



Annual Report 2003

Year ended December 31, 2003

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 86 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, 2003 and 2002

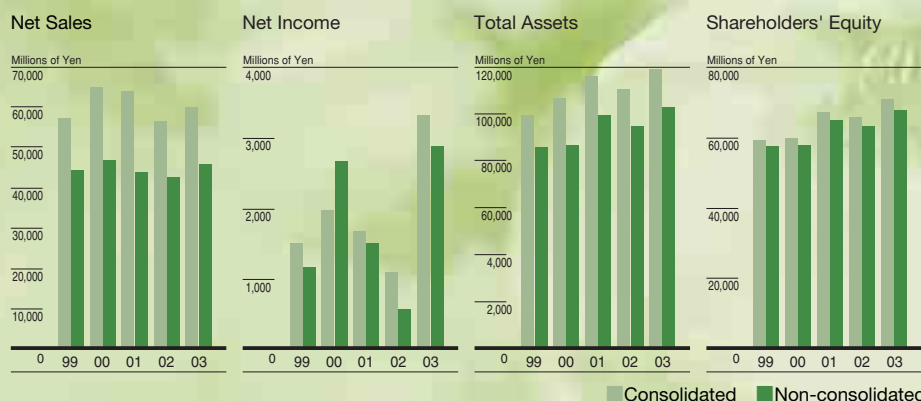
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
For the Year			
Net sales	¥59,853	¥56,599	\$558,695
Net income	3,322	1,088	31,008
At Year-End			
Total assets	¥119,004	¥110,668	\$1,110,842
Shareholders' equity	70,815	65,641	661,024
	Yen		U.S. Dollars
Per Share Data			
Net income	¥16.04	¥5.16	\$0.15
Cash dividends	5.00	5.00	0.05

Non-consolidated Financial Highlights

Tokai Carbon Co., Ltd.
Years ended December 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
For the Year			
Net sales	¥45,853	¥42,366	\$428,012
Net income	2,881	567	26,892
At Year-End			
Total assets	¥103,203	¥94,973	\$963,342
Shareholders' equity	67,898	63,088	633,792
	Yen		U.S. Dollars
Per Share Data			
Net income	¥14.00	¥2.78	\$0.13
Cash dividends	5.00	5.00	0.05

Profile and Financial Highlights.....	1
Message from the President	2
Review of Operations	3
Consolidated Five-Years Summary.....	4
Consolidated Balance Sheets	5
Consolidated Statements of Income...	7
Consolidated Statements of Shareholders' Equity	8
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	11
Independent Auditors' Report.....	21
Corporate Data.....	22



Message from the President



During the current year, the severe economic condition in Japan continued due to protracting deflation and stagnant personal consumption. Toward the latter half of the year, however, there was a general increase in Asia-directed exports, increased investments in plants and facilities (thanks to improved corporate profits), and an upward trend in share prices, which are in general indicators of an economic upturn.

Under such an economic environment, our group exerted great efforts to achieve the T-2003 Project, a three-year management commitment in its final year. We continued to promote our CD-10, a company wide cost reduction plan, starting in December 2001. In addition, each business division within Tokai Carbon endeavored to increase sales and R&D activities with the goal of achieving greater profits.

In the Carbon Black Business under the Carbon and Graphite Products Division, we raised our equity ratio in our subsidiary, Thai Tokai Carbon Product Co., Ltd. (TCP), and concurrently decided its production facility expansion. These actions address the strengthening of our supply capacity under intensifying global competition. The Fine Carbon Business organized a new structure, which integrates sales operations, R&D and technology, in order to successfully adapt to accelerating demands for rapid product development. Our affiliate, Tokai Carbon Korea Co., Ltd. (TCK) was newly registered on KOSDAQ (Korea Securities Dealers Automated Quotation). In the Friction Materials Business, the Brake Material Division of the Mitsubishi Material Group was purchased and incorporated into a subsidiary named Tokai Material Co., Ltd., for laying the foundation for Tokai Carbon as a producer of a comprehensive range of friction materials. Thus, company-wide and aggressive business strategies characterize our performance during the year 2003. In the Industrial Furnace and Related Products Division, Tokai Konetsu absorbed its subsidiary, TK Engineering Co., Ltd., and re-organized its operation centers and head office. This series of operations contributed to reducing overall costs and implementing effective production systems, resulting in the improvement of profit structure and corporate strength.

As a result, our sales reached ¥59,853 million, up ¥3,254 million (5.7%) from the previous year, and operating income ¥6,155 million, an increase by ¥2,218 million (56.4%). Net income was ¥3,322 million, an increase of ¥2,234 (205.2%) from the previous year.

The Japanese economy is likely to make a steady economic recovery thanks to continuing exports and greater investment in plants and facilities. However, a forecast dip in corporate earnings caused by the highly appreciated yen will be a major concern. The costs of raw materials are continuing to rise. Overall, the operating environment for our group is still far from optimistic.

Under these circumstances, we have established our management goals "T-2006" for the following three years starting from 2004. Our target is to improve business performance by fulfilling our corporate philosophy of 'reliability', operating fairly and in an environmentally friendly manner, while fully complying with global standards. "T-2006" is also instrumental for the promotion of the many-faceted operations of our Group with emphasis on carbon material, with all of the departments endeavoring to become a leading, international business entity. Our aim is to achieve a corporate profile recognized as a 'global leader of carbon materials'. More specifically, our efforts will be targeted at three areas: (1) Tackle Consolidated Return on Asset 8%; (2) Fully Utilize and Fully Operate Every Corporate Management Resource ("Wake up the Sleeping Bones"); and (3) Make a 5 Billion Yen New Business from our R&D efforts.

In addition to the aforementioned three major target areas, we will be quite busy in Asia this year. The development of the Carbon Black business in China needs to be assessed, while speeding up the progress of our Furnace Electrode joint venture, which has been established in Shanghai, and expanding manufacturing facilities at our Thai subsidiary. These comprise our efforts towards intensifying our production centers to meet and win global competition. Our R&D department continuously develops and creates products for new markets, which will be the successors to the fuel cell and others.

Enforcing thorough compliance with laws and regulations, engaging in business operations, which entail prospects for environmental preservation, and by applying meticulous attention to accident prevention at manufacturing sites, we are resolved to become an industry leader in good harmony with the world around us.

A handwritten signature in black ink, reading "Shikio Ohtake". The signature is fluid and cursive, written in a professional style.

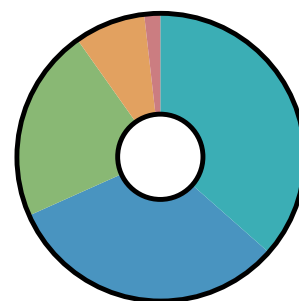
Shikio Ohtake
President

Review of Operations (Non-consolidated)

Sales by Category (%)

As of December 31, 2003

- Carbon Black Division 36.5%
- Graphite Electrode Division 31.8%
- Fine Carbon Division 21.9%
- Friction Materials Division 8.0%
- Others 1.8%



● Carbon Black Division

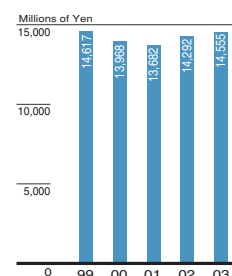
The tire industry is the largest client base of this business division. An increase in automobile production and export-market tires led to increased production output for this division. Our production for automobile parts and general rubber products also increased thanks to greater demands from the automotive and related industries. In this favorable condition, the sales volume of carbon black increased over the previous year. Price modifications implemented during the latter half of 2002 contributed to favorable overall sales, exceeding the previous year by 7.4%. As a result, the total sales for the Carbon Black Division reached ¥16,740 million.



● Graphite Electrode Division

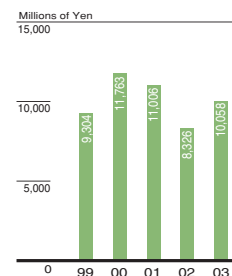
The Electric Arc Furnace industry, the major clientele of this business division, was able to maintain the production level as last year as exports to Asia, mainly Korea and China held its high level, even though demand from their respective construction sector remained stagnant. The demand from the specialty steel sector sustained, which allowed our customers to increase production, and our domestic sales volume of electrodes exceeded that of the previous year.

Demand from Korea and the Southeast Asian market was brisk, resulting in our overall increase in sales volume. However, this was somewhat offset by a modified price structure and the ongoing high valuation of the yen, thus sales revenues remained approximately at the same level as the previous year. As a result, the total sales for the Graphite Electrode division reached ¥14,555 million, which was an increase of 1.8% from the previous year.



● Fine Carbon Division

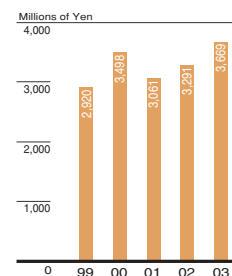
The semiconductor-related industries made a healthy rebound thanks to the rapid increase in digital home appliances, while the personal computer and cell phone markets continued to regain ground steadily. These favorable climates led to increased sales of products offered by this division, centered on silicon carbide products. Due also to the stepped up R&D efforts in the new energy-related industries, the sales of carbon products targeted at these industries increased. As a result, the total sales for the Fine Carbon Division reached ¥10,058 million, which was an increase of 20.8% from the previous year.



● Friction Materials Division

Despite the overall reduced production in the two-wheeled vehicle sector, the production of large two-wheel vehicles equipped with our products remained on par with the previous year, which translated as a slight increase in sales targeted at this sector. Another major clientele base, the construction machinery industry, enjoyed greater exports to China, North America and Europe. At the same time, the transportation as well as industrial machinery industries successfully recovered from their previously stagnant demand condition, improving the sales of this division geared toward such industries.

As a result, total sales for the Friction Material Division were ¥3,669 million, an increase of 11.5% over the previous period.



● Others

Sales from golf practice ranges and real estate leasing were ¥831 million, which was a drop of 4.2% from the previous period.

Consolidated Five-Years Summary

Tokai Carbon Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003, 2002, 2001, 2000 and 1999

	2003	Millions of Yen				Thousands of U.S. Dollars
		2002	2001	2000	1999	2003
For the Year :						
Net sales	¥ 59,853	¥ 56,599	¥ 64,001	¥ 64,900	¥ 57,117	\$ 558,695
Operating income	6,155	3,937	5,521	6,003	5,646	57,458
Net income	3,322	1,088	1,676	1,973	1,491	31,008
Capital expenditures	3,752	3,129	4,593	2,004	1,866	35,027
Research and development costs	1,340	1,246	1,202	1,222	1,307	12,513
At Year-End :						
Total assets	¥ 119,004	¥ 110,688	¥ 116,003	¥ 106,629	¥ 99,465	\$ 1,110,842
Shareholders' equity	70,815	65,641	67,157	59,395	59,344	661,024
Per Share Data :						
		Yen				U.S. Dollars
Net income	¥ 16.04	¥ 5.34	¥ 8.21	¥ 9.67	¥ 7.31	\$ 0.15
Total shareholders' equity	347.43	322.13	329.09	291.02	290.77	2.69
Cash dividends applicable to the year	5.00	5.00	5.00	5.00	5.00	0.05
Financial Ratios :						
		%				
Return on assets	2.89	0.96	1.51	1.91	1.51	
Return on equity	4.87	1.64	2.65	3.32	2.52	
Equity ratio	59.5	59.3	57.9	55.7	59.7	

Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 16,782	¥ 14,601	\$ 156,647
Receivables:			
Trade notes and accounts	20,273	19,280	189,240
Unconsolidated subsidiaries and associated companies	744	555	6,946
Allowance for doubtful receivables	(85)	(225)	(796)
Inventories (Note 4)	14,604	14,838	136,325
Deferred tax assets (Note 9)	650	359	6,066
Prepaid expenses and other current assets	1,244	1,438	11,612
Total current assets	54,212	50,846	506,040
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	8,429	7,929	78,677
Buildings and structures	39,496	39,315	368,676
Machinery and equipment	75,568	75,094	705,392
Furniture and fixtures	4,620	4,630	43,126
Construction in progress	928	159	8,660
Total	129,041	127,127	1,204,531
Accumulated depreciation	(94,641)	(92,537)	(883,422)
Net property, plant and equipment	34,400	34,590	321,109
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	22,428	17,662	209,355
Investments in and advances to unconsolidated subsidiaries and associated companies	1,015	1,283	9,472
Deferred tax assets (Note 9)	396	489	3,695
Other assets (Note 13)	6,553	5,818	61,171
Total investments and other assets	30,392	25,252	283,693
TOTAL	¥119,004	¥110,688	\$ 1,110,842

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 19,007	¥ 19,206	\$ 177,422
Current portion of long-term debt (Note 5)	408	705	3,808
Payables:			
Trade notes and accounts	8,787	8,659	82,020
Unconsolidated subsidiaries and associated companies	171	159	1,599
Income taxes payable	2,228	178	20,797
Accrued expenses	1,970	1,838	18,387
Other current liabilities	1,840	1,798	17,175
Total current liabilities	34,411	32,543	321,208
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	632	589	5,902
Liability for retirement benefits (Note 6)	969	923	9,050
Retirement allowances for directors and corporate auditors (Note 7)	331	369	3,092
Deferred tax liabilities (Note 9)	7,056	5,394	65,865
Other	724	699	6,752
Total long-term liabilities	9,712	7,974	90,661
MINORITY INTERESTS	4,066	4,530	37,949
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 13)			
SHAREHOLDERS' EQUITY (Notes 8 and 14):			
Common stock—authorized, 598,764,000 shares; issued, 204,089,391 shares in 2003 and 2002	15,436	15,436	144,087
Additional paid-in capital	10,874	10,874	101,500
Retained earnings	35,955	33,688	335,625
Net unrealized gain on available-for-sale securities	8,635	5,591	80,603
Foreign currency translation adjustments	3	113	26
Total	70,903	65,702	661,841
Treasury stock—at cost, 422,234 shares in 2003 and 317,245 shares in 2002	(88)	(61)	(817)
Total shareholders' equity	70,815	65,641	661,024
TOTAL	¥119,004	¥110,688	\$ 1,110,842

Consolidated Statements of Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES	¥59,853	¥ 56,599	\$ 558,695
COST OF SALES	43,643	42,682	407,380
Gross profit	16,210	13,917	151,315
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,055	9,980	93,857
Operating income	6,155	3,937	57,458
OTHER INCOME (EXPENSES):			
Interest and dividends	194	239	1,812
Interest expense	(357)	(461)	(3,331)
Exchange loss	(186)	(25)	(1,731)
Equity in (losses) gains of associated companies	(252)	1	(2,356)
Restructuring expenses		(338)	
Gain on sales of subsidiaries securities	216		2,015
Loss on devaluation of investment securities		(707)	
Other—net	(151)	(260)	(1,414)
Other expenses—net	(536)	(1,551)	(5,005)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,619	2,386	52,453
INCOME TAXES (Note 9):			
Current	2,567	622	23,961
Deferred	(268)	579	(2,498)
Total	2,299	1,201	21,463
MINORITY INTERESTS IN NET INCOME	(2)	97	(18)
NET INCOME	¥ 3,322	¥ 1,088	\$ 31,008
		Yen	U.S.Dollars
PER SHARE OF COMMON STOCK (Note 2.o):			
Net income	¥ 16.04	¥ 5.16	\$ 0.15
Cash dividends applicable to the year	5.00	5.00	0.05

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

	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, 2002	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)
Net income				3,322			
Cash dividends, ¥5.00 per share				(1,019)			
Bonuses to directors				(36)			
Increase in treasury stock (105 thousand shares)							(27)
Net decrease in unrealized gain on available-for-sale securities					3,044		
Net increase in foreign currency translation adjustments						(110)	
BALANCE, DECEMBER 31, 2003	204,089	¥ 15,436	¥ 10,874	¥ 35,955	¥ 8,635	¥ 3	¥ (88)

	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, 2002	\$ 144,087	\$101,500	\$314,459	\$ 52,192	\$ 1,051	\$(567)
Net income			31,008			
Cash dividends, \$0.04 per share			(9,510)			
Bonuses to directors			(332)			
Increase in treasury stock						(250)
Net decrease in unrealized gain on available-for-sale securities				28,411		
Net increase in foreign currency translation adjustments					(1,025)	
BALANCE, DECEMBER 31, 2003	\$ 144,087	\$101,500	\$335,625	\$ 80,603	\$ 26	\$(817)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 5,619	¥ 2,386	\$ 52,453
Adjustments for:			
Income taxes—paid	(413)	(1,294)	(3,851)
Depreciation and amortization	3,668	3,734	34,234
Amortization of consolidation differences	171	19	1,595
Increase in prepaid expense for pension cost	(37)	(488)	(346)
Exchange loss		116	
Exchange gain	(4)		(37)
Equity in losses of associated companies	252		2,356
Gain on sales of securities	(216)		(2,015)
Gain on sales of land		(146)	
Settlement payment for civil suit		118	
Loss on valuation of investment securities		707	
Restructuring expenses		338	
(Increase) decrease in trade notes and accounts receivable	(1,542)	393	(14,389)
Decrease in inventories	665	1,407	6,206
Increase in notes and accounts payable	208	105	1,938
Increase in provisional payment	(893)	(331)	(8,332)
Increase in consumption tax payable	117	2	1,089
(Increase) decrease in interest and dividend receivables	(2)	4	(23)
Increase (decrease) in interest payable	2	(2)	17
Payment of settlement payment for civil suit		(708)	
Other—net	588	48	5,492
Total adjustments	2,564	4,022	23,934
Net cash provided by operating activities	8,183	6,408	76,387
INVESTING ACTIVITIES:			
Proceeds from repayment of time deposit (payment for deposit)	202	(275)	1,885
Payment for purchase of property, plant and equipment	(3,007)	(3,568)	(28,064)
Proceeds from sales of property, plant and equipment	68	159	636
Payment for purchase of intangible fixed assets	(92)	(183)	(854)
Proceeds from sales of investment securities	317	545	2,956
Payment for transfer of business	(1,373)		(12,816)
Increase in investment in consolidated subsidiaries	(558)		(5,210)
Payment for investments		(510)	
Other		7	(3)
Net cash used in investing activities	(4,443)	(3,825)	(41,470)
FORWARD	¥ 3,740	¥ 2,583	\$ 34,917

(Continued)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
FORWARD	¥ 3,740	¥ 2,583	\$ 34,917
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(8)	(869)	(71)
Proceeds from long-term debt	459	318	4,285
Repayments of long-term debt	(673)	(652)	(6,283)
Dividends paid	(1,062)	(1,067)	(9,911)
Other	(26)	(56)	(251)
Net cash used in financing activities	(1,310)	(2,326)	(12,231)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(249)	(82)	(2,333)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,181	175	20,353
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,601	14,426	136,294
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 16,782	¥ 14,601	\$ 156,647

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

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 2002 financial statements to conform to the classifications used in 2003.

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 translation 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 ¥107.13 to \$1, the approximate rate of exchange at December 31, 2003. Such translation 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, 2003 include the accounts of the Company and its significant 20 (21 in 2002) 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 (4 in 2002) associated companies are accounted for by the equity method. Investments in the remaining 2 (2 in 2002) 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.

In January and June 2003, the Group established TOKAI CARBON PORTUGAL, LDA. and TOKAI MATERIAL Co., Ltd., with the Group owning all the shares of these companies, which have become consolidated subsidiaries of the Company during the year ended December 31, 2003.

In January 2003, TOKAI KONETSU KOGYO CO., LTD., a consolidated subsidiary, merged with TK ENGINEERING CO., LTD. (a subsidiary of TOKAI KONETSU KOGYO CO., LTD.).

In February 2003, TOKAI CARBON EUROPE LTD., a consolidated subsidiary, sold all the shares of GRAFITE TECHNOLOGIES MOLDES (PORTUGAL), LDA. and GRAFITE TECHNOLOGIES ELECTRODOS LDA., which were subsidiaries of TOKAI CARBON EUROPE LTD., to a third party.

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) 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 (2) available-for-sale securities, securities not classified as 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. Employees' Retirement Benefits

The Company and certain domestic consolidated subsidiaries have contributory funded pension plans. And other domestic consolidated subsidiaries have funded and unfunded retirement benefit plans.

Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

g. 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.

h. Research and Development Costs

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

i. 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.

j. 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.

k. 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.

l. 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.

m. 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.

n. 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 the 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.

o. Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period.

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, 2003 and 2002

3. INVESTMENT SECURITIES

Investment securities as of December 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current—Government and corporate bonds (included in prepaid expenses and other current assets)		¥ 40	
Non-current:			
Marketable equity securities	¥22,425	¥17,633	\$ 209,325
Trust fund investments and other	3	29	30
Total	¥22,428	¥17,662	\$ 209,355

The carrying amounts and aggregate fair values of marketable and investment securities at December 31, 2003 and 2002 were as follows:

	Millions of Yen			
	December 31, 2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥7,450	¥14,800	¥110	¥22,140
Debt securities by contractual maturities for securities classified as available-for-sale	11		4	7
	December 31, 2002			
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
	Thousands of U.S. Dollars			
	December 31, 2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$69,538	\$138,152	\$1,030	\$206,660
Debt securities by contractual maturities for securities classified as available-for-sale	109		41	68

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2003 and 2002 were as follows:

	Carrying Amount		Thousands of U.S. Dollars
	Millions of Yen		2003
	2003	2002	
Available-for-sale:			
Equity securities	¥ 278	¥ 278	\$ 2,596
Other	3	4	30
Total	¥ 281	¥ 282	\$ 2,626

Proceeds from sales of available-for-sale securities for the year ended December 31, 2003 were ¥277 million (\$2,582 thousand). Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥216 million (\$2,015 thousand) and ¥5 million (\$45 thousand), respectively, for the year ended December 31, 2003.

4. INVENTORIES

Inventories at December 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Merchandise	¥ 8	¥ 9	\$ 75
Finished products	3,368	3,401	31,438
Work in process	8,201	8,426	76,551
Raw materials and supplies	3,027	3,002	28,261
Total	¥14,604	¥14,838	\$136,325

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

Short-term bank loans at December 31, 2003 and 2002 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.375% to 6.75% and 1.375% to 26.00% at December 31, 2003 and 2002, respectively.

Long-term debt at December 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Long-term loans from banks and insurance companies due through at interest rates ranging from 1.68% to 7.0%	¥1,040	¥1,294	\$ 9,710
Less current portion	(408)	(705)	(3,808)
Long-term debt, less current portion	¥ 632	¥ 589	\$ 5,902

Annual maturities of long-term debt at December 31, 2003 were as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 408	\$ 3,808
2005	430	4,015
2006	192	1,790
2007	6	54
2008	4	43
Total	¥ 1,040	\$ 9,710

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥1,503 million (\$14,030 thousand) and current portion of long-term debt of ¥6 million (\$51 thousand) at December 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥ 5,859	\$54,693

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

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, 2003 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 6,276	\$58,581
Fair value of plan assets	(5,219)	(48,720)
Unrecognized actuarial gain	(800)	(7,463)
Prepaid expense for pension cost	712	6,652
Net liability	¥ 969	\$ 9,050

The components of net periodic benefit costs for the year ended December 31, 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 417	\$3,892
Interest cost	105	978
Expected return on plan assets	(92)	(858)
Amortization of actuarial gain	137	1,284
Other	38	351
Net periodic benefit costs	¥ 605	\$5,647

Assumptions used for the year ended December 31, 2003 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, 2003 and 2002 were ¥331 million (\$3,092 thousand) and ¥369 million, respectively.

8. SHAREHOLDERS' EQUITY

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

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without considerations as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥38,670 million (\$360,966 thousand) as of December 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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, 2003 and 2002.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at December 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Depreciation and amortization	¥ 266	¥ 194	\$ 2,482
Retirement and severance benefits	351	334	3,277
Allowance for officers' retirement benefits	133	155	1,237
Accrued enterprise tax	208		1,945
Unrealized gain on sale of assets eliminated in consolidation	164	169	1,535
Settlement payment for civil suit	181	181	1,686
Loss carryforward of subsidiaries	967	869	9,026
Valuation loss on investment securities	297	323	2,772
Other	367	453	3,424
Less valuation allowance	(910)	(897)	(8,493)
Deferred tax assets	2,024	1,781	18,891
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	5,874	4,142	54,830
Deferred profits on property for income tax purposes	1,559	1,622	14,550
Prepaid expense for pension cost	276	297	2,575
Other	325	266	3,040
Deferred tax liabilities	8,034	6,327	74,995
Net deferred tax liabilities	¥6,010	¥4,546	\$56,104

Net deferred tax liabilities presented in the consolidated balance sheets at December 31, 2003 and 2002 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current assets—deferred tax assets	¥ (650)	¥ (359)	\$ (6,066)
Investments and other assets—deferred tax assets	(396)	(489)	(3,695)
Long-term liabilities—deferred tax liabilities	7,056	5,394	65,865
Deferred tax liabilities	¥6,010	¥4,546	\$56,104

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 40%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease deferred tax liabilities—non-current by ¥339 million (\$3,162 thousand), increase income taxes—deferred by ¥45 million (\$421 thousand) and increase unrealized gain on available-for-sale securities by ¥294 million (\$2,742 thousand) in the consolidated financial statements for the year ended December 31, 2003.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,340 million (\$12,513 thousand) and ¥1,246 million for the years ended December 31, 2003 and 2002, respectively.

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

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, 2003 and 2002 was as follows:

As a lessee

	Millions of Yen			
	2003			2002
	Machinery and Equipment	Furniture and Fixtures	Total	Furniture and Fixtures
Acquisition cost	¥13	¥25	¥38	¥68
Accumulated depreciation	7	17	24	48
Net leased property	¥6	¥8	¥14	¥20

	Thousands of U.S. Dollars			
	2003			
	Machinery and Equipment	Furniture and Fixtures	Total	
Acquisition cost	\$124	\$226	\$350	
Accumulated depreciation	65	155	220	
Net leased property	\$59	\$71	\$130	

Future minimum lease payments:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
	Due within one year	¥6	¥12
Due after one year	8	8	76
Total	¥14	¥20	\$130

Paid lease fees and depreciation expense:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
	Paid lease fees	¥11	¥16
Depreciation expense	11	16	102

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

	Millions of Yen			
	2003			2002
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥90	¥16	¥26	¥132
Accumulated depreciation	61	11	25	97
Net leased property	¥29	¥5	¥1	¥35

	Thousands of U.S. Dollars			
	2003			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$836	\$152	\$247	\$1,235
Accumulated depreciation	566	100	239	905
Net leased property	\$270	\$52	\$8	\$330

Future minimum lease income:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥ 24	¥21	\$223
Due after one year	16	27	150
Total	¥ 40	¥ 48	\$373

The minimum rental commitments under noncancelable operating leases at December 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	4	¥ 4	\$34
Due after one year			3
Total	¥ 4	¥ 4	\$37

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, 2003 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheet at December 31, 2003 are excluded from disclosure of market value information.

The Company enters into derivative financial instruments, 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, 2003, the Group guaranteed borrowings of affiliated companies and employees, in the amount of ¥461 million (\$4,299 thousand).

On July 18, 2001, the Company was ordered to pay a fine of €24,500 thousand (¥3,277 million (\$30,586 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 (¥3,277 million (\$30,586 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 (¥3,277 million (\$30,586 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 (¥932 million (\$8,701 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. The provisional payment of €6,970 thousand (¥932 million (\$8,701 thousand)) is included in "Other assets" of "Investments and other assets."

14. SUBSEQUENT EVENTS

a. Advances in Carbon Black Manufacturing in China

On February 27, 2004, the Company's Board of Directors decided to establish a local subsidiary in the City of Tianjin in China to construct a carbon black manufacturing plant.

Name of the company: Tokai Carbon (Tianjin) Company Ltd.

Capital: Approximately ¥2 billion (total investment: approximately \$50 million)

Ownership: Tokai Carbon Co., Ltd. 80%, Sumitomo Corporation 10%, Sumitomo Corporation (China) Holding Ltd. 10%

Inauguration: April 2004

Plant completion: Spring 2006 (planned)

Location: Chemical Industry Park, Tianjin Economic and Technological Development Area (area: 150,000 m²)

Production capacity: Phase I: 40,000 tons per year (expansion planned up to 100,000 tons per year depending on demand)

b. Appropriations of Retained Earnings

The following appropriations of retained earnings at December 31, 2003 were approved at the Company's shareholders meeting held on March 30, 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Year-end cash dividends, ¥2.50 (\$0.02) per share	¥ 509		\$4,753
Bonuses to directors	30		275

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2003 and 2002

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, 2003 and 2002 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen				
	2003				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Sales to customers	¥ 54,088	¥ 4,545	¥ 1,220		¥ 59,853
Intersegment sales	72	52	920	¥ (1,044)	
Total sales	54,160	4,597	2,140	(1,044)	59,853
Operating expenses	48,534	4,369	1,745	(950)	53,698
Operating income	¥ 5,626	¥ 228	¥ 395	¥ (94)	¥ 6,155

b. Assets, Depreciation and Capital Expenditures

	Millions of Yen				
	2003				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Assets	¥ 74,080	¥ 8,943	¥ 5,244	¥ 30,737	¥ 119,004
Depreciation	2,998	165	505		3,668
Capital expenditures	3,325	133	294		3,752

a. Sales and Operating Income

	Thousands of U.S. Dollars				
	2003				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Sales to customers	\$ 504,879	\$42,426	\$11,390		\$ 558,695
Intersegment sales	678	481	8,583	\$ (9,742)	
Total sales	505,557	42,907	19,973	(9,742)	558,695
Operating expenses	453,033	40,783	16,288	(8,867)	501,237
Operating income	\$ 52,524	\$ 2,124	\$ 3,685	\$ (875)	\$ 57,458

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars				
	2003				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/Corporate	Consolidated
Assets	\$ 691,499	\$83,479	\$48,948	\$286,916	\$ 1,110,842
Depreciation	27,986	1,537	4,715	(4)	34,234
Capital expenditures	31,041	1,242	2,744		35,027

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

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

Notes: The industry segments had historically been based on the similarity of the products and markets through the fiscal year ended December 31, 2002.

However, that classification no longer meets the managerial organization of the Company. Therefore, in order to show the operations more adequately, the segment classification was changed during the year ended December 31, 2003, to better reflect the production styles and managerial organization of the Company.

Consequently, while the titles of each segment are unchanged, silicon carbide heating element which had previously belonged to the others are now reflected within the industrial furnaces and related products in the year ended December 31, 2003.

To conform to the segmentation used in 2003, the segment information of the year ended December 31, 2002, classified in accordance with the new standard is shown as below.

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	¥ 4,707	¥ 1,416		¥ 56,599
Intersegment sales	72	47	904	¥ (1,023)	
Total sales	50,548	4,754	2,320	(1,023)	56,599
Operating expenses	47,149	4,836	1,811	(1,134)	52,662
Operating income (loss)	¥ 3,399	¥ (82)	¥ 509	¥ 111	¥ 3,937

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	¥ 8,579	¥ 5,261	¥ 25,094	¥ 110,688
Depreciation	2,985	168	581		3,734
Capital expenditures	2,706	62	361		3,129

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended December 31, 2003 and 2002 are summarized as follows:

Millions of Yen				
2003				
	Japan	Others	Elimination/Corporate	Consolidated
Sales to customers	¥ 51,493	¥ 8,360		¥ 59,853
Interarea transfer	1,326	139	¥ (1,465)	
Total sales	52,819	8,499	(1,465)	59,853
Operating expenses	47,375	7,713	(1,390)	53,698
Operating income	¥ 5,444	¥ 786	¥ (75)	¥ 6,155
Assets	¥ 114,619	¥ 9,469	¥ (5,084)	¥ 119,004

Thousands of U.S. Dollars				
2003				
	Japan	Others	Elimination/Corporate	Consolidated
Sales to customers	\$ 480,660	\$78,035		\$ 558,695
Interarea transfer	12,380	1,298	\$ (13,678)	
Total sales	493,040	79,333	(13,678)	558,695
Operating expenses	442,218	71,998	(12,979)	501,237
Operating income	\$ 50,822	\$ 7,335	\$ (699)	\$ 57,458
Assets	\$1,069,910	\$88,390	\$ (47,458)	\$ 1,110,842

Millions of Yen				
2002				
	Japan	Others	Elimination/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

(3) Sales to Foreign Customers

Millions of Yen			
2003			
	Asia	Others	Total
Overseas sales	¥ 13,089	¥ 5,987	¥ 19,076
Net sales			59,853
Ratio of overseas sales to net sales	21.9%	10.0%	31.9%

Thousands of U.S. Dollars			
2003			
	Asia	Others	Total
Overseas sales	\$122,178	\$ 55,882	\$ 178,060
Net sales			558,695

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%

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



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits 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.

Deloitte Touche Tohmatsu

March 30, 2004

Directors, Auditors and Officers (As of March 30,2004)

Board of Directors and Executive Officers

Shikio Ohtake

President

Hiroshi Yamazaki

Executive Vice President

Tetsuo Okazaki

Executive Vice President

Katsuhiko Namba

Senior Managing Executive Officer

Takashi Takenaka

Managing Executive Officer

Kiyonari Nakai

Managing Executive Officer

Yoshinari Kudo

Executive Officer

Nobuyuki Murofushi

Executive Officer

Hideki Saito

Executive Officer

Corporate Auditors

Tsunehisu Samukawa

Corporate Auditor

Masahiro Kusaba

Corporate Auditor

Toshio Nakada

Corporate Auditor

Masanobu Dohki

Corporate Auditor

Executive Officers

Ryouji Murota

Managing Executive Officer

Kouichi Masuda

Managing Executive Officer

Ichiro Fukushima

Managing Executive Officer

Kohta Himeno

Managing Executive Officer

Hajime Nagasaka

Executive Officer

Shigeto Mori

Executive Officer

Hiroshi Hirama

Executive Officer

Corporate Data

Date of Foundation

April 8, 1918

Paid-in Capital

¥15,436 million as of December 31,2003

Authorized Shares

598,764,000 shares

Outstanding Shares

204,089,391 shares

Number of Shareholders

29,096

Network

Head Office

Aoyama Bldg. 2-3, Kita-Aoyama
1-Chome, Minato-ku, Tokyo
107-8636, Japan
Tel:03-3746-5100
Fax:03-3405-7205

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 R&D Center
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

Shanghai Representative Office (China)

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 Portugal, 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.)
Tokai Carbon (Tianjin) Co., Ltd. (China)



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