

# ANNUAL REPORT 2011

For the Year Ended December 31, 2011



# ANNUAL REPORT 2011

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### CAUTIONARY STATEMENT WITH REGARD TO FORWARD-LOOKING STATEMENTS

Certain of the statements made in this annual report are forward-looking statements, which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which are valid only as of the date thereof. The Tokai Carbon Group undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date thereof or to reflect the occurrence of unanticipated events.

## Corporate Philosophy

Our corporate philosophy is "Ties of reliability". We believe in the importance of trust between Tokai Carbon and our stakeholders (as represented by customers, shareholders, employees, and society). This idea of mutual reliability, which is based on common values shared with our stakeholders,

is the foundation of our continued business and existence.

This concept allows us to provide added value to our stakeholders, thus enabling them to achieve their individual goals. Through this cycle of trust, we will strive to further enhance our ties of reliability.

## Profile

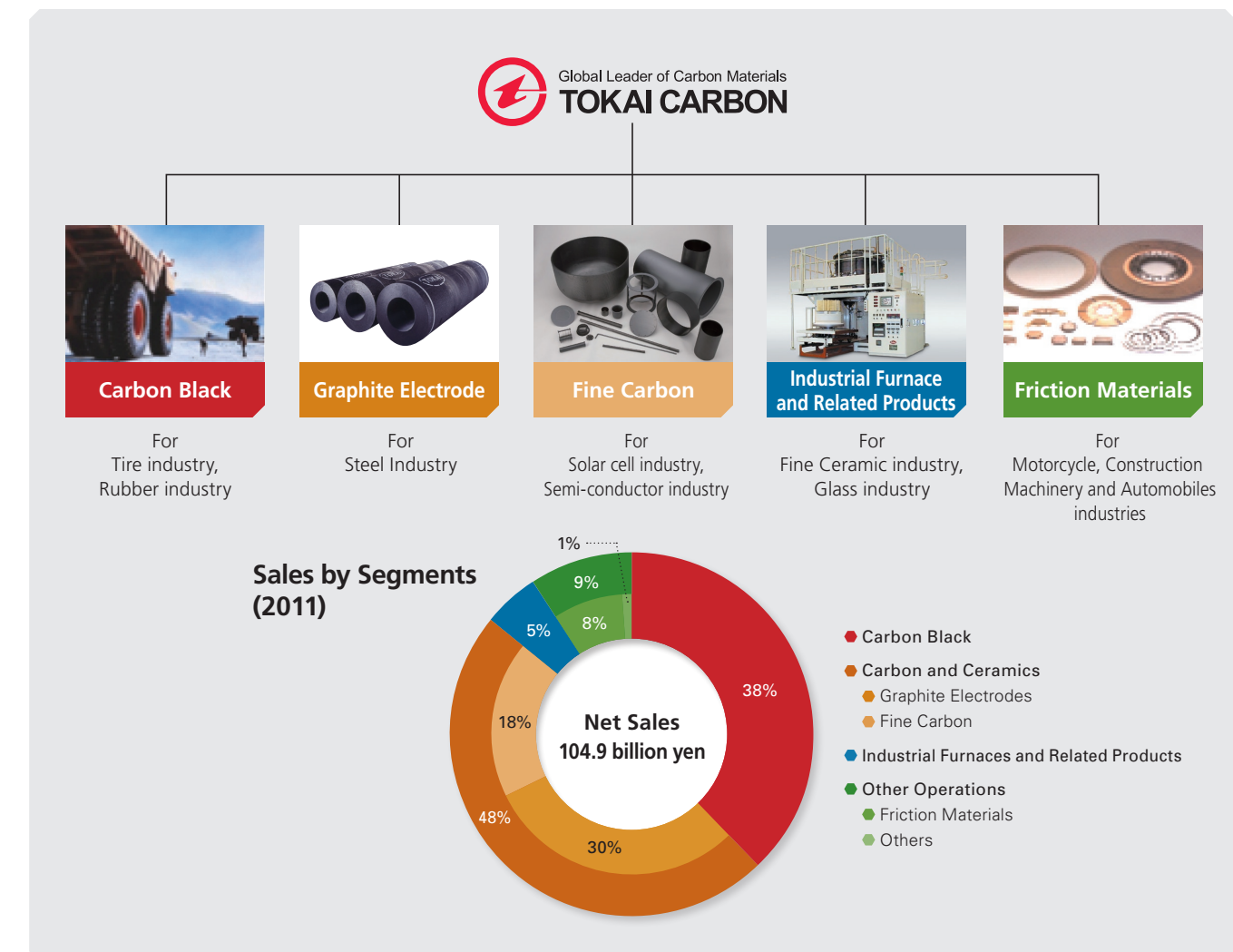
The Tokai Carbon Group commenced operations as a pioneer in the carbon industry in Japan in 1918.

It has been our pleasure and honor that we were able to actively contribute to the development of society through carbon-related products and services based on diverse manufacturing fields and technology.

The "Carbon Black" as a reinforcing material for rubber tires, the "Graphite Electrode" as an indispensable material to melt scrap to reproduce steel in electric arc furnace, the

"Fine Carbon" used in variety of field for high technology such as solar cell and semi-conductors, the "Friction material" for use in brakes and clutches on engineering vehicles, motorcycles and the "Industrial furnace & related products" which is active in heat treatment process for ceramics, electrical parts, metal and glass.

Growing together with these five core divisions, Tokai carbon continues to spread its wings globally.

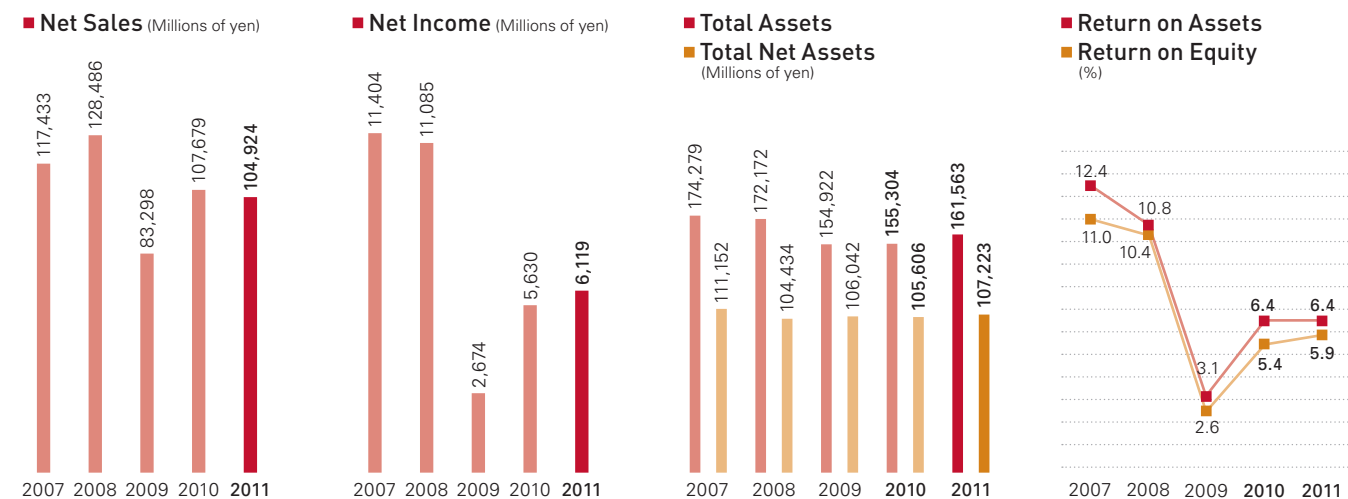


## Five-Year Financial Highlights

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years ended December 31

	Millions of Yen					Thousands of U.S. Dollars	
	2007	2008	2009	2010	2011	2011	
<b>For the Year:</b>							
Net Sales	¥117,433	¥128,486	¥ 83,298	¥107,679	<b>¥104,924</b>	<b>\$1,349,678</b>	
<i>Carbon Black</i>				40,017	<b>40,077</b>	<b>515,526</b>	
<i>Carbon and Ceramics</i>	Tokai Carbon has changed its segmentations from FY 2011.			53,020	<b>49,858</b>	<b>641,342</b>	
<i>Industrial Furnaces and Related Products</i>				5,628	<b>5,401</b>	<b>69,475</b>	
<i>Other Operations</i>				9,014	<b>9,586</b>	<b>123,308</b>	
Gross Profit	37,340	38,580	18,323	24,348	<b>23,958</b>	<b>308,181</b>	
Operating Income	20,746	21,619	5,299	10,575	<b>10,467</b>	<b>134,641</b>	
Income Before Income Taxes and Minority Interests	21,044	18,789	4,938	9,211	<b>9,336</b>	<b>120,092</b>	
Net Income	11,404	11,085	2,674	5,630	<b>6,119</b>	<b>78,711</b>	
Depreciation and Amortization	6,283	8,046	9,525	8,853	<b>8,286</b>	<b>106,586</b>	
Research and Development Costs	1,655	2,026	2,073	2,012	<b>1,956</b>	<b>25,160</b>	
Capital Expenditures	13,034	17,544	8,066	6,710	<b>13,975</b>	<b>179,765</b>	
<b>At Year-End:</b>							
Total Assets	¥174,279	¥172,172	¥154,922	¥155,304	<b>¥161,563</b>	<b>\$2,078,248</b>	
Total Net Assets	111,152	104,434	106,042	105,605	<b>107,223</b>	<b>1,379,251</b>	
	U.S. Dollars						
<b>Per Share Data: (Yen)</b>							
Net Income	¥ 53.42	¥ 50.43	¥ 12.28	¥ 26.05	<b>¥ 28.66</b>	<b>\$ 0.37</b>	
Total Net assets	499.42	471.61	478.26	484.53	<b>488.30</b>	<b>6.28</b>	
Cash Dividends Applicable to The Year	9.00	10.00	8.00	8.00	<b>8.00</b>	<b>0.10</b>	
<b>Financial Ratios: (%)</b>							
Return on Assets	12.4%	10.8%	3.1%	6.4%	<b>6.4%</b>	<b>6.4%</b>	
Return on Equity	11.0	10.4	2.6	5.4	<b>5.9</b>	<b>5.9</b>	
Equity Ratio	62.8	59.7	67.2	66.6	<b>64.5</b>	<b>64.5</b>	

Note: U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥77.74=US\$1, the approximate rate of exchange at December 31, 2011.



## Message from President

TOKAI CARBON  
ANNUAL REPORT  
2011



Yoshinari Kudo, President and CEO

*Yoshinari Kudo*

### Business Results for Year Ended December 31, 2011

The global economy during 2011 was gradually recovering, led by emerging economies. From summer onward, however, the recovery inevitably slowed, owing primarily to the European debt crisis and the deceleration of growth in emerging economies. Although the Japanese economy recovered somewhat, reflecting the recovery in the global economy, but economic activities fell sharply on equipment damage and supply chain disruptions that were due to the Great East Japan Earthquake.

Later, supported by a quick restoration of supply chains and by restoration and recovery from the earthquake, the economy returned to pre-earthquake levels in summer. However, due to the deceleration in the overseas economy from immediately thereafter, the rapid appreciation in the yen, as well as the flooding in Thailand, the recovery of the Japanese economy slowed.

Under such circumstances, the industries in which the Tokai Carbon Group's customers operate (e.g., rubber products, steel, IT hardware, and industrial machinery) also suffered a decrease in demand due to the earthquake. However, with the recovery of their production activities, demand also headed for recovery.

Furthermore, as for operations at Tokai Carbon Ishinomaki Plant (Ishinomaki City, Miyagi Prefecture), which had been suspended because of the earthquake, recovery operations were carried out with a view to resuming operations, and some operations were resumed by the end of the fiscal year under review, as planned.

As a result, consolidated net sales for the fiscal year under review decreased 2.6% year on year, to ¥104,924 million. As for profits and losses, operating income decreased 1.0% year on year, to ¥10,467 million, and ordinary income rose 2.5% year on year, to ¥10,104 million. In addition, although the Group recorded a loss on disaster of ¥2,682 million under extraordinary losses due to the Great East Japan Earthquake, partly because of its recording a ¥1,852 million gain on sales of investment securities under extraordinary income, net income in the fiscal year under review increased 8.7% year on year to ¥6,119 million.

In the aim of increasing shareholder returns, enhancing corporate value, and strengthening the Group's operational foundation, the Company has adopted a policy of setting dividends based on its earnings status viewed from a medium-term

perspective, while also maintaining sufficient retained earnings. The Company retains earnings to fund strategic investments in new businesses, including M&A, invest in improving existing operations' efficiency, solidify its financial condition, and maintain stable dividends.

### Issues to be Addressed by the Company

The Japanese economy is expected to see a continuation of its recovery trend, due to policy effects centering on recovery demand and to moderate growth in the world economy. Yet there are still causes for concern such as the overseas economy's slowdown resulting from the increasing severity of the European debt crisis and the slowdown in Japanese exports resulting from the continuing yen appreciation. Consequently, the outlook does not seem to allow optimism. Under such circumstances, the Group will continue to follow the path toward becoming the "Global Leader of Carbon Materials." Under the corporate philosophy of "Ties of Reliability" and in accordance with its four guidelines (ability to create value, fairness, ecology, and internationalism), the Group will strive to enhance its corporate value. At the same time, it will make all-out efforts to achieve the "T-2012" three-year management plan, whose first fiscal year was 2010, as it continues its challenge of achieving sustainable growth.

Furthermore, as for the next fiscal year, which is the last year of the "T-2012" three-year management plan, a severe business environment is forecast. Consequently, it will be extremely difficult to achieve the numerical targets for performance such as net sales and operating margin. Nevertheless, with all employees united in their efforts, the Group will strive for improvement in its business performance.

In addition, the Group intends to pay greater attention to the fundamentals of a manufacturing company, namely, security assurance, quality control, and environmental protection, and it will continue to make efforts to strengthen corporate governance and corporate social responsibility (CSR). Furthermore, the Group also intends to strengthen its business infrastructure by implementing, assessing, and improving its internal control reporting system for financial reporting in compliance with the Financial Instruments and Exchange Act (J-SOX).

We hope for your continued support and encouragement.

## Review of Operations

### Carbon Black

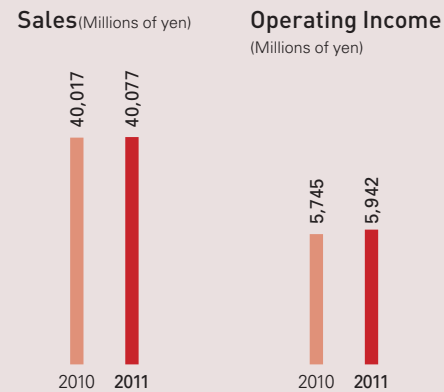
Carbon black is mainly used as a reinforcing agent of industrial rubber products, typically auto tires. Among other important uses are electroconductive filler and coloring agent for printing inks, paints and plastics.



Although there was a decline in automobile production because of the earthquake and the flooding in Thailand, supported by steady production in the tire industry both within and outside Japan, demand remained generally strong.

Nonetheless, due to the prolonged suspension of operations at the Ishinomaki Plant that resulted from the earthquake, sales volumes inevitably declined from March onward. Furthermore, the Group revised its sales prices in response to the rise in raw oil prices.

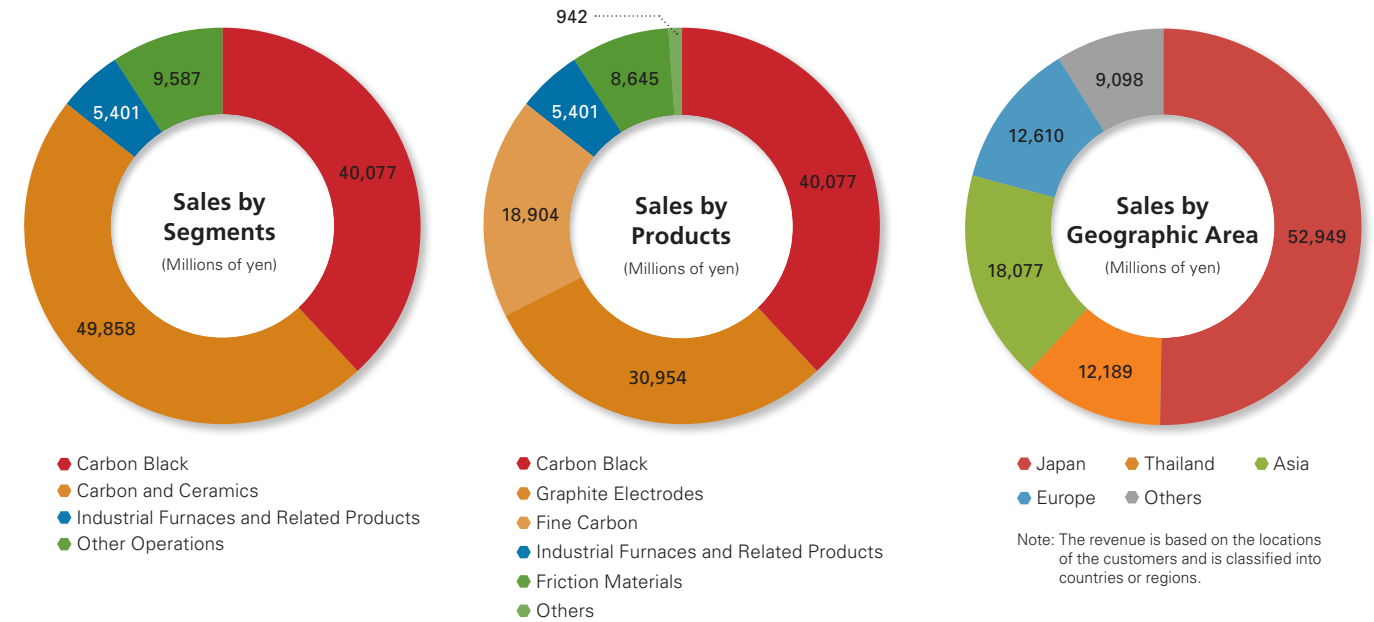
As a result of these factors, net sales in the Carbon Black segment increased 0.2% year on year, to ¥40,077 million, and operating income rose 3.4% year on year, to ¥5,942 million.



#### Topic

We determined reconstruction of the carbon black plant in Ishinomaki, which suspended operations immediately after the Great East Japan Earthquake which occurred on March 11, suffering extensive damage from the tremor and tsunami. (Ishinomaki plant will run again with the same production capacity before the earthquake in June 2012.)

### Fiscal 2011 Sales by Segments



### Carbon and Ceramics

#### Graphite Electrodes

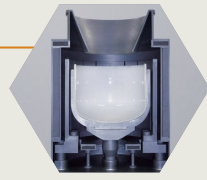
Graphite electrodes function as conductors of electricity that are consumed in an electric furnace in the steelmaking process.



With the world crude steel production remaining at high levels above 100 million tons per month, and with electrode demand recovering, sales volume to North America increased but those to Asia decreased. In addition, although the Group strived to focus on profitability, sales prices both domestically and overseas remained low, partly due to the effect of appreciation in the yen. Consequently, net sales of graphite electrodes fell 17.4% year on year to ¥30,954 million.

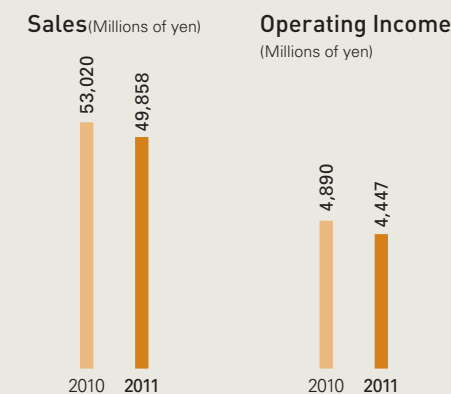
#### Fine Carbon

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, semiconductors, solar cells and LED, among other products.



Domestic sales slumped temporarily on the impact of the earthquake. Yet sales remained strong on the sharp rebound in demand due to the production restoration among customers and strong demand in industries including solar cells and semiconductors, mainly in China, South Korea, and other Asian countries. Nonetheless, in the fourth quarter, due to a sudden deterioration of market conditions related to solar cells and the like in China and South Korea, and due to the effect of yen appreciation, net sales to overseas customers fell sharply. As a result, net sales of fine carbon products rose 21.7% from the previous fiscal year to ¥18,904 million.

Due to these factors, net sales in the Carbon and Ceramics segment decreased 6.0% year on year, to ¥49,858 million, and operating income fell 9.1% year on year, to ¥4,447 million.



#### Topic1

Production capability of Isotropic graphite material\* will be enhanced up to 15,000mt/year which is 1.5 times more capacity than today by Q4 2012 to grasp the potential demand increase in solar cell and semiconductor application market.

\* Isotropic graphite material is the essential for the processes of manufacturing semiconductor and solar cell components.

#### Topic2

We will establish a production and sales joint venture company with the POSCO Group for Isotropic graphite materials in South Korea. Operations are scheduled to begin before the end 2014.

## Review of Operations

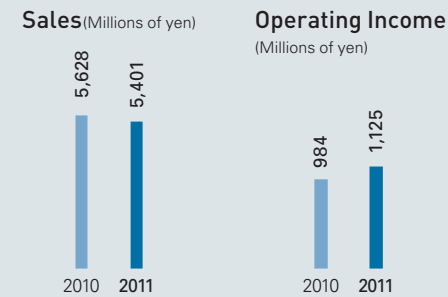
### Industrial Furnaces and Related Products

Industrial furnaces and heating elements are manufactured by Tokai Konetsu Kogyo Co., Ltd., which is a wholly subsidiary, for the purposes of heating, sintering, dissolving and heat-treating such objects as ceramics, electronic parts, metals, glass and powdered materials.



previous fiscal year.

As a result of these factors, net sales in the Industrial Furnaces and Related Products segment decreased 4.0% year on year to ¥5,401 million, and operating income increased 14.4% year on year to ¥1,125 million.



In IT-related industries, which are the Group's main demanders, sales did well in the first half of the year amid a slow recovery. In the second half of the year, however, due to the credit uncertainty in Europe and the continuing strong yen, restraint in capital investment gradually increased, and sales of industrial furnaces, the Group's key products, remained at a low level, similar to that of the previous fiscal year. Furthermore, since the effect of yen appreciation was large on the glass and electronic component industries as well, sales of heating elements and related products decreased from the

### Other Operations

#### Friction Materials

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



Sales to construction machinery industries, the Group's main demanders, slowed for some machinery uses in the second half of the year as a consequence of China's financial tightening measures. Nonetheless, overall sales remained steady as sales of friction materials for mining construction machinery increased. In addition, demand for friction materials for two-wheeled vehicles, four-wheeled vehicles, and agricultural machinery showed a rising trend. As a result, net sales of friction materials rose 12.4% year on year to ¥8,644 million.



#### Others

Net sales from property leasing and other businesses decreased 28.7% year on year to ¥941 million.

Due to these factors, net sales in the Other Operations segment increased 6.4% year on year to ¥9,586 million, with operating income increasing 52.2% year on year to ¥588 million.

#### Topic

As the first overseas expansion in its friction materials business, we will establish a production and sales base in China and commencement of operations is scheduled in January 2013. We will strive to expand the business in order to respond to its customers' production in China and to their local procurement, both of which are related to construction machinery and agricultural machinery.

## Research and Development

The Group's R&D activities (including those of the Company and its subsidiaries and affiliates) are mainly carried out at the Fuji Research Laboratory, Chita Laboratory, Chigasaki Laboratory, and Carbon and Ceramics Laboratories (Hofu Laboratory and Tanoura Laboratory), all working in coordination with Tokai Carbon's Development and Technology divisions. We promote vigorous R&D activities including research into new products based on fundamental research, development of technology for industrial use, enhancement of existing products, and quality improvements.

Since it is difficult to associate individual R&D activities and the amounts spent on them with specific segments, they are disclosed on a whole-Group basis.



Fuji Research Laboratory (Shizuoka, Japan)

### Main Research and Development Activities

Tokai Carbon considers fine carbon and fine ceramics to be growth fields. Our products offer outstanding material characteristics that make them suitable for a wide range of applications. Recent years have seen remarkable growth in high-tech needs relating to energy, semi-conductors, electronics, and environmental fields. We are responding to these changes by developing carbon products to satisfy this demand.

We are investing in R&D of products that leverage our accumulated technologies, including water-soluble carbon black for use as pigment in ink-jet printing ink, fuel cell separators, and negative-electrode carbon materials for use in lithium-ion batteries.

At Tokai Konetsu Kogyo Co., Ltd., the Group is forging ahead with multi-directional development. Projects targeting users in the energy industry include film formers for use in manufacturing thin-film photovoltaic cells, a prototype apparatus for heat treating lithium-ion battery electrode materials, and manufacture of heat-treatment furnaces for ceramic electrode components that combine new technologies with proprietary ones.

Moreover, Tokai Carbon is leveraging Tokai Konetsu Kogyo's proprietary technologies as a base for developing new products and applications. The focus technologies include silicon carbide heating elements, silicon carbide structural materials, ceramic resistors, and silicon nitride materials.

### Research and Development Costs

Research and development costs for the fiscal year ended December 31, 2012 came to ¥1,956 million.

## Dividend Policy

With the aim of increasing shareholder returns, enhancing corporate value, and strengthening the Group's operational foundation, the Company has adopted a policy of setting dividends based on its earnings status viewed from a medium-term perspective, while also maintaining sufficient retained earnings.

The Company's basic policy is to return retained earnings twice a year in the form of an interim and a year-end dividend. The General Meeting of Shareholders decides on the year-end dividend, and the Board of Directors decides on the interim dividend.

In accordance with this policy, the annual dividend for the

fiscal year ended December 31, 2011 was set at 8 yen per share, including an interim dividend of 4 yen. This resulted in a dividend payout ratio for the fiscal year of 52.8%.

The Company plans to use retained earnings to fund strategic investments in new businesses, including M&A, invest in improving the efficiency of existing operations, solidify its financial condition, and maintain stable dividends.

The Company's articles of incorporation state that the Board of Directors may pass a resolution to pay an interim dividend on June 30 each year.

Dividends paid from retained earnings for the fiscal year ended December 31, 2011 are as follows.

Resolution date	Total amount of dividend (Millions of yen)	Dividend per share (Yen)
August 5, 2011 Board of Directors' resolution	854	4.0
March 29, 2012 General Meeting of Shareholders' resolution	854	4.0

Assuming an exchange rate of ¥75 to the U.S. dollar, the Group forecasts 2012 consolidated net sales of ¥114,000 million, operating income of ¥10,000 million, ordinary income of ¥10,100 million, and net income of ¥5,800 million.

Furthermore, the Group forecasts that the balance of cash

and cash equivalents at the end of the fiscal year will be approximately ¥10,000 million.

For 2012, the Company plans to pay total annual dividends of ¥8 per share, consisting of an interim dividend of ¥4 per share and year-end dividend of ¥4 per share.

are also striving to raise awareness of compliance as a key initiative of our CSR Promotion Meeting.

Tokai Carbon has also enacted a wide range of internal regulations regarding the execution of our business affairs

and clarified the organizations for performing operations, as well as authority and responsibility. These measures are part of the Company's ongoing efforts to establish a system that ensures fair business practices and clear financial reporting.

## Status of Corporate Governance

### I. Status of Corporate Governance

#### 1 Corporate Governance System

##### a. Overview of Corporate Governance System

Tokai Carbon recognizes that the aim 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 our management supervision functions.

Tokai Carbon's basic management policies are determined by its Board of Directors, which consists of nine directors. The Board of Directors operates under a clear mandate as the body responsible for making decisions on strategy. Their meetings are usually held once a month and otherwise as necessary to make decisions on matters required by corporate laws and important business issues, or to share reports on the status of business operations. The Company introduced the Executive Officer System in March 1999. Under this system, the Board of Directors selects and appoints Executive Officers who take charge

##### b. Reason for Adoption of Corporate Governance Structure

The Company employs the current corporate auditor system to ensure effective corporate governance. The Corporate Auditors include external auditors who maintain a certain level of independence from management. The Corporate Auditors attend all important meetings including Board of Directors' Meetings and Managing Executives Meetings. By

of business operations in different departments of the Company to accelerate operational decision making and clarify responsibilities. The President and Executive Officers in charge of different business operations have a Managing Executives Meeting once a month to deliberate on managerial matters.

The Company has adopted the Corporate Auditor system. The Corporate Auditors Meeting consists of four Corporate Auditors, two of whom are external auditors. Corporate Auditors are required to conduct a fair and independent audit of the Company's business operations. They attend the Board Meeting, the Managing Executives Meeting, and any other important meetings to offer proposals and advice concerning directors' decision making and the execution of business. The Corporate Auditors Meeting is usually held once a month and otherwise as required.

Tokai Carbon's corporate governance structure is shown in the figure below.

voicing objective opinions at these meetings, the Corporate Auditors help management to ensure effective direction and oversight of the Company. Management considers that this system is amply sufficient to ensure the independence of auditors and effective corporate governance given the scale and organizational structure of the Company.

#### 2 Status of Company Functions and Internal Control System

##### a. Internal Control System

"Fair business activities" represent one of our corporate policies, and this has led to the enactment of our Corporate Code of Ethics, which serves as a standard for behavior

that must be strictly observed by all executives and other employees. The code is designed to ensure both lawful and fair business practices on a daily basis. Moreover, we

##### b. Internal Auditing and Auditing System

The Company has established an Internal Auditing Office to serve as an internal auditing department, currently consisting of three personnel. The Internal Auditing Office is in charge of improving and enhancing all internal systems by performing internal audits on all business practices of the Company and the Group companies. The internal audits are rigorously followed up to ensure that all suggestions for improvement have been implemented. The results of these audits are reported to the representative director.

In addition to attending the Board Meetings and other important meetings in accordance with the auditing policies and work allocation prescriptions stipulated by the Corporate Auditors Meeting, the Corporate Auditors also peruse all documents relating to important decisions. The Corporate Auditors Meeting was convened thirteen times during the fiscal year under review. The Corporate Auditors also examine business practices and asset management within the head office and all other offices, request reports from

##### c. Accounts Auditing

Tokai Carbon has contracted the accounting audit firm Deloitte Touche Tohmatsu LLC to audit its accounts in accordance with Japan's Companies Act and Financial Instruments and Exchange Act. The Accounting Auditors audit all account statements and financial statements from the standpoint of an independent third party and report the results of the audit to Tokai Carbon. Arbitrary opinions on the results of surveys into internal systems, etc., are then exchanged, and improvements are implemented in accordance with recommendations. Tokai Carbon also submits information and data to the Accounting Auditors in order to guarantee an environment in which audits can be carried out both swiftly and accurately.

##### d. Relationship with External Director and External Corporate Auditors

Tokai Carbon appoints one external Director and two external Corporate Auditors. No special interests exist between Tokai Carbon and the external Director or the external Corporate Auditors. Moreover, no special interests exist between Tokai Carbon and the other companies at which the external Director and the external Corporate Auditors hold positions.

Yoshio Kumakura was appointed as an external Director because he has held key positions in the legal profession, and the Company judged that he would be able to monitor and check management from an objective perspective, independent from the managing executives conducting their duties.

subsidiary companies when necessary, and closely audit the business practices of all Members of the Board and Executive Officers.

The Corporate Auditors and Internal Auditing Office exchange information closely with each other. They hold meetings when necessary to examine each other and exchange opinions on the results of internal audits, recommendations and proposals.

Meetings are also held between the Corporate Auditors and the Accounting Auditors when necessary to exchange information and generally ensure that communication links are maintained.

Corporate Auditors cooperate with Accounting Auditors to establish auditing plans, receive reports and explanations regarding on auditing processes and results, and audit consolidated accounts, account statements, and other necessary documents.

No special interests exist between Tokai Carbon and the accounting audit firm or the employees of the accounting audit firm who carry out the audit of Tokai Carbon's accounts.

The names of the certified public accountants and the composition of the assistants involved in all auditing duties for the fiscal year under review are listed below.

Names of Certified Public Accountants Who Carried Out Auditing Duties:

Designated limited liability partner, engagement partner: Koichi Yano, Saori Yamaguchi

Composition of the Assistants Involved in Auditing Duties: Two certified public accountants and eight other personnel.

Ryuichi Sato was appointed as an external Corporate Auditor because he has experience in management of a listed manufacturing company, and the Company judged that he would be able to use this experience in auditing the general operations of the Company.

Seiichiro Sasao was appointed as an external Corporate Auditor because he has operational and management experience at a trust bank and at one of its subsidiaries, and the Company judged that he would be able to use this experience in auditing the general operations of the Company.

## Status of Corporate Governance

### 3 Risk Management System

Tokai Carbon faces various risks in conducting its business. To minimize and avoid these risks, the Company ensures that all departments implement constant risk management. The Company also has a system that links related departments together to ensure that appropriate countermeasures can be

instituted swiftly and accurately.

The Legal Affairs Department in the Corporate Administration Division investigates all decisions that require legal judgment, and the Company also seeks advice from consumer attorneys if it is deemed necessary to obtain expert opinions.

### 4 Overview of Responsibility Limitation Contracts

Contracts limiting liability for damages based on Article #427, Clause #1 and Article #423, Clause #1 of the Companies Act of Japan have been concluded between Tokai Carbon and the external Director (Yoshio Kumakura) and the external Corporate Auditors (Ryuichi Sato and Seiichiro Sasao). The amount of the limit for liability stipulated in these contracts shall be determined in accordance with the law for both the

external Director and the external Corporate Auditors. The limitations on responsibility as stipulated in these contracts apply only in the case where the external Director and the external Corporate Auditors have discharged the duties that have made them responsible for damage in good faith, and without gross negligence.

### 5 Number of Directors

Tokai Carbon's articles of incorporation stipulate that the Company shall have no more than 13 Directors.

### 6 Appointment of Directors

The articles of incorporation stipulate that Members of the Board shall be appointed only by a resolution of a meeting of shareholders holding at least one third of the voting rights and being eligible to vote, where the motion to appoint

said Member of the Board is passed by a majority of the voting rights. Moreover, the articles of incorporation further stipulate that a resolution to appoint a Director may not be decided by cumulative voting.

### 7 Acquisition of Treasury Stocks

The articles of incorporation stipulate that treasury stock may be acquired by a resolution of the Board of Directors as stipulated in Article #165, Clause #2, of the Companies Act. The objective of this is to enable the company to acquire

its own stock via market transactions in order to promote a flexible capital policy to cope with changes in the business management environment.

### 8 Interim Dividends

The articles of incorporation stipulate that Tokai Carbon may pay out surplus funds as dividends (Interim Dividends) in accordance with Article #454, Clause #5, of the Companies

Act upon a resolution of the Board of Directors. The objective of this is to provide a flexible return of profits to shareholders.

### 9 Requests for Extraordinary Resolutions during the General Meeting of Shareholders

The articles of incorporation stipulate that requests for extraordinary resolutions during the General Meeting of Shareholders as stipulated in Article #309, Clause #2, of the Corporate Law may be passed only by a resolution of a meeting of shareholders holding at least one third of the voting rights and being eligible to vote, where the resolution

is passed by a two-third majority. The objective of this is to facilitate the smooth running of the General Meeting of Shareholders by relaxing the quorum requirements for extraordinary resolutions during the General Meeting of Shareholders.

## 10 Executive Remuneration

### a. Total Amounts of Remuneration Paid to Directors and Corporate Auditors, Total Amounts of Each Type of Remuneration, and Number of Eligible Recipients

Classification	Total amount of remuneration (Millions of yen)	Total amount of remuneration by type (Millions of yen)				Number of eligible recipients
		Basic remuneration	Stock options	Bonuses	Retirement allowances	
Directors (Excluding external Directors)	229	171	-	57	-	9
Corporate Auditors (Excluding external Corporate Auditors)	27	23	-	3	-	2
External Directors and external Corporate Auditors	35	30	-	4	-	3

Note: (1) It was resolved at the 144th General Meeting of Shareholders held on March 30, 2006, that the maximum amount of remuneration paid to Members of the Board shall be less than ¥350 million per annum.  
(2) It was resolved at the 144th General Meeting of Shareholders held on March 30, 2006, that the maximum amount of remuneration paid to Corporate Auditors shall be less than ¥65 million per annum.  
(3) The figures for total remuneration amount and numbers of eligible recipients include one Director who retired at the end of the 149th General Meeting of Shareholders held on March 25, 2011.

### b. Method for Determining Amounts of Remuneration for Directors and Corporate Auditors

In 2006 Tokai Carbon decided to abolish its director retirement bonus plan, which set amounts based mainly on the number of years of service, in favor of a system that links retirement bonus amounts to business performance.

The Company's policy is to pay a remuneration amount within the limits for remuneration approved at the General

Meeting of Shareholders, in consideration of business performance, returns to shareholders, employee bonuses and other factors, and in accordance with the timing and calculation method stipulated in the Company's internal regulations.

### c. Total Amount of Consolidated Remuneration Paid to Individual Directors and Corporate Auditors

Since no Directors or Corporate Auditors received consolidated remuneration in excess of ¥100 million for the fiscal year under review, no data is disclosed.

### d. Total Amount of Consolidated Remuneration Paid to Individual Directors and Corporate Auditors

Since no Directors or Corporate Auditors received consolidated remuneration in excess of ¥100 million for the fiscal year under review, no data is disclosed.

## 11 Shares Held by the Company

### a. Investment Securities Held by the Company for Purposes other than Pure Investments

Number of stocks: 78

Total value on the Balance Sheet: ¥12,651 million

II. Audit Remuneration

1 Accounting Auditor Remuneration

Source	Remuneration for audit certification services (Millions of Yen)	Remuneration for non-auditing services (Millions of Yen)
The Company	60	0
Consolidated subsidiaries	8	-
<b>Total</b>	<b>68</b>	<b>0</b>

2 Other Major Remuneration

Fiscal year ended December 31, 2010

Tokai carbon's consolidated subsidiaries paid ¥18 million as remuneration for audit certification services and ¥17 million as remuneration for non-auditing services to Deloitte&Touche, which belongs to the same network as Tokai carbon's Accounting Auditors.

Fiscal year ended December 31, 2011

Tokai carbon's consolidated subsidiaries paid ¥21 million as remuneration for audit certification services and ¥14 million as remuneration for non-auditing services to Deloitte&Touche, which belongs to the same network as Tokai carbon's Accounting Auditors.

3 Non-Auditing Services Performed by Accounting Auditors for the Company

Fiscal year ended December 31, 2010

None

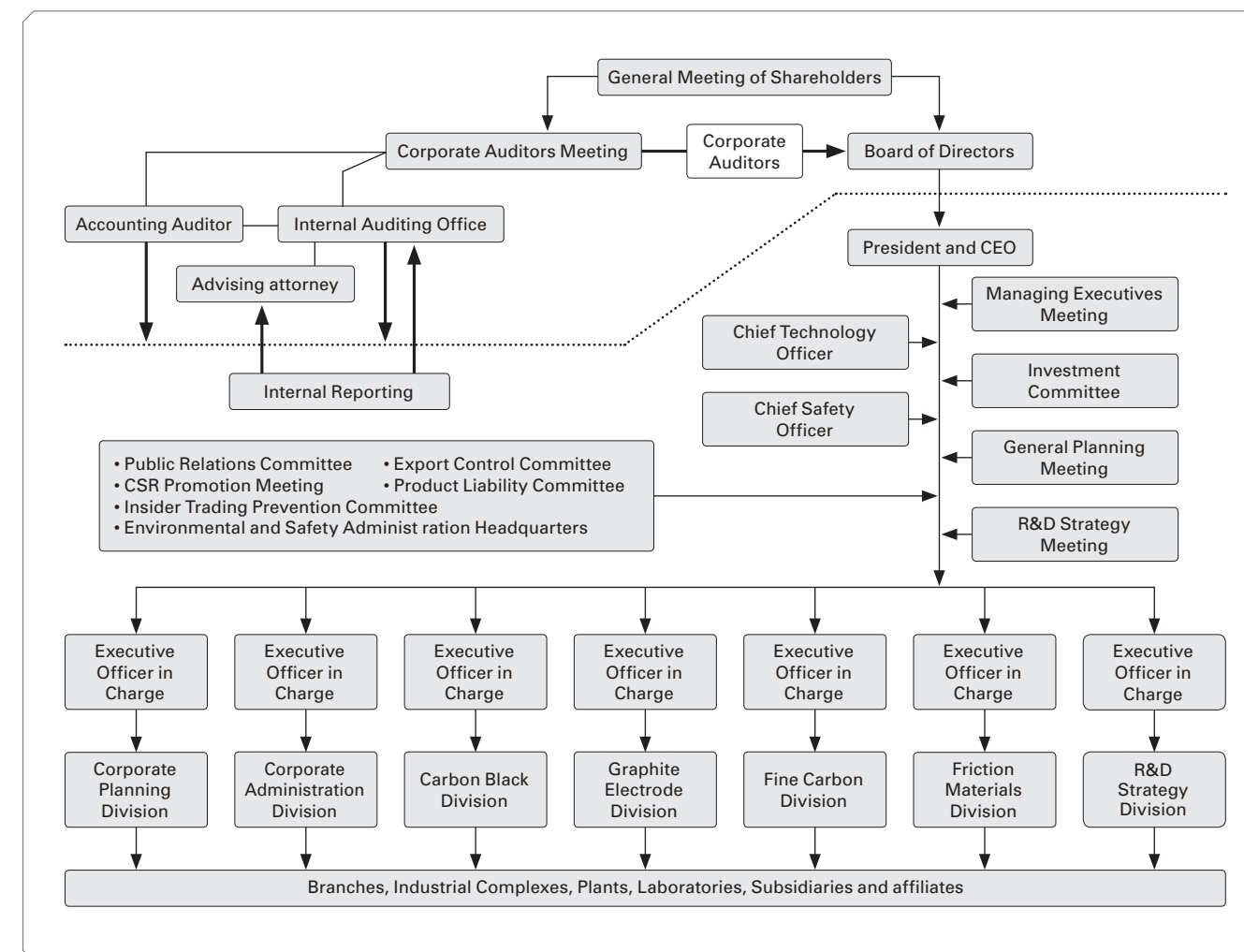
Fiscal year ended December 31, 2011

Non-auditing services by Accounting Auditors for which Tokai carbon pays remuneration are mainly agreed processing services for an audit report on raw materials prices.

4 Audit Remuneration Policy

Although Tokai carbon does not have a policy related to determining the amount of remuneration paid to Accounting Auditors, we take into consideration the number of days spent for auditing when we decide the amount.

Tokai Carbon Corporate Governance Structure (Outline as of March 29, 2012)





## Internal Control Initiatives

The business environment is changing dramatically, especially with globalization and increasing interest in the global environment. With this change, CSR has become an important aspect of corporate activity. Tokai Carbon has created various systems to ensure that it fulfills its responsibility to society by conducting business appropriately and increasing its corporate value.

Specifically, we have developed structures for ensuring compliance with laws and internal rules, and reliable disclosure of corporate information including financial reports. At the same time these structures allow us to conduct our

business appropriately and efficiently by ensuring systematic management execution, a rational organizational structure, a clear chain of command, risk management, and other aspects of corporate affairs.

Another aspect we have addressed is the increase of business investees and the increasing importance of internal control in consolidated management. Specifically, we have adopted a structure where officers responsible for audits and internal control liaise with Corporate Auditors, Accounting Auditors, and others, to ensure appropriate execution of duties.

## Takeover Defense Measures

Tokai Carbon adopted "Countermeasures (Anti-takeover Measures) for Large-scale Purchases of Company Stock and Other Securities" upon receiving approval from the shareholders at the general meeting of shareholders held in March 28, 2008. Due to the fact that the effective term of the Original Plan was until the closing of the general meeting of shareholders in March 25, 2011, our Board of Directors has come to a decision to continue the Countermeasures

after making partial amendment to the Original Plan with the aim of ensuring and enhancing the corporate value of Tokai Carbon and the common interests of its shareholders. The plan was approved and passed at the 149th general meeting of shareholders held in March 25, 2011 and shall remain in effect for a period of 3 years until the date of conclusion of the general meeting of shareholders to be held in 2014.

## Basic Policy on CSR

The Tokai Carbon Group's corporate activities are based on its corporate philosophy of "ties of reliability" with stakeholders.

Guided by this philosophy, the Group places importance on activities associated with corporate social responsibility

(CSR) including compliance, the environment, and contribution to society. The Group will contribute to the sustainable development of wider society by encouraging its individual employees to take personal ownership of CSR in their professional activities.

## Environmental Philosophy

The Tokai Carbon Group has formulated an Environmental Philosophy and Environmental Policy to rigorously promote environmental protection activities and environmental management across all operations group wide.

### Environmental Philosophy

The Tokai Carbon Group recognizes global environmental preservation as one of its most important management priorities. We will strive to achieve harmony between

corporate activities and the environment, and work towards achieving a sustainable, recycling-oriented society.

### Environmental Policy

#### 1. Enhance environmental management system

Strive to maintain and enhance the environmental management system, and promote care for the environment in corporate activities

#### 2. Promote efficient use of resources and energy

Strive to preserve the global environment by conserving resources and energy, minimizing waste, and reducing emissions of greenhouse gases and harmful substances

#### 3. Comply with environmental laws and regulations

Ensure that Group activities comply with laws, ordinances, and various pacts relating to the environment. Moreover,

formulate internal management standards where necessary to preserve the environment

#### 4. Raise environmental awareness and promote social contribution activities

Raise environmental awareness through education and other activities, participate in local environmental preservation activities, and strive to improve environmental protection and communication

#### 5. Disclose environmental data

Disclose environmental information about corporate activities through public relations to ensure transparency to society



## Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
December 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	¥ 14,572	¥ 12,076	\$ 187,445
Notes and accounts receivable	28,543	31,494	367,159
Securities	2,000	—	25,726
Merchandise and finished goods	10,138	9,171	130,409
Work in process	16,621	15,413	213,802
Raw materials and supplies	11,219	9,282	144,314
Deferred tax assets	884	688	11,371
Other	4,494	3,622	57,808
Allowance for doubtful accounts	(53)	(65)	(681)
Total current assets	88,421	81,684	
Fixed assets			
Tangible fixed assets			
Buildings and structures, net	15,051	15,155	193,606
Machinery, equipment and vehicles, net	19,052	20,189	245,073
Furnaces, net	2,232	2,542	28,711
Land	7,053	7,087	90,725
Construction in progress	10,951	5,053	140,866
Other, net	824	886	10,599
Total tangible fixed assets	55,166	50,916	709,621
Intangible fixed assets			
Software	359	465	4,617
Other	23	24	295
Total intangible fixed assets	382	490	4,913
Investments and other assets			
Investment securities	15,712	20,451	202,109
Deferred tax assets	344	244	4,425
Other	1,593	1,570	20,491
Allowance for doubtful accounts	(57)	(54)	(733)
Total investment and other assets	17,593	22,212	226,305
Total fixed assets	73,142	73,619	940,854
<b>Total assets</b>	<b>¥161,563</b>	<b>¥155,304</b>	<b>\$2,078,248</b>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>LIABILITIES</b>			
Current liabilities			
Notes and accounts payable	¥ 16,059	¥ 15,051	\$ 206,573
Short-term borrowings	9,216	5,992	118,549
Current portion of long-term debt	10,255	280	131,914
Income taxes payable	1,249	1,350	16,066
Consumption tax payable	49	377	630
Accrued expenses	2,116	1,222	27,218
Reserve for bonuses	180	175	2,315
Deferred tax liabilities	0	—	0
Other	6,311	4,175	81,180
Total current liabilities	45,439	28,625	584,499
Fixed liabilities			
Long-term debt	1,747	12,162	22,472
Deferred tax liabilities	2,541	4,209	32,685
Provision for retirement benefits	2,341	2,411	30,113
Reserve for directors' retirement benefits	140	226	1,800
Reserve for executive officers' retirement benefits	50	58	643
Provision for environment and safety measures	871	924	11,204
Other	1,209	1,080	15,551
Total fixed liabilities	8,901	21,072	114,497
Total liabilities	54,340	49,698	698,996
<b>NET ASSETS</b>			
Shareholders' capital			
Common stock	20,436	20,436	262,876
Additional paid-in capital	17,502	17,502	225,135
Retained earnings	75,798	71,387	975,019
Treasury stock	(7,130)	(7,126)	(91,715)
Total Shareholders' capital	106,606	102,200	1,371,314
Other accumulated comprehensive income			
Net unrealized gains/losses on other securities	3,539	5,823	45,523
Deferred hedge gain/loss	0	0	0
Foreign currency translation adjustments	(5,863)	(4,541)	(75,418)
Total other accumulated comprehensive income	(2,323)	1,282	(29,881)
Minority interests	2,940	2,123	37,818
Total net assets	107,223	105,605	1,379,251
<b>Total liabilities and net assets</b>	<b>¥161,563</b>	<b>¥155,304</b>	<b>\$2,078,248</b>

## Consolidated Statements of Operations and Comprehensive Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2011 and 2010

### Consolidated Statement of Operation

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Net sales	¥ 104,924	¥ 107,679	\$ 1,349,678
Cost of sales	80,965	83,330	1,041,484
Gross profit	23,958	24,348	308,181
Selling, general and administrative expenses			
Selling expenses	4,408	4,844	56,701
General and administrative expenses	9,082	8,928	116,825
Total selling, general and administrative expenses	13,491	13,773	173,540
Operating income	10,467	10,575	134,641
Non-operating income			
Interest income	101	29	1,299
Dividend income	384	347	4,939
Rental income	279	293	3,588
Equity in income of non-consolidated subsidiaries and affiliates	189	361	2,431
Subsidy income	—	203	—
Other non-operating income	485	440	6,238
Total non-operating income	1,439	1,675	18,510
Non-operating expense			
Interest expense	531	649	6,830
Foreign exchange loss	535	934	6,881
Other non-operating expense	735	812	9,454
Total non-operating expense	1,802	2,396	23,179
Ordinary income	10,104	9,854	129,971
Extraordinary income			
Gain on sales of investment securities	1,852	—	23,822
Compensation for removal	161	—	2,071
Reversal of provision for environment and safety measures	—	50	—
Gain on sales of fixed assets	—	37	—
Total extraordinary income	2,013	87	25,894
Extraordinary losses			
Loss on disaster	2,682	—	34,499
Loss on adjustment for changes of accounting standard for asset retirement obligations	55	—	707
Impairment loss	25	440	321
Loss on valuation of membership	18	—	231
Provision for environment and safety measures	—	289	—
Total extraordinary losses	2,782	729	35,785
Income before income taxes	9,336	9,211	120,092
Income taxes, inhabitants tax, and enterprise taxes	3,041	2,789	39,117
Income taxes adjustments	(104)	443	(1,337)
Total income taxes	2,937	3,232	37,779
Income before minority interests	6,399	—	82,312
Minority interests in income (loss) of consolidated subsidiaries	279	347	3,588
Net income	¥ 6,119	¥ 5,630	\$ 78,711

### Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Income before minority interests	¥ 6,399	—	\$ 82,312
Other comprehensive income			
Valuation difference on available-for-sale securities	(2,284)	—	(29,379)
Deferred gains or losses on hedges	(0)	—	0
Foreign currency translation adjustment	(1,377)	—	(17,712)
Share of other comprehensive income of associates accounted for using equity method	(102)	—	(1,312)
Total other comprehensive income	(3,764)	—	(48,417)
Comprehensive income	2,634	—	33,882
Comprehensive income attributable to owners of the parent company	2,513	—	32,325
Comprehensive income attributable to minority interests	¥ 121	—	\$ 1,556

## Consolidated Statements of Changes in Shareholders' Capital

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>SHAREHOLDERS' CAPITAL</b>			
Common stock			
Balance at the end of the previous period	¥ 20,436	¥ 20,436	\$ 262,876
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of the period	20,436	20,436	
Additional paid-in capital			
Balance at the end of the previous period	17,502	17,502	225,135
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of the period	17,502	17,502	225,135
Retained earnings			
Balance at the end of the previous period	71,387	67,499	918,278
Changes of items during the period			
Dividends from surplus	(1,708)	(1,742)	(21,970)
Net income	6,119	5,630	78,711
Disposal of treasury stock	(0)	(1)	0
Total changes of items during the period	4,410	3,887	56,727
Balance at the end of the period	75,798	71,387	975,019
Treasury stock			
Balance at the end of the previous period	(7,126)	(5,111)	(91,664)
Changes of items during the period			
Purchase of treasury stock	(5)	(2,017)	(64)
Disposal of treasury stock	1	3	12
Total changes of items during the period	(4)	(2,014)	(51)
Balance at the end of the period	(7,130)	(7,126)	(91,715)
Total shareholders' capital			
Balance at the end of the previous period	102,200	100,326	1,314,638
Changes of items during the period			
Dividends of surplus	(1,708)	(1,742)	(21,970)
Net income	6,119	5,630	78,711
Purchase of treasury stock	(5)	(2,017)	(64)
Disposal of treasury stock	0	2	0
Total changes of items during the period	4,406	1,873	56,676
Balance at the end of the period	¥106,606	¥102,200	\$1,371,314

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
<b>OTHER ACCUMULATED COMPREHENSIVE INCOME</b>			
Net unrealized gains/losses on other securities			
Balance at the end of the previous period	¥ 5,823	¥ 5,988	\$ 74,903
Changes of items during the period			
Net changes of items other than shareholders' capital	(2,284)	(164)	(29,379)
Total changes of items during the period	(2,284)	(164)	(29,379)
Balance at the end of the period	3,539	5,823	45,523
Deferred hedge gain/loss			
Balance at the end of the previous period	0	—	0
Changes of items during the period			
Net changes of items other than shareholders' capital	(0)	0	(0)
Total changes of items during the period	(0)	0	(0)
Balance at the end of the period	0	0	0
Foreign currency translation adjustments			
Balance at the end of the previous period	(4,541)	(2,166)	(58,412)
Changes of items during the period			
Net changes of items other than shareholders' capital	(1,321)	(2,375)	(16,992)
Total changes of items during the period	(1,321)	(2,375)	(16,992)
Balance at the end of the period	(5,863)	(4,541)	(75,418)
Total other accumulated comprehensive income			
Balance at the end of the previous period	1,282	3,821	16,490
Changes of items during the period			
Net changes of items other than shareholders' capital	(3,606)	(2,539)	(46,385)
Total changes of items during the period	(3,606)	(2,539)	(46,385)
Balance at the end of the period	(2,323)	1,282	(29,881)
<b>MINORITY INTERESTS</b>			
Balance at the end of the previous period	2,123	1,893	27,308
Changes of items during the period			
Net changes of items other than shareholders' capital	817	229	10,509
Total changes of items during the period	817	229	10,509
Balance at the end of the period	2,940	2,123	37,818
<b>TOTAL NET ASSETS</b>			
Balance at the end of the previous period	105,605	106,042	1,358,438
Changes of items during the period			
Dividends of surplus	(1,708)	(1,742)	(21,970)
Net income	6,119	5,630	78,711
Purchase of treasury stock	(5)	(2,017)	(64)
Disposal of treasury stock	0	2	0
Net changes of items other than shareholders' capital	(2,789)	(2,310)	(35,875)
Total changes of items during the period	1,617	(436)	20,800
Balance at the end of the period	¥107,223	¥105,605	\$1,379,251

## Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes	¥ 9,336	¥ 9,211	\$ 120,092
Depreciation and amortization	8,286	8,853	106,586
Impairment loss	25	440	321
Increase (decrease) in allowance for doubtful accounts	(8)	(45)	(102)
Increase (decrease) in reserve for bonuses	5	5	64
Increase (decrease) in provision for retirement benefits	37	170	475
(Increase) decrease in prepaid pension cost	(237)	(227)	(3,048)
Increase (decrease) in reserve for directors' retirement benefits	(85)	(32)	(1,093)
Increase (decrease) in reserve for executive officers' retirement benefits	(8)	(15)	(102)
Increase (decrease) in provision for environment and safety measures	(52)	196	(668)
Interest and dividends income	(485)	(376)	(6,238)
Interest paid	531	649	6,830
Foreign exchange (gain) loss	68	213	874
Equity in (income) loss of non-consolidated subsidiaries and affiliates	(189)	(361)	(2,431)
Subsidy income	—	(203)	—
Loss (gain) on sales of investment securities	(1,852)	—	(23,822)
(Gain) loss on sales of fixed assets	—	(37)	—
Compensation for transfer	(161)	—	(2,071)
Loss on disaster	2,682	—	34,499
Loss on adjustment for changes of accounting standard for asset retirement obligations	55	—	707
(Increase) decrease in trade receivables	2,524	(4,045)	32,467
(Increase) decrease in inventories	(5,209)	1,816	(67,005)
Increase (decrease) in trade payables	1,275	5,037	16,400
Increase (decrease) in accrued expenses	256	(50)	3,293
Increase (decrease) in accounts payable-others	543	—	6,984
(Increase) decrease in advance payment	(244)	—	(3,138)
Increase (decrease) in accrued consumption taxes	(328)	223	(4,219)
Other	(689)	218	(8,862)
Subtotal	16,078	21,641	206,817
Interest and dividends received	523	434	6,727
Interest paid	(531)	(645)	(6,830)
Income taxes paid	(3,008)	(3,046)	(38,693)
Proceeds from subsidy	—	203	—
Proceeds from compensation for removal	161	—	2,071
Payment amount of loss on disaster	(450)	—	(5,788)
Net cash provided by (used in) operating activities	¥12,771	¥18,586	\$164,278

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	¥ 68	¥ 238	\$ 874
Purchase of tangible fixed assets	(12,906)	(6,374)	(166,014)
Sales of tangible fixed assets	—	159	—
Purchase of intangible fixed assets	(143)	(98)	(1,839)
Purchase of investment securities	(117)	—	(1,505)
Proceeds from sales of investment securities	2,939	—	37,805
Purchase of stocks of subsidiaries and affiliates	(506)	—	(6,508)
Other	(0)	(14)	0
Net cash provided by (used in) investing activities	(10,666)	(6,088)	(137,200)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	3,630	(4,386)	46,694
Proceeds from long-term debt	—	1,385	—
Repayment of long-term debt	(273)	(10)	(3,511)
Purchase of treasury stock	—	(2,017)	—
Dividend paid	(1,708)	(1,742)	(21,970)
Proceeds from minority shareholders	1,023	—	13,159
Cash dividends paid to minority shareholders	(52)	(26)	(668)
Other	9	2	115
Net cash provided by (used in) financing activities	2,629	(6,795)	33,817
Effect of exchange rate changes on cash and cash equivalents	(174)	(674)	(2,238)
Increase (decrease) in cash and cash equivalents	4,560	5,027	58,657
Cash and cash equivalents at beginning of the period	14,005	8,977	180,151
Cash and cash equivalents at end of the period	¥18,565	¥14,005	\$238,808

# Consolidated Financial Statements

## Notes of Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries  
Years Ended December 31, 2011 and 2010

### 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 Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKAI

CARBON Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥77.74 to \$1( rounded down to the nearest \$1,000; or rounded down to the nearest cent per share ), the approximate rate of exchange at December 31, 2011. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. Summary of Significant Accounting Policies

The consolidated financial statements as of December 31, 2011 include the accounts of the Company and its significant 23 (24 in 2010) 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. During the fiscal year ended December 31, 2011, Tokai Carbon UK Ltd., which had been a consolidated subsidiary, has completed liquidation. Therefore, it is excluded from the scope of consolidation.

Investments in 6 (6 in 2010) associated companies are accounted for by the equity method. Investments in the remaining 2 (2 in 2010) 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.

### 3. Additional Information

#### Application of Accounting Standard for Presentation of Comprehensive Income

Effective from the fiscal year under review, the Company applies Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, issued on June 30, 2010). However, for the respective amounts

of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" in the previous fiscal year, the respective amounts for "Valuation and translation Adjustments" and "Total valuation and translation Adjustments" are stated.

### 4. Matters Related to Consolidated Statements of Income

#### Loss on disaster

Due to the Great East Japan Earthquake, which occurred on March 11, 2011, loss on disaster was recorded, whose breakdown is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Expenses for restitution or removal of disaster assets	¥ 1,416	\$ 18,214
Fixed expenses during the period of operation suspension	605	7,782
Loss on retirement of fixed assets	371	4,772
Loss on of destruction of inventories	221	2,842
Other	68	874

### 5. Segment Information

#### Overview of reportable segments

The Company establishes produce-specific divisions at the head office, and each division carries out business activities by formulating comprehensive domestic and overseas strategies for the products that it handles.

Accordingly, the Company is composed of product-specific

segments based on divisions, and its three reportable segments are Carbon Black business, Carbon and Ceramics business, and Industrial Furnaces and Related Products business.

The major products of each reportable segment are as follow:

Reportable Segments	Major Products
Carbon Black	Carbon black (for rubber products, black pigments, and conductive materials)
Carbon and Ceramics	Artificial graphite electrodes for electric arc furnaces, fine carbon (specialty graphite products), carbon brush, impervious graphite, pencil lead-cores
Industrial Furnaces and Related Products	Industrial electric furnaces, gas furnaces, silicon carbide heating elements/alumina refractory, heat-insulating refractory, silicon carbide heating elements

**Information on the amounts of net sales, operating income, assets, and other account items for each reportable segment**  
Fiscal year ended December 31, 2011 (January 1, 2011 to December 31, 2011) (millions of yen)

	Reportable Segments				Other business *1	Total	Adjustment *2	Amount recorded in the consolidated financial statements *3
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total				
<b>Net sales</b>								
External sales	¥ 40,077	¥ 49,858	¥ 5,401	¥ 95,337	¥ 9,586	¥ 104,924	—	¥ 104,924
Inter-segment sales/ transfer	69	194	422	687	—	687	¥ (687)	—
Total	40,147	50,053	5,823	96,025	9,586	105,611	(687)	104,924
Segment income	5,942	4,447	1,125	11,515	588	12,103	(1,636)	10,467
Segment assets	43,304	67,806	5,282	116,393	10,095	126,489	35,074	161,563
<b>Other items</b>								
Depreciation and amortization	2,183	4,546	280	7,010	657	7,668	618	8,286
Investment in equity-method affiliates	—	2,655	120	2,775	—	2,775	—	2,775
Impairment loss	—	—	—	—	—	—	25	25
Increase in tangible and intangible fixed assets	7,524	5,077	238	12,841	755	13,596	379	13,975

Fiscal year ended December 31, 2011 (January 1, 2011 to December 31, 2011) (Thousands of U.S. Dollars)

	Reportable Segments				Other business *1	Total	Adjustment *2	Amount recorded in the consolidated financial statements *3
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total				
<b>Net sales</b>								
External sales	\$ 515,526	\$ 641,343	\$ 69,475	\$ 1,226,357	\$ 123,308	\$ 1,349,678	—	\$ 1,349,678
Inter-segment sales/ transfer	888	2,495	5,428	8,837	—	8,837	\$ (8,837)	—
Total	516,427	643,851	74,904	1,235,207	123,308	1,358,516	(8,837)	1,349,678
Segment income	76,434	57,203	14,471	148,122	7,565	155,686	(21,045)	134,641
Segment assets	557,036	872,215	67,944	1,497,209	129,855	1,627,077	451,171	2,078,248
<b>Other items</b>								
Depreciation and amortization	28,081	58,477	3,602	90,172	8,451	98,636	7,950	106,586
Investment in equity-method affiliates	—	34,152	1,544	35,696	—	35,696	—	35,696
Impairment loss	—	—	—	—	—	—	322	322
Increase in tangible and intangible fixed assets	96,784	65,307	3,061	165,179	9,711	174,891	4,875	179,766

Note: 1. The Other Business segment is a business segment that is not included in the reportable segments. It includes Friction Materials business and Property Leasing.  
2. The adjustment amounts are as follows.  
(1) The adjustment of segment income, which is ¥(1,636) million, includes ¥(1,589) million of corporate-wide expenses not allocated to each reportable segment. Corporate-wide expenses include research and development expenses that do not belong to the reportable segments.  
(2) The adjustment of segment assets, which is ¥35,074 million, includes ¥35,581 million of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus working funds (e.g., cash and deposits) and investment securities.  
(3) The adjustment of impairment loss, ¥25 million, is the impairment loss of the corporate-wide assets not allocated to each reportable segment.  
(4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥379 million, is the amount of capital investment of the corporate-wide assets that is not allocated to each reportable segment.  
3. Segment income is adjusted with the operating income reported in the consolidated financial statements.

Fiscal Year ended December 31, 2010 (January 1, 2010 to December 31, 2010) (millions of yen)

	Reportable Segments				Other business *1	Total	Adjustment *2	Amount recorded in the consolidated financial statements *3
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total				
<b>Net sales</b>								
External sales	¥ 40,017	¥ 53,020	¥ 5,628	¥ 98,665	¥ 9,013	¥ 107,679	—	¥ 107,679
Inter-segment sales/ transfer	60	383	96	539	—	539	¥ (539)	—
Total	40,077	53,403	5,724	99,205	9,013	108,218	(539)	107,679
Segment income	5,745	4,890	984	11,619	386	12,006	(1,430)	10,575
Segment assets	42,575	66,361	5,270	114,207	9,580	123,787	31,516	155,304
<b>Other items</b>								
Depreciation and amortization	2,247	4,898	336	7,482	787	8,269	584	8,853
Investment in equity-method affiliates	—	2,427	116	2,543	—	2,543	—	2,543
Impairment loss	—	—	—	—	—	—	440	440
Increase in tangible and intangible fixed assets	1,949	3,345	84	5,379	903	6,282	427	6,710

Note: 1. The Other Business segment is a business segment that is not included in the reportable segments. It includes Friction Materials business and Property Leasing.  
2. The adjustment amounts are as follows.  
(1) The adjustment of segment income, which is ¥(1,430) million, includes ¥(1,436) million of corporate-wide expenses not allocated to each reportable segment. Corporate-wide expenses include research and development expenses that do not belong to the reportable segments.  
(2) The adjustment of segment assets, which is ¥31,516 million, includes ¥31,767 million of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus working funds (e.g., cash and deposits) and investment securities.  
(3) The adjustment of impairment loss, ¥440 million, is the impairment loss of the corporate-wide assets not allocated to each reportable segment.  
(4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥427 million, is the amount of capital investment of the corporate-wide assets that is not allocated to each reportable segment.  
3. Segment income is adjusted with the operating income reported in the consolidated financial statements.

# Board of Directors, Executive Officers and Corporate Auditors (as of March 29, 2012)

## Board of Directors

President and CEO	Yoshinari Kudo
Senior Managing Executive Officers	Kiyonari Nakai Nobuyuki Murofushi Hajime Nagasaka
Managing Executive Officer	Naoshi Takahashi
Executive Officers	Masanao Hosoya Yuji Serizawa Toshiaki Fukuda
External Director	Yoshio Kumakura

## Executive Officers

Managing Executive Officers	Hiroshi Hirama Hideo Toko
Executive Officers	Takekuni Kawaguchi Eiichi Nishii Jinichi Suzuki Yoshikazu Matsuyama Makoto Itoi

## Corporate Auditors

Tatsuo Abe  
Seiichiro Sasao\*  
Tsunehisa Samukawa  
Ryuichi Sato\*  
\*External Auditor

## Corporate Data (as of December 31, 2011)

<b>Company Name</b>	TOKAI CARBON CO., LTD.	<b>Laboratories</b>	Fuji Research Laboratory (Shizuoka) Chita Laboratory (Aichi) Hofu Laboratory (Yamaguchi) Tanoura Laboratory (Kumamoto)
<b>Established</b>	April 8, 1918	<b>Industrial Complexes</b>	Shonan Industrial Complex (Kanagawa) Chigasaki Plant (Kanagawa) Chigasaki Second Plant (Kanagawa)
<b>Paid-in Capital</b>	¥20,436 million (\$262,876,000)	<b>Plants</b>	Ishinomaki Plant (Miyagi) Chita Plant (Aichi) Shiga Plant (Shiga) Hofu Plant (Yamaguchi) Kiyusu Wakamatsu Plant (Fukuoka) Tanoura Plant (Kumamoto)
<b>Head Office</b>	Aoyama Bldg.2-3, Kita-Aoyama 1-Chome, Minato-ku, Tokyo 107-8636, Japan TEL: +81-3-3746-5100 FAX: +81-3-3405-7205 Web site: <a href="http://www.tokaicarbon.co.jp/">http://www.tokaicarbon.co.jp/</a>	<b>Representative Office</b>	Singapore Representative Office
<b>Number of Employees</b>	1,809 (as a consolidated basis)		
<b>Branch Offices</b>	Osaka Branch (Osaka) Nagoya Branch (Aichi) Fukuoka Branch (Fukuoka)		

## Group Companies and Affiliates

### EUROPE

#### United Kingdom

Consolidated Subsidiaries  
● Tokai Carbon Europe Ltd.

#### Germany

Consolidated Subsidiaries  
● Tokai Erftcarbon GmbH  
● Tokai Carbon Europe GmbH  
● Tokai Carbon Deutschland GmbH  
● Carbon-Mechanik GmbH

#### Italy

Consolidated Subsidiary  
● Tokai Carbon Italia S.R.L.

#### Sweden

Consolidated Subsidiary  
● Svensk Special grafit AB

### NORTH AMERICA

#### U.S.A.

Consolidated Subsidiaries  
● Tokai Carbon U.S.A., Inc.  
● Tokai Carbon Electrode Sales Inc.  
● Tokai Carbon Electrode Sales LLC.  
Affiliate Accounted for by Equity Method  
● MWI, Inc.

● Carbon and Graphite Products ● Industrial Furnaces and Related Products ● Other

## ASIA

### Japan

Consolidated Subsidiaries  
● Tokai Konetsu Kogyo Co., Ltd.  
● Tokai Material Co., Ltd.  
● Tokai Fine Carbon Machining Co., Ltd.  
● Oriental Sangyo Co., Ltd.  
● Tokai Unyu Co., Ltd.  
● Tokai Noshiro Seiko Co., Ltd.  
● Tokai Konetsu Engineering Co., Ltd.  
● Mitomo Brake Co., Ltd.  
● Daiya Tsusho Co., Ltd.

### Affiliate Accounted for by Equity Method

● Heisei Ceramics Co., Ltd.

### China

Consolidated Subsidiaries  
● Tokai Carbon (Tianjin) Co., Ltd.  
● Tokai Carbon (Shanghai) Co., Ltd.  
● Shanghai Tokai Konetsu Co., Ltd.  
Affiliates Accounted for by Equity Method  
● SGL Tokai Carbon Ltd.Shanghai  
● Dalian Tokai-Jinqi-Fuji Carbon Co.,Ltd.

### Korea

Affiliate Accounted for by Equity Method  
● Tokai Carbon Korea Co., Ltd.

### Thailand

Consolidated Subsidiary  
● Thai Tokai Carbon Product Co., Ltd.

### Singapore

Affiliate Accounted for by Equity Method  
● SGL Tokai Process Technology Pte. Ltd.

## Investor Information (as of December 31, 2011)

<b>Fiscal year end</b>	December 31
<b>General Meeting of Shareholders</b>	March
<b>Common Stock</b>	Authorized Shares: 598,764,000 shares Outstanding Shares: 224,943,104 shares
<b>Number of shareholders</b>	14,896
<b>Major shareholders</b>	

Shareholders	Number of shares held	%
Japan Trustee Services Bank, Ltd. (Trust Account)	17,939,000	7.97
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,179,000	7.19
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,958,000	3.54
Mitsubishi UFJ Trust and Banking Corp.	6,988,000	3.11
Mitsubishi Corp.	6,748,000	3.00
Deutsche Bank AG Frankfurt	6,136,000	2.73
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corp. Retirement Benefit Trust Account)	5,900,000	2.62
The Nomura Trust and Banking Co., Ltd. (Trust Account)	5,680,000	2.53
Tokyo Marine & Nichido Fire Insurance Co., Ltd.	4,299,000	1.91
Trust & Custody Services Bank, Ltd.(Investment Trust Account)	2,984,000	1.33

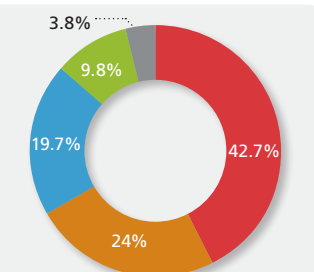
In addition to the above, Tokai Carbon Co., Ltd. holds treasury stock of 11,381,000 shares (5.06%).

<b>Stock Exchange Listing</b>	First Section of the Tokyo Stock Exchange
<b>Securities code number</b>	5301
<b>Transfer agent</b>	Mitsubishi UFJ Trust and Banking Corp. Head Office: 4-5 Marunouchi 1-Chome, Chiyoda-ku, Tokyo, Japan

## Ownership and Distribution of Shares

● Japanese Financial Institutions	95,054,000
● Japanese Individuals and Others	53,560,000
● Foreign Investors	43,916,000
● Other Japanese companies	21,843,000
● Japanese Securities Companies	8,252,000
<b>Total</b>	<b>222,625,000</b>

Notes: 1. Stocks less than 1,000 are rounded down.  
2. "Japanese Individuals and Others" contains 11,381,000 treasury stocks.





*Leading the Way into the Future >>*

**TOKAI CARBON CO., LTD.**

**Head Office**

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