

# Annual Report 2002

Year ended December 31, 2002

## Profile

Tokai Carbon Co., Ltd. is a major Japanese manufacturer of various carbon products such as carbon black, graphite electrodes, fine carbon products and friction materials. Carbon black is used as reinforcing agent for auto tires and other industrial rubber products, and coloring agent for printing ink, paint and plastics.

Graphite electrodes are used as conductors of electricity, and are consumed, in an electric arc furnace in the steel-making process.

Main users of fine carbon products are manufacturers of various IC production devices, silicon wafer and others.

Friction materials are widely used in clutches and brakes of construction, agricultural, transportation and other industrial machinery.

The company is renowned as a pioneer in the carbon industry with 85 years of history, and is recognized as having overall technological expertise and capability in its new product development. The company endeavors to continue to be a forerunner of technological innovation in the rapidly advancing business world and tries hard to keep steady growth in its earnings.

## Consolidated Financial Highlights

Tokai Carbon Co., Ltd. and Consolidated Subsidiaries  
Years ended December 31, 2002 and 2001

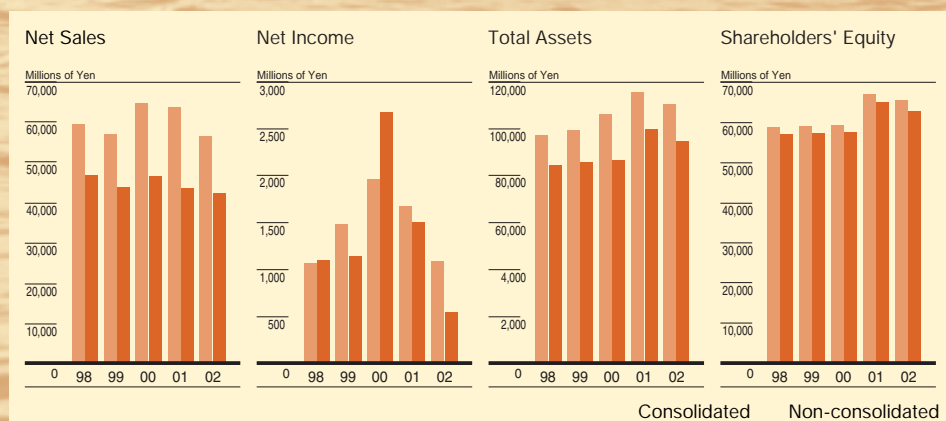
	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
<b>For the year:</b>			
Net Sales	¥56,599	¥64,001	\$472,056
Net Income	1,088	1,676	9,078
<b>At year-ended:</b>			
Total Assets	¥110,688	¥116,003	\$923,170
Shareholders' Equity	65,641	67,157	547,464
	Yen		U.S. Dollars
<b>Per share:</b>			
Net Income	¥5.34	¥8.21	\$0.04
Cash Dividends	5.00	5.00	0.04

## Non-consolidated Financial Highlights

Tokai Carbon Co., Ltd.  
Years ended December 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
<b>For the year:</b>			
Net Sales	¥42,366	¥43,731	\$353,344
Net Income	567	1,506	4,733
<b>At year-ended:</b>			
Total Assets	¥94,973	¥99,981	\$792,100
Shareholders' Equity	63,088	65,259	526,169
	Yen		U.S. Dollars
<b>Per share:</b>			
Net Income	¥2.78	¥7.38	\$0.02
Cash Dividends	5.00	5.00	0.04

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## Message from the President



During the fiscal year under review, Japan's economy looked to be 'bottoming out' and headed for a partial recovery toward the first half of the year, thanks to exports and production aimed at the US and Asian markets. Toward the latter half of the fiscal year, however, investments in plants and facilities in the private sector as well as consumer spending hovered at low levels. This situation was further exacerbated by lowered share prices, resulting in greater uncertainty for Japan's economy.

Amid this unfavorable economic environment, we are making vigorous efforts to achieve "T-2003", a three-year management goal beginning in 2001, strengthening corporate might and improving our competitiveness. During the current fiscal year, which is the second year for the project, we are promoting our "CD-10" project, targeted at reducing costs and increasing profits. In the Carbon Black Division, newly explored uses have

materialized as merchandisable products, while a private power generator facility was completed at Chita Plant. Overseas, we have initiated a joint venture in Shanghai, China with SGL Carbon AG, Germany. Thus, in the production of graphite electrodes, we have made inroads overseas, endeavoring to further our business development.

However, sales of fine carbon declined drastically due to weak global demand for semiconductors. Furthermore, the business slump being experienced by the information technology sector has reduced sales of industrial furnaces. The sale of the shares we held in the Tokai Sangyo Co., Ltd. during the previous fiscal year was also a factor in our reduced sales. As a result, total sales were ¥56,599 million, a ¥7,402 million year-on-year drop, which is an 11.6% decrease from the previous year. Operating income of ¥3,937 million was ¥1,584 million smaller than the previous term, which is a 28.7% drop. The net income was ¥1,088 million, which was ¥588 million less than the previous term, translated as a 35.1% decrease in profits because a ¥707 million loss in appraised losses on investment securities and restructuring expenses of ¥338 million were treated as other expenses.

The prospects for the Japan's economy continue to be gloomy due to adverse factors such as low stock prices, the problems associated with bad debts, and the spread of deflation. Intensifying international conflicts continue to cast a dark shadow on the global economy and that of Japan. The prospects for our company, therefore, remain very unfavorable. Under these circumstances, however, we will continue to strive to achieve the goals of "T-2003" and its three-year management focus, in order to build our corporate strength to survive in the competitive, global economy. In order to secure greater profits, we must tackle the "CD-10" project wholeheartedly and exert great efforts to reduce costs on all fronts. In terms of R&D, the key lies in the speed with which we can turn the results of our R&D efforts into products. Other urgent goals include the promotion of the electrode joint venture in China into a full-fledged business as early as possible, expanding the facilities of our Thai subsidiary and a re-organization of our European subsidiary to enable ourselves to achieve global competitiveness. Furthermore, in contributing to the preservation of the environment, we shall tackle issues like industrial waste disposal and reduction in carbon dioxide emissions, in which our activities will be aligned to achieve harmony between corporate activities and the environment.

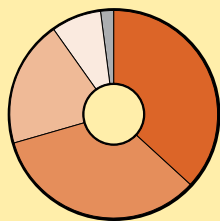
On December 17, 2002, we were ordered by the European Commission of the European Union (EU) to pay a fine of 6.97 million euros, or ¥872 million, for participating in a price cartel for the sale of isostatic graphite. In this connection, we have decided to file an appeal against this decision with the European Court. This problem dates back to the early 1990s. Having completed a consistent compliance system, we are confident that we will no longer be further suspicion at home and abroad. Still, we are and will continue to make efforts to abide by all the relevant domestic and international laws and regulations.

A handwritten signature in black ink, reading "Shikio Ohtake". The signature is fluid and cursive, with a long horizontal stroke at the end.

Shikio Ohtake  
President

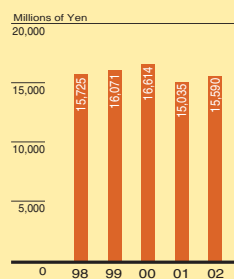
# Review of Operations (Non-consolidated)

Sales by Category (%)  
As of December 31, 2002

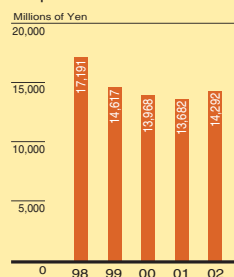


Carbon Black Division 36.8%  
Graphite Electrode Division 33.7%  
Fine Carbon Division 19.7%  
Friction Materials Division 7.8%  
Others 2.0%

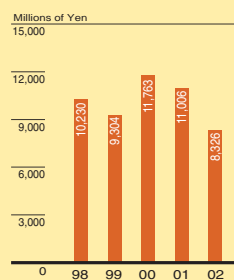
Carbon Black Division



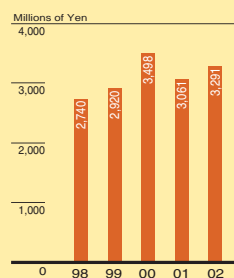
Graphite Electrode Division



Fine Carbon Division



Friction Materials Division



## Carbon Black Division

The tire industry comprises the largest client base of this business division. An increase in automobile production resulted in increased delivery of tires fitted to new cars, also increasing our exports. As a result, this business division enjoyed an increase in production. Our production for automobile parts and general-rubber products also increased for the same reason.

In this favorable condition, the sales volume of carbon black increased over the previous term. Price increases also resulted in favorable overall sales, exceeding the previous term. As a result, total sales for the Carbon Black Division reached ¥15,590 million, up 3.7% over the previous year.

## Graphite Electrode Division

In the domestic market, the electric-furnace steel industry, the main user of our graphite electrode, expanded along with the favorable situation enjoyed by our automobile related products and also due to greater exports of steel and semi-finished products to Asia and other areas. Production increased for this business division, thus resulting in greater domestic sales volume over the previous year. However, continuing competition over prices caused the average sales price to go down, thus overall sales in monetary terms actually decreased from last year.

In general, exports were steady, mainly to Asia and Central and South America, resulting in a large increase in our sales volume.

Consequently, total sales for the graphite electrode division increased 4.5% from the previous year to ¥14,292 million.

## Fine Carbon Division

The semiconductor-related industries, the major client base of this business division, finished their production adjustment phase, so toward the last half of the term, there was a mild and partial recovery in the production of personal computers and peripherals. However, it was not a full recovery. As a result, the sales of silicon carbide and glassy carbon targeted at these industries dropped sharply. The sales of products other than impervious graphite and raw materials dropped due to the lowered demand.

As a result, total sales for the fine carbon division were ¥8,326 million, down 24.3% from the previous period.

## Friction Materials Division

Due to reduced production in the motorcycles sector, which is the major client base of this business division, sales for that sector also decreased. Production targeted at the construction machinery industry, another major client group, also decreased. However, thanks to newly started sales of construction machinery components, the sales for this sector have increased. As a result, total sales for this business division were ¥3,291 million, an increase of 7.5% over the previous period.

## Others

Sales from golf practice ranges and property leases totaled ¥867 million, or down 8.6% from the previous year.

# Consolidated Four-Years Summary

Tokai Carbon Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002, 2001, 2000 and 1999

	Millions of Yen				Thousands of U.S. Dollars
	2002	2001	2000	1999	2002
<b>For the Year :</b>					
Net sales	¥ 56,599	¥ 64,001	¥ 64,900	¥ 57,117	\$ 472,056
Operating income	3,937	5,521	6,003	5,646	32,834
Net income	1,088	1,676	1,973	1,491	9,078
Capital expenditures	3,129	4,593	2,004	1,866	26,100
Research and development costs	1,246	1,202	1,222	1,307	10,395
<b>At Year-End :</b>					
Total assets	¥110,688	¥116,003	¥106,629	¥ 99,465	\$ 923,170
Shareholders' equity	65,641	67,157	59,395	59,344	547,464
<b>Per Share Data :</b>					
	Yen				U.S. Dollars
Net income	¥ 5.34	¥ 8.21	¥ 9.67	¥ 7.31	\$ 0.04
Total shareholders' equity	322.13	329.09	291.02	290.77	2.69
Cash dividends applicable to the year	5.00	5.00	5.00	5.00	0.04
<b>Financial Ratios :</b>					
	%				
Return on assets	0.96	1.51	1.91	1.51	
Return on equity	1.64	2.65	3.32	2.52	
Equity ratio	59.3	57.9	55.7	59.7	



# Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
December 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 14,601	¥ 14,426	\$121,778
Receivables:			
Trade notes and accounts	19,280	19,557	160,800
Unconsolidated subsidiaries and associated companies	555	556	4,626
Allowance for doubtful receivables	(225)	(172)	(1,875)
Inventories (Note 4)	14,838	16,222	123,754
Deferred tax assets (Note 9)	359	805	2,997
Prepaid expenses and other current assets	1,438	1,227	11,990
Total current assets	50,846	52,621	424,070
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5):</b>			
Land	7,929	7,917	66,128
Buildings and structures	39,315	39,305	327,894
Machinery and equipment	75,094	73,282	626,306
Furniture and fixtures	4,630	4,663	38,619
Construction in progress	159	630	1,326
Total	127,127	125,797	1,060,273
Accumulated depreciation	(92,537)	(90,578)	(771,786)
Net property, plant and equipment	34,590	35,219	288,487
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 3)	17,662	22,055	147,305
Investments in and advances to unconsolidated subsidiaries and associated companies	1,283	740	10,704
Deferred tax assets (Note 9)	489	387	4,076
Other assets	5,818	4,981	48,528
Total investments and other assets	25,252	28,163	210,613
<b>TOTAL</b>	<b>¥110,688</b>	<b>¥116,003</b>	<b>\$923,170</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 5)	¥ 19,206	¥ 19,922	\$160,180
Current portion of long-term debt (Note 5)	705	638	5,883
Payables:			
Trade notes and accounts	8,659	8,492	72,219
Unconsolidated subsidiaries and associated companies	159	117	1,326
Income taxes payable	178	809	1,484
Accrued expenses	1,838	2,500	15,331
Other current liabilities	1,798	2,426	14,992
Total current liabilities	32,543	34,904	271,415
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 5)	589	969	4,916
Liability for retirement benefits (Note 6)	923	952	7,697
Retirement allowances for directors and corporate auditors (Note 7)	369	363	3,080
Deferred tax liabilities (Note 9)	5,394	6,464	44,988
Other	699	685	5,827
Total long-term liabilities	7,974	9,433	66,508
<b>MINORITY INTERESTS</b>	<b>4,530</b>	<b>4,509</b>	<b>37,783</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 11 and 13)			
<b>SHAREHOLDERS' EQUITY (Notes 8 and 14):</b>			
Common stock-authorized, 598,764,000 shares; issued, 204,089,391 shares in 2002 and 2001	15,436	15,436	128,741
Additional paid-in capital	10,874	10,874	90,689
Retained earnings	33,688	33,675	280,967
Net unrealized gain on available-for-sale securities	5,591	7,310	46,634
Foreign currency translation adjustments	113	(132)	939
Total	65,702	67,162	547,970
Treasury stock-at cost, 317,245 shares in 2002 and 20,192 shares in 2001	(61)	(5)	(506)
Total shareholders' equity	65,641	67,157	547,464
<b>TOTAL</b>	<b>¥110,688</b>	<b>¥116,003</b>	<b>\$923,170</b>

# Consolidated Statements of Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
NET SALES	¥56,599	¥64,001	\$472,056
COST OF SALES	42,682	47,729	355,982
Gross profit	13,917	16,272	116,074
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,980	10,751	83,240
Operating income	3,937	5,521	32,834
OTHER INCOME (EXPENSES):			
Interest and dividends	239	221	1,995
Interest expense	(461)	(585)	(3,843)
Exchange gain		403	
Full amount of transitional obligations for retirement benefits		(556)	
Settlement payment for civil suit	(118)	(1,716)	(984)
Restructuring expenses	(338)		(2,816)
Gain on sales of subsidiaries securities		607	
Loss on devaluation of investment securities	(707)	(337)	(5,895)
Other—net	(166)	104	(1,388)
Other expenses—net	(1,551)	(1,859)	(12,931)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,386	3,662	19,903
INCOME TAXES (Note 9):			
Current	622	2,215	5,187
Deferred	579	(527)	4,829
Total	1,201	1,688	10,016
MINORITY INTERESTS IN NET INCOME	97	298	809
NET INCOME	¥ 1,088	¥ 1,676	\$ 9,078
		Yen	U.S.Dollars
PER SHARE OF COMMON STOCK (Note 2.n):			
Net income	¥ 5.34	¥ 8.21	\$0.04
Cash dividends applicable to the year	5.00	5.00	0.04

See notes to consolidated financial statements.



# Consolidated Statements of Shareholders' Equity

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available- for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, JANUARY 1, 2001	204,089	¥15,436	¥10,874	¥33,086			¥ (1)
Net income				1,676			
Cash dividends, ¥5.00 per share				(1,020)			
Bonuses to directors and corporate auditors				(67)			
Net increase in treasury stock (17 thousand shares)							(4)
Unrealized gain on available-for-sale securities					¥ 7,310		
Foreign currency translation adjustments						¥ (132)	
BALANCE, DECEMBER 31, 2001	204,089	15,436	10,874	33,675	7,310	(132)	(5)
Net income				1,088			
Cash dividends, ¥5.00 per share				(1,020)			
Bonuses to directors				(55)			
Increase in treasury stock (297 thousand shares)							(56)
Net decrease in unrealized gain on available-for-sale securities					(1,719)		
Net increase in foreign currency translation adjustments						245	
BALANCE, DECEMBER 31, 2002	204,089	¥ 15,436	¥ 10,874	¥ 33,688	¥ 5,591	¥ 113	¥ (61)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available- for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, DECEMBER 31, 2001	\$ 128,741	\$ 90,689	\$ 280,857	\$ 60,966	\$ (1,105)	\$ (38)
Net income			9,078			
Cash dividends, \$0.04 per share			(8,510)			
Bonuses to directors			(458)			
Increase in treasury stock						(468)
Net decrease in unrealized gain on available-for-sale securities				(14,332)		
Net increase in foreign currency translation adjustments					2,044	
BALANCE, DECEMBER 31, 2002	\$ 128,741	\$ 90,689	\$ 280,967	\$ 46,634	\$ 939	\$ (506)

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 2,386	¥ 3,662	\$ 19,903
Adjustments for:			
Income taxes—paid	(1,294)	(3,423)	(10,795)
Depreciation and amortization	3,734	3,711	31,145
Increase in liability for retirement benefits		88	
Increase in prepaid expense for pension cost	(488)		(4,070)
Exchange loss	116		966
Equity in earnings of associated companies		(126)	
Gain on sales of subsidiaries securities		(607)	
Gain on sales of land	(146)	(118)	(1,220)
Settlement payment for civil suit	118	1,716	984
Loss on valuation of investment securities	707	337	5,895
Loss on disposal of property, plant and equipment		102	
Decrease in trade notes and accounts receivable	393	5,451	3,279
Restructuring expenses	338		2,816
Decrease (Increase) in inventories	1,407	(1,776)	11,734
Increase (decrease) in notes and accounts payable	105	(3,543)	876
Increase in provisional payment	(331)	(2,854)	(2,758)
Decrease in interest and dividend receivables	4	18	33
Decrease in interest payable	(2)	(7)	(19)
Payment of settlement payment for civil suit	(708)	(551)	(5,902)
Other—net	69	(529)	581
Total adjustments	4,022	(2,111)	33,545
Net cash provided by operating activities	6,408	1,551	53,448
<b>INVESTING ACTIVITIES:</b>			
(Payment for deposit) proceeds from repayment of time deposit	(275)	516	(2,290)
Payment for purchase of property, plant and equipment	(3,568)	(3,608)	(29,756)
Proceeds from sales of property, plant and equipment	159	234	1,328
Payment for purchase of intangible fixed assets	(183)	(419)	(1,524)
Proceeds from sales of investment securities	545		4,543
Proceeds from sales of consolidated subsidiaries, net of cash acquired		768	
Payment for investments	(510)		(4,250)
Other	7	36	44
Net cash used in investing activities	(3,825)	(2,473)	(31,905)
<b>FORWARD</b>	¥ 2,583	¥ (922)	\$ 21,543

(Continued)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
<b>FORWARD</b>	¥ 2,583	¥ (922)	\$ 21,543
<b>FINANCING ACTIVITIES:</b>			
(Decrease) increase in short-term bank loans—net	(869)	1,142	(7,244)
Proceeds from long-term debt	318		2,651
Repayments of long-term debt	(652)	(1,040)	(5,434)
Dividends paid	(1,067)	(1,087)	(8,902)
Other	(56)	24	(469)
Net cash used in financing activities	(2,326)	(961)	(19,398)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(82)	129	(680)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	175	(1,754)	1,465
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	14,426	16,180	120,313
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 14,601	¥ 14,426	\$ 121,778

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form, which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2001 financial statements to conform to the classifications used in 2002.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKAI CARBON Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥119.90 to \$1, the approximate rate of exchange at December 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Consolidation

The consolidated financial statements as of December 31, 2002 include the accounts of the Company and its significant 21 (21 in 2001) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (3 in 2001) associated companies are accounted for by the equity method. Investments in the remaining 2 unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the net assets at the respective dates of acquisition are insignificant and are charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and mutual funds investing in bonds that represent short-term investments, securities purchased under resale arrangements, all of which mature or become due within three months of the date of acquisition.

### c. Inventories

Inventories of the Company and consolidated domestic subsidiaries are stated at cost, cost being determined by the average method. Inventories of foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

### d. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and (3) available-for-sale securities, securities not classified as either of the aforementioned securities, are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

### e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings of the Company and its domestic subsidiaries, and to the whole property, plant and equipment of consolidated foreign subsidiaries. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

The range of useful lives is principally from 2 to 60 years for buildings and structures, from 2 to 22 years for machinery and equipment, and from 4 to 12 years for furniture and fixtures.

### f. Retirement Allowances for Directors and Corporate Auditors

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

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**g. Research and Development Costs**

Expenditures for research and development activities are charged to income as incurred.

**h. Leases**

The Company and its consolidated domestic subsidiaries account for all leases as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

**i. Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**j. Appropriations of Retained Earnings**

Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

**k. Foreign Currency Transactions**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

**l. Foreign Currency Financial Statements**

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**m. Derivatives and Hedging Activities**

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value.

**n. Per Share Information**

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 204,089,391 shares for 2002 and 204,083,613 shares for 2001.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

# Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

## 3. INVESTMENT SECURITIES

Investment securities as of December 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Current—Government and corporate bonds (included in prepaid expenses and other current assets)	¥ 40		\$ 337
Non-current:			
Marketable equity securities	¥17,633	¥21,979	\$ 147,061
Government and corporate bonds		41	
Trust fund investments and other	29	35	244
Total	¥17,662	¥22,055	\$ 147,305

The carrying amounts and aggregate fair values of marketable and investment securities at December 31, 2002 and 2001 were as follows:

	Millions of Yen			
	December 31, 2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥7,482	¥10,159	¥286	¥17,355
Debt securities by contractual maturities for securities classified as available-for-sale	76		10	66
Securities classified as available-for-sale:				
Equity securities	¥8,642	¥13,437	¥466	¥21,613
Debt securities by contractual maturities for securities classified as available-for-sale	76	1	4	73
	Thousands of U.S. Dollars			
	December 31, 2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$62,400	\$ 84,729	\$2,390	\$144,739
Debt securities by contractual maturities for securities classified as available-for-sale	635	3	88	550

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2002 and 2001 were as follows:

	Carrying Amount		Thousands of U.S. Dollars
	Millions of Yen	2001	2002
	2002		
Available-for-sale:			
Equity securities	¥ 278	¥ 365	\$ 2,322
Other	4	4	30
Total	¥ 282	¥ 369	\$ 2,352



Proceeds from sales of available-for-sale securities for the year ended December 31, 2002 were ¥545 million (\$4,543 thousand). Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥71 million (\$588 thousand) and ¥74 million (\$614 thousand), respectively, for the year ended December 31, 2002.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at December 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available for Sale	Available for Sale
Due in one year or less	¥ 60	\$ 501
Total	¥ 60	\$ 501

#### 4. INVENTORIES

Inventories at December 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Merchandise	¥ 9	¥ 11	\$ 72
Finished products	3,401	4,038	28,366
Work in process	8,426	9,272	70,277
Raw materials and supplies	3,002	2,901	25,039
Total	¥14,838	¥16,222	\$123,754

#### 5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at December 31, 2002 and 2001 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.375% to 26.00% and 1.375% to 7.75% at December 31, 2002 and 2001, respectively.

Long-term debt at December 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Long-term loans from banks and insurance companies due through at interest rates ranging from 1.60% to 16.0%	¥1,294	¥1,607	\$10,799
Less current portion	(705)	(638)	(5,883)
Long-term debt, less current portion	¥ 589	¥ 969	\$ 4,916

Annual maturities of long-term debt at December 31, 2002 were as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 705	\$ 5,883
2004	371	3,098
2005	206	1,722
2006	6	49
2007	6	47
Total	¥ 1,294	\$10,799

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥1,543 million (\$12,869 thousand), long-term loans of ¥6 million (\$46 thousand) and current portion of long-term debt of ¥6 million (\$50 thousand) at December 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 6,047	\$50,436

# Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

## 6. RETIREMENT AND PENSION PLANS

Employees whose service with the Company and certain consolidated domestic subsidiaries is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs.

The liability (asset) for employees' retirement benefits at December 31, 2002 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 6,379	\$53,205
Fair value of plan assets	(4,810)	(40,117)
Unrecognized actuarial gain	(1,322)	(11,026)
Prepaid expense for pension cost	676	5,635
Net liability	¥ 923	\$ 7,697

The components of net periodic benefit costs for the year ended December 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 396	\$3,303
Interest cost	131	1,096
Expected return on plan assets	(123)	(1,024)
Amortization of actuarial gain	54	447
Other	37	306
Net periodic benefit costs	¥ 495	\$4,128

Assumptions used for the year ended December 31, 2002 are set forth as follows:

Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Recognition period of actuarial gain/loss	10 years

## 7. RETIREMENT ALLOWANCES FOR DIRECTORS AND CORPORATE AUDITORS

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The annual provisions for retirement allowances for directors and corporate auditors for the years ended December 31, 2002 and 2001 were ¥369 million (\$3,080 thousand) and ¥363 million, respectively.

## 8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥2,864 million (\$23,889 thousand) and ¥2,864 million as of December 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amounts of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended December 31, 2002 and 2001.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at December 31, 2002 and 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets:			
Depreciation and amortization	¥ 194	¥ 310	\$ 1,619
Retirement and severance benefits	334	341	2,784
Allowance for officers' retirement benefits	155	152	1,294
Accrued enterprise tax		80	
Unrealized gain on sale of assets eliminated in consolidation	169	181	1,411
Settlement payment for civil suit	181	553	1,506
Loss carryforward of subsidiaries	869	623	7,244
Valuation loss on investment securities	323	156	2,693
Other	453	351	3,784
Less valuation allowance	(897)	(671)	(7,483)
Deferred tax assets	1,781	2,076	14,852
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,142	5,446	34,546
Deferred profits on property for income tax purposes	1,622	1,692	13,528
Prepaid expense for pension cost	297		2,480
Other	266	210	2,213
Deferred tax liabilities	6,327	7,348	52,767
Net deferred tax liabilities	¥4,546	¥5,272	\$37,915

Net deferred tax liabilities presented in the consolidated balance sheets at December 31, 2002 and 2001 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Current assets—deferred tax assets	¥ (359)	¥ (805)	\$ (2,997)
Investments and other assets—deferred tax assets	(489)	(387)	(4,076)
Long-term liabilities—deferred tax liabilities	5,394	6,464	44,988
Deferred tax liabilities	¥4,546	¥5,272	\$37,915

A reconciliation between the normal effective statutory tax rate for the years ended December 31, 2002 and 2001 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2002	2001
Normal effective statutory tax rate	42.00%	42.00%
Expenses not deductible for income tax purpose	3.00	2.68
Income not taxable for income tax purpose	(3.59)	(3.24)
Fluctuation of valuation allowance	9.44	
Other—net	(0.52)	4.66
Actual effective tax rate	50.33%	46.10%

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,246 million (\$10,395 thousand) and ¥1,202 million for the years ended December 31, 2002 and 2001, respectively.

# Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

## 11. LEASES

The Group has lease agreements whereby the Group acts both as a lessee and a lessor. Finance lease contracts (both as a lessee and as a lessor) other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

Certain key information on such lease contracts of the Group as a lessee and a lessor for the years ended December 31, 2002 and 2001 was as follows:

### As a lessee

Leased furniture and fixtures:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Acquisition cost	¥ 68	¥124	\$ 569
Accumulated depreciation	48	84	398
Net leased property	¥ 20	¥ 40	\$ 171

Future minimum lease payments:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥ 12	¥ 19	\$ 98
Due after one year	8	21	72
Total	¥ 20	¥ 40	\$ 170

Paid lease fees and depreciation expense:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Paid lease fees	¥ 16	¥ 23	\$ 138
Depreciation expense	16	23	138

The acquisition cost and future minimum lease payments include the imputed interest expense portion.

Depreciation is based on the straight-line method over the lease term of the lease assets.

### As a lessor

Leased machinery and equipment:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Acquisition cost	¥157	¥253	\$ 1,313
Accumulated depreciation	113	174	942
Net leased property	¥ 44	¥ 79	\$ 371

Future minimum lease income:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥ 21	¥ 38	\$ 177
Due after one year	27	48	227
Total	¥ 48	¥ 86	\$ 404

The minimum rental commitments under noncancelable operating leases at December 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Due within one year	¥ 4	¥ 4	\$ 32
Due after one year		7	3
Total	¥ 4	¥ 11	\$ 35

## 12. DERIVATIVES

The Company enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

All derivative transactions the Company enters into are approved by directors in charge. The conditions of such transactions are reported periodically to the Board of Directors.

Foreign currency forward contracts which qualify for hedge accounting for the year ended December 31, 2002 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheet at December 31, 2002 are excluded from disclosure of market value information.

The Company enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

## 13. CONTINGENT LIABILITIES

At December 31, 2002, the Group guaranteed borrowings of affiliated companies and employees, in the amount of ¥858 million (\$7,158 thousand).

On July 18, 2001, the Company was ordered to pay a fine of €24,500 thousand (¥3,064 million (\$25,558 thousand)) by the European Commission, because of participation in a price cartel for graphite electrodes. The Company made a provisional payment of €24,500 thousand (¥3,064 million (\$25,558 thousand)) to the Commission to save the relevant cost and recriminated against the European Court to complain about the Commission's order. The Company is unable to predict the outcome of the counterclaim for the Commission's order nor can the Company reasonably estimate the possible loss given the current status of the counterclaim. The provisional payment of €24,500 thousand (¥3,064 million (\$25,558 thousand)) is included in "Other assets" of "Investments and other assets."

On December 17, 2002, the Company was ordered to pay a fine of €6,970 thousand (¥872 million (\$7,271 thousand)) by the European Commission, because of participation in a price cartel for isostatic speciality graphite. The Company recriminated against the European Court to complain about the Commission's order. The Company is unable to predict the outcome of the counterclaim for the Commission's order nor can the Company reasonably estimate the possible loss given the current status of the counterclaim.

## 14. SUBSEQUENT EVENT

The following appropriations of retained earnings at December 31, 2002 were approved at the Company's shareholders meeting held on March 28, 2002:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.50 (\$0.02) per share	¥ 509	\$4,249
Bonuses to directors	19	158

## 15. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended December 31, 2002 and 2001 is as follows:

### (1) Industry Segments

#### a. Sales and Operating Income (Loss)

	Millions of Yen				
	2002				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Sales to customers	¥ 50,476	¥2,535	¥3,588		¥ 56,599
Intersegment sales	73	58	917	¥ (1,048)	
Total sales	50,549	2,593	4,505	(1,048)	56,599
Operating expenses	47,150	2,724	3,954	(1,166)	52,662
Operating income (loss)	¥ 3,399	¥ (131)	¥ 551	¥ 118	¥ 3,937

# Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2002 and 2001

## b. Assets, Depreciation and Capital Expenditures

	Millions of Yen				
	2002				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Assets	¥ 71,754	¥ 2,904	¥ 11,145	¥ 24,885	¥ 110,688
Depreciation	2,985	28	725	(4)	3,734
Capital expenditures	2,706	5	418		3,129

## a. Sales and Operating Income (Loss)

	Thousands of U.S. Dollars				
	2002				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Sales to customers	\$ 420,987	\$ 21,147	\$ 29,922		\$ 472,056
Intersegment sales	605	482	7,655	\$ (8,742)	
Total sales	421,592	21,629	37,577	(8,742)	472,056
Operating expenses	393,241	22,724	32,981	(9,724)	439,222
Operating income (Loss)	\$ 28,351	\$ (1,095)	\$ 4,596	\$ 982	\$ 32,834

## b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars				
	2002				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Assets	\$ 598,452	\$ 24,219	\$ 92,947	\$ 207,552	\$ 923,170
Depreciation	24,895	234	6,047	(31)	31,145
Capital expenditures	22,572	45	3,483		26,100

## a. Sales and Operating Income

	Millions of Yen					
	2001					
	Carbon and Graphite Products	Industrial Furnaces and Related Products	High-pressure Gas and Related Products	Others	Elimination/Corporate	Consolidated
Sales to customers	¥ 50,115	¥ 6,019	¥ 3,919	¥ 3,948		¥ 64,001
Intersegment sales	416	62	237	925	¥ (1,640)	
Total sales	50,531	6,081	4,156	4,873	(1,640)	64,001
Operating expenses	46,204	5,600	4,150	4,106	(1,580)	58,480
Operating income	¥ 4,327	¥ 481	¥ 6	¥ 767	¥ (60)	¥ 5,521

## b. Assets, Depreciation and Capital Expenditures

	Millions of Yen					
	2001					
	Carbon and Graphite Products	Industrial Furnaces and Related Products	High-pressure Gas and Related Products	Others	Elimination/Corporate	Consolidated
Assets	¥ 72,027	¥ 3,121		¥ 11,884	¥ 28,972	¥ 116,003
Depreciation	2,976	30	¥ 23	689	(6)	3,712
Capital expenditures	3,867	106	67	557	(4)	4,593

Note: With effect from the year ended December 31, 2002, three-segment classification was presented due to a decreasing materiality of high-pressure gas and related products segment for which the Company sold all interests in TOKAI SANGYO Co., Ltd., while four segments were presented in the consolidated financial statements previously reported for the year ended December 31, 2001.



## (2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended December 31, 2002 and 2001 are summarized as follows:

	Millions of Yen			
	2002			
	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 47,187	¥ 9,412		¥ 56,599
Interarea transfer	1,360	135	¥ (1,495)	
Total sales	48,547	9,547	(1,495)	56,599
Operating expenses	45,098	9,137	(1,573)	52,662
Operating income	¥ 3,449	¥ 410	¥ 78	¥ 3,937
Assets	¥ 106,061	¥ 10,144	¥ (5,517)	¥ 110,688

	Thousands of U.S. Dollars			
	2002			
	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 393,548	\$ 78,508		\$ 472,056
Interarea transfer	11,345	1,127	\$ (12,472)	
Total sales	404,893	79,635	(12,472)	472,056
Operating expenses	376,129	76,215	(13,122)	439,222
Operating income	\$ 28,764	\$ 3,420	\$ 650	\$ 32,834
Assets	\$ 884,579	\$ 84,602	\$ (46,011)	\$ 923,170

	Millions of Yen			
	2001			
	Japan	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 56,068	¥ 7,933		¥ 64,001
Interarea transfer	1,384	495	¥ (1,879)	
Total sales	57,452	8,428	(1,879)	64,001
Operating expenses	52,054	8,203	(1,777)	58,480
Operating income	¥ 5,398	¥ 225	¥ 102	¥ 5,521
Assets	¥ 111,436	¥ 10,306	¥ (5,739)	¥ 116,003

## (3) Sales to Foreign Customers

	Millions of Yen		
	2002		
	Asia	Others	Total
Overseas sales	¥ 13,605	¥ 6,780	¥ 20,385
Net sales			56,599
Ratio of overseas sales to net sales	24.0%	12.0%	36.0%

	Thousands of U.S. Dollars		
	2002		
	Asia	Others	Total
Overseas sales	\$ 113,467	\$ 56,552	\$ 170,019
Net sales			472,056

	Millions of Yen		
	2001		
	Asia	Others	Total
Overseas sales	¥ 13,279	¥ 7,376	¥ 20,655
Net sales			64,001
Ratio of overseas sales to net sales	20.8%	11.5%	32.3%

Note: The countries included in each segment are as follows:

- (1) Asia: Korea, China, Thailand, Indonesia, etc.  
(2) Others: North America, Europe

# *Independent Auditors' Report*

**Deloitte  
Touche  
Tohmatsu**

**Tohmatsu & Co.**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Shareholders of  
TOKAI CARBON Co., Ltd.:

We have examined the consolidated balance sheets of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



March 28, 2003

## Board of Directors (As of March 28, 2003)

### President

Shikio Ohtake

### Executive Vice Presidents

Hiroshi Yamazaki

Tetsuo Okazaki

### Senior Managing Director

Katsuhiko Namba

### Managing Directors

Takashi Takenaka

Kiyonari Nakai

### Directors

Yoshinari Kudo

Nobuyuki Murofushi

### Corporate Auditors

Tsunehisa Samukawa

Masahiro Kusaba

Toshio Nakada

Masanobu Dohki

## Corporate Data

### Date of Foundation

April 8, 1918

### Date of Incorporation

May 11, 1949

### Paid-in Capital

¥15,436 million as of December 31, 2002

### Authorized Shares

598,764,000 shares

### Outstanding Shares

204,089,391 shares

### Number of Shareholders

30,454

## Network

### Head Office

Aoyama Bldg. 2-3, Kita-Aoyama

1-Chome, Minato-ku, Tokyo

107-8636, Japan

Tel: +81-3-3746-5100

Fax: +81-3-3405-7205

### Branch Offices

Osaka Branch (Osaka)

Nagoya Branch (Aichi)

Fukuoka Branch (Fukuoka)

### Laboratories

Fuji Research Laboratory (Shizuoka)

Chita Research Laboratory (Aichi)

Hofu Research Laboratory (Yamaguchi)

Tanoura Research Laboratory

(Kumamoto)

### Industrial Complex

Shonan Industrial Complex (Kanagawa)

Chigasaki Plant

Chigasaki Second Plant

### Plants

Ishinomaki Plant (Miyagi)

Chita Plant (Aichi)

Shiga Plant (Shiga)

Hofu Plant (Yamaguchi)

Kyusyu Wakamatsu Plant (Fukuoka)

Tanoura Plant (Kumamoto)

### Overseas Office

Asia Pacific Office

(Singapore Representative Office)

### Overseas Affiliated Companies

Thai Tokai Carbon Product Co., Ltd.

(Thailand)

Tokai Carbon U.S.A., Inc. (U.S.A.)

Tokai Carbon Europe Ltd. (U.K.)

Tokai Carbon UK Ltd. (U.K.)

Tokai Carbon Portugal, Unipessoal,

LDA. (Portugal)

Tokai Carbon Italia S.R.L. (Italy)

Svensk Specialgratit AB (Sweden)

Tokai Carbon Korea Co., Ltd. (Korea)

SGL Tokai Carbon Ltd., Shanghai

(China)

MWI, Inc. (U.S.A.)



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