# ANNUAL REPORT 2006

For the Year Ended December 31, 2006

TOKAI CARBON CO., LTD.

# Profile

Tokai Carbon Co., Ltd., headquartered in Tokyo, Japan, and listed on the Tokyo Stock Exchange, is one of the world's major manufacturers of carbon and graphite for such diverse applications as carbon black, graphite electrodes, fine carbon products, friction materials, and industrial furnaces and heating elements.

***Carbon black*** is mainly used as a reinforcing agent of industrial rubber products, typically auto tires. Among other important uses are electro-conductive filler and coloring agent for printing inks, paints and plastics. ***Graphite electrodes*** function as conductors of electricity that are consumed in an electric furnace in the steel-making process. ***Fine carbon*** products are a wide variety of specialty graphites that are characterized by excellent electric conductance, high heat resistance, mechanical strength and lubricant ability, and are applied as key parts in the manufacturing processes of electric appliances and semi-conductors, among other products. ***Friction materials*** are widely used in clutches and brakes of construction, agricultural, transportation and other industrial machinery. ***Industrial furnaces*** and ***heating elements*** are manufactured by Tokai Konetsu Kogyo Co., Ltd., which became a wholly owned subsidiary through a share exchange this year, for the purposes of heating, sintering, dissolving and heat-treating such objects as ceramics, electronic parts, metals, glass and powdered materials.

Tokai Carbon is renowned for being a pioneer in the carbon industry with 89 years of history, and is recognized as having overall technological expertise and capability in its new product development. The Company endeavors to be a forerunner of technological innovation in the rapidly advancing business world and to attain steady growth in its earnings.

## Consolidated Financial Highlights

| Years ended December 31 | Millions of Yen 2006 | Millions of Yen 2005 | Percentage Change 2006/2005 | Thousands of U.S. Dollars 2006 |
|---|---|---|---|---|
| **For the Year:** | | | | |
| Net sales | ¥ 99,095 | ¥ 77,761 | 27.4% | $ 831,962 |
| Operating income | 14,800 | 10,778 | 37.3 | 124,255 |
| Income before income taxes and minority interests | 13,716 | 9,968 | 37.6 | 115,154 |
| Net income | 7,968 | 5,296 | 50.4 | 66,896 |
| **At Year-End:** | | | | |
| Total assets | ¥164,062 | ¥149,749 | 9.6% | $1,377,399 |
| Total equity | 99,398 | 85,817 | 15.8 | 834,506 |
| **Per Share Data:** | Yen | | | U.S. Dollars |
| Net income | ¥ 39.92 | ¥ 26.20 | 52.4% | $0.34 |
| Total equity | 475.25 | 436.11 | 9.0 | 3.99 |
| Cash dividends applicable to the year | 7.00 | 6.00 | 16.7 | 0.06 |

Note: U.S.dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥119.11=US$1, the approximate rate of exchange at December 31, 2006.

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# Message from the President

During the fiscal year under review, ended December 31, 2006, the Japanese economy faced renewed concerns as crude oil prices, which had been hovering at high levels since 2005, increased again in autumn 2006. However, prices fell by the end of the year to those recorded at the beginning of 2006, thereby providing some sense of relief.

The real economy remained strong, supported by firm exports and healthy capital investments, and corporate performance showed further improvement, backed by high growth rates due to the seemingly simultaneous economic boom in most regions and countries around the world, including the United States, Europe and BRIC (Brazil, Russia, India and China). Under such circumstances, domestic and overseas demand for rubber products, steel, semiconductors, construction machinery and IT equipment, which form the Tokai Carbon Group's client industries, greatly expanded.

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 as cost absorption by its own means alone was impracticable, all the while asking for customers' understanding. In addition, the Group built new production facilities both in Japan and overseas, as well as enhanced existing production facilities. In an effort to further consolidate business, the Group transformed a publicly traded subsidiary into one that is wholly owned and took over a foreign business, following similar moves made last year.

As a result, consolidated net sales for the period increased 27.4%, to ¥99,095 million. Operating income jumped 37.3%, to ¥14,800 million. Ordinary income rose 30.5%, to ¥14,446 million, as the Company booked foreign exchange gains under non-operating income thanks to a weaker yen. Net income surged 50.4%, to ¥7,968 million. The fiscal year under review was the final year of the Group's three-year management plan, "T-2006." The Group achieved all of its goals and succeeded in posting record profits for the third consecutive year.

The Group has already formulated its next medium-term management plan, "T-2009," which will include return on equity (ROE) as a new indicator to reinforce a policy of improving capital efficiency.

Based on its corporate philosophy of "Reliability," the Group has continuously stated its ideal corporate image as a "Global Leader of the Carbon Industry," while endeavoring to improve operating results in accordance with such action guidelines as fairness, respect for the environment and globalization. Specifically, the Group has set its consolidated managerial targets for fiscal 2009 as follows:

| | |
|---|---|
| Net sales target | ¥130.0 billion |
| Profitability targets | Operating margin: 15% |
| | ROA: 10% |
| | ROE: 10% |

Moreover, the Group has set a target of ¥150.0 billion in net sales for fiscal 2011, and intends to focus on the development of human resources and R&D activities. Meanwhile, we will make every effort to improve internal controls, ensure security and preserve the environment as part of our continued reinforcement of corporate governance and corporate social responsibility (CSR).

We look forward to your continued support and encouragement.

**Yoshinari Kudo**
President and
Chief Executive Officer

## Carbon and Graphite Products

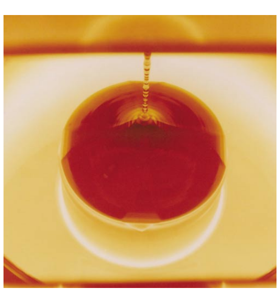
### Carbon Black

The Group's manufacturing capability of carbon black in Asia was significantly enhanced, due mainly to its new plant in Tianjin, China, which began full-scale operation in February 2006, and its plant in Thailand, which has the Group's largest capacity worldwide. 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, these factors contributed to a substantial increase in the Group's net sales.

### Graphite Electrodes

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 a boost in net sales.

### Fine Carbon

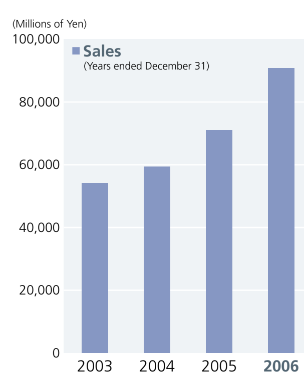


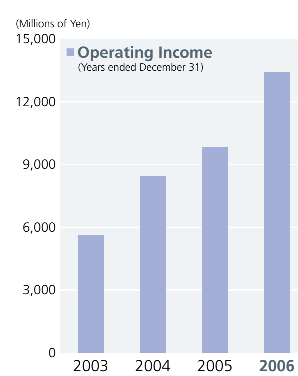
The Group has been boosting its production capability for fine carbon products in response to increased worldwide demand. During the fiscal year under review, the Group made a strategic move for future growth both in Japan and overseas. Sales of products briskly increased, reflecting continued strong demand from the mainstay semiconductor industry and brisk performance by the domestic and overseas new energy industry.

### Friction Materials

In the friction materials business, the Group began the expansion of production facilities as a result of stronger-than-expected demand. The business saw favorable growth, driven by solid demand in construction machinery and large-size motor-cycles 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 perform-ances, divisional consolidated sales increased 28.3%, to ¥90,812 million. Divisional operating income rose 36.5%, to ¥13,426 million, due primarily to cost-cutting efforts, the passing of price increases for some raw materials onto selling prices and the impact of a weaker yen.

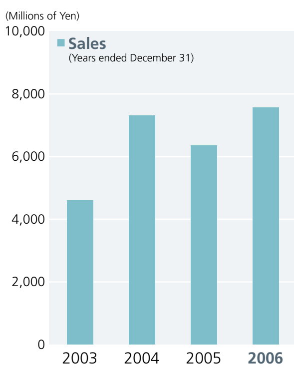


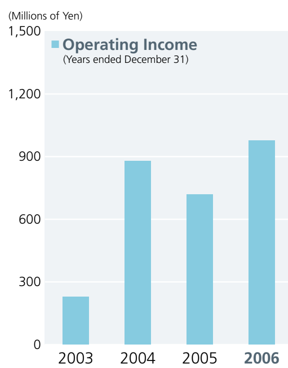



## Industrial Furnaces and Related Products

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.

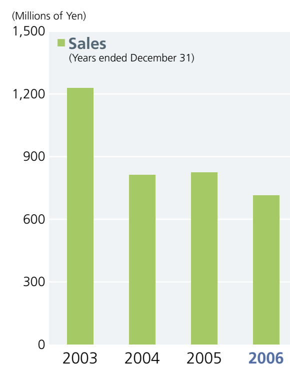
As a result, divisional consolidated sales increased 22.9%, to ¥7,570 million, and divisional operating income jumped 35.8%, to ¥977 million, owing largely to the reorganization of operation sites in 2005 and improved performance at a Chinese subsidiary.

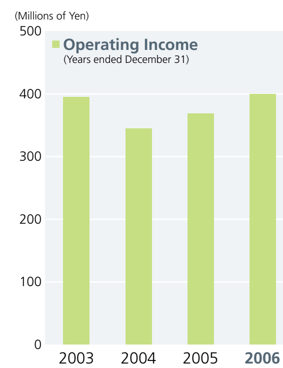


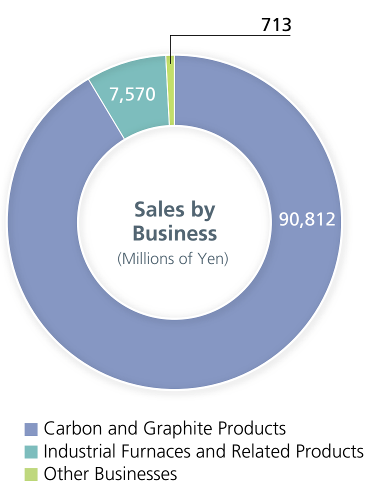

## Other Businesses

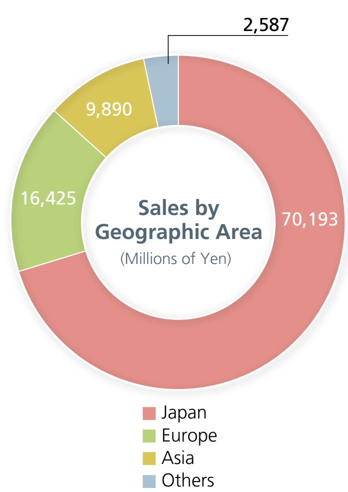
Consolidated sales from real estate rental declined 13.4%, to ¥713 million, while operating income rose 8.5%, to ¥400 million.




### Fiscal 2006 Sales by Segments



## Signing of Joint Venture Agreement with SGL Carbon for Impervious Graphite *(Tokabate)* Business

Tokai Carbon signed a joint venture agreement with SGL Carbon AG on June 21, 2006, for the joint development of an impervious graphite *(Tokabate)* business in Asia.

The impervious graphite market in Japan has been experiencing strong international competition as European manufacturers shift their production to Asia. The goal of this joint venture is to strengthen the Group's competitiveness while developing this business in Asia—focusing mainly on Japan, China and Korea. The details have not been finalized, but equity ratios of 51% for SGL Carbon and 49% for Tokai Carbon are expected.

## Establishment of Joint Venture in Dalian, China

Dalian Jinqi Carbon Co., Ltd. (Dalian, China), and Fuji Carbon Co., Ltd. (Shiga Prefecture), established a joint venture in Dalian, China, with a capitalization of 11 million renminbi. The joint venture will machine and market carbon products for tools and molds for automobiles as well as electric appliances. Tokai Carbon has been selling carbon products in northeast China through Dalian Jinqi Carbon for some years now; however, demand from tool and mold industries in the area has increased rapidly. Operations are scheduled to begin April 2007.

## Expansion of Production Capacity of Specialty Graphite

Tanoura Plant (Kumamoto, Japan)

Tokai Carbon plans to increase the production capacity of specialty graphite—consisting of isotropic graphite and extruded graphite—to 1,000 tons per month. This is an increase of 1.6 times the current capacity. Since 2004, a sharp increase in worldwide demand for specialty graphite products for semiconductor and heat treatment applications has caused a considerable supply shortage. Last year, we successfully increased capacity of isotropic graphite from 300 tons to 400 tons per month. Demand still outpaces supply, though. Taking into consideration expansion by other companies and projecting medium-to-long term demand, we chose to expand production to not only fulfill our supply responsibility to customers but also to swiftly capture this growing market.

The expansion of our Tanoura Plant in Kumamoto Prefecture will combine the restoration of stored equipment with the installation of new facilities. Full capacity is planned for the middle of 2007. As a result of the expansion, the Group will have a production capacity of 550 tons for isotropic graphite and 450 tons for extruded graphite per month, which will rank us as one of the largest manufacturers of specialty graphite in the world.

# Board of Directors, Officers and Corporate Auditors (as of March 29, 2007)

### Board of Directors and Executive Officers

- **Chairman of the Board**
  Shikio Ohtake
- **President & CEO**
  Yoshinari Kudo
- **Deputy President & CFO**
  Katsuhiko Namba
- **Managing Executive Officers**
  Takashi Takenaka
  Kiyonari Nakai
  Nobuyuki Murofushi
- **Executive Officers**
  Hajime Nagasaka
  Naoshi Takahashi
  Yoshio Kumakura*1

*1 External Director

### Executive Officers

- **Managing Executive Officers**
  Ryouji Murota
  Kohta Himeno
- **Executive Officers**
  Hideki Saito
  Shigeto Mori
  Hiroshi Hirama
  Masahiro Saeki
  Yuji Serizawa
  Tatsuo Abe

### Corporate Auditors

- **Corporate Auditors**
  Tsunehisa Samukawa
  Masahiro Kusaba*2
  Toshio Nakada
  Masanobu Dohki*2

*2 External Auditor

# Corporate Governance

### Basic Policy for Corporate Governance

The Tokai Carbon Group recognizes that the purposes of managing a corporation should be to enhance the soundness and transparency of business management and ensure continual advancement of corporate value. With a top priority on strengthening corporate governance, we therefore strive to improve our management organization and the function of supervisory management.

### Measures for Corporate Governance

Tokai Carbon's basic management policies and strategies are determined by its Board of Directors, which consists of nine directors. Their meetings are usually held once a month and otherwise as necessary to make decisions on matters required by law and important business issues or to share reports on the status of business operations. Since the Company introduced the executive officer system in March 1999, the Board of Directors selects and appoints executive officers who take charge of business operations at different departments of the Company to accelerate operational decision making and clarify responsibilities. The president and managing directors in charge of different business operations constitute the Board of Managing Directors, which meets monthly to deliberate on managerial matters.

The Company also has a Board of Corporate Auditors, which consists of four auditors, two of which are outside auditors. Corporate auditors are required to conduct a fair and independent audit of the Company's business operations. They attend the meetings of the Board of Directors and the Board of Managing Directors and any other important meetings to oversee directors' decision making and the execution of business, and then present their opinions. The meetings of the Board of Corporate Auditors are usually held once a month and otherwise as required.

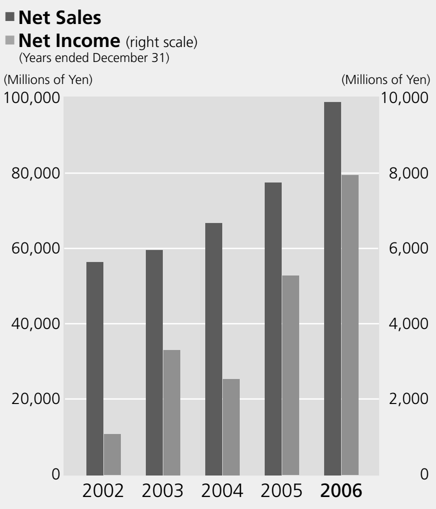
For enhanced internal control, the Company also has an Auditing Office, which conducts internal audits on the entire business operations of the Group. The results of these audits are reported to the Group's representative directors.

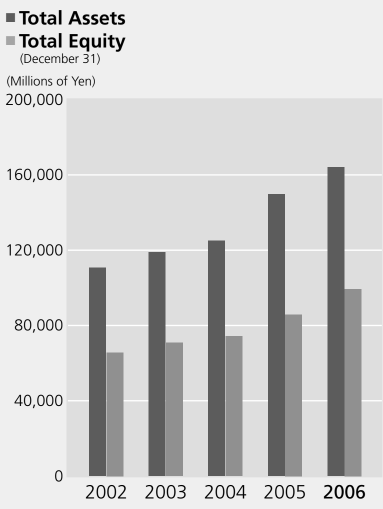
## Five-Year Financial Summary

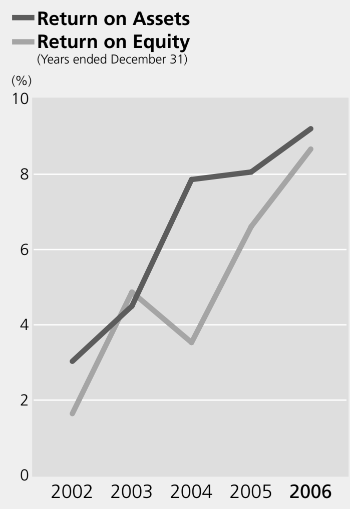
TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years ended December 31, 2006, 2005, 2004, 2003 and 2002

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 | **2006** |
| **For the Year:** | | | | | | |
| Net sales | **¥ 99,095** | ¥ 77,761 | ¥ 67,035 | ¥ 59,853 | ¥ 56,599 | **$ 831,962** |
| *Carbon and Graphite Products* | **90,812** | 70,779 | 58,979 | 54,088 | 50,476 | **762,421** |
| *Industrial Furnaces and Related Products* | **7,570** | 6,159 | 7,243 | 4,545 | 2,535 | **63,555** |
| *Others* | **713** | 823 | 813 | 1,220 | 3,588 | **5,986** |
| Gross profit | **29,327** | 23,059 | 19,727 | 16,210 | 13,917 | **246,218** |
| Operating income | **14,800** | 10,778 | 9,414 | 6,155 | 3,937 | **124,255** |
| Income before income taxes and minority interests | **13,716** | 9,968 | 5,426 | 5,619 | 2,386 | **115,154** |
| Net income | **7,968** | 5,296 | 2,559 | 3,322 | 1,088 | **66,896** |
| Depreciation and amortization | **5,112** | 4,164 | 3,618 | 3,668 | 3,734 | **42,918** |
| Research and development costs | **1,491** | 1,525 | 1,291 | 1,340 | 1,246 | **12,518** |
| Capital expenditures | **6,276** | 10,527 | 4,339 | 3,752 | 3,129 | **52,691** |
| **At Year-End:** | | | | | | |
| Total assets | **164,062** | 149,749 | 124,944 | 119,004 | 110,688 | **1,377,399** |
| Total equity | **99,398** | 85,817 | 74,315 | 70,815 | 65,641 | **834,506** |
| | Yen | | | | | U.S. Dollars |
| **Per Share Data:** | | | | | | |
| Net income | **¥ 39.92** | ¥ 26.20 | ¥ 12.22 | ¥ 16.04 | ¥ 5.34 | **$0.34** |
| Total equity | **475.25** | 436.11 | 369.35 | 347.43 | 322.13 | **3.99** |
| Cash dividends applicable to the year | **7.00** | 6.00 | 5.00 | 5.00 | 5.00 | **0.06** |
| **Financial Ratios:** | | | | | | |
| Return on assets (%) | **9.21%** | 8.06% | 7.86% | 4.50% | 3.03% | — |
| Return on equity (%) | **8.67** | 6.61 | 3.53 | 4.87 | 1.64 | — |
| Equity ratio (%) | **59.7** | 57.3 | 59.5 | 59.5 | 59.3 | — |

Note: U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥119.11=US$1, the approximate rate of exchange at December 31, 2006.



# Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2006 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | ¥ 10,862 | ¥ 13,070 | $ 91,193 |
| Receivables: | | | |
| Trade notes and accounts | 32,119 | 25,285 | 269,658 |
| Unconsolidated subsidiaries and associated companies | 1,124 | 1,215 | 9,437 |
| Allowance for doubtful receivables | (63) | (66) | (529) |
| Inventories (Note 4) | 24,542 | 19,743 | 206,045 |
| Deferred tax assets (Note 10) | 725 | 472 | 6,087 |
| Prepaid expenses and other current assets | 3,215 | 1,630 | 26,992 |
| Total current assets | 72,524 | 61,349 | 608,883 |
| **PROPERTY, PLANT AND EQUIPMENT** (NOTE 5): | | | |
| Land | 7,227 | 7,175 | 60,675 |
| Buildings and structures | 39,929 | 38,805 | 335,228 |
| Machinery and equipment | 94,451 | 83,899 | 792,973 |
| Furniture and fixtures | 5,046 | 4,857 | 42,364 |
| Construction in progress | 1,832 | 6,730 | 15,381 |
| Total | 148,485 | 141,466 | 1,246,621 |
| Accumulated depreciation | (105,328) | (100,657) | (884,292) |
| Net property, plant and equipment | 43,157 | 40,809 | 362,329 |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities (Note 3) | 41,382 | 42,762 | 347,427 |
| Investments in and advances to unconsolidated subsidiaries and associated companies | 3,911 | 1,712 | 32,835 |
| Goodwill | 574 | 518 | 4,819 |
| Deferred tax assets (Note 10) | 528 | 237 | 4,433 |
| Other assets | 1,986 | 2,362 | 16,673 |
| Total investments and other assets | 48,381 | 47,591 | 406,187 |
| **TOTAL** | ¥ 164,062 | ¥149,749 | $1,377,399 |

See notes to consolidated financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES:** | | | |
| Short-term bank loans (Note 5) | ¥ 13,600 | ¥ 10,869 | $ 114,180 |
| Current portion of long-term debt (Note 5) | 104 | 207 | 873 |
| Payables: | | | |
| Trade notes and accounts | 14,144 | 12,142 | 118,747 |
| Unconsolidated subsidiaries and associated companies | 154 | 86 | 1,293 |
| Income taxes payable | 4,230 | 2,337 | 35,514 |
| Accrued expenses | 2,073 | 2,285 | 17,404 |
| Other current liabilities | 3,511 | 2,978 | 29,477 |
| Total current liabilities | 37,816 | 30,904 | 317,488 |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt (Note 5) | 9,371 | 10,003 | 78,675 |
| Liability for retirement benefits (Note 7) | 2,261 | 2,154 | 18,982 |
| Retirement allowances for directors, corporate auditors and operating officers (Note 8) | 307 | 382 | 2,578 |
| Allowance for environmental safety measures (Note 2.h) | 728 | | 6,112 |
| Deferred tax liabilities (Note 10) | 13,280 | 14,341 | 111,494 |
| Other | 901 | 861 | 7,564 |
| Total long-term liabilities | 26,848 | 27,741 | 225,405 |
| **MINORITY INTERESTS** | | 5,287 | |
| **COMMITMENTS AND CONTINGENT LIABILITIES** (NOTES 12 AND 14) | | | |
| **EQUITY** (NOTE 9): | | | |
| Common stock—authorized, 598,764,000 shares; issued, 208,378,414 shares in 2006 and 204,089,391 shares in 2005 | 16,212 | 15,436 | 136,109 |
| Capital surplus | 13,285 | 10,876 | 111,536 |
| Retained earnings | 48,295 | 41,579 | 405,465 |
| Net unrealized gain on available-for-sale securities | 19,805 | 20,648 | 166,275 |
| Deferred loss on derivatives under hedge accounting | (10) | | (84) |
| Foreign currency translation adjustments | 1,706 | 424 | 14,323 |
| Treasury stock—at cost, 2,405,905 shares in 2006 and 7,493,549 shares in 2005 | (1,404) | (3,146) | (11,787) |
| Total | 97,889 | 85,817 | 821,837 |
| Minority interests | 1,509 | | 12,669 |
| Total equity | 99,398 | 85,817 | 834,506 |
| **TOTAL** | ¥164,062 | ¥149,749 | $1,377,399 |

# Consolidated Statements of Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| NET SALES | **¥99,095** | ¥77,761 | **$831,962** |
| COST OF SALES | **69,768** | 54,702 | **585,744** |
| Gross profit | **29,327** | 23,059 | **246,218** |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | **14,527** | 12,281 | **121,963** |
| Operating income | **14,800** | 10,778 | **124,255** |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividends | **450** | 287 | **3,778** |
| Interest expense | **(707)** | (515) | **(5,936)** |
| Exchange gain | **118** | 391 | **990** |
| Equity in gains of associated companies | **389** | 236 | **3,266** |
| Gain on sales of property, plant and equipment | **272** | 438 | **2,284** |
| Restructuring expenses | **(241)** | (976) | **(2,023)** |
| Loss on litigation in Europe | | (437) | |
| Impairment loss on long-lived assets (Note 6) | | (69) | |
| Provision for environmental safety measures | **(728)** | | **(6,112)** |
| Other—net | **(637)** | (165) | **(5,348)** |
| Other expenses—net | **(1,084)** | (810) | **(9,101)** |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | **13,716** | 9,968 | **115,154** |
| INCOME TAXES (NOTE 10): | | | |
| Current | **6,520** | 3,910 | **54,739** |
| Deferred | **(850)** | 332 | **(7,136)** |
| Total | **5,670** | 4,242 | **47,603** |
| MINORITY INTERESTS IN NET INCOME | **78** | 430 | **655** |
| NET INCOME | **¥ 7,968** | ¥5,296 | **$ 66,896** |

| | Yen | | U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| PER SHARE OF COMMON STOCK (Notes 2.p and 15): | | | |
| Net income | **¥39.92** | ¥26.20 | **$0.34** |
| Diluted net income | **36.51** | 23.85 | **0.31** |
| Cash dividends applicable to the year | **7.00** | 6.00 | **0.06** |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

| | Thousands Issued Number of Shares of Common Stock | Common Stock | Capital Surplus | Retained Earnings |
|---|---|---|---|---|
| BALANCE, JANUARY 1, 2005 | 204,089 | ¥15,436 | ¥10,875 | ¥37,447 |
| Net income | | | | 5,296 |
| Cash dividends, ¥6.00 per share | | | | (1,099) |
| Bonuses to directors | | | | (65) |
| Increase in treasury stock (4,409 thousand shares) | | | | |
| Gain on sales of treasury stock | | | 1 | |
| Net increase in unrealized gain on available-for-sale securities | | | | |
| Net increase in foreign currency translation adjustments | | | | |
| BALANCE, DECEMBER 31, 2005 | 204,089 | 15,436 | 10,876 | 41,579 |
| Reclassified balance as of December 31, 2005 (Note 2.q) | | | | |
| Issuance of new shares (Note 9.d) | 4,289 | 776 | 2,406 | |
| Net income | | | | 7,968 |
| Cash dividends, ¥6.00 per share | | | | (1,180) |
| Bonuses to directors | | | | (72) |
| Decrease in treasury stock (5,087 thousand shares) | | | | |
| Gain on sales of treasury stock | | | 3 | |
| Net change in the year | | | | |
| **BALANCE, DECEMBER 31, 2006** | **208,378** | **¥16,212** | **¥13,285** | **¥48,295** |

| | Common Stock | Capital Surplus | Retained Earnings |
|---|---|---|---|
| BALANCE, DECEMBER 31, 2005 | $129,594 | $91,311 | $349,081 |
| Reclassified balance as of December 31, 2005 (Note 2.q) | | | |
| Issuance of new shares (Note 9.d) | 6,515 | 20,200 | |
| Net income | | | 66,896 |
| Cash dividends, $0.06 per share | | | (9,907) |
| Bonuses to directors | | | (605) |
| Decrease in treasury stock (5,087 thousand shares) | | | |
| Gain on sales of treasury stock | | 25 | |
| Net change in the year | | | |
| **BALANCE, DECEMBER 31, 2006** | **$136,109** | **$111,536** | **$405,465** |

See notes to consolidated financial statements.

| Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|
| Unrealized Gain on Available-for-sale Securities | Deferred Loss on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Treasury Stock | Total | Minority Interests | Total Equity |
| ¥11,761 | | ¥(142) | ¥(1,062) | ¥74,315 | | ¥74,315 |
| | | | | 5,296 | | 5,296 |
| | | | | (1,099) | | (1,099) |
| | | | | (65) | | (65) |
| | | | (2,084) | (2,084) | | (2,084) |
| | | | | 1 | | 1 |
| 8,887 | | | | 8,887 | | 8,887 |
| | | 566 | | 566 | | 566 |
| 20,648 | | 424 | (3,146) | 85,817 | | 85,817 |
| | | | | | ¥5,287 | 5,287 |
| | | | | 3,182 | | 3,182 |
| | | | | 7,968 | | 7,968 |
| | | | | (1,180) | | (1,180) |
| | | | | (72) | | (72) |
| | | | 1,742 | 1,742 | | 1,742 |
| | | | | 3 | | 3 |
| (843) | ¥(10) | 1,282 | | 429 | (3,778) | (3,349) |
| ¥19,805 | ¥(10) | ¥1,706 | ¥(1,404) | ¥97,889 | ¥1,509 | ¥99,398 |

| Thousands of U.S. Dollars (Note 1) | | | | | | |
|---|---|---|---|---|---|---|
| Unrealized Gain on Available-for-sale Securities | Deferred Loss on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Treasury Stock | Total | Minority Interests | Total Equity |
| $173,352 | | $3,560 | $(26,412) | $720,486 | | $720,486 |
| | | | | | $44,388 | 44,388 |
| | | | | 26,715 | | 26,715 |
| | | | | 66,896 | | 66,896 |
| | | | | (9,907) | | (9,907) |
| | | | | (605) | | (605) |
| | | | 14,625 | 14,625 | | 14,625 |
| | | | | 25 | | 25 |
| (7,077) | $(84) | 10,763 | | 3,602 | (31,719) | (28,117) |
| $166,275 | $(84) | $14,323 | $(11,787) | $821,837 | $12,669 | $834,506 |

# Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2006 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **OPERATING ACTIVITIES:** | | | |
| Income before income taxes and minority interests | **¥13,716** | ¥ 9,968 | **$115,154** |
| Adjustments for: | | | |
| Income taxes-paid | **(4,762)** | (3,723) | **(39,980)** |
| Depreciation and amortization | **5,112** | 4,164 | **42,918** |
| Amortization of consolidation differences | **1,147** | 511 | **9,630** |
| Decrease in liability for retirement benefits | | (209) | |
| Decrease in prepaid expense for pension cost | **372** | 111 | **3,123** |
| Increase in allowance for environmental safety measures | **728** | | **6,112** |
| Exchange gain | **(6)** | (194) | **(50)** |
| Equity in gains of associated companies | **(389)** | (236) | **(3,266)** |
| Gain on sales of property, plant and equipment | **(272)** | (438) | **(2,284)** |
| Loss on disposal of property, plant and equipment | **104** | | **873** |
| Loss on litigation in Europe | | 437 | |
| Impairment loss on long-lived assets | | 69 | |
| Restructuring expenses | **241** | 976 | **2,023** |
| (Increase) decrease in trade notes and accounts receivable | **(5,992)** | 316 | **(50,306)** |
| Increase in inventories | **(3,996)** | (2,189) | **(33,549)** |
| Increase in payment in advance | **(1,174)** | | **(9,856)** |
| Increase in notes and accounts payable | **1,868** | 784 | **15,683** |
| Decrease in provisional payment | **141** | 966 | **1,184** |
| Increase (decrease) in consumption tax payable | **310** | (259) | **2,603** |
| Decrease in interest and dividend receivables | **5** | 79 | **42** |
| Increase in interest payable | **1** | | **8** |
| Payment of a fine to the Korean Commission | **(146)** | | **(1,226)** |
| Payment of a fine to the European Commission | | (931) | |
| Other—net | **(318)** | (482) | **(2,670)** |
| Total adjustments | **(7,026)** | (248) | **(58,988)** |
| Net cash provided by operating activities | **6,690** | 9,720 | **56,166** |
| **INVESTING ACTIVITIES:** | | | |
| Proceeds from repayment of time deposit | | 326 | |
| Payment for purchase of property, plant and equipment | **(5,947)** | (8,977) | **(49,928)** |
| Proceeds from sales of property, plant and equipment | **289** | 1,077 | **2,426** |
| Payment for purchase of intangible fixed assets | **(461)** | (331) | **(3,870)** |
| Payment for purchase of investment securities | **(510)** | (408) | **(4,282)** |
| Proceeds from sales of investment securities | | 200 | |
| Increase in investment in consolidated subsidiaries | **(230)** | (3,372) | **(1,931)** |
| Increase in investment in associated companies | **(1,673)** | (401) | **(14,046)** |
| Proceeds from sales of investment in consolidated subsidiaries | **163** | | **1,368** |
| Other | **3** | 69 | **25** |
| Net cash used in investing activities | **(8,366)** | (11,817) | **(70,238)** |
| **FINANCING ACTIVITIES:** | | | |
| Increase in short-term bank loans—net | **1,179** | 2,456 | **9,898** |
| Proceeds from long-term debt | **924** | | **7,757** |
| Repayments of long-term debt | **(208)** | (3,537) | **(1,746)** |
| Payment for purchase of treasury stock | **(1,270)** | (2,085) | **(10,662)** |
| Dividends paid | **(1,244)** | (1,162) | **(10,444)** |
| Other | **7** | 3 | **59** |
| Net cash used in financing activities | **(612)** | (4,325) | **(5,138)** |
| **FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | **80** | 315 | **672** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(2,208)** | (6,107) | **(18,538)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **13,070** | 19,177 | **109,731** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **¥10,862** | ¥ 13,070 | **$ 91,193** |
| **NON-CASH INVESTING AND FINANCING ACTIVITIES:** | | | |
| Convertible bonds converted into common stock (Note 9.d) | **¥ 776** | | **$ 6,515** |
| Convertible bonds converted into capital surplus (Note 9.d) | **776** | | **6,515** |
| Increase in capital surplus as a result of stock exchange (Note 9.d) | **1,630** | | **13,685** |

See notes to consolidated financial statements.

## 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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006.

The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" from the current fiscal year.

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 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKAI CARBON Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥119.11 to US$1, the approximate rate of exchange at December 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation—**The consolidated financial statements as of December 31, 2006 include the accounts of the Company and its significant 19 (20 in 2005) 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 2005) associated companies are accounted for by the equity method. Investments in the remaining 5 (2 in 2005) 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 difference between the cost and underlying net equity of investments in consolidated subsidiaries and associated companies is deferred and amortized using the straight-line method over a certain period which is derived on an individual case basis, with the exception of minor differences which are charged or credited to income in the period of acquisition.

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 September 2006, the Group sold all the shares of TOKYO SEIKO CO., LTD., which was a subsidiary of the Company.

**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, and 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 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, Corporate Auditors and Operating Officers—**Retirement allowances for directors, corporate auditors and operating officers are recorded to state the liability at the amount that would be required if all directors, corporate auditors and operating officers retired at each balance sheet date.

**h. Allowance for Environmental Safety Measures—**In accordance with the Special Measures Law for the Promotion of Proper Disposal of Polychlorinated Biphenyl ("PCB") Waste (Law No. 65, June 22, 2001), the Company sets aside a reserve in an amount equivalent to the estimated disposal expenses for stored PCB at the balance sheet date.

**i. Research and Development Costs—**Expenditures for research and development activities are charged to income as incurred.

**j. 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.

**k. 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.

**l. 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.

**m. 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.

**n. 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 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 equity.

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

**o. Derivatives and Hedging Activities—**The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. 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.

The interest rate swaps are measured at the fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

**p. Per Share Information—**Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax.

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.

**q. Presentation of Equity—**On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

## 3. INVESTMENT SECURITIES

Investment securities as of December 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **Non-current:** | | | |
| Marketable equity securities | ¥41,381 | ¥42,759 | $347,418 |
| Trust fund investments and other | 1 | 3 | 9 |
| Total | ¥41,382 | ¥42,762 | $347,427 |

The carrying amounts and aggregate fair values of marketable and investment securities at December 31, 2006 and 2005 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| December 31, 2006 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| **Securities classified as available-for-sale:** | | | | |
| Equity securities | ¥8,303 | ¥33,016 | | ¥41,319 |
| Debt securities by contractual maturities for securities classified as available-for-sale | 12 | | | 12 |
| December 31, 2005 | | | | |
| **Securities classified as available-for-sale:** | | | | |
| Equity securities | 7,564 | 34,906 | | 42,470 |
| Debt securities by contractual maturities for securities classified as available-for-sale | 12 | | ¥1 | 11 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| December 31, 2006 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| **Securities classified as available-for-sale:** | | | | |
| Equity securities | $69,709 | $277,189 | | $346,898 |
| Debt securities by contractual maturities for securities classified as available-for-sale | 101 | | | 101 |

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2006 and 2005 were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | 2006 | 2005 | 2006 |
| **Available-for-sale:** | | | |
| Equity securities | ¥50 | ¥278 | $420 |
| Other | 1 | 3 | 8 |
| Total | ¥51 | ¥281 | $428 |

Proceeds from sales of available-for-sale securities for the years ended December 31, 2006 and 2005 were ¥0 million ($1 thousand) and ¥200 million, respectively. Realized gains on these sales, computed on the moving-average cost basis, were ¥0 million ($0 thousand) for the year ended December 31, 2006 and ¥0 million for the year ended December 31, 2005.

## 4. INVENTORIES

Inventories at December 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Merchandise | ¥ 10 | ¥ 5 | $ 84 |
| Finished products | 5,009 | 3,925 | 42,054 |
| Work in process | 13,157 | 10,875 | 110,461 |
| Raw materials and supplies | 6,366 | 4,938 | 53,446 |
| Total | ¥24,542 | ¥19,743 | $206,045 |

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

Short-term bank loans at December 31, 2006 and 2005 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.908% to 10.00% and 0.5% to 10.00% at December 31, 2006 and 2005, respectively.

Long-term debt at December 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Unsecured zero coupon yen convertible bonds, due 2008 | ¥8,448 | ¥10,000 | $70,926 |
| Long term loans from banks and insurance companies due through at interest rates ranging from 6.1% to 6.25% | 1,027 | 210 | 8,622 |
| Less current portion | (104) | (207) | (873) |
| Long-term debt, less current portion | ¥9,371 | ¥10,003 | $78,675 |

Annual maturities of long-term debt at December 31, 2006 were as follows:

| Year Ending December 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2007 | ¥ 104 | $ 873 |
| 2008 | 8,910 | 74,805 |
| 2009 | 461 | 3,870 |
| Total | ¥9,475 | $79,548 |

On August 10, 2004, the Company issued ¥10,000 million ($83,956 thousand) of zero coupon yen convertible bonds (convertible bond-type bonds with stock acquisition rights) due 2008.

The stock acquisition rights are exercisable on or after August 24, 2004 up to and including July 25, 2008 at a conversion price of ¥510 ($4.28) per share.

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥100 million ($840 thousand) at December 31, 2006 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Property, plant and equipment—net of accumulated depreciation | ¥5,725 | $48,065 |

## 6. LONG-LIVED ASSETS

The Group categorizes long-lived assets, principally based on the division of management accounting, but the leasehold improvements and idle assets are grouped by respective asset category.

The Group reviewed its long-lived assets for impairment as of the year ended December 31, 2006 and as a result, did not recognize an impairment loss.

## 7. 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, 2006 consisted of the following:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Projected benefit obligation | ¥ 7,407 | $ 62,186 |
| Fair value of plan assets | (5,993) | (50,315) |
| Unrecognized actuarial loss | 650 | 5,457 |
| Prepaid expense for pension cost | 197 | 1,654 |
| Net liability | ¥ 2,261 | $ 18,982 |

The components of net periodic benefit costs for the year ended December 31, 2006 are as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Service cost | ¥465 | $3,904 |
| Interest cost | 98 | 823 |
| Expected return on plan assets | (117) | (982) |
| Amortization of actuarial gain | (2) | (17) |
| Other | 61 | 512 |
| Net periodic benefit costs | ¥505 | $4,240 |

Assumptions used for the year ended December 31, 2006 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 |

## 8. RETIREMENT ALLOWANCES FOR DIRECTORS, CORPORATE AUDITORS AND OPERATING OFFICERS

Retirement allowances for directors, corporate auditors and operating officers 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, corporate auditors and operating officers. The annual provisions for retirement allowances for directors, corporate auditors and operating officers for the years ended December 31, 2006 and 2005 were ¥44 million ($369 thousand) and ¥67 million, respectively.

In addition, the director retirement bonus plan was abolished.

## 9. EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued 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 are required to be presented 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 consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥37,890 million ($318,109 thousand) as of December 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### d. Issuance of New Shares

It has increased by 3,043 thousand stocks by the execution of right of convertible bond-type bonds with stock acquisition rights.

It has increased by 1,245 thousand stocks by the stock swap with TOKAI KONETSU KOGYO CO., LTD.

## 10. 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 40% for the years ended December 31, 2006 and 2005.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at December 31, 2006 and 2005 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **Deferred tax assets:** | | | |
| Depreciation and amortization | ¥ 238 | ¥ 217 | $ 1,998 |
| Impairment loss on long-lived assets | 435 | 435 | 3,652 |
| Retirement and severance benefits | 312 | 351 | 2,619 |
| Allowance for officers' retirement benefits | 93 | 153 | 781 |
| Allowance for environmental safety measures | 291 | | 2,443 |
| Accrued enterprise tax | 313 | 185 | 2,628 |
| Unrealized gain on sale of assets eliminated in consolidation | 330 | 208 | 2,771 |
| Loss carryforward of subsidiaries | 1,109 | 823 | 9,311 |
| Valuation loss on investment securities | 297 | 297 | 2,493 |
| Other | 428 | 389 | 3,593 |
| Less valuation allowance | (1,211) | (1,156) | (10,167) |
| Deferred tax assets | 2,635 | 1,902 | 22,122 |
| **Deferred tax liabilities:** | | | |
| Net unrealized gain on available-for-sale securities | 13,207 | 13,962 | 110,881 |
| Deferred profits on property for income tax purposes | 1,273 | 1,313 | 10,687 |
| Prepaid expense for pension cost | 79 | 227 | 663 |
| Other | 103 | 32 | 865 |
| Deferred tax liabilities | 14,662 | 15,534 | 123,096 |
| Net deferred tax liabilities | ¥ 12,027 | ¥13,632 | $100,974 |

Net deferred tax liabilities presented in the consolidated balance sheets at December 31, 2006 and 2005 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Current assets—deferred tax assets | ¥ (725) | ¥ (472) | $ (6,087) |
| Investments and other assets—deferred tax assets | (528) | (237) | (4,433) |
| Long-term liabilities—deferred tax liabilities | 13,280 | 14,341 | 111,494 |
| Deferred tax liabilities | ¥12,027 | ¥13,632 | $100,974 |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2006 and 2005 is as follows:

| | 2006 | 2005 |
|---|---|---|
| Normal effective statutory tax rate | 40.0% | 40.0% |
| Expenses not deductible for income tax purposes | 1.1 | 1.0 |
| Income not taxable for income tax purpose | (0.5) | (0.1) |
| Amortization of consolidation differences | 3.4 | 2.0 |
| Fluctuation of valuation allowance | | 0.3 |
| Tax credit for experimental and research expense | (1.0) | (1.5) |
| Other—net | (1.7) | 0.8 |
| Actual effective tax rate | 41.3% | 42.5% |

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,491 million ($12,518 thousand) and ¥1,525 million for the years ended December 31, 2006 and 2005, respectively.

## 12. 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, 2006 and 2005 was as follows:

### As a lessee

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| | Machinery and Equipment | Furniture and Fixtures | Total | Machinery and Equipment | Furniture and Fixtures | Total |
| Acquisition cost | ¥7 | ¥44 | ¥51 | ¥11 | ¥45 | ¥56 |
| Accumulated depreciation | 3 | 18 | 21 | 5 | 14 | 19 |
| Net leased property | ¥4 | ¥26 | ¥30 | ¥6 | ¥31 | ¥37 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2006 | | |
| | Machinery and Equipment | Furniture and Fixtures | Total |
| Acquisition cost | $59 | $369 | $428 |
| Accumulated depreciation | 25 | 151 | 176 |
| Net leased property | $34 | $218 | $252 |

Future minimum lease payments:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Due within one year | ¥10 | ¥10 | $ 84 |
| Due after one year | 20 | 27 | 168 |
| Total | ¥30 | ¥37 | $252 |

Paid lease fees and depreciation expense:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Paid lease fees | ¥11 | ¥9 | $92 |
| Depreciation expense | 11 | 9 | 92 |

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 | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| | Machinery and Equipment | Furniture and Fixtures | Total | Machinery and Equipment | Furniture and Fixtures | Total |
| Acquisition cost | ¥89 | ¥18 | ¥107 | ¥57 | ¥13 | ¥70 |
| Accumulated depreciation | 13 | 10 | 23 | 36 | 6 | 42 |
| Net leased property | ¥76 | ¥8 | ¥84 | ¥21 | ¥7 | ¥28 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2006 | | |
| | Machinery and Equipment | Furniture and Fixtures | Total |
| Acquisition cost | $747 | $151 | $898 |
| Accumulated depreciation | 109 | 84 | 193 |
| Net leased property | $638 | $67 | $705 |

Future minimum lease income:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Due within one year | ¥23 | ¥10 | $193 |
| Due after one year | 67 | 20 | 563 |
| Total | ¥90 | ¥30 | $756 |

The minimum rental commitments under noncancelable operating leases at December 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Due within one year | ¥15 | ¥1 | $126 |
| Due after one year | 13 | 5 | 109 |
| Total | ¥28 | ¥6 | $235 |

## 13. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group enters into interest rate swap contracts as derivative financial instruments. Interest rate swap transactions are made in order to minimize the risk of interest rate increases on floating rate borrowing. The Group does not hold or issue derivatives for trading purposes.

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

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

### Fair Value of Derivative Financial Instruments

The fair value of the Group's derivative financial instruments at December 31, 2006 and 2005:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| | Contract Amount | Fair Value | Unrealized Gain | Contract Amount | Fair Value | Unrealized Loss |
| Interest rate swaps—Pay fixed/receive floating | ¥1,174 | ¥2 | ¥2 | ¥1,363 | ¥(14) | ¥(14) |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2006 | | |
| | Contract Amount | Fair Value | Unrealized Gain |
| Interest rate swaps—Pay fixed/receive floating | $9,856 | $17 | $17 |

Foreign currency forward contracts which qualify for hedge accounting for the years ended December 31, 2006 and 2005 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at December 31, 2006 and 2005, are excluded from the disclosure of market value information.

## 14. CONTINGENT LIABILITIES

At December 31, 2006, the Group guaranteed borrowings of affiliated companies and employees in the amount of ¥481 million ($4,038 thousand).

## 15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2006 and 2005 is as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| Year Ended December 31, 2006 | Net Income | Weighted-average Shares | EPS | |
| Basic EPS—Net income available to common shareholders | ¥7,967 | 199,597 | ¥39.92 | $0.34 |
| Effect of dilutive securities—Convertible bonds | | 18,642 | | |
| Diluted EPS—Net income for computation | ¥7,967 | 218,239 | ¥36.51 | $0.31 |

| | Millions of Yen | Thousands of Shares | Yen |
|---|---|---|---|
| Year Ended December 31, 2005 | Net Income | Weighted-average Shares | EPS |
| Basic EPS—Net income available to common shareholders | ¥5,216 | 199,093 | ¥26.20 |
| Effect of dilutive securities—Convertible bonds | | 19,608 | |
| Diluted EPS—Net income for computation | ¥5,216 | 218,701 | ¥23.85 |

## 16. SUBSEQUENT EVENT

The following appropriations of retained earnings at December 31, 2006 were approved at the Company's shareholders' meeting held on March 29, 2007:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥4.00 ($0.03) per share | ¥824 | $6,918 |

## 17. 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, 2006 and 2005 is as follows:

### (1) Industry Segments
#### a. Sales and Operating Income

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2006 | | | | |
| | Carbon and Graphite Products | Industrial Furnaces and Related Products | Others | Elimination/ Corporate | Consolidated |
| Sales to customers | ¥90,812 | ¥7,570 | ¥ 713 | | ¥99,095 |
| Intersegment sales | 405 | 104 | 796 | ¥(1,305) | |
| Total sales | 91,217 | 7,674 | 1,509 | (1,305) | 99,095 |
| Operating expenses | 77,791 | 6,697 | 1,109 | (1,302) | 84,295 |
| Operating income | ¥13,426 | ¥ 977 | ¥ 400 | ¥ (3) | ¥14,800 |

#### b. Assets, Depreciation and Capital Expenditures

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2006 | | | | |
| | Carbon and Graphite Products | Industrial Furnaces and Related Products | Others | Elimination/ Corporate | Consolidated |
| Assets | ¥111,323 | ¥11,977 | ¥2,717 | ¥38,045 | ¥164,062 |
| Depreciation | 4,517 | 255 | 345 | (5) | 5,112 |
| Capital expenditures | 5,954 | 194 | 133 | (5) | 6,276 |

#### a. Sales and Operating Income

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2006 | | | | |
| | Carbon and Graphite Products | Industrial Furnaces and Related Products | Others | Elimination/ Corporate | Consolidated |
| Sales to customers | $762,421 | $63,555 | $ 5,986 | | $831,962 |
| Intersegment sales | 3,400 | 873 | 6,683 | $(10,956) | |
| Total sales | 765,821 | 64,428 | 12,669 | (10,956) | 831,962 |
| Operating expenses | 653,102 | 56,225 | 9,311 | (10,931) | 707,707 |
| Operating income | $112,719 | $ 8,203 | $ 3,358 | $ (25) | $124,255 |

#### b. Assets, Depreciation and Capital Expenditures

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2006 | | | | |
| | Carbon and Graphite Products | Industrial Furnaces and Related Products | Others | Elimination/ Corporate | Consolidated |
| Assets | $934,623 | $100,554 | $22,811 | $319,411 | $1,377,399 |
| Depreciation | 37,923 | 2,141 | 2,896 | (42) | 42,918 |
| Capital expenditures | 49,987 | 1,629 | 1,117 | (42) | 52,691 |

### a. Sales and Operating Income

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2005 | | | | |
| | Carbon and Graphite Products | Industrial Furnaces and Related Products | Others | Elimination/ Corporate | Consolidated |
| Sales to customers | ¥70,779 | ¥6,159 | ¥ 823 | | ¥77,761 |
| Intersegment sales | 248 | 200 | 830 | ¥(1,278) | |
| Total sales | 71,027 | 6,359 | 1,653 | (1,278) | 77,761 |
| Operating expenses | 61,190 | 5,640 | 1,284 | (1,131) | 66,983 |
| Operating income | ¥ 9,837 | ¥ 719 | ¥ 369 | ¥ (147) | ¥10,778 |

### b. Assets, Depreciation, Impairment Loss on Long-lived Assets and Capital Expenditures

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2005 | | | | |
| | Carbon and Graphite Products | Industrial Furnaces and Related Products | Others | Elimination/ Corporate | Consolidated |
| Assets | ¥88,703 | ¥10,783 | ¥4,321 | ¥45,942 | ¥149,749 |
| Depreciation | 3,757 | 199 | 404 | (196) | 4,164 |
| Impairment loss on long-lived assets | | 4 | 69 | | 73 |
| Capital expenditures | 9,257 | 1,131 | 179 | (40) | 10,527 |

### (2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended December 31, 2006 and 2005 are summarized as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | | | |
| | Japan | Europe | Asia | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | **¥ 70,193** | **¥16,425** | **¥ 9,890** | **¥2,587** | | **¥ 99,095** |
| Interarea transfer | **4,302** | **72** | **424** | **44** | **¥ (4,842)** | |
| Total sales | **74,495** | **16,497** | **10,314** | **2,631** | **(4,842)** | **99,095** |
| Operating expenses | **62,812** | **13,908** | **9,881** | **2,324** | **(4,630)** | **84,295** |
| Operating income | **¥ 11,683** | **¥ 2,589** | **¥ 433** | **¥ 307** | **¥ (212)** | **¥ 14,800** |
| Assets | **¥144,478** | **¥11,592** | **¥17,696** | **¥2,716** | **¥(12,420)** | **¥164,062** |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | | | |
| | Japan | Europe | Asia | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | **$ 589,312** | **$137,898** | **$ 83,032** | **$21,720** | | **$ 831,962** |
| Interarea transfer | **36,118** | **604** | **3,560** | **369** | **$ (40,651)** | |
| Total sales | **625,430** | **138,502** | **86,592** | **22,089** | **(40,651)** | **831,962** |
| Operating expenses | **527,344** | **116,766** | **82,957** | **19,511** | **(38,871)** | **707,707** |
| Operating income | **$98,086** | **$ 21,736** | **$ 3,635** | **$ 2,578** | **$ (1,780)** | **$ 124,255** |
| Assets | **$1,212,980** | **$ 97,322** | **$148,568** | **$22,802** | **$(104,273)** | **$1,377,399** |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2005 | | | | |
| | Japan | Europe | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | ¥ 60,238 | ¥8,213 | ¥ 9,310 | | ¥ 77,761 |
| Interarea transfer | 2,489 | 21 | 221 | ¥ (2,731) | |
| Total sales | 62,727 | 8,234 | 9,531 | (2,731) | 77,761 |
| Operating expenses | 53,509 | 7,385 | 8,679 | (2,590) | 66,983 |
| Operating income | ¥ 9,218 | ¥ 849 | ¥ 852 | ¥ (141) | ¥ 10,778 |
| Assets | ¥136,954 | ¥9,166 | ¥15,119 | ¥(11,490) | ¥149,749 |

Sales in “Asia” are shown separately for the year ended December 31, 2006, since sales in the region are expected to increase continuously hereafter. Information by the current three geographical segments for the year ended December 31, 2005 is as follows:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | | | |
| | Japan | Europe | Asia | Others | Eliminations/ Corporate | Consolidated |
| Sales to customers | ¥ 60,238 | ¥8,213 | ¥ 7,364 | ¥1,946 | | ¥ 77,761 |
| Interarea transfer | 2,489 | 21 | 201 | 20 | ¥ (2,731) | |
| Total sales | 62,727 | 8,234 | 7,565 | 1,966 | (2,731) | 77,761 |
| Operating expenses | 53,509 | 7,385 | 6,901 | 1,778 | (2,590) | 66,983 |
| Operating income | ¥ 9,218 | ¥ 849 | ¥ 664 | ¥ 188 | ¥ (141) | ¥ 10,778 |
| Assets | ¥136,954 | ¥9,166 | ¥13,024 | ¥2,095 | ¥(11,490) | ¥149,749 |

### (3) Sales to Foreign Customers

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2006 | | | |
| | Asia | Europe | Others | Total |
| Overseas sales | ¥19,613 | ¥14,224 | ¥9,606 | ¥43,443 |
| Net sales | | | | 99,095 |
| Ratio of overseas sales to net sales | 19.8% | 14.3% | 9.7% | 43.8% |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2006 | | | |
| | Asia | Europe | Others | Total |
| Overseas sales | $164,663 | $119,419 | $80,648 | $364,730 |
| Net sales | | | | 831,962 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Asia | Europe | Others | Total |
| Overseas sales | ¥15,403 | ¥8,207 | ¥5,485 | ¥29,095 |
| Net sales | | | | 77,761 |
| Ratio of overseas sales to net sales | 19.8% | 10.5% | 7.1% | 37.4% |

Notes: The countries included in each segment are as follows:
(1) Asia: Korea, China, Thailand, Indonesia, etc.
(2) Europe: Germany, United Kingdom, Italy, Sweden, etc.
(3) Others: North and South America, the Middle East and Central and Western Asia, Oceania

Deloitte.

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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. (the "Company") and consolidated subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in 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 generally accepted 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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 29, 2007

Member of
**Deloitte Touche Tohmatsu**

## Corporate Data (as of December 31, 2006)

**Company Name** TOKAI CARBON CO., LTD.

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

**Date of Foundation** April 8, 1918

**Paid-in Capital** ¥16,212 million

**Number of Employees** 1,700 (on a consolidated basis)

### Network

**Branches**
Osaka Branch (Osaka)
Nagoya Branch (Aichi)
Fukuoka Branch (Fukuoka)

**Laboratories**
Fuji Research Laboratory (Shizuoka)
Chita Research Laboratory (Aichi)
Hofu Research Laboratory (Yamaguchi)
Tanoura Research Laboratory (Kumamoto)

**Industrial Complex**
Shonan Industrial Complex (Kanagawa)
Chigasaki Plant
Chigasaki Second Plant

**Plants**
Ishinomaki Plant (Miyagi)
Chita Plant (Aichi)
Shiga Plant (Shiga)
Hofu Plant (Yamaguchi)
Kyusyu Wakamatsu Plant (Fukuoka)
Tanoura Plant (Kumamoto)

**Oversea Office**
Shanghai Representative Office (China)

**Oversea Affiliated Companies**
Thai Tokai Carbon Product Co., Ltd. (Thailand)
ERFTCARBON GmbH (Germany)
Tokai Carbon (Tianjin) Co., Ltd. (China)
Tokai Carbon U.S.A., Inc. (U.S.A.)
Tokai Carbon Europe Ltd. (U.K.)
Tokai Carbon Italia S.R.L. (Italy)
Svensk Specialgrafit AB (Sweden)
MWI, Inc. (U.S.A.)
Tokai Carbon Korea Co., Ltd. (Korea)
SGL Tokai Carbon Ltd., Shanghai (China)
Dalian Tokai-Jinqi-Fuji Carbon Co., Ltd. (China)
Carbon Industrie-Produkte GmbH (Germany)

## Investor Information (as of December 31, 2006)

**Common Stock** Authorized shares 598,764,000 shares
Outstanding shares 208,378,414 shares

**Stock Exchange Listing** First Section of the Tokyo Stock Exchange

**Securities Code Number** 5301

**Fiscal Year-End** December 31

**Number of Shareholders** 21,885

**Transfer Agent** Mitsubishi UFJ Trust and Banking Corporation

**Major Shareholders**

| | Number of shares held (Thousands of shares) | Percentage of total shares issued (%) |
|---|---|---|
| Japan Trustee Service Bank, Ltd. (Trust Account) | 26,074 | 12.51 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 13,405 | 6.43 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 8,842 | 4.24 |
| Mitsubishi UFJ Trust and Banking Corporation | 6,989 | 3.35 |
| The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corporation Retirement Benefit Trust Account) | 5,900 | 2.83 |
| Mitsubishi Corporation | 5,844 | 2.80 |
| Goldman Sachs International | 5,470 | 2.62 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 5,055 | 2.42 |
| State Street Bank & Trust Company | 3,145 | 1.50 |
| Amethyst | 3,009 | 1.44 |

**TOKAI CARBON CO., LTD.**

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