223
Operating income	1,948	82	61	2,091	5	2,097

Notes:

1. Method of segmentation

Business segmentation is primarily based on 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

## Geographic segment information

Previous Consolidated Three Months (From January 1 to March 31, 2010)

(millions of yen)

	Japan	Europe	Asia	Other	Total	Elimination or corporate	Consolidated
Net sales							
(1) External sales	15,834	4,305	3,884	1,198	25,223	—	25,223
(2) Inter-segment sales	1,904	295	164	8	2,372	(2,372)	—
Total	17,738	4,600	4,049	1,206	27,595	(2,372)	25,223
Operating income (loss)	1,114	529	461	63	2,168	(70)	2,097

Notes:

1. Classification method of geographic segment: by geographic proximity
2. Major countries or regions in each segment other than Japan:
  - (1) Europe: Germany, United Kingdom, Italy and Sweden
  - (2) Asia: Thailand and China
  - (3) Other: North America

## Overseas net sales

Previous Consolidated Three Months (From January 1 to March 31, 2010)

(millions of yen)

	Asia	Europe	Other areas	Total
I. Overseas net sales	6,614	3,875	2,516	13,006
II. Consolidated net sales				25,223
III. Ratio of overseas net sales to consolidated net sales	26.2%	15.4%	10.0%	51.6%

Notes:

1. Classification method of geographic segment: by geographic proximity
2. Major countries or regions in each segment other than Japan:
  - (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 net sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.

## Segment information

### 1. Overview of reporting segments

The Company's reporting segments are regularly reviewed by the Board of Directors, using the segregated financial information available within each segment of the Company to determine the allocation of management resources and evaluate business results.

The Company organizes divisions classified by products at the head office and each division has been engaged in its business activities by comprehensively developing domestic and overseas strategies for products.

Therefore, the Company is composed of segment classified by products based on division. The "carbon black business" and "carbon and ceramics businesses" constitute the Company's reporting segments.

The main products of each reporting segment are as follows:

Reporting segment	Major products
Carbon Black	Carbon black (for rubber product, black pigment and conductive materials)
Carbon and Ceramics	Artificial graphite electrodes for electric arc furnaces, fine-carbon products (specialty graphite products), carbon brush, impervious graphite, pencil lead-cores

### 2. Information concerning net sales and income or loss by reporting segment

Consolidated Three Months under Review (January 1 to March 31, 2011)

(millions of yen)

	Reporting Segment			Other operation (Note 1)	Total	Adjustments (Note 2)	Amounts on statements of operation (Note 3)
	Carbon black	Carbon and ceramics	Total				
Net sales:							
External sales	10,105	11,686	21,792	3,202	24,994	—	24,994
Inter-segment sales	37	106	143	41	185	(185)	—
Total	10,143	11,792	21,935	3,244	25,179	(185)	24,994
Segment income	1,376	1,210	2,586	175	2,762	(346)	2,416

Notes:

1. "Other operation" is a business segment not included in the reporting segments. It includes businesses involving friction materials business, industrial furnaces and the related products business and property leasing, etc.
2. The amount of adjustment of segment income is ¥346 million, including ¥ 364 million of the corporate expenses unallotted to each reporting segment. The corporate expenses consist of research and development expenses which are not attributed to the reporting segment.
3. Segment income corresponds to operating income in the Quarterly consolidated statements of operations.

(Additional Information)

Beginning in the first quarter under review, the Company has applied "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, March 21, 2008).

### (6) Notes when the amount of shareholders' equity has changed significantly

Not applicable