

Financial Results
For the Year Ended December 31, 2006 – Consolidated

February 14, 2007

Company name: **Tokai Carbon Co., Ltd.**
Listings: Tokyo Stock Exchange
Security code: 5301
URL: <http://www.tokaicarbon.co.jp/>
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Date of Board of Directors' Meeting: February 14, 2007
U.S. GAAP: Not adopted

1. Consolidated Financial Results for the Year Ended December 31, 2006
(January 1, 2006 to December 31, 2006)

(1) Operating Results

(Amounts rounded down to the nearest million yen)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2006	99,095	27.4	14,800	37.3	14,446	30.5	7,967	50.4
Year ended December 31, 2005	77,760	16.0	10,777	14.5	11,069	15.4	5,296	107.0

	Net income per share	Net income per share – fully diluted	Return on equity	Ordinary income/ Total assets	Ordinary income/ Net sales
	yen	yen	%	%	%
Year ended December 31, 2006	39.92	36.51	8.7	9.2	14.6
Year ended December 31, 2005	26.20	23.85	6.6	8.1	14.2

- Notes: 1. Investment gains or losses on the equity method:
Year ended December 31, 2006: ¥389 million
Year ended December 31, 2005: ¥235 million
2. Average number of shares issued and outstanding during the period (consolidated basis):
Year ended December 31, 2006: 199,596,928 shares
Year ended December 31, 2005: 199,093,322 shares
3. Changes in accounting method: No changes
4. Percentage figures shown in the net sales, operating income, ordinary income and net income columns represent year-on-year changes.

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
Year ended December 31, 2006	164,061	99,397	59.7	475.25
Year ended December 31, 2005	149,748	85,817	57.3	436.11

Note: Number of shares issued and outstanding at the end of the period (consolidated basis):
Year ended December 31, 2006: 205,972,509 shares
Year ended December 31, 2005: 196,595,757 shares

(3) Cash Flow Position

	Cash flows from operating activities	Cash flows from investment activities	Cash flows from financial activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 31, 2006	6,689	(8,365)	(611)	10,862
Year ended December 31, 2005	9,719	(11,817)	(4,324)	13,070

(4) Scope of consolidation and application of equity method

Number of consolidated subsidiaries: 19
Number of non-consolidated subsidiaries to which equity method is applicable: None
Number of affiliated companies to which equity method is applicable: 4

(5) Changes in the scope of consolidation or application of equity method

Consolidated subsidiaries:
Newly included: None Newly excluded: 1
Affiliated companies to which equity method is applicable:
Newly included: None Newly excluded: None

2. Forecast of Consolidated Earnings for the Year Ending December 31, 2007 (January 1, 2007 to December 31, 2007)

	Net sales	Ordinary income	Net income
	million yen	million yen	million yen
Interim	53,000	7,500	4,000
Full year	110,000	16,000	8,500

Note: Projected net income per share for full year: ¥41.27
Projected operating income: (Interim) ¥7,500 million (Full year) ¥16,000 million

* The above forecast incorporates certain assumptions and projections based upon which the future outlook and plans by the Company as announced in this document are formulated. Actual results may differ from the above forecast depending on various conditions. Please refer to the attachment for assumptions and other matters related to the forecast.

Tokai Carbon Co., Ltd.

Tokai Carbon group (the "Group") comprises Tokai Carbon Co., Ltd. (the "Company"), 23 subsidiaries, and 5 affiliates. Principal business fields of the Group, and respective positions of the Company, its subsidiaries, and affiliates within respective business fields, as well as their classification into business segments are as follows.

Carbon-product operations

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

The Company commissions Tokai Fine Carbon Machining Co., Ltd., Graphite Chemical Engineering Co., Ltd. and Oriental Sangyo Co., Ltd. with processing of fine-carbon products.

Oriental Sangyo Co., Ltd. is also engaged in production and sale of pencil lead-cores.

Tokai Material Co., Ltd. and Mitomo Brake Co., Ltd. are engaged in production and sale of friction materials.

Tokai Techno-Trading Co., Ltd. is engaged in sale of fine-carbon products and artificial graphite electrodes.

Overseas, in Thailand Thai Carbon Product Company Limited engages in production and sale of carbon black. In China, Tokai Carbon (Tianjin) Co., Ltd. engages in production and sale of carbon black. In the U.S., Tokai Carbon U.S.A., Inc. and MWI, Inc. engage in production and sale of fine-carbon products. In Europe, ERFTCARBON GmbH engages in production and sale of artificial graphite electrodes, Tokai Carbon Europe, Ltd., Tokai Carbon UK Ltd., Tokai Carbon Italia S.R.L, Svensk Special Grafrit AB, CARBON INDUSTRIE-PRODUKTE GmbH, CARBON-MECHANIK GmbH, engage in business activities related to fine-carbon products.

Furthermore, Tokai Carbon Korea Co., Ltd. established as a joint venture in Korea, is engaged in production and sale of fine carbon products, while SGL Tokai Carbon Ltd., Shanghai in China, another joint venture, engages in processing and selling of artificial graphite electrodes, and DALIAN TOKAI-JINQI-FUJI CARBON CO., LTD. is engaged in processing and selling of fine carbon products.

Industrial furnaces and related-products operations

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

The volume of business between Tokai Carbon and Tokai Konetsu Kogyo Co., Ltd. is minimal.

Other operations

The Company engages in real estate rental operations.

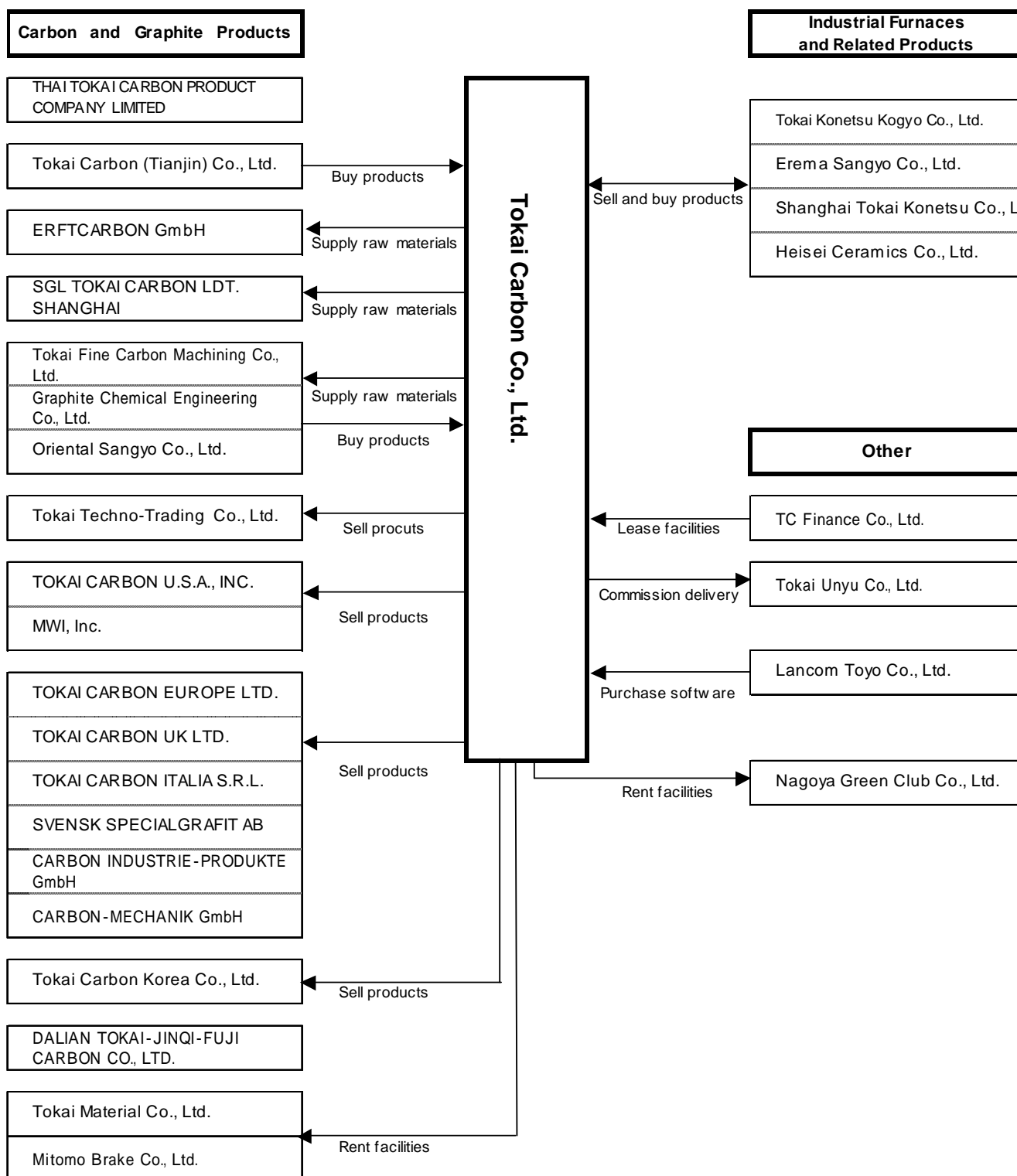
TC Finance C., Ltd. is engaged in equipment lease operations. The Company is a lessee of some equipment leased from TC Finance.

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

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

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

Group Structure



- Notes:
1. : Consolidated subsidiaries, : Non-consolidated subsidiaries to which equity method is not applicable, : Affiliated companies to which equity method is applicable.
 2. The Company acquired equity in DALIAN TOKAI-JINQI-FUJI CARBON CO., LTD., making it an affiliate as of April 12, 2006.
 3. Tokai Seikoeng Co., Ltd. (TSE) took over the fine carbon business from Graphite Chemical Engineering Co., Ltd. (GCE) by a corporate split agreement between GCE and TSE as of September 1, 2006. TSE changed its company name to Tokai Fine Carbon Machining Co., Ltd. on

the same date.

4. Tokyo Seiko Corporation (TSC) is excluded from the scope of consolidation, for the Company sold all of its equity in TSC as of September 25, 2006.
5. The Company acquired equity in CARBON INDUSTRIE-PRODUKTE GmbH and CARBON-MECHANIK GmbH, making them subsidiaries as of December 22, 2006.

Management Policy

1. Basic Corporate Philosophy

Predicated on the corporate ideal of “Reliability,” the Group uses as basic policies for its actions the principles of fair corporate activity, harmonious relations with nature, and international cooperation, aiming to become the “Global Leader of Carbon Materials” in and outside Japan by supplying high-quality products centered on carbon materials.

Through these corporate activities, the Group has been working to enhance its corporate infrastructure, achieve optimal utilization of management resources and reinforce cost competitiveness and technology development strength. By striving to secure sustainable growth of earnings, the Group seeks to fulfill the expectations of its shareholders, customers, employees as well as local communities and all other stakeholders, and is working to contribute to the development of society acting as a responsible corporate citizen.

2. Dividend Policy

The Company’s dividend policy calls for dividends to be determined based on its earnings position viewed over the medium term. The policy, while aiming to strengthen the corporate infrastructure of the entire Tokai Carbon Group, improve the corporate value and expand shareholder profits, also takes into consideration factors such as enhancement of internal reserves. In addition to using them to invest in strategic new businesses through measures including M&As, further improve efficiency of existing operations and strengthen the financial position, the Company intends to manage its internal reserves to fund sustained and stable distribution of dividends. The Company plans to pay a year-end dividend of 4.0 yen, an increase of 1.0 yen per share of common stock compared with the previous term. With this, the annual dividend payout, including the interim dividend, will be 7.0 yen, an increase of 1.0 yen per share of common stock, making it the second consecutive year of increase in dividend payouts.

3. Philosophy and Policy Regarding Lowering of Minimum Trading Unit

While the Company considers that lowering of minimum trading unit of its stock is one of effective means for improving liquidity of the Company shares and facilitating further participation from a wider scope of investors, the Company intends to give careful consideration to the implementation and its handling by making comprehensive assessment of the stock market movements in the future.

4. Management Goals and Objectives

The Group considers net sales, operating margin, ROA (recurring profit / total assets) and ROE (net profit / equity) as important management indices.

5. Medium Term Management Strategies

Building on the successes of the “T-2006” business plan, which concluded in 2006, the Group has set its new three-year management plan “T-2009” with 2007 as the starting year. Under “T-2009,” the Group aims to achieve net sales of 130 billion yen, operating margin of 15% and both ROA and ROE of 10% after three years. The Group will implement the following strategies to achieve the above objectives.

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

The Group aims to be the global leader in carbon materials manufacturing in order to ensure superiority in sales size, earnings power, technical prowess and product development capabilities, by giving priority to activation of human resources by way of increased personnel exchange among group companies including overseas affiliates as well as by nurturing and strengthening personnel required for ensuring successful global expansion.

(2) Reinforcement of research and development-based products and revolutionary technologies

The Group will endeavor to increase the speed of development of highly functional and reliable products by promoting joint development with other companies and educational and public

institutions as well as by upgrading inter-group and inter-divisional cooperation. Also, the Group will place emphasis on strengthening of activities that would drive the Company's growth such as development of manufacturing technology that can progressively boost the added values and reform of the business process.

(3) Enhancement of CSR activities including environmental protection

Building on its existing sincere efforts in this regard, the Group, as an energy-intensive industry, would further strengthen its activities related especially to prevention of global warming (reduction of CO2 emission units).

6. Issues to be Addressed

The global economy on the whole has been maintaining the trend of robust expansion. In Japan, in addition to the strong exports and capital investment, personal consumption is also expected to recover albeit slowly.

While there remain concerns regarding advancing supply-demand imbalance due to excessive production of steel, etc. in China as well as those over crude oil price and foreign exchange fluctuations, the Group, in general, intends to continue enhancing quality and production capacity through capital investment among other methods in response to the robust demand driven by strong worldwide economic growth. On the sales front, the Group will promote sales development with an eye on the next phase of capacity increase at the new plant in Tianjin, China. In addition to achievement of the above mentioned goals under the new three-year management plan "T-2009" with 2007 as the starting year, the Group aims to shorten the time it takes to develop new products that are sprouting within the Group while paying close attention to ensuring safety and environmental conservation, the very basic aspects of manufacturing. At the same time, the Group is determined to make further efforts to develop internal control system required by the new Company Law and implement compliance and CSR activities to address requirement of the times.

7. Matters Related to the Parent Company

N/A

8. Other Important Management Issues

N/A

Business Results and Financial Position

1. Business Results

During the twelve months under review, the Japanese economy faced renewed concerns when the crude oil prices that had been hovering at high levels since 2005 again increased at the beginning of autumn. The prices, however, fell by the end of 2006 to the levels recorded at the beginning of the year, providing a sense of relief.

The real economy remained strong supported by firm exports and healthy capital investments and corporate performance showed further improvement, backed by the high growth rates due to the so-called simultaneous economic boom in most of regions and countries around the world including the U.S., Europe and BRICs countries. Under such circumstances, domestic and overseas demand for rubber products, steel, semiconductors, construction machinery and IT equipment, which form the Group's client industries, expanded strongly.

Overall performance of the Group

In response to brisk demand from all fields, the Group continued with full-capacity production and further cost reduction efforts. At the same time, the Group adjusted its selling prices in as much as cost absorption by own means alone was impracticable, all the while asking for customers' understanding. In addition, it proactively built new production facilities both in Japan and abroad as well as development and enhancement of such facilities at all divisions to fulfill its responsibility of supply in preparation for further future demand growth. Moreover, from the perspective of business consolidation and promotion of business globalization, the Group implemented measures such as turning a publicly traded subsidiary into a wholly owned one and taking over a foreign business following a similar move it made last year.

As a result, consolidated net sales for the period under review rose 27.4% on the year to 99,095 million yen, approaching the 100,000 million yen level. Consolidated operating income jumped 37.3% to 14,800 million yen. Ordinary income rose 30.5% to 14,446 million yen, as the company booked foreign exchange gain under non-operating income thanks to a weaker yen. Consolidated net income surged 50.4% on year to 7,967 million yen. The fiscal year under review was the final year of the three-year management plan "T-2006." The Group achieved all the goals and succeeded in posting record profits for the third consecutive year.

Carbon products division

On the production side, the Group's manufacturing capability of carbon black in Asia was significantly enhanced, as the new plant in Tianjin, China, which started full-scale operation in February 2006, is taking off in addition to the three domestic production bases and the Thai plant that has the biggest capacity in both Japan and abroad as a result of a series of capacity expansion. On the sales front, domestic and overseas demand by the tire and auto parts industries remained robust and the Group succeeded in increasing shipments in a timely manner using its enhanced capacity. Coupled with price hikes in response to higher raw material and crude oil prices, the factors contributed to a substantial increase in net sales of the Group.

The collective strengths of the graphite electrodes business were largely increased, as the Japan-Europe alliance with ERFTCARBON GmbH of Germany, which the Company bought in July 2005, entered into full-scale operation. Contributions from the newly acquired ERFTCARBON along with robust demand for steel production both in Japan and overseas, increases in export prices and a weaker yen significantly contributed to boost net sales

The Group has been boosting its production capability for fine carbon products in response to worldwide expansion in demand. During the fiscal year under review, the Group made a strategic move for future growth both in Japan and abroad. This includes capacity expansion for isotropic graphite and other products in Japan, establishment of a jointly-owned processing and sales company in Dalian, China and acquisition of a processing and sales company in Germany. Sales of the products briskly increased, reflecting continued strong demand by the mainstay semiconductor industry and brisk performance by the domestic and overseas new energy industry.

In the friction materials business, the Group embarked on expansion of production facilities faced by stronger-than-expected demand. The business saw favorable growth, driven by solid demand in

construction machinery and large-size motorcycle as well as strong sales to agricultural machinery manufacturers in the first half of the year.

As all of the four core businesses showed strong performances, divisional consolidated net sales increased 28.3% on year to 90,811 million yen. Consolidated operating income of the division rose 36.5% to 13,426 million yen on cost cutting efforts, passing of prices increases for some raw materials to selling prices and the impact of a weaker yen.

Industrial furnaces and related-products division

Sales of heating elements and heating devices were strong, reflecting steady orders thanks to the recovery in investment activity by IT-related industries, the main user of these products, leading to increased sales of the division.

As a result, consolidated divisional net sales increased 22.9% on year to 7,570 million yen and operating income jumped 35.8% to 977 million yen, driven by the effect of reorganization of operation sites in 2005 and improved performance at a Chinese subsidiary.

Other operations

Revenues from real estate rental declined 13.4% on year to 713 million yen, while operating income of other operations rose 8.5% to 400 million yen.

2. Financial Position

(1) Cash flows

Consolidated net cash and cash equivalents at the end of the period under review decreased 2,207 million yen from the end of the previous fiscal year to 10.862 million yen. Consolidated cash flows and their underlying main factors for the period under review are as follows:

(i) Cash Flow from Operating Activities

Consolidated net cash provided by operating activities totaled 6,689 million yen, representing a decline of 3,030 million on the year. While pretax income rose 3,747 million yen compared with a year earlier to 13,715 million yen, trade receivables, inventories and advance payment increased.

(ii) Cash Flow from Investing Activities

Consolidated net cash used in investing activities totaled 8,365 million yen (a decline of 3,451 million yen on the year). This reflects a 3,030 million yen decrease in purchase of tangible fixed assets compared with the previous year, when there was a large-scale investment in the new carbon black factory of Tokai Carbon (Tianjin) Co., Ltd., etc.

(iii) Cash Flow from Financing Activities

Consolidated net cash used in financing activities totaled 611 million yen (3,712 million yen lower than a year earlier), reflecting an increase in loans at Tokai Carbon (Tianjin) Co., Ltd.

(2) Cash Flow Indicators

	Year ended Dec. 31, 2002	Year ended Dec. 31, 2003	Year ended Dec. 31, 2004	Year ended Dec. 31, 2005	Year ended Dec. 31, 2006
Shareholders' equity ratio (%)	59.3	59.5	59.5	57.3	59.7
Equity ratio based on current market value	31.8	51.0	63.7	71.9	106.2
Years to repay debt (years)	3.2	2.4	1.7	2.2	3.4
Interest coverage ratio (X)	13.8	23.0	41.3	18.9	9.5

(Notes) Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholder's equity ratio based on current market value: Market capitalization / Total assets

Years needed to repay debt: Interest-bearing debt / Operating cash flows \times 2

Interest coverage ratio: Operating cash flows / Interest paid

1. The above indicators are calculated based on the figures taken from the consolidated financial results.
2. "Market capitalization" is calculated based on the closing stock price of the Company at the end of the respective accounting period multiplied by the number of shares issued and outstanding (excluding treasury stock) at the end of corresponding period.
3. "Interest-bearing debt" refers to all interest-bearing debt and zero coupon yen convertible bonds (convertible bond-type bonds with stock acquisition rights) that are recognized as liabilities on the consolidated balance sheets.
4. "Operating cash flows" and "interest paid" are taken from the corresponding items in the consolidated cash flow statements under review respectively.

3. Outlook for Year Ending December 31, 2007

Financial forecasts of the Group for the current fiscal year, predicated on a foreign exchange rate of US\$1/¥110, are consolidated net sales of 110,000 million yen, operating income of 16,000 million yen, ordinary income of 16,000 million yen, and net income of 8,500 million yen. Consolidated net cash and cash equivalents at the end of the current fiscal year are estimated to total approximately 10,000 million yen.

On a non-consolidated basis, the Company expects to post net sales of 65,000 million yen, operating income of 11,000 million yen, ordinary income of 11,000 yen, and net income of 6,500 million yen.

The Company plans to pay an interim dividend of 3.0 yen per share of common stock and year-end dividend of 4.0 yen per share of common stock, for a total annual dividend of 7.0 yen per share.

4. Business and Other Risks

This section describes the Group's business and other risks that are thought to have material influence on investors' decisions. The following does not necessarily cover all the risks associated with the Group. It should be noted that the following contains forward looking statements based on judgments made as of the dissemination date hereof (February 14, 2007).

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

The Group operates business globally through active sales operation in both domestic and overseas markets with production bases in Asia, Europe and the U.S. Therefore, sales of the Group's products are always affected by changes in global and Japanese economic conditions. The Group strives to promote productivity improvement and cost reduction to build a business structure that is not easily affected by the changes in business environment. Nevertheless,

declines in demand from associated industries and economic slowdowns in regions where the Group's products are sold may have significant negative impact on the Group's business results and financial standings.

(2) Risks associated with overseas operations

The Group is moving forward with expansion into overseas markets and overseas sales accounted for 43.8% of the Group's consolidated net sales last year. Risks associated with the overseas expansion include worsening of political and economic situation with respect to the markets, regulations on imports, unexpected revisions of statutes, deterioration of public order, riots, terrorist attacks, and wars. Occurrence of these conditions may affect the Group's business results and financial position. In particular, in recent years the Group has been expanding its carbon black and fine carbon businesses in China – it has established a carbon black manufacturing and sales base in the country in response to growing demand for tires there and a fine carbon processing and sales base to meet the increasing demand for semiconductor-related carbon materials. Therefore, changes in political and economic climate in China in particular could have a significant impact on the Group's business results. The Group's overseas sales are detailed in "An outline by business segment" in "Business Results and Financial Position" section of this document.

(3) Foreign exchange fluctuations

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

(4) Price competition

As a leading company in carbon products, which is its main products, the Group aims to provide high quality products at lower prices, and thereby further solidify its competitive edge and achieve a highly profitable corporate structure. However, competitors' moves to enhance their product capabilities and lower selling prices, etc. may expose the Group's products to fierce price competition, which may lead to a lower market share and declines in net sales at the Group and may have a significant impact on the Group's business results.

(5) Rise in raw material prices

The Group procures raw materials from a number of domestic and overseas suppliers in order to ensure stable supply of raw materials and maintain optimal prices. However, tightness in supply of various raw materials including crude oil caused by the briskly expanding demand in emerging economies led by BRICs countries may lead to significant fluctuation in raw material prices. Against such events, the Group is making efforts to minimize their impact on its business results through measures including strengthening of its cost competitiveness, passing of price rises on to product prices, and cultivation of new suppliers. However, in the event of extreme difficulty in procuring raw materials or further hikes in raw material prices, these may adversely affect the Group's business results.

(6) Research and development

In the business fields where the Group operates, there are competing companies that supply products that are similar to what the Group offers. With the aim of maintaining its competitive edge, the Group first carefully selects targeted markets and then engages in research and development as well as commercialization. However, failure to properly respond to changes in technologies and customer requirements or prolonged development periods may hurt the Group's growth potential and profitability and adversely affect the Group's business results and

financial standings.

(7) Intellectual property rights

The Group holds a wide variety of patents and trademarks and has acquired intellectual property related rights. The Group also strives to strictly control its intellectual property assets and constantly monitors possible infringement by a third party. However, the Group may encounter difficulty in fully protecting its intellectual property rights from infringement by a third party, which may adversely affect the Group's business activity. Also, should the Group's proprietary products inadvertently infringe other party's intellectual property rights, the Group could be subject to damage compensation and it may affect its business results.

(8) Environmental regulations

The Group's core businesses are resource- and energy-intensive with high environmental impact. Although the Group strives to reduce the environmental load of its businesses through establishment of facilities, enhancement of control structure and improvement of productivity, future application of stricter environment-related statutes and higher social requirement for environmental responsibilities may have an adverse effect on the Group's business results and financial standings.

(9) Securities held by the Group

The Group holds shares in financial institutions and customers, and therefore may be affected by stock price movements. The Group uses no hedging instruments to protect itself from the movements in stock prices. Information regarding market value of the securities held by the Group is disclosed in the footnotes in "Business Results and Financial Position" section of this document.

(10) Regulatory environment, etc.

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

(11) Legal disputes

Although currently there are few possibilities of new legal disputes that may materially affect the Group's financial position and business results, occurrence of such disputes in the future may have a material impact on the Group's business results.

(12) Natural disasters and large-scale accidents

The Group focuses its efforts on ensuring safety and preventing accidents in its plants, which it sees as a critical element in manufacturing operations. However, natural and man-made disasters, such as earthquakes, typhoons, floodings and terrorist attacks, may hamper the Group's manufacturing operation, severely damage social infrastructure and cause other situations beyond anticipation. In such events, the Group's business results may not be insulated from large impacts from disasters or accidents.

Consolidated Balance Sheets

(In million yen)

	As of December 31, 2006		As of December 31, 2005		Change
	Amount (A)	%	Amount (B)	%	Amount (A) - (B)
Assets					
I. Current assets					
Cash and cash equivalents	9,009		9,718		(709)
Notes and accounts receivable	33,243		26,500		6,742
Inventories	24,542		19,742		4,799
Deferred tax assets	724		471		253
Short-term loans	1,999		3,500		(1,500)
Other	3,067		1,481		1,586
Allowance for doubtful accounts	(63)		(66)		3
Total current assets	72,524	44.2	61,349	41.0	11,174
II. Fixed assets					
1. Tangible fixed assets					
Buildings and structures	12,038		11,419		618
Machinery, equipment and vehicles	18,898		12,618		6,280
Furnaces	2,098		1,982		116
Land	7,227		7,175		51
Construction in process	1,832		6,729		(4,897)
Other	1,061		883		177
Total tangible fixed assets	43,156		40,809		2,347
2. Intangible fixed assets					
Software	766		485		280
Consolidation adjustments	574		517		56
Other	23		27		(4)
Total intangible fixed assets	1,363		1,030		332
3. Investments and other assets					
Investment securities	43,151		44,128		(976)
Deferred tax assets	528		236		291
Other	3,531		2,383		1,147
Allowance for doubtful accounts	(194)		(189)		(4)
Total investment and other assets	47,017		46,559		458
Total fixed assets	91,537	55.8	88,399	59.0	3,138
Total assets	164,061	100.0	149,748	100.0	14,313

(In million yen)

	As of December 31, 2006		As of December 31, 2005		Change
	Amount (A)	%	Amount (B)	%	Amount (A) – (B)
Liabilities					
I. Current liabilities					
Account payable	14,297		12,227		2,070
Short-term borrowings	13,599		10,868		2,731
Current portion of long-term debt	103		207		(103)
Income taxes payable	4,229		2,336		1,893
Consumption tax payable	329		19		309
Accrued expense	1,809		2,070		(261)
Reserve for bonuses	202		214		(11)
Other	3,242		2,958		283
Total current liabilities	37,815	23.0	30,904	20.7	6,911
II. Fixed liabilities					
Bond with warrants attached	8,448		10,000		(1,552)
Long-term debt	922		3		919
Deferred tax liabilities	13,279		14,340		(1,060)
Provision for retirement benefits	2,261		2,153		107
Retirement allowance for directors	239		381		(142)
Retirement allowances for executive officers	67		-		67
Provision for environment and safety measures	727		-		727
Other	901		860		40
Total fixed liabilities	26,848	16.4	27,739	18.5	(891)
Total liabilities	64,663	39.4	58,643	39.2	6,019
Minority interests					
Minority interests	-	-	5,287	3.5	-
Shareholders' equity					
I. Common stock	-	-	15,436	10.3	-
II. Additional paid-in capital	-	-	10,875	7.2	-
III. Retained earnings	-	-	41,579	27.8	-
IV. Unrealized gain/loss on other securities	-	-	20,647	13.8	-
V. Foreign currency translation adjustments	-	-	424	0.3	-
Treasury stock	-	-	(3,145)	(2.1)	-
Total shareholders' equity	-	-	85,817	57.3	-
Total liabilities, minority interests and shareholders' equity	-	-	149,748	100.0	-

(In million yen)

	As of December 31, 2006		As of December 31, 2005		Change
	Amount (A)	%	Amount (B)	%	Amount (A) – (B)
Net assets					
I. Shareholders' capital					
Common stock	16,212	9.9	-		-
Additional paid-in capital	13,284	8.1	-		-
Retained earnings	48,295	29.4	-		-
Treasury stock	(1,403)	(0.9)	-		-
Total Shareholders' capital	76,387	46.6	-		-
II. Valuation and translation adjustments					
Net unrealized gains/losses on other securities	19,805	12.1	-		-
Deferred hedge gain/loss	(10)	(0.0)	-		-
Foreign currency translation adjustments	1,705	1.0	-		-
Total Valuation and translation adjustments	21,500	13.1	-		-
III. Minority interests	1,509	0.9			
Total net assets	99,397	60.6			
Total liabilities and net assets	164,061	100.0			

Consolidated Statements of Operations

(In million yen)

	Year ended December 31, 2006		Year ended December 31, 2005		Change
	Amount (A)	%	Amount (B)	%	Amount (A) - (B)
I. Net sales	99,095	100.0	77,760	100.0	21,334
II. Cost of sales	69,768	70.4	54,701	70.3	15,066
Gross profit	29,327	29.6	23,059	29.7	6,267
III. Selling, general and administrative expenses	14,526	14.7	12,281	15.8	2,245
Selling expenses	5,168		4,203		964
General and administrative expenses	9,358		8,077		1,280
Operating income	14,800	14.9	10,777	13.9	4,022
IV. Non-operating income	1,721	1.8	1,648	2.1	73
Interest income	61		20		40
Dividend income	388		266		121
Rental income	281		280		0
Foreign exchange gain	117		436		(319)
Equity in income of non-consolidated subsidiaries and affiliates	389		235		153
Other non-operating income	483		407		75
V. Non-operating expense	2,075	2.1	1,356	1.8	719
Interest expense	706		514		192
Other non-operating expense	1,368		841		526
Ordinary income	14,446	14.6	11,069	14.2	3,376
VI. Extraordinary income	362	0.3	447	0.6	(85)
Gain on sale of fixed assets	271		437		(165)
Gain on sale of subsidiary shares	55		-		55
Gain on sale of investment securities	32		-		32
Reversal for allowance for doubtful accounts	2		5		(2)
Gain on liquidation of subsidiaries	-		4		(4)
VII. Extraordinary losses	1,093	1.1	1,549	2.0	(456)
Provision for environment and safety measures	727		-		727
Restructuring expenses	240		976		(735)
Loss on disposal of fixed assets	103		2		101
Special retirement benefits	20		16		4
Loss on litigation in Europe	-		436		(436)
Impairment losses	-		69		(69)
Foreign exchange loss	-		46		(46)
Loss on sale of fixed assets	-		1		(1)
Loss on sale of golf membership	-		1		(1)
Income before income taxes	13,715	13.8	9,967	12.8	3,747
Income taxes, inhabitants tax, and enterprise taxes	6,519	6.6	3,909	5.0	2,610
Income taxes adjustments	(850)	(0.9)	332	0.4	(1,182)
Minority interests in income of consolidated subsidiaries	78	0.1	429	0.6	(351)
Net income	7,967	8.0	5,296	6.8	2,671

Statements of Changes in Shareholders' Capital
(January 1, 2006 – December 31, 2006)

(In million yen)

	Shareholders' Capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' capital
Balance as of December 31, 2005	15,436	10,875	41,579	(3,145)	64,745
Change during the period					
Issuance of new shares	776	2,405			3,181
Cash dividends			(1,179)		(1,179)
Payment of directors' bonuses			(72)		(72)
Net income			7,967		7,967
Purchase of treasury stock				(1,270)	(1,270)
Sale of treasury stock		3		3,011	3,015
Net change in items other than shareholders' capital during the period					
Total change during the period	776	2,408	6,715	1,741	11,642
Balance as of December 31, 2006	16,212	13,284	48,295	(1,403)	76,387

(In million yen)

	Valuation and translation adjustments				Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of December 31, 2005	20,647		424	21,071	5,287	91,104
Change during the period						
Issuance of new shares						3,181
Cash dividends						(1,179)
Payment of directors' bonuses						(72)
Net income						7,967
Purchase of treasury stock						(1,270)
Sale of treasury stock						3,015
Net change in items other than shareholders' capital during the period	(842)	(10)	1,281	429	(3,778)	(3,348)
Total change during the period	(842)	(10)	1,281	429	(3,778)	8,293
Balance as of December 31, 2006	19,805	(10)	1,705	21,500	1,509	99,397

Consolidated Statements of Additional Paid-in Capital and Retained Earnings

(In million yen)

	Year ended December 31, 2005
	Amount
(Additional Paid-in Capital)	
I. Balance, beginning of period	10,874
II. Increase in additional paid-in capital	0
Gain on sale of treasury stock	0
III. Balance, end of period	10,875
(Retained Earnings)	
I. Balance, beginning of period	37,447
II. Increase in retained earnings	5,296
1. Net income	5,296
III. Decrease in retained earnings	1,163
1. Dividend	1,098
2. Directors' bonus	65
IV. Balance, end of period	41,579

Consolidated Statements of Cash Flows

(In million yen)

	Year ended December 31, 2006	Year ended December 31, 2005
	Amount	Amount
I. Cash flows from operating activities:		
1. Income before income taxes	13,715	9,967
2. Depreciation and amortization	5,111	4,164
3. Amortization of consolidation goodwill	1,147	511
4. Decrease in allowance for doubtful accounts	(0)	(10)
5. Decrease in reserve for bonuses	(9)	(5)
6. Decrease in provision for retirement benefits	(25)	(208)
7. Decrease in prepaid pension cost	371	111
8. Decrease/increase in reserve for directors' retirement benefits	(137)	55
9. Increase in reserve for executive officers' retirement benefits	67	-
10. Increase in provision for environmental and safety measures	727	-
11. Interest and dividends income	(449)	(287)
12. Foreign exchange loss/gain	(5)	(240)
13. Equity in income of non-consolidated subsidiaries and affiliates	(389)	(235)
14. Interest paid	706	514
15. Gain on sale of subsidiary shares	(55)	-
16. Gain on sale of fixed assets	(271)	(437)
17. Foreign exchange (extraordinary) loss/gain	-	46
18. Loss on litigation in Europe	-	436
19. Impairment losses	-	69
20. Loss on sale of fixed assets	-	1
21. Restructuring expense	240	976
22. Loss on disposal of fixed assets	103	2
23. Increase/decrease in trade receivables	(5,991)	315
24. Increase in inventories	(3,995)	(2,189)
25. Increase in trade payables	1,867	784
26. Decrease in provisional payment of public dues	141	966
27. Increase in advance payment	(1,173)	-
28. Increase/decrease in consumption tax payable	309	(259)
29. Bonuses paid to directors	(72)	(65)
30. Other	(84)	(459)
Subtotal	11,848	14,523
31. Interest and dividends received	455	365
32. Interest paid	(705)	(514)
33. Surcharge paid	(146)	(931)
34. Income taxes paid	(4,761)	(3,722)
Net cash provided by operating activities	6,689	9,719

(In million yen)

	Year ended	Year ended
	December 31, 2006	December 31, 2005
	Amount	Amount
II. Cash flows from investing activities:		
1.Increase in time deposits	(0)	-
2.Decrease in time deposits	2	326
3.Purchase of tangible fixed assets	(5,946)	(8,977)
4.Proceeds from sale of tangible fixed assets	288	1,077
5.Purchase of intangible assets	(460)	(331)
6.Purchase of investment securities	(510)	(407)
7.Proceeds from sale of investment securities	-	200
8.Payment for purchase of additional subsidiary shares	(230)	-
9.Payment for sale of subsidiaries' shares resulting in no change in scope of consolidation	(1,607)	-
10.Payment for equity investment for affiliates resulting in no change in scope of consolidation	(64)	-
11.Payment for additional equity investment for affiliates	-	(400)
12.Purchase of subsidiaries' shares resulting in change in scope of consolidation	-	(3,372)
13.Proceeds from sale of subsidiaries' shares resulting in change in scope of consolidation	162	-
14.Proceeds from acquisition of subsidiaries' shares resulting in change in scope of consolidation	-	3
15.Other	0	64
Net cash used in investing activities	(8,365)	(11,817)
III. Cash flows from financing activities		
1.Net increase in short-term borrowings	1,178	2,456
2.Proceeds from long-term debt	924	-
3.Repayment of long-term debt	(207)	(3,536)
4.Payment for purchase of treasury stock	(1,270)	(2,084)
5.Dividend paid	(1,179)	(1,098)
6.Dividend paid to minority shareholders	(64)	(62)
7.Other	6	2
Net cash used in financing activities	(611)	(4,324)
IV. Effect of exchange rate changes on cash and cash equivalents	79	314
V Decrease in cash and cash equivalents	(2,207)	(6,106)
VI. Cash and cash equivalents at the beginning of the period	13,070	19,177
VII Cash and cash equivalents at the end of the period	10,862	13,070

Segment Information

1. Business segment information

Year ended December 31, 2006 (January 1, 2006 – December 31, 2006)

(In million yen)

	Carbon and graphite products	Industrial furnaces and related products	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) External sales	90,811	7,570	713	99,095	-	99,095
(2) Inter-segment sales	405	103	795	1,304	(1,304)	-
Total	91,217	7,673	1,508	100,399	(1,304)	99,095
Operating expense	77,791	6,696	1,108	85,596	(1,301)	84,294
Operating income	13,426	977	400	14,803	(3)	14,800
II. Assets, depreciation/amortization, impairment losses and capital expenditure						
Assets	111,322	11,977	2,716	126,016	38,045	164,061
Depreciation and amortization	4,516	254	345	5,117	(5)	5,111
Impairment losses	-	-	-	-	-	-
Capital expenditure	5,954	193	132	6,280	(5)	6,275

Year ended December 31, 2005 (January 1, 2005 – December 31, 2005)

(In million yen)

	Carbon and graphite products	Industrial furnaces and related products	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) External sales	70,778	6,159	823	77,760	-	77,760
(2) Inter-segment sales	248	199	830	1,278	(1,278)	-
Total	71,027	6,358	1,653	79,039	(1,278)	77,760
Operating expense	61,190	5,639	1,284	68,113	(1,130)	66,982
Operating income	9,837	719	369	10,925	(147)	10,777
II. Assets, depreciation/amortization, impairment losses and capital expenditure						
Assets	88,703	10,782	4,320	103,806	45,942	149,748
Depreciation and amortization	3,756	199	403	4,359	(195)	4,164
Impairment losses	-	3	69	72	-	72
Capital expenditure	9,256	1,131	179	10,567	(39)	10,527

Notes:

1. Method of segmentation

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

2. Major products by business segment

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

3. Corporate assets included in "eliminations and corporate" consist primarily of assets associated with surplus funds managed, such as cash and deposits and repurchase agreements, and funds

for long-term investment, such as investment securities, etc., at the parent company.

Year ended December 31, 2006:	¥45,973 million
Year ended December 31, 2005:	¥49,948 million

2. Geographic segment information

Year ended December 31, 2006 (January 1, 2006 – December 31, 2006)

(In million yen)

	Japan	Europe	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) External sales	70,192	16,424	12,477	99,095	-	99,095
(2) Inter-segment sales	4,301	72	468	4,841	(4,841)	-
Total	74,494	16,497	12,945	103,937	(4,841)	99,095
Operating expense	62,811	13,907	12,205	88,924	(4,629)	84,294
Operating income	11,682	2,589	740	15,012	(212)	14,800
II. Assets	144,478	11,592	20,411	176,482	(12,420)	164,061

Year ended December 31, 2005 (January 1, 2005 – December 31, 2005)

(In million yen)

	Japan	Europe	Other	Total	Elimination or corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) External sales	60,238	8,213	9,309	77,760	-	77,760
(2) Inter-segment sales	2,488	20	221	2,731	(2,731)	-
Total	62,727	8,234	9,530	80,491	(2,731)	77,760
Operating expense	53,509	7,384	8,678	69,572	(2,589)	66,982
Operating income	9,217	849	851	10,918	(141)	10,777
II. Assets	136,953	9,166	15,118	161,238	(11,489)	149,748

Notes:

1. Classification method of geographic segment: by geographic proximity

2. Major countries or regions in each segment other than Japan:

Europe: Germany, United Kingdom, Italy, Sweden

Other: Thailand, China, North America

3. Overseas sales

Year ended December 31, 2006 (January 1, 2006 – December 31, 2006)

(In million yen)

	Asia	Europe	Other areas	Total
I. Overseas sales	19,612	14,223	9,606	43,442
II. Consolidated net sales				99,095
III. Ratio of overseas sales to consolidated sales	19.8%	14.3%	9.7%	43.8%

Year ended December 31, 2005 (January 1, 2005 – December 31, 2005)

(In million yen)

	Asia	Europe	Other areas	Total
I. Overseas sales	15,403	8,206	5,484	29,094
II. Consolidated net sales				77,760
III. Ratio of overseas sales to consolidated sales	19.8%	10.5%	7.1%	37.4%

Notes:

1. Classification method of geographic segment: by geographic proximity

2. Major countries or regions in each segment:

(1) Asia: Korea, China, Taiwan, Thailand and Indonesia

(2) Europe: Germany, United Kingdom, Italy and Sweden

(3) Other areas: North America, Middle East, Africa, South America, Oceania

3. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.

Production, Orders and Sales

1. Production

(In million yen)

	Year ended December 31, 2006	Year ended December 31, 2005
Carbon and graphite products	92,004	70,522
Industrial furnaces and related products	6,628	5,570
Other	124	264
Total	98,758	76,358

Notes: 1. The amounts stated in the above table are based on selling price.
2. The amounts stated in the above table are exclusive of consumption tax.

2. Orders

(In million yen)

	Year ended December 31, 2006		Year ended December 31, 2005	
	Order intake	Order backlog	Order intake	Orders backlog
Industrial furnaces and related products	8,359	2,603	6,076	1,920
Other	178	-	246	39
Total	8,537	2,603	6,322	1,959

Notes: 1. The amounts stated in the above table are exclusive of consumption tax.
2. Products other than those included in "Industrial furnaces and related products" and "Other" are produced based on the Company's estimate of potential demand.

3. Sales

(In million yen)

	Year ended December 31, 2006	Year ended December 31, 2005
Carbon and graphite products	90,811	70,778
Industrial furnaces and related products	7,570	6,159
Other	713	823
Total	99,095	77,760

Note: The amounts stated in the above table are exclusive of consumption tax.