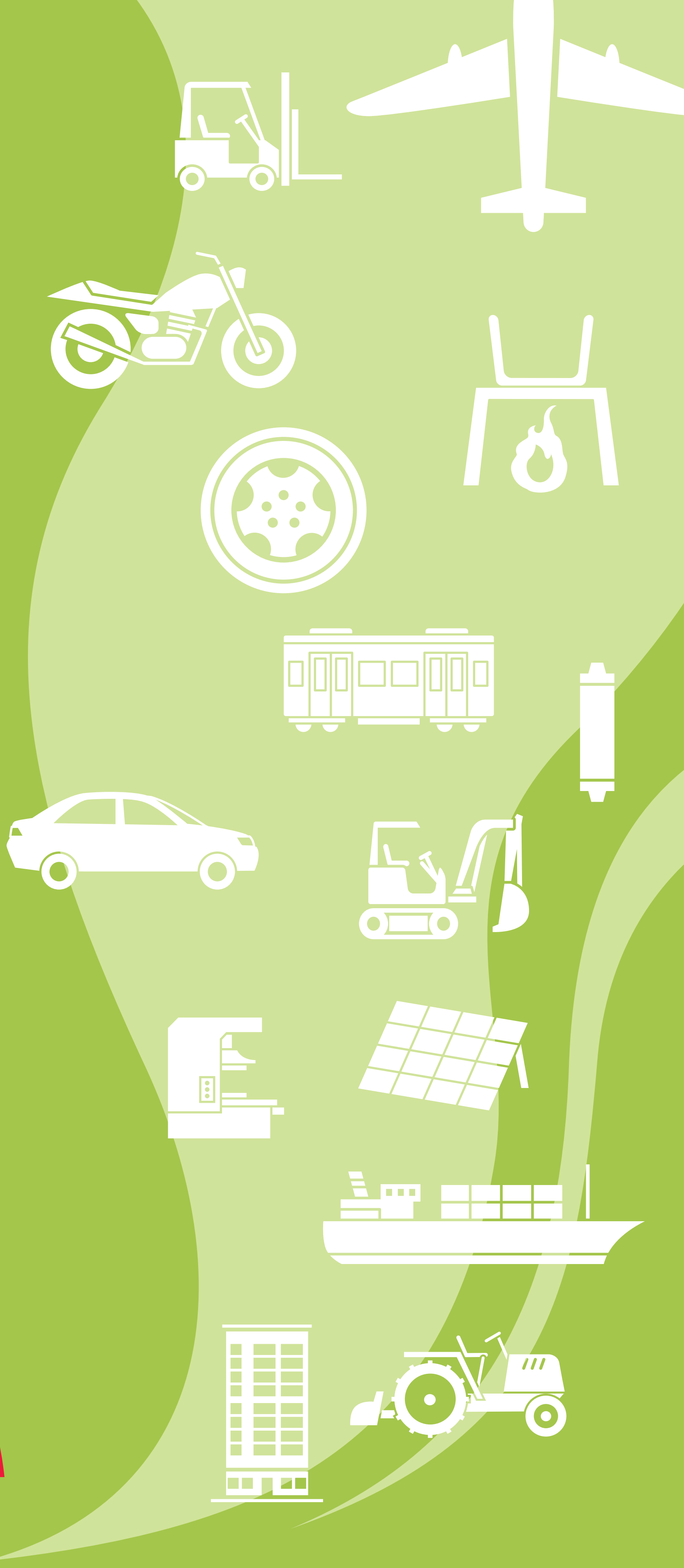
ANNUAL REPORT 2015

For the Year Ended December 31, 2015



TOKAI CARBON CO., LTD.

ANNUAL REPORT 2015

For the Year Ended December 31, 2015

Contents

Message from President

Hajime Nagasaka
President and CEO

Analysis of Business Results

In 2015, the global economy continued to recover moderately, driven by the steadily recovering U.S. economy that was supported by the pickup in consumer spending due to the effects of the improvement in the employment and income environment as well as expansion of corporate activities, and the upturn of economic conditions in Europe as the recovery of consumer spending gathered strength. On the other hand, however, the sense of uncertainty about the future heightened further due to the slowdown in economic conditions in emerging nations, notably in China, and resource-rich countries and increased geopolitical risk caused by terrorist attacks frequently occurring all around the world. The Japanese economy was on a moderate recovery path, but remained weak overall in main demand components, such as consumer spending, capital investment and exports, which were expected to grow at high rates in the beginning of the year.

In the industries in which the Group's customers operate (for example, rubber products, steel, semiconductors, IT hardware, and industrial machinery), some sectors continued to enjoy a recovery. In the tire industry, which is the main source of demand for the Group's carbon black, production decreased from a year ago. In the segment of electric arc furnace steel, the main source of demand for the Group's graphite electrode, production declined sharply due to the effects of a massive inflow of steel materials from China among other factors. As a result, the Group had difficulty attracting demand and ensuring profitability in the core business in Japan and abroad. The situation remained unpredictable in other businesses due to certain factors, such as the increase in price competition and emergence of technological followers in emerging nations.

During the fiscal year under review, which is the final year of "T-2015," the Group's three-year medium-term management plan, we continued to put efforts into improving cost competitiveness and promoting research and development, and thus realized certain results. However, we were unable to achieve the quantitative targets for 2015 – net sales of ¥140 billion, ROS (operating income/net sales) of 11% and ROA (ordinary income/total assets) of 8% – as a result of a deterioration of market conditions due to the slowing of the Chinese economy, plunge in crude oil prices and others.

In these circumstances, the Group implemented various reform measures aimed at improving internal communication, breaking down departmental barriers and recovery of technological capabilities to have all employees share the sense of impending crisis and face the difficulties. Specifically, the Group newly established the Technology Headquarters in June as an organization that cuts across production technology/facilities of all business divisions and took a step forward to restore the Group's technological capabilities. In August, we embarked on structural reform, with the streamlining of the Carbon and Ceramics segment as the first step, to optimize the profit structure in line with a change in the business environment.

As a result, consolidated net sales in the fiscal year under review decreased 8.5% year on year to ¥104,864 million. In terms of income, operating income increased 10.4% year on year to ¥4,088 million due to the effects of the weaker yen and despite the impact of unfavorable factors such as the decline in sales volume and lower sales prices. Ordinary income rose 3.3% year on year to ¥4,317 million yen. The Group posted gain on sales of investment securities and gain on sales of fixed assets. On the other hand, the Group posted an impairment loss on carbon black production facilities of Tokai Carbon (Tianjin) Company Ltd. As a result, net income declined 3.0% year on year to ¥2,484 million.

Dividend Policy and 2015-16 Dividends

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 solidify its financial condition and maintain stable dividends.

The Company plans to pay a year-end dividend of ¥3 per share, which is the same as the year-end dividend paid in the previous fiscal year. The year-end dividend will bring the total 2015 dividend, including the interim dividend, to ¥6 per share.

For 2016, the Company plans to pay a total annual dividend of ¥6 per share, consisting of an interim dividend of ¥3 per share and a year-end dividend of ¥3 per share.

Medium-Term Management Strategies

The Tokai Carbon Group implemented the "T-2015" three-year medium-term management plan that started in 2013. However, we were unable to respond to rapid changes in the business environment, and thus we could not achieve the quantitative targets for 2015.

Under "T-2018," the new three-year medium-term management plan starting from fiscal 2016, the Group, based on what was learned in T-2015, will focus efforts on advancing structural reforms, such as reduction of excess production facility and working capital, and strengthen the Group's operational foundation toward the next stage of growth. The quantitative targets set under T-2018 are to achieve net sales of ¥110 billion, ROS (operating income/net sales) of 8% and ROIC (return on invested capital) of 6% in fiscal 2018.

Issues to be Addressed by the Company

The Japanese economy is expected to remain on a moderate recovery path underpinned by various stimulus policies implemented by the government and robust consumer spending, although there are concerns about the trends in the Chinese economy. However, we need to pay careful attention to the global economic trends, such as a delay in recovery of the Chinese economy, terrorism becoming a constant threat and a prolonged slump in crude oil prices. In industries in which the Group's customers operate, the business environment is becoming increasingly difficult due to unfavorable factors, such as a decline in the operating rate of electric arc furnace steel production due to the accumulation of inventory of steel materials from China, expansion of exports of Chinese products caused by the excess supply capacity and sharp falls in crude oil prices.

Under the circumstances, the Tokai Carbon Group will implement drastic structural reforms under "T-2018" three-year medium-term management plan, and join forces for the restructuring of businesses, improvement of capital efficiency and change of employee awareness.

Furthermore, the Group will remain committed to paying even greater attention going forward to the fundamentals of manufacturing companies – security assurance, quality control, and environmental protection – and it will continue making efforts to enhance corporate governance through promoting dialogs with investors and to strengthen corporate social responsibility (CSR) activities by contributing to local communities. Additionally, the Group intends to reinforce its business infrastructure by implementing, assessing, and improving its internal control system for financial reporting in compliance with the Financial Instruments and Exchange Act.

Management Goals and Objectives

The Group considers net sales, ROS (operating income/net sales), and ROA (ordinary income/total assets) to be important performance indicators. Under "T-2018," a new three-year medium-term management plan starting from 2016, the Group will work toward increasing capital efficiency by regarding ROIC (return on invested capital) as the most important performance indicator.

ROIC is estimated by dividing after-tax operating income by invested capital (working capital + fixed assets).

Basic Corporate Philosophy

The Group operates under the corporate philosophy, “Ties of Reliability,” and the basic policies governing its activities comprise the principles of ability to create value, fairness, ecology, and internationalism. The Group’s aim is to be the “Global Leader of Carbon Materials” within and outside of Japan by supplying high-quality products with a focus on carbon materials.

Through these corporate activities, the Group has been working to expand its operating base, optimize the utilization of management resources, bolster cost competitiveness, and strengthen technology development capabilities. By achieving sustained earnings growth, the Group seeks to fulfill the expectations of its shareholders, customers, and employees as well as those of local communities and all other stakeholders. The Group contributes to the development of society, acting as a responsible corporate citizen.

Profile

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

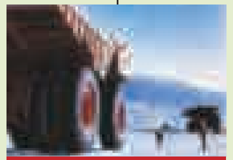
It has been our pleasure and honor that we were able to actively contribute to the development of society through carbon-related products and services based on diverse manufacturing fields and technology.

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.

Global Leader of Carbon Materials

TOKAI CARBON



Carbon Black

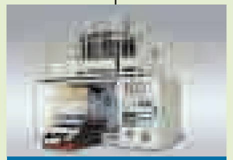
For
Tire industry,
Rubber industry

Graphite Electrode

For
Steel Industry

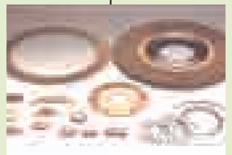
Fine Carbon

For
Solar cell industry,
Semi-conductor industry



Industrial Furnace and Related Products

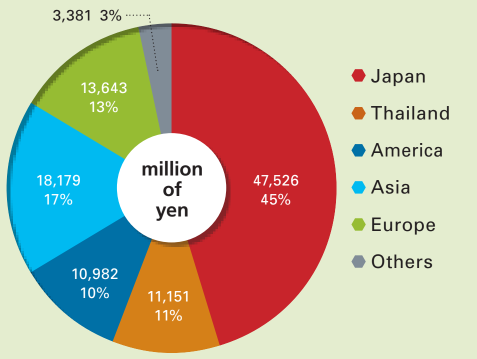
For
Fine Ceramic industry,
Glass industry



Friction Materials

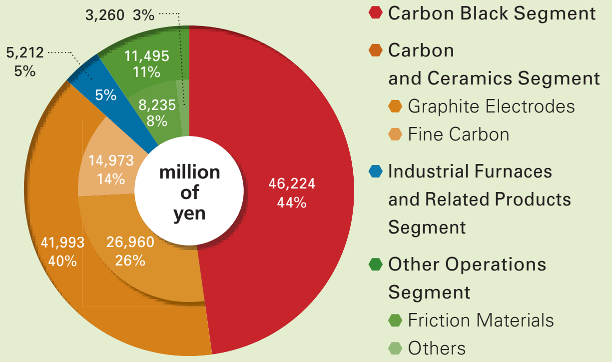
For
Motorcycle, Construction Machinery and Automobiles industries

Sales by Area (FY2015)



**Net Sales
104,884
million yen**

Sales by Segments (FY2015)

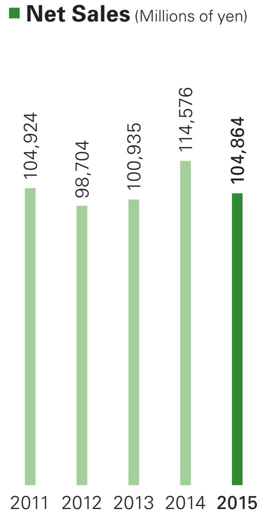


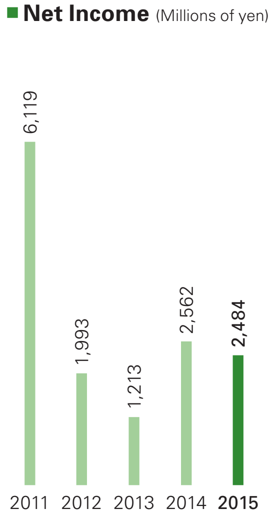
Consolidated Financial Highlights

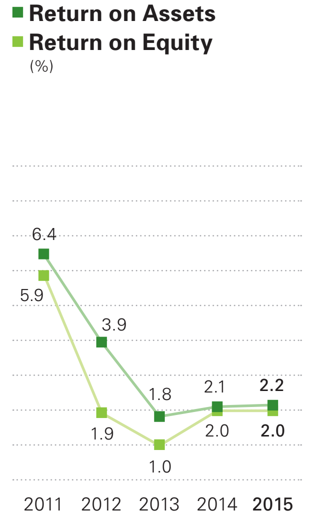
TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years ended December 31

	Millions of Yen					Thousands of U.S. Dollars
	2011	2012	2013	2014	**2015**	**2015**
For the Year:						
Net Sales	¥104,924	¥ 98,704	¥100,935	¥114,576	**¥104,864**	**$ 866,287**
Carbon Black	40,077	40,968	44,910	54,836	**46,224**	**381,859**
Carbon and Ceramics	49,858	44,616	42,024	44,487	**41,993**	**346,906**
Industrial Furnaces and Related Products	5,401	4,239	4,213	4,671	**5,212**	**43,057**
Other Operations	9,586	8,879	9,788	10,580	**11,495**	**94,961**
Gross Income	23,958	18,560	15,267	18,651		**0**
Operating Income	10,467	5,700	1,655	3,703	**4,088**	**33,771**
Income Before Income Taxes and Minority Interests	9,336	3,992	2,926	4,345	**6,726**	**55,564**
Net Income	6,119	1,993	1,213	2,562	**2,484**	**20,520**
Depreciation and Amortization	8,286	8,712	8,656	8,629	**9,242**	**76,349**
Research and Development Costs	1,956	1,962	1,799	1,882	**1,822**	**15,052**
Capital Expenditures	13,975	12,287	9,007	6,830	**5,301**	**43,792**
At Year-End:						
Total Assets	¥161,563	¥166,668	¥183,427	¥210,439	**¥184,074**	**$1,526,192**
Total Net Assets	107,223	113,266	123,232	132,343	**124,971**	**1,036,158**
Per Share Data:	Yen					U.S. Dollars
Net Income	¥ 28.66	¥ 9.34	¥ 5.68	¥ 12.00	**¥ 11.65**	**$0.10**
Total Net assets	488.30	515.90	567.19	609.60	**576.57**	**4.76**
Cash Dividends Applicable to The Year	8.00	7.00	6.00	6.00	**6.00**	**0.05**
Financial Ratios: (%)						
Return on Assets	6.4%	3.9%	1.8%	2.1%	**2.2%**	**2.2%**
Return on Equity	5.9	1.9	1.0	2.0	**2.0**	**2.0**
Equity Ratio	64.5	66.1	66.0	61.8	**66.8**	**66.8**

Note :U.S. dollar amounts in this page are translated from Japanese yen, for convenience only.
¥121.05=US$1, the exchange rate of average in 2015 to [For the Year] and [Per Share Data]
¥120.61=US$1, the exchange rate at December 31, 2015 to [At Year-End]







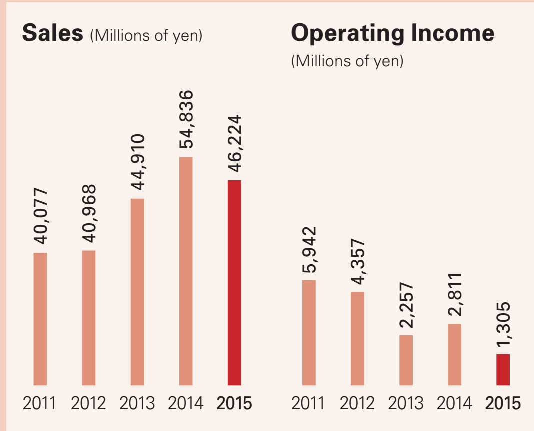
Review of Operations

Carbon Black

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

In Japan, production and shipment in the automobile and tire industries, in which the Group's customers operate, were weaker than the previous fiscal year, due to the reaction to the last-minute rise in demand before the consumption tax hike and increase in light vehicle tax in April, and demand for carbon black remained sluggish. In the meantime, Cancarb Limited, which became a consolidated subsidiary in May 2014, contributed to earnings on a full-year basis. However, both net sales and operating income in the Carbon Black segment declined year on year, due to the effects of a revision to domestic prices of carbon black in response to the inflow of steel materials into the market for the carbon black business from China, where oversupply continues, and decline in the cost of raw materials and crude oil.

As a result, net sales in the Carbon Black segment decreased 15.7% year on year to ¥46,224 million and operating income declined 53.6% from a year earlier to ¥1,305 million.



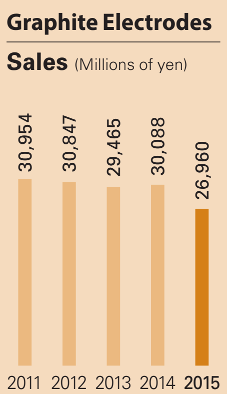
Carbon and Ceramics

Graphite Electrodes

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

Crude steel production continued falling short of the level of the year before in Japan and abroad. In China, which is the largest crude steel producer in the world, domestic demand fell while overproduction continued, resulting in outflow of low-priced steel materials from China to overseas markets, which had an impact on crude steel production and steel materials market conditions globally. Its effect was also spread to production in the electric arc furnace steel segment. In the meantime, the domestic production of electric arc furnace steel remained in a structural recession, marking a year-on-year decline for 13 consecutive months and hitting the lowest production level in five years.

As a result, both sales volume and net sales of graphite electrodes declined from a year earlier. Net sales of graphite electrodes decreased 10.4% from the previous fiscal year to ¥26,960 million, despite the positive effects of the weaker yen.

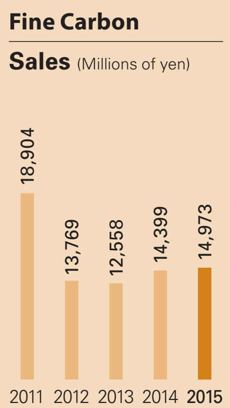


Fine Carbon

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.

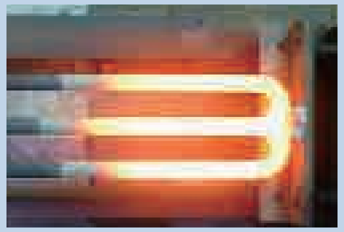
Demand for isotropic graphite remained robust, but we were caught in an intense price competition with competitors all year round due to the continuation of supply-demand imbalances caused by oversupply. In the markets for solar cells, semiconductors, polysilicon, and LEDs, which are sectors in which the Group's customers operate, demand was strong overall through the first half of the fiscal year under review. In the second half of the year, however, demand growth slowed to a moderate pace, and therefore, we lowered prices to maintain our sales volume. As a result, net sales of fine carbon increased 4.0% year on year to ¥14,973 million.

As a result of the above, net sales in the Carbon and Ceramics segment decreased 5.7% from a year earlier to ¥41,933 million. On the other hand, operating income surged 115.0% year on year to ¥2,729 million.



Review of Operations

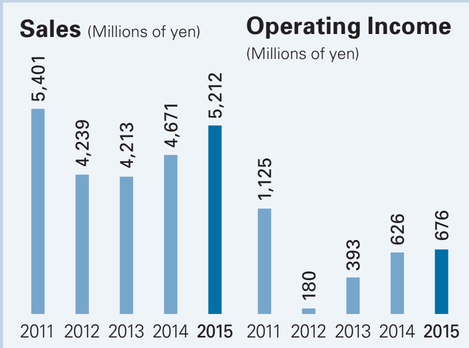
Industrial Furnaces and Related Product



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.

In the IT-related industries, which are the main sources of demand for the Group's products, net sales of industrial furnaces, which are constituents of the Group's core product category, increased year on year, thanks to signs of recovery in certain sectors of the industries. Net sales of heating elements and other products increased from a year earlier due to robust demand in certain sectors of the major electronic components industry and the electric power infrastructure business in China, although demand in China's glass industry was weak.

As a result, in the Industrial Furnaces and Related Products segment, net sales increased 11.6% year on year to ¥5,212 million, and operating income surged 8.0% year on year to ¥676 million.

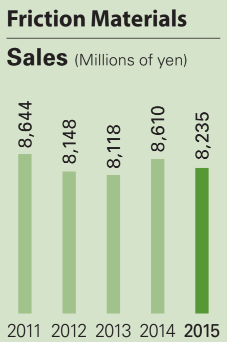


Other Operations

Friction Materials

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

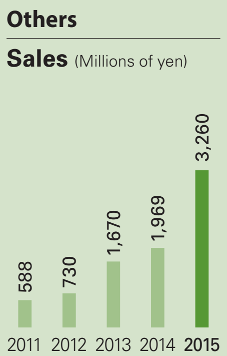
Demand in the construction machinery segments, in which the Group's main customers operate, was lower than in the previous year as it was hit hard by the slowdown in market conditions in China and falls in resource prices. Demand in the commercial vehicle segments also decreased year on year due to the stagnation in the Indonesian market. On the other hand, demand for friction materials for robots and other industrial machines remained strong until early autumn, exceeding that of a year earlier. As a result, net sales of friction materials decreased 4.4% to ¥8,235 million.

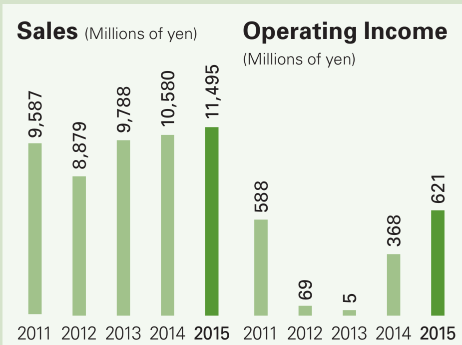


Others

Net sales from property leasing and other businesses surged 65.5% year on year to ¥3,260 million as a result of growth in sales volume of anode material for rechargeable lithium-ion batteries.

As a result of the above, net sales in the Other Operations segment increased 8.6% year on year to ¥11,495 million, and operating income surged 68.5% year on year to ¥621 million.





Research & Development Activities

At the Tokai Carbon Group, Fuji Research Laboratory, Chita Plant, Hofu Plant, Tanoura Plant and Chigasaki Plant drive efforts in cooperation with the R&D Division of the Company to actively promote new product research built on basic research, applied industrial technology development and the sophistication of existing products, as well as quality improvement and other R&D initiatives.

Since the content and monetary value of research and development activities of the Tokai Carbon Group are difficult to correlate to specific segments, they are indicated collectively.

Description of main research and development

Fine carbon and fine ceramics, which the Company regards as growing fields, have superior characteristics as materials and are used in a broad range of applications. In the last few years, applications of fine carbon and fine ceramics in energy, semiconductor, electronics and environment sectors have been growing significantly, and we are developing products that meet the high-tech needs in such sectors.

Based on fostered technologies, the Company is pursuing investments in the research and development of carbon negative electrodes for lithium ion batteries, aqueous carbon black for inkjet printer pigment and fuel cell separators.

Tokai Konetsu Kogyo Co., Ltd. is vigorously developing and deploying products that can distinguish it from its competitors in multiple aspects including energy-saving equipment mainly for the environment- and energy-related markets, and heat treatment furnaces for ceramic electronic components made with new, proprietary technology of the firm.

In regard to materials, we are actively developing new products and applications based on silicon carbide heating elements, silicon carbide structural materials and silicon nitride materials, which are all proprietary technologies of Tokai Konetsu Kogyo.

Amount of R&D expenses

R&D expenses for the fiscal year under review totaled ¥1,822 million.

Capital Investment

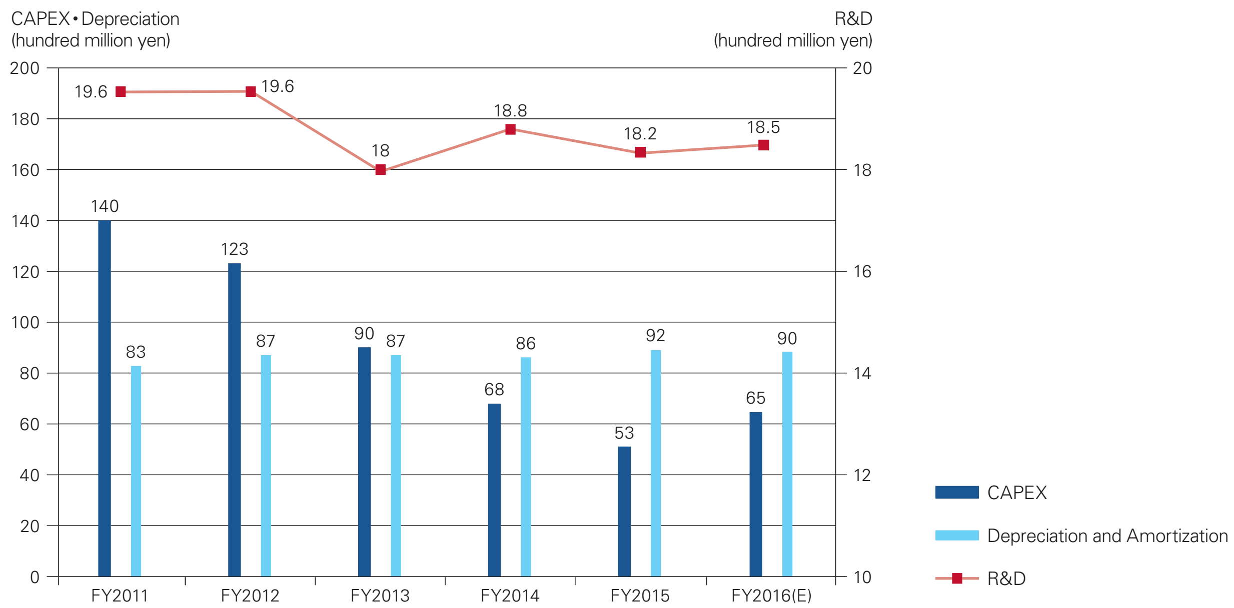
The Tokai Carbon Group focuses on product fields that are expected to grow over the long term and makes investments to reduce labor and rationalize and enhance product reliability. During the fiscal year under review, capital investments worth ¥5,301 million in total were made, primarily in the carbon black business.

In the carbon black business, capital investment of ¥2,394 million was made, mainly for upgrading equipment at the Chita Plant of the Company.

In the carbon and ceramics business, capital investment of ¥2,086 million was made, mostly in the Company and Tokai Fine Carbon Co., Ltd.

In the industrial furnaces and related products business, capital investment of ¥139 million was made, primarily in Tokai Konetsu Kogyo Co., Ltd.

In other business, capital investment of ¥437 million was made, mostly in the Company and Tokai Material Co., Ltd.



Analysis of Financial Position

I. Assets, Liabilities, and Net Assets

1) Assets

At December 31, 2015, total assets totaled ¥184,074 million, a decrease of ¥26,365 million from December 31, 2014.

Current assets at the end of the fiscal year under review totaled ¥87,968 million, down ¥6,717 million from the end of the previous fiscal year, reflecting decreases mainly in notes and accounts receivable and inventories. Fixed assets amounted to ¥96,106 million, down ¥19,647 million from the end of the previous fiscal year, due largely to decreases in tangible fixed assets and investment securities resulting from sales.

2) Liabilities

Total liabilities at December 31, 2015 were ¥59,103 million, a decrease of ¥18,992 million from the end of the previous fiscal year. Current liabilities came to ¥31,126 million, down ¥13,770 million from the end of the previous fiscal year, due to decreases mainly in short-term borrowings and notes and accounts payable. Fixed liabilities amounted to ¥27,976 million, down ¥5,221 million from the end of the previous fiscal year, due largely to decreases in long-term debt and deferred tax liabilities.

3) Net assets

Total net assets came to ¥124,971 million at the end of the fiscal year under review, a decrease of ¥7,372 million from the end of the previous fiscal year, due largely to decreases in foreign currency translation adjustment and net unrealized gains/losses on other securities.

As a result, at the end of the fiscal year under review, the Group's shareholders' equity ratio was 66.8%, up 5.0 percentage points from December 31, 2014.

II. Cash Flows

At the end of the fiscal year under review, the Group's cash and cash equivalents totaled ¥22,919 million, up ¥8,180 million from the previous fiscal year. Cash flows and the major sources and uses of cash in fiscal year 2015 are summarized as follows

1) Cash flow from operating activities

Operating activities provided net cash of ¥20,613 million, an increase of ¥8,629 million from fiscal 2014, mainly due to an increase in proceeds as a result of a decrease in trade receivables.

2) Cash flow from investing activities

Investing activities provided net cash of ¥3,189 million, compared with net cash used of ¥24,027 million in fiscal 2014, mainly due to a decrease in expenditure on purchase of shares of subsidiaries and an increase in proceeds from sales of investment securities.

3) Cash flow from financing activities

Financing activities used net cash of ¥14,926 million, compared with net cash provided of ¥9,728 million in fiscal 2014, mainly due to an increase in expenditure on repayment of short-term borrowings and long-term debt as well as a decrease in cash from long-term debt.

	Millions of yen	
Year ended December 31,	2014	**2015**
Cash flows from operating activities	¥11,983	**¥20,613**
Cash flows from investing activities	(24,027)	**3,189**
Cash flows from financial activities	9,728	**(14,926)**
Cash and cash equivalents at end of period	¥14,738	**¥22,919**

Outlook for the Year Ending December 31, 2016

Assuming an exchange rate of \115 to the U.S. dollar, the Group forecasts 2016 consolidated net sales of ¥96,000 million, operating income of ¥1,400 million, ordinary income of ¥2,100million, and net income of ¥1,400 million.

Furthermore, the Group forecasts that the balance of cash and cash equivalents at the end of the fiscal year will be approximately ¥20,000 million.

Consolidated
Forecast of FY2016

(millions of yen)

	FY2015	FY2016 (forecast)			Increase/ Decrease
	The year	1st Half	2nd Half	The year	
Net Sales	**¥104,864**	¥47,000	¥49,000	**¥96,000**	-8.5%
Operating Income	**4,088**	600	800	**1,400**	-65.8%
Ordinary Income	**4,317**	1,000	1,100	**2,100**	-51.4%
Profit attributable to owners of the parent company	**¥ 2,484**	¥ 500	¥ 900	**¥ 1,400**	-43.7%
Exchange Rate (JPY/USD)	JPY 121.05			JPY 115.00	

Guideline announced on February 9,2016

Corporate Governance (as of March 30, 2016)

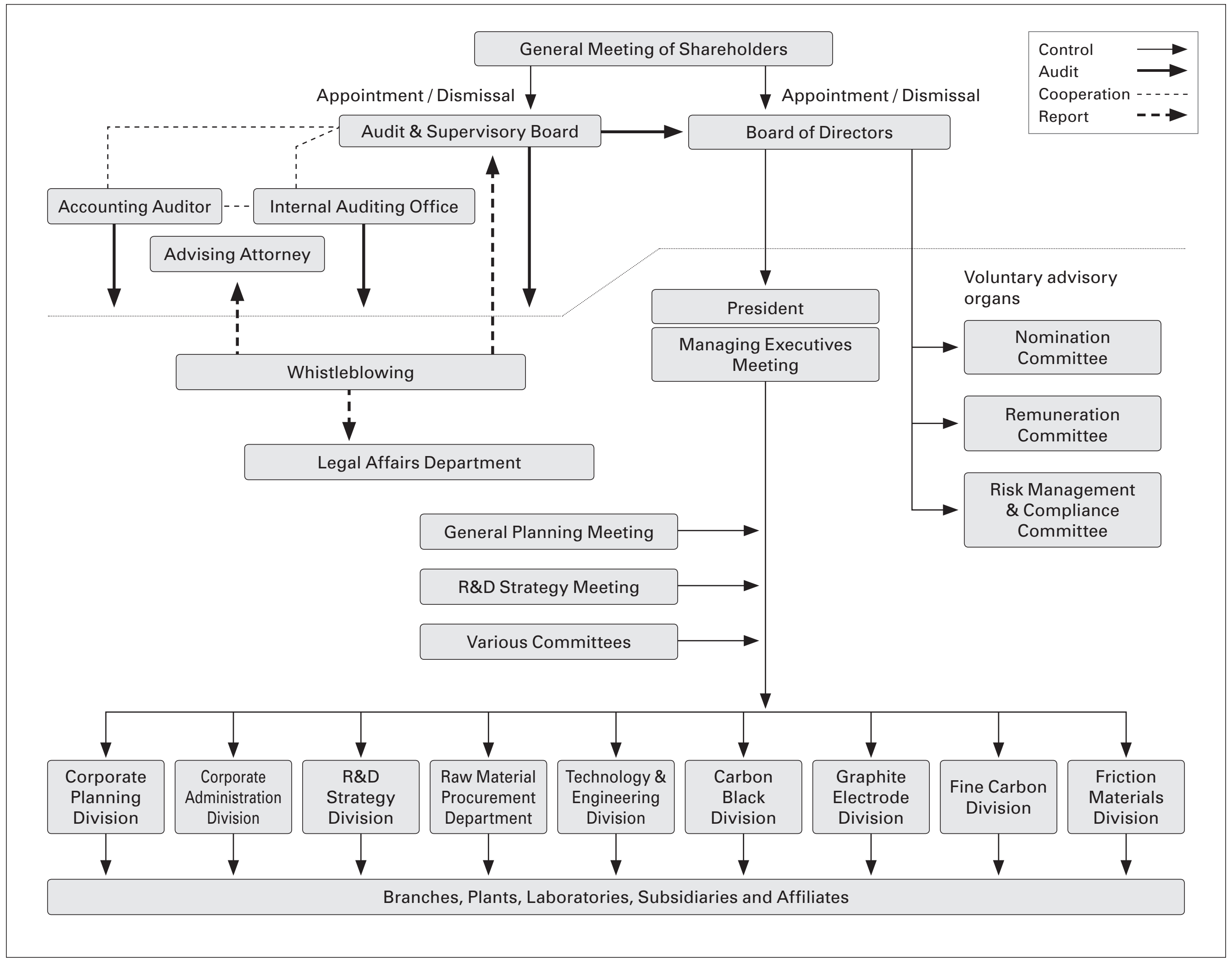
I. Status of Corporate Governance

1. Basic views on corporate governance

Tokai Carbon recognizes that enhancing the corporate value over the mid-to-long term is the most important management objective and believes that responding to the expectations of all stakeholders, including customers and shareholders, and building favorable relationships with them, is essential in achieving the objective. To this end, the Company sets forth its basic corporate philosophy, "Ties of Reliability." Under this philosophy and taking into account the views defined in its Guidelines and Corporate Code of Ethics, the Company strives to develop an effective corporate governance structure.

Tokai Carbon's corporate governance structure is illustrated as follows.

Tokai Carbon Corporate Governance Structure (Outline as of March 30, 2016)



2. Corporate governance system

Tokai Carbon, as a company with an Audit & Supervisory Board, operates under the basic stance of reinforcing audits by Audit & Supervisory Board Members and the internal audit function.

It also makes efforts to strengthen management supervision functions of the Board of Directors by appointing multiple External Directors and establishing voluntary committees in order to realize an appropriate corporate governance structure. In addition, from the perspective of clarifying the functions and responsibilities of corporate officers engaged in business execution, the Company has adopted the Executive Officer System and established a Managing Executives Meeting in an effort to enhance and strengthen business execution functions of the organization.

1) Board of Directors

The Board of Directors is responsible for determining important management matters and supervising business execution and meets monthly as a general rule. As of the date of submission of this report, there are eight directors, of whom two are External Directors. The Company established the Nomination Committee and the Remuneration Committee for which the majority of members are External Directors as voluntary advisory and delegation organs of the Board of Directors effective March 30, 2016. Furthermore, we have put in place a voluntary Risk Management & Compliance Committee under the Board of Directors.

2) Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board of the Company meets monthly as a general rule. As of the date of submission of this report, there are four Audit & Supervisory Board Members, of whom two are External Audit & Supervisory Board Members. Based on the auditing policy and the audit plan resolved by the Audit & Supervisory Board, Audit & Supervisory Board Members perform audits of the status of execution of duties by Directors through attending meetings of the Board of Directors and other important meetings, and investigating the status of business operations and assets.

3) Managing Executives Meeting

The Managing Executives Meeting is established under the Board of Directors to discuss and determine important matters concerning management based on basic policies determined by the Board of Directors. Under the Managing Executives Meeting are the CSR Committee and other committees that complement the discussions of the Managing Executives Meeting through reporting the results of deliberation to the Managing Executives Meeting.

3. Status of Company functions and internal control system

1) Status of establishment of internal control system

To ensure that the Tokai Carbon Group on the whole properly executes business operations in accordance with relevant laws, regulations and the articles of incorporation, the Company resolved at its meeting of the Board of Directors in May 2006 to set forth the "Basic Policy for Establishing an Internal Control System." As of the date of submission of this report, the Company continues to make improvements to its internal control system based on the Basic Policy.

Summary of Basic Policy for Establishing an Internal Control System

1. System to ensure that the execution of duties by Directors complies with laws, regulations and the articles of incorporation
2. System concerning storage and management of information associated with the execution of duties by Directors

Corporate Governance (as of March 30, 2016)

3. Rules concerning management of risk of loss and other systems
4. System to ensure effective execution of duties by Directors
5. System to ensure that execution of duties by employees comply with laws, regulations and the articles of incorporation
6. System to ensure appropriateness of operations of the corporate entity consisting of the stock company and its parent andsubsidiaries
7. Matters concerning employees assisting Audit & Supervisory Board Members with their duties and matters regarding independence of such employees from Directors, in the event that Audit & Supervisory Board Members request the assignment of such employees
8. System for reporting by Directors and employees to Audit & Supervisory Board Members, other systems concerning reporting to Audit & Supervisory Board Members and system to ensure that audits by Audit & Supervisory Board Members are performed effectively
9. System to ensure the reliability of financial reporting

2) Status of internal audits and audits by Audit & Supervisory Board Members

The Company has established an Internal Auditing Office to serve as an internal auditing department, consisting of four members as of the date of submission of this report. The Internal Auditing Office is in charge of improving and enhancing the internal control systems by performing internal audits on business operations of the Company and the Group companies. The Internal Auditing Office ensures it follows up on audits performed to see that recommendations for improvement have been implemented.Important audit results are reported to the Board of Directors.

In addition to attending the meetings of the Board of Directors and other important meetings to listen to Directors and Executive Officers report on the status of their duties in accordance with the auditing policies, work allocations, etc. stipulated by the Audit & Supervisory Board, the Audit & Supervisory Board Members also review documents relating to important decisions. The Audit & Supervisory Board meeting was convened thirteen times during the fiscal year under review. The Audit & Supervisory Board Members also examine the status of business operations and assets at the Company and business locations, request reports on sales activities from subsidiaries as necessary, and strictly audit the status of execution of duties by Directors and Executive Officers.

The Audit & Supervisory Board Members and the Internal Auditing Office periodically hold meetings and mutually review and exchange information on internal audit results, matters addressed and recommendations to promote close information exchange.

The Audit & Supervisory Board Members also hold meetings with the Accounting Auditors when necessary to exchange information and promote cooperation. The Audit & Supervisory Board Members hold discussions with Accounting Auditors in establishing auditing plans and attend the audits of the Accounting Auditors if necessary. They also receive reports and explanations regarding auditing processes and results, and audit consolidated and non-consolidated account statements and other necessary documents. Audit & Supervisory Board Member Tsunehisa Samukawa has served as the General Manager of the Company's Accounting & Finance Department while External Audit & Supervisory Board Member Yukihisa Asakawa has served as the General Manager of Accounting Department of another firm, and they both have significant knowledge of finance and accounting.

3) Status of accounting audits

Tokai Carbon has a contract in place with the accounting audit firm Deloitte Touche Tohmatsu LLC regarding accounting audits pursuant to Japan's Companies Act and Financial Instruments and Exchange Act. The Accounting Auditors audit the account statements and financial statements from the standpoint of an independent third party and report the results of the audit to the Company. Arbitrary opinions on reviews and issues of internal control systems are then exchanged, and improvements are implemented in accordance with the recommendations. The Company also submits information and data to the Accounting Auditors in order to ensure an environment in which audits can be carried out swiftly and accurately. There are no special conflicts of interest between the Company and the aforesaid accounting audit firm and executive members of the said accounting audit firm who perform audits of the Company.

Names of certified public accountants who carried out the operations in the fiscal year under review and the composition of assistants for auditing operations are as provided below.

Names of certified public accountants who carried out the operations:
Designated Limited Liability Partner and Executive Member Hiroyuki Motegi and Saori Yamaguchi
Composition of assistants for auditing operations:
Six certified public accountants, seven others

4) Relationship with External Directors and External Audit & Supervisory Board Members

The Company appoints two External Directors and two External Audit & Supervisory Board Members.

Although the Company has not set forth any independence standards or policies concerning External Directors and External Audit & Supervisory Board Members, it refers to the independence standard prescribed in the Guidelines for Listing of Tokyo Stock Exchange, Inc. when selecting candidates for the positions to appoint candidates who have no risk of causing conflicts of interest with general shareholders.

External Director Yoshio Kumakura satisfies the independence standard prescribed in the Guidelines for Listing and has no risk of causing conflicts of interest with general shareholders. Although External Director Nobumitsu Kambayashi is from Kawasaki Heavy Industries, Ltd., the Company's business partner, the firm accounts for only a very small percentage of the Company's overall business transactions, and Mr. Nobumitsu Kambayashi fulfills the independent standard prescribed in the Guidelines for Listing and has no risk of causing conflicts of interest with general shareholders. External Audit & Supervisory Board Member Seiichiro Sasao served as an executive officer of Mitsubishi UFJ Trust and Banking Corporation, the Company's correspondent bank, until March 2009. The Company has borrowings of ¥3,287 million (as of December 31, 2015) from Mitsubishi UFJ Trust and Banking Corporation, accounting for 2.31% (as of December 31, 2015) of the total assets of the bank, and the degree of dependence is low. The shareholding ratio of Mitsubishi UFJ Trust and Banking Corporation in the Company is 2.95% (as of December 31, 2015) which reflects a low level of influence on the Company. As a result, the Company has judged that there is no risk of causing conflicts of interest with general shareholders.External Auditor Yukihisa Asakawa satisfies the independence standard prescribed in the Guidelines for Listing and has no risk of causing conflicts of interest with general shareholders.

At meetings of the Board of Directors, External Directors and External Audit & Supervisory Board Members receive reports on the basic policy for establishing an internal control system, the status of relevant initiatives taken and their results.

Moreover, External Audit & Supervisory Board Members collaborate with other Audit & Supervisory Board Members in meetings of the Audit & Supervisory Board to conduct audits from multiple perspectives through mutual coordination with internal audits and accounting audits and with the departments responsible for internal control, as noted in "2) Status of internal audits and audits by Audit & Supervisory Board Members."

4. 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.

5. Outline of limited liability agreement

The Company and its non-executive Directors (External Directors) and Audit & Supervisory Board Members enter into an agreement to limit the liability of damages stipulated in Article 423, Paragraph 1 of the Companies Act pursuant to Article 427, Paragraph 1 of the said Act. The amount of liability for damages under this agreement is the amount stipulated in laws and regulations for both non-executive Director and Audit & Supervisory Board Member. This limit is applicable only when the performance of duties of an External Director or an External Audit & Supervisory Board Member is recognized to have been carried out in good faith and with no gross negligence.

Corporate Governance (as of March 30, 2016)

6. Provisions of articles of incorporation allowing exemption of responsibility of Directors and Audit & Supervisory Board Members based on resolution of Board of Directors

The Company stipulates in its Articles of Incorporation provisions to allow exemption of responsibilities of Directors and Audit & Supervisory Board Members based on a resolution reached by the Board of Directors in accordance with relevant laws and regulations so that Directors and Audit & Supervisory Board Members can fully demonstrate their expected roles in carrying out their duties.

7. Number of Directors

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

8. Appointment of Directors

The articles of incorporation stipulate that Directors 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 a Director 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.

9. 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, Paragraph 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.

10. Interim Dividends

The articles of incorporation stipulate that requests for extraordinary resolutions during the General Meeting of Shareholders as stipulated in Article 309, Paragraph 2, of the Companies Act 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.

11. 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, Paragraph 2, of the Companies Act 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.

12. Executive remuneration, etc.

1) Total amounts of remuneration paid to Directors and Audit & Supervisory Board Members, total amounts by type of remuneration, and number of eligible recipients

Officer 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)	¥192	¥143	—	¥49	—	8
Audit & Supervisory Board Members (Excluding external Audit & Supervisory Board Members)	19	19	—	—	—	2
External Directors and External Audit & Supervisory Board Members	¥ 34	¥ 33	—	¥ 1	—	4

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 Directors shall be no more than ¥350 million per year.
2. It was resolved at the 144th General Meeting of Shareholders held on March 30, 2006 that the maximum amount of remuneration paid to Audit & Supervisory Board Members shall be no more than ¥65 million per year.
3. The figures for the total remuneration amount and the number of eligible recipients include one 1. Director who retired as of the close of the 153rd General Meeting of Shareholders held on March 27, 2015 and one 1. Audit & Supervisory Board Member who was deceased on December 20, 2015.

2) Policy for determining the amounts of remuneration for Directors and Audit & Supervisory Board Members

The remuneration for Directors and Audit & Supervisory Board Members of the Company consists of "basic remuneration," which is the fixed portion, and "performance-linked remuneration," which varies depending on the level of achievement of performance targets. For Directors who are responsible for business execution, the percentage of variable remuneration is set higher as the level of officer rises by taking into account the magnitude of management accountability of each Director and Audit & Supervisory Board Member.

The performance-linked remuneration consists of "bonus," which is paid based on the level of achievement of financial performance each year, and "mid-to-long-term incentive" (performance cash) which is paid based on the magnitude of achievement of the three-year financial performance targets and on the evaluation of important initiatives taken that are unlikely to be clearly reflected on short-term financial results.

Since the performance-linked remuneration is not suitable for Directors and Audit & Supervisory Board Members who do not have concurrent executive responsibility and are independent from business execution, only fixed remuneration is paid to such Directors and Audit & Supervisory Board Members.

The amounts of remuneration are set within the maximum limits approved by the General Meeting of Shareholders and with the aim of having Directors and Audit & Supervisory Board Members engaged in business execution be strongly committed to achieving high management targets and maximizing mid-to-long-term corporate value by fulfilling the following requirements set as targets in their respective roles. The Company's policy is to pay amounts of remuneration that are in line with the operating performance of the Company and the outcome of performance of each individual.

- Remuneration for encouraging commitment of Directors and Audit & Supervisory Board Members toward short- and mid-to-long-term management targets
- Remuneration guaranteeing the level of remuneration that can motivate and retain incumbent and future candidates for Directors and Audit & Supervisory Board Members
- Remuneration guaranteeing the transparency and reasonableness in carrying out the responsibility of providing explanations to Directors, Audit & Supervisory Board Members, shareholders and investors

The Company has a mechanism in place where the Company's system of remuneration for Directors and Audit & Supervisory Board Members, performance evaluation of each officer and determination of remuneration for officers are deliberated by the Remuneration Committee comprising an External Director as the chairperson and members including external individuals, and then revised as necessary and finalized. It is a highly transparent remuneration system that incorporates objective viewpoints.

Corporate Governance (as of March 30, 2016)

3) Total amount of consolidated remuneration paid to individual Directors and Audit & Supervisory Board Members

There is no data to disclose, since no Director or Audit & Supervisory Board Member received consolidated remuneration in excess of ¥100 million for the fiscal year under review.

13. Status of shareholding

1) Equity investment for which the purpose of holding is other than pure investment

Number of issues: 66
Total amount posted on the Balance Sheet: ¥17,866 million

II. Remuneration for Accounting Auditors

1. Remuneration for auditing certified public accountants, etc.

(millions of yen)

Classification	Previous fiscal year		Current fiscal year	
	Remuneration based on audit & attestation services	Remuneration based on non-audit services	Remuneration based on audit & attestation services	Remuneration based on non-audit services
Submitting company	¥60	¥0	¥58	¥0
Consolidated subsidiaries	9	—	9	—
Total	¥69	¥0	¥67	¥0

2. Other important remuneration

Previous fiscal year

The Company's consolidated subsidiary paid remuneration of ¥34 million based on audit & attestation services and remuneration of ¥24 million based on non-audit services to a member firm of Deloitte Touche Tohmatsu Limited that belongs to the same network of the Company's auditing certified public accountants.

Current fiscal year

The Company's consolidated subsidiary paid remuneration of ¥37 million based on audit & attestation services and remuneration of ¥23 million based on non-audit services to a member firm of Deloitte Touche Tohmatsu Limited that belongs to the same network of the Company's auditing certified public accountants.

3. Description of non-audit services by auditing certified public accountants toward the submitting company

Previous fiscal year

The non-auditing service for which the Company pays remuneration to auditing certified public accountants is the application for exemption of surcharge for renewable energy promotion.

Current fiscal year

The non-auditing service for which the Company pays remuneration to auditing certified public accountants is the application for exemption of surcharge for renewable energy promotion.

4. Policy for determining remuneration for auditors

Although the Company does not set forth a policy for determining the amount of remuneration for auditing certified public accountants, etc., the Company takes into account auditing hours, etc. in determining the amount of remuneration.

Compliance

The Company has set forth basic policies, including the Corporate Philosophy, the Guidelines, and the Corporate Code of Ethics, and based on the principles within them, strives to conduct corporate activities with a highly ethical viewpoint while also complying with the relevant laws, rules, and regulations.

The Company recognizes that responding to the expectations and demands of stakeholders and maintaining relationships of trust with them is the foundation of sustainable growth as a company that coexists with society. To this end, Tokai Carbon takes initiatives to ensure that each individual director and employee can increase their awareness of compliance.

Compliance Manual

The Compliance Manual was created based on Tokai Carbon's Corporate Code of Ethics and its Ethical and Compliance Standard. The manual outlines the standards of behavior that all officers and employees should maintain as they carry out their everyday duties, and is intended to help everyone in the Company understand compliance properly.

Internal Reporting System

Tokai Carbon has an internal reporting system with both an internal contact point (the Internal Auditing Office) and an external contact point (an advising attorney). The system allows employees to make reports and receive consultation by various means including telephone, fax, email, and post. When this system is used, the informant is clearly protected by the Company's Guidelines on Handling of Internal Reports. This is to ensure that, except for cases where the system is deliberately misused, informants will not be dismissed or subjected to unfair treatment if they are using the system.

Exclusion of Antisocial Elements

Tokai Carbon has a mutual understanding on the exclusion of antisocial elements with relevant authorities such as the police force, regional corporate protection associations, and lawyers. The Company strives to develop a strong cooperative relationship with these parties and to also focus on gathering information about antisocial actions. Clauses have been added to Company contracts for basic trading agreements with business partners to exclude any links to criminal organizations.

Awareness-Raising and Education

Compliance training is held regularly for directors, managers, new recruits, and other employees. The training is facilitated by trainers from inside and outside the Company, with a focus on current affairs.

Status of Accounting

I. Basic Policy on Selecting Accounting Standards

In consideration of securing comparability of consolidated financial statements between fiscal years and companies, the Tokai Carbon Group will prepare its consolidated financial statements in accordance with the Japanese accounting standards for the time being. In the meantime, the Group will appropriately apply the International Financial Reporting Standards (IFRS) in consideration of various circumstances in Japan and overseas.

II. Method of Preparation for Consolidated Financial Statements and Financial Statements

1.

The consolidated financial statements of the Company are prepared based on the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976)

2.

The financial statements of the Company are prepared based on the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963).

The Company corresponds to the Company Submitting Financial Statement under special provision and prepares financial statements pursuant to the provision of Article 127 of the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements.

III. Audit Certificate

Pursuant to the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company receives audits from Deloitte Touche Tohmatsu LLC in regard to the consolidated financial statements for the fiscal year from January 1, 2015 to December 31, 2015 and the financial statements for the 154th business year (from January 1, 2015 to December 31, 2015).

IV. Special Initiatives to Ensure the Appropriateness of Consolidated Financial Statements, etc.

The Company takes special initiatives to ensure the appropriateness of consolidated financial statements, etc.

Specifically, in order to establish a system to properly identify the contents of accounting standards, etc. and to respond accurately to changes, etc. to accounting standards, the Company is a member of the Financial Accounting Standards Foundation and also participates in seminars organized by the accounting firm, etc. and subscribes to accounting journals.

Consolidated Financial Statements

1. Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

	Millions of Yen	
	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	¥ 16,045	¥ 14,862
Notes and accounts receivable	26,897	33,972
Securities	7,000	—
Merchandise and finished goods	13,828	15,574
Work in process	12,182	13,585
Raw materials and supplies	8,241	12,138
Deferred tax assets	1,384	1,133
Other	2,509	3,568
Allowance for doubtful accounts	(122)	(149)
Total current assets	87,968	94,685
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	18,282	18,807
Machinery, equipment and vehicles, net	26,576	34,570
Furnaces, net	998	1,350
Land	6,703	7,219
Construction in progress	3,070	4,525
Other, net	997	1,107
Total tangible fixed assets	56,629	67,581
Intangible fixed assets		
Software	404	416
Goodwill	6,135	7,581
Customer-related assets	3,896	4,933
Other	888	1,171
Total intangible fixed assets	11,324	14,103
Investments and other assets		
Investment securities	24,681	30,590
Net defined benefit asset	1,993	2,318
Deferred tax assets	606	384
Other	922	834
Allowance for doubtful accounts	(51)	(59)
Total investment and other assets	28,153	34,069
Total fixed assets	96,106	115,753
Total assets	¥184,074	¥210,439

	Millions of Yen	
	2015	2014
LIABILITIES		
Current liabilities		
Notes and accounts payable	¥ 9,196	¥ 13,717
Electronically recorded obligations-operating	2,201	2,334
Short-term borrowings	7,469	19,504
Current portion of long-term debt	2,068	2,071
Income taxes payable	3,540	750
Consumption tax payable	496	313
Accrued expenses	1,366	1,135
Reserve for bonuses	212	200
Other	4,575	4,870
Total current liabilities	31,126	44,897
Fixed liabilities		
Long-term debt	14,398	16,713
Deferred tax liabilities	7,872	10,274
Net defined benefit liability	3,816	4,145
Reserve for directors’ retirement benefits	107	119
Reserve for executive officers’ retirement benefits	35	35
Provision for environment and safety measures	469	477
Other	1,276	1,433
Total fixed liabilities	27,976	33,198
Total liabilities	59,103	78,096
NET ASSETS		
Shareholders' capital		
Common stock	20,436	20,436
Additional paid-in capital	17,502	17,502
Retained earnings	78,214	77,295
Treasury stock	(7,243)	(7,227)
Total shareholders’ capital	108,910	108,006
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	9,392	11,958
Deferred gains or losses on hedges	(0)	—
Foreign currency translation adjustments	3,782	9,212
Remeasurements of defined benefit plans	830	806
Total other accumulated comprehensive income	14,004	21,977
Minority interests	2,055	2,359
Total net assets	124,971	132,343
Total liabilities and net assets	¥184,074	¥210,439

Consolidated Financial Statements

2. Consolidated Statements of Operations and Comprehensive Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

Consolidated Statement of Operation

	Millions of Yen	
	2015	2014
Net sales	**¥104,864**	¥114,576
Cost of sales	**84,904**	95,924
Gross profit	**19,960**	18,651
Selling, general and administrative expenses		
Selling expenses	**4,865**	4,874
General and administrative expenses	**11,005**	10,072
Total selling, general and administrative expenses	**15,871**	14,947
Operating income	**4,088**	3,703
Non-operating income		
Interest income	**86**	96
Dividend income	**591**	508
Rental income	**300**	294
Equity in income of non-consolidated subsidiaries and affiliates	**589**	609
Foreign exchange gains	**—**	910
Other non-operating income	**649**	549
Total non-operating income	**2,217**	2,969
Non-operating expense		
Interest expense	**595**	744
Compensation expenses	**210**	12
Foreign exchange losses	**383**	—
Other non-operating expense	**799**	1,736
Total non-operating expense	**1,989**	2,492
Ordinary income	**4,317**	4,180
Extraordinary income		
Gain on sales of fixed investment securities	**5,814**	—
Gain on sales of fixed assets	**1,003**	179
Gain on liquidation of subsidiaries and associates	**189**	—
Total extraordinary income	**7,006**	179
Extraordinary losses		
Impairment loss	***4,326**	14
Demolition expenses	**106**	—
Contribution for liquidation of subsidiaries and associates	**86**	—
Loss on sales of shares of subsidiaries and associates	**78**	—
Total extraordinary losses	**4,597**	14
Income before income taxes	**6,726**	4,345
Income taxes, inhabitants tax, and enterprise taxes	**4,891**	1,928
Income taxes adjustments	**(545)**	(179)
Total income taxes	**4,345**	1,749
Income before minority interests	**2,381**	2,596
Minority interests in income (loss)	**(103)**	34
Net income	**¥ 2,484**	¥ 2,562

Consolidated Statement of Comprehensive Income

	Millions of Yen	
	2015	2014
Income before minority interests	**¥2,381**	¥2,596
Other comprehensive income		
Valuation difference on available-for-sale securities	**(2,558)**	1,247
Deferred gains or losses on hedges	**(0)**	—
Foreign currency translation adjustment	**(5,534)**	5,352
Remeasurements of defined benefit plans	**24**	—
Share of other comprehensive income of associates accounted for using equity method	**(54)**	540
Total other comprehensive income	**(8,124)**	7,140
Comprehensive income	**(5,742)**	9,737
Comprehensive income attributable to owners of the parent company	**(5,487)**	9,439
Comprehensive income attributable to minority interests	**¥ (254)**	¥ 298

Consolidated Financial Statements

3. Consolidated Statements of Changes in Shareholders' Capital

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

Fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014) (millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance at the beginning of the period	¥20,436	¥17,502	¥76,014	¥(7,146)	¥106,807
Cumulative effects of changes in accounting policies					—
Beginning balance reflecting changes in accounting policies	20,436	17,502	76,014	(7,146)	106,807
Changes of items during the period					
Dividends from surplus			(1,281)		(1,281)
Net income			2,562		2,562
Purchase of treasury stock				(82)	(82)
Disposal of treasury stock			(0)	0	0
Changes in the scope of consolidation					
Net changes of items other than shareholders' capital					
Total changes of items during the period	—	—	1,280	(81)	1,199
Balance at the end of the period	¥20,436	¥17,502	¥77,295	¥(7,227)	¥108,006

	Other accumulated comprehensive income					Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at the beginning of the period	¥10,715	—	¥3,578	—	¥14,294	¥2,131	¥123,232
Cumulative effects of changes in accounting policies							—
Beginning balance reflecting changes in accounting policies	10,715	—	3,578	—	14,294	2,131	123,232
Changes of items during the period							
Dividends from surplus							(1,281)
Net income							2,562
Purchase of treasury stock							(82)
Disposal of treasury stock							0
Changes in the scope of consolidation							—
Net changes of items other than shareholders' capital	1,243	—	5,633	806	7,682	228	7,911
Total changes of items during the period	1,243	—	5,633	806	7,682	228	9,110
Balance at the end of the period	¥11,958	—	¥ 9,212	¥806	¥21,977	¥2,359	¥132,343

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015) (millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance at the beginning of the period	**¥20,436**	**¥17,502**	**¥77,295**	**¥(7,227)**	**¥108,006**
Cumulative effects of changes in accounting policies			**(295)**		**(295)**
Beginning balance reflecting changes in accounting policies	**20,436**	**17,502**	**76,999**	**(7,227)**	**107,710**
Changes of items during the period					
Dividends from surplus			**(1,279)**		**(1,279)**
Net income			**2,484**		**2,484**
Purchase of treasury stock				**(15)**	**(15)**
Disposal of treasury stock			**(0)**	**0**	**0**
Changes in the scope of consolidation			**9**		**9**
Net changes of items other than shareholders' capital					
Total changes of items during the period	**—**	**—**	**1,215**	**(15)**	**1,199**
Balance at the end of the period	**¥20,436**	**¥17,502**	**¥78,214**	**¥(7,243)**	**¥108,910**

	Other accumulated comprehensive income					Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at the beginning of the period	**¥11,958**	**—**	**¥9,212**	**¥806**	**¥21,977**	**¥2,359**	**¥132,343**
Cumulative effects of changes in accounting policies							**(295)**
Beginning balance reflecting changes in accounting policies	**11,958**	**—**	**9,212**	**806**	**21,977**	**2,359**	**132,047**
Changes of items during the period							
Dividends from surplus							**(1,279)**
Net income							**2,484**
Purchase of treasury stock							**(15)**
Disposal of treasury stock							**0**
Changes in the scope of consolidation							**9**
Net changes of items other than shareholders' capital	**(2,566)**	**(0)**	**(5,430)**	**24**	**(7,972)**	**(303)**	**(8,276)**
Total changes of items during the period	**(2,566)**	**(0)**	**(5,430)**	**24**	**(7,972)**	**(303)**	**(7,076)**
Balance at the end of the period	**¥ 9,392**	**¥(0)**	**¥3,782**	**¥830**	**¥14,004**	**¥2,055**	**¥124,971**

Consolidated Financial Statements

4. Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

	Millions of Yen	
	2015	2014
Cash flows from operating activities:		
Income before income taxes	**¥ 6,726**	¥ 4,345
Depreciation and amortization	**9,242**	8,629
Impairment loss	**4,326**	14
Demolition expenses	**106**	—
Loss (gain) on sales of investment securities	**(5,817)**	(2)
Loss (gain) on liquidation of subsidiaries and associates	**(189)**	—
Contribution for liquidation of subsidiaries and associates	**86**	—
Loss (gain) on sales of shares of subsidiaries and associates	**78**	—
Loss (gain) on sales of property, plant and equipment	**(1,070)**	(178)
Amortization of goodwill	**426**	290
Increase (decrease) in allowance for doubtful accounts	**(25)**	(105)
Increase (decrease) in reserve for bonuses	**13**	34
Increase (decrease) in net defined benefit liability	**(24)**	383
Decrease (increase) in net defined benefit asset	**(130)**	(108)
Increase (decrease) in reserve for directors' retirement benefits	**(11)**	(11)
Increase (decrease) in provision for environment and safety measures	**(8)**	(79)
Interest and dividends income	**(678)**	(605)
Interest paid	**595**	744
Foreign exchange (gain) loss	**25**	(203)
Equity in (income) loss of non-consolidated subsidiaries and affiliates	**(589)**	(609)
(Increase) decrease in trade receivables	**6,300**	(1,775)
(Increase) decrease in inventories	**5,698**	2,435
Increase (decrease) in trade payables	**(4,398)**	1,226
Increase (decrease) in accrued expenses	**145**	(267)
Increase (decrease) in accounts payable-others	**70**	202
(Increase) decrease in advance payment	**276**	(366)
Increase (decrease) in accrued consumption taxes	**182**	42
Other	**948**	453
Subtotal	**22,305**	14,487
Interest and dividends received	**875**	622
Interest paid	**(589)**	(734)
Income taxes paid	**(1,977)**	(2,391)
Net cash provided by (used in) operating activities	**¥20,613**	¥11,983

	Millions of Yen	
	2015	2014
Cash flows from investing activities:		
Payments into time deposits	**¥ (245)**	¥ (107)
Proceeds from withdrawal of time deposits	**242**	—
Net decrease (increase) in short-term loans receivable	**4**	198
Purchase of tangible fixed assets	**(5,909)**	(7,522)
Proceeds from sales of property, plant and equipment	**1,699**	224
Purchase of intangible fixed assets	**(152)**	(106)
Proceeds from sales of investment securities	**7,694**	2
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(0)**	(16,823)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	**(44)**	—
Proceeds from sales of capital of subsidiaries and affiliates	**—**	119
Contribution for liquidation of subsidiaries and associates	**(86)**	—
Other	**(13)**	(12)
Net cash provided by (used in) investing activities	**3,189**	(24,027)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	**(11,452)**	(853)
Proceeds from long-term debt	**4,000**	13,467
Repayment of long-term debt	**(6,071)**	(1,407)
Dividend paid	**(1,279)**	(1,281)
Cash dividends paid to minority shareholders	**(49)**	(59)
Other	**(73)**	(137)
Net cash provided by (used in) financing activities	**(14,926)**	9,728
Effect of exchange rate changes on cash and cash equivalents	**(695)**	1,006
Increase (decrease) in cash and cash equivalents	**8,180**	(1,307)
Cash and cash equivalents at beginning of the period	**14,738**	16,046
Cash and cash equivalents at end of the period	**¥22,919**	¥14,738

Consolidated Financial Statements

5. Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

I. Notes on the Going Concern Assumption

Not applicable

II. Basis for Preparation of Consolidated Financial Statements

1. Scope of consolidation

a. Number of consolidated subsidiaries: 24 companies

Names of the consolidated subsidiaries:
Tokai Konetsu Kogyo Co., Ltd., Tokai Material Co., Ltd., Tokai Fine Carbon Co., Ltd., Oriental Sangyo Co., Ltd., Tokai Noshiro Seiko Co., Ltd., Tokai Unyu Co., Ltd., Thai Tokai Carbon Product Co., Ltd., Tokai Carbon (Tianjin) Company Ltd., Tokai Carbon (Suzhou) Co., Ltd., Tokai Carbon (Dalian) Co., Ltd., Tokai Carbon U.S.A., Inc., Tokai Carbon Electrode Sales Inc., Tokai Carbon Electrode Sales L.L.C., Cancarb Limited, Tokai Erftcarbon GmbH, Tokai Carbon Europe GmbH, Tokai Carbon Europe Ltd., Tokai Carbon Italia S.R.L., Tokai Carbon Deutschland GmbH, Tokai Konetsu Engineering Co., Ltd., Shanghai Tokai Konetsu Co., Ltd., Tokai Konetsu (Suzhou) Co., Ltd., Mitomo Brake Co., Ltd., Daiya Tsusho Co., Ltd.

Tokai Carbon (Shanghai) Co., Ltd., which was a consolidated subsidiary of the Group in the previous fiscal year, is excluded from the scope of consolidation due to the completion of liquidation.

Svensk Specialgrafit AB, which was previously a consolidated subsidiary of the Group, is excluded from the scope of consolidation and included in the scope of application of the equity method due to sales of a portion of its shares by Tokai Carbon Europe Ltd. during the fiscal year under review. In addition, the Company has changed the company name to Schunk Tokai Scandinavia AB.

b. Names of non-consolidated subsidiaries

Nagoya Green Club Co., Ltd.   Lancom Toyo Co., Ltd

Reason for exclusion from scope of consolidation

Each of the non-consolidated subsidiaries are small in corporate size, and their total combined assets, net sales, net income/loss (corresponding to the equity amount) and retained earnings (corresponding to the equity amount), etc., do not have significant impact on the consolidated financial statements. For these reasons, the non-consolidated subsidiaries are excluded from the scope of consolidation.

2. Application of equity method

a. Number of non-consolidated affiliates accounted for by the equity method: 5 companies

Names of the affiliates:
Tokai Carbon Korea Co., Ltd., SGL Tokai Carbon Ltd., Shanghai, MWI, Inc., SGL Tokai Process Technology PTE. Ltd., SCHUNK TOKAI SCANDINAVIA AB

b.

Since the impact of each of the non-consolidated subsidiaries not accounted for by the equity method (Nagoya Green Club Co., Ltd., and Lancom Toyo Co., Ltd.) on consolidated net income/loss and consolidated retained earnings, etc., is minor, and since, on the whole, the impact of both companies is insignificant. Therefore, they are excluded from the scope of application of the equity method.

c.

Svensk Specialgrafit AB, which was previously a consolidated subsidiary of the Group, is excluded from the scope of consolidation and included in the scope of application of the equity method due to sales of a portion of its shares by Tokai Carbon Europe Ltd. during the fiscal year under review. In addition, the Company has changed the company name to Schunk Tokai Scandinavia AB.

Heisei Ceramics Co., Ltd., which was a company accounted for by the equity method, is excluded from the scope of application of the equity method due to sales of all its shares by Tokai Konetsu Kogyo Co., Ltd. during the fiscal year under review.

d.

Of the companies accounted for by the equity method, for those that have a closing date that differs from the consolidated closing date, the financial statements for each such company's financial year are used.

3. Fiscal years, etc., of consolidated subsidiaries

The closing date of the consolidated subsidiaries coincides with the consolidated closing date.

4. Accounting standards

a. Valuation standard and valuation method for important assets

1) Securities

Other securities
Securities with fair market value:
Stated at fair market value based on the quoted market price at fiscal year-end (any valuation differences are included in net assets in full, and cost of securities sold is computed by the moving average method).
Securities without fair market value:
Stated at cost determined by the moving average method.

2) Inventories

The Company and its domestic consolidated subsidiaries adopt the cost method based on the monthly weighted average method (For figures shown on the balance sheet, values are written down to their book values based on their decreased profitability). In addition, overseas consolidated subsidiaries mainly adopt the lower-of-cost-or-market method based on the first-in first-out method.

3) Derivatives

Derivative instruments are valued by the market value method.

b. Depreciation method of important depreciable assets

(1) Tangible fixed assets (excluding lease assets)

The Company and its domestic consolidated subsidiaries mainly adopt the declining-balance method. However, they adopt the straight-line method to buildings (excluding facilities attached to the buildings) acquired on or after April 1, 1998. Overseas subsidiaries mainly adopt the straight-line method.

The main useful lives are as follows.

Buildings and structures	2–60 yrs
Machinery, equipment and vehicles	2–22 yrs
Furnaces	8–10 yrs

Consolidated Financial Statements

5. Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

2) Intangible fixed assets (excluding lease assets)

The straight-line method is adopted.

For software for internal use, the Company and its domestic consolidated subsidiaries adopt the straight-line method over the estimated useful life (five years).

In regard to customer-related assets, the Company adopts the straight-line method based on the expected future revenue-producing period (17 years) which was applied for the basis of calculation of consideration.

3) Lease assets

Lease assets are amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

c. Recognition of important allowances

1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on a reasonable standard such as the historical experience of bad debt for ordinary accounts. For specific accounts such as doubtful accounts receivable, the collectability is determined individually, and the estimated uncollectible amount is recorded.

2) Reserve for directors' retirement benefits

The Company and its domestic consolidated subsidiaries provide the reserve for directors' retirement benefits at an amount deemed necessary to cover the total amount to be paid pursuant to the internal regulations thereof at the end of the fiscal year under review.

Additional information

At the 144th General Meeting of Shareholders, which was held on March 30, 2006, the Company resolved to abolish its system of retirement benefits for directors and auditors, and to pay each director and auditor, upon each person's resignation, retirement benefits commensurate with the period during which the incumbent directors and auditors served at their positions on and before March 30, 2006.

Accordingly, the balance thereof regarding the Company at the end of the fiscal year under review is the amount expected to be paid to incumbent directors and auditors.

3) Reserve for executive officers' retirement benefits

The reserve for retirement benefits for executive officers, commissioners, senior counselors, junior counselors and senior fellows is provided at an amount deemed necessary to cover the total amount to be paid pursuant to the internal regulations at the end of the fiscal year under review.

4) Provision for environment and safety measures

The provision for environment and safety measures is provided at an amount that can be reasonably estimated at the end of the fiscal year under review to prepare for expenditures for PCB disposal costs under the Special Measures Law for the Promotion of Proper Disposal of Polychlorinated Biphenyl ("PCB") Waste.

d. Accounting method relating to retirement benefits

1) Period attribution method for expected retirement benefit payments

With regard to calculation of retirement benefit obligations, the benefit formula basis method has been used to attribute projected retirement benefits to periods of service until the end of the current fiscal year.

2) Accounting for actuarial differences and prior service cost

Prior service cost is accounted for as an expense in lump sum in the fiscal year in which it is incurred.

Actuarial differences are recognized as expenses proportionately from the following fiscal year as incurred using the straight-line method over a certain number of years (10 years) within the average remaining years of service of employees when incurred in each fiscal year.

3) Adoption of simplified method by small-scale companies, etc.

In calculating net defined benefit liability and retirement benefit expenses, some consolidated subsidiaries adopt the simplified method of using the amount required for voluntary resignations at the end of the fiscal year relating to retirement benefits as the retirement benefit obligation.

e. Standard for translation of important foreign-currency-denominated assets or liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the consolidated closing date, and translation adjustments are treated as profits or losses. Furthermore, the assets and liabilities of overseas subsidiaries, etc., are translated into Japanese yen at the spot exchange rate on the consolidated closing date; revenue and expenses are translated into Japanese yen at the average exchange rate for the fiscal year. The translation adjustments are included in the foreign currency translation adjustments account and in minority interests in the net assets section of the consolidated balance sheets.

f. Material hedge accounting method

1) Hedge accounting method

As a general rule, deferral hedge accounting is adopted.

Foreign exchange contracts that meet the requirements for designation are accounted for by the allocation method and interest rate swaps that meet the requirements for special treatment are accounted for by the special accounting method. Also, unified treatment (allocation treatment, special treatment) is adopted for interest rate and currency swaps that meet the unified treatment (allocation treatment, special treatment) requirements.

2) Hedging instruments and hedged items

The hedging instruments and hedged items to which hedge accounting was adopted in the fiscal year under review are as follows.

a) Hedging instruments:
Forward exchange contracts

Hedged items:
Foreign currency trade receivables and forecasted foreign currency transactions arising from product exports

b) Hedging instruments:
Interest rate and currency swaps and interest rate swaps

Hedged items:
Foreign currency-denominated borrowings and Yen-denominated borrowings

3) Hedging policy

In accordance with the internal regulation that prescribe the authority regulation and transaction limits for derivative transactions, risk of fluctuations in foreign exchange and interest rates pertaining to hedged items is hedged within a certain range.

4) Method of assessing the effectiveness of hedges

The method for assessing the effectiveness of hedges is to check whether there is a high correlation between the hedged item's market fluctuation or cash flow fluctuation and the hedging instrument's market fluctuation or cash flow fluctuation. However, the assessment of effectiveness is omitted for interest rate swaps accounted for under the special treatment and for interest rate and currency swaps accounted for under the unified treatment (allocation treatment, special treatment.)

g. Method and period of amortization of goodwill

Goodwill is amortized by the straight-line method over a period of 17 years.

However, goodwill of immaterial value is amortized in a lump sum.

h. Scope of cash and cash equivalents in consolidated statements of cash flows

Cash and cash equivalents in consolidated statements of cash flows comprise cash on hand, cash withdrawable at any time and easily converted into cash, and short-term variable value investments that have only an insignificant risk, while reaching due date within three months from their acquisition date.

i. Other significant matters for the preparation of consolidated financial statements

Accounting for consumption taxes

The Company and its domestic consolidated subsidiaries adopt the tax exclusion method in accounting for consumption taxes.

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5. Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
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III. Changes in Accounting Policies, etc.

Application of accounting standard for retirement benefits

Effective from the beginning of the fiscal year ended December 31, 2015, the Company has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, issued on May 17, 2012; hereinafter, referred to as the "Retirement Benefits Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on March 26, 2015; hereinafter, referred to as the "Guidance on Retirement Benefits") pursuant to the provisions stated in the main clause of Paragraph 35 of the Retirement Benefits Accounting Standard and the main clause of Paragraph 67 of the Guidance on Retirement Benefits. Following this application, calculation methods for benefit obligations and service costs have been reevaluated, and the discount rate used in calculation has been changed from a discount rate that approximates the average remaining service years of employees to a discount rate that is a single weighted average that reflects the expected payment period for retirement benefits and amounts for each expected payment period.

At the application of the Retirement Benefit Accounting Standard, the effect of this change to the calculation method for retirement benefit obligations and service costs has been added to or deducted from retained earnings at the beginning of the fiscal year ended December 31, 2015 in accordance with the transitional provisions set forth in Paragraph 37 of the Retirement Benefit Accounting Standard.

As a result, net defined benefit asset decreased by ¥454 million, deferred tax liabilities decreased by ¥159 million and retained earnings decreased by ¥295 million at the beginning of the fiscal year under review. Meanwhile, the impact of this change on income or loss for the fiscal year under review is negligible.

IV. Changes in Method of Presentation

Matters Related to the Consolidated Statements of Income

"Expense for facilities for rent" independently presented under "Non-operating expense" in the previous fiscal year is included in "Other non-operating expense" due to a decrease in significance in its monetary value. Account items in the consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥71 million presented in "Expense for facilities for rent" independently presented under "Non-operating expense" in the Consolidated Statement of Income for the previous fiscal year has been reclassified and included in "Other non-operating expense".

"Compensation expenses" included in "Other non-operating expense" under "Non-operating expense" in the previous fiscal year is independently presented as of the fiscal year under review since it accounts for more than 10/100 of the total value of non-operating expense". Account items in the consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥1,676 million posted in "Other non-operating expense" under "Non-operating expense" in the consolidated statement of income for the previous fiscal year has been reclassified so that ¥12 million is presented as "Compensation expenses" and ¥1,664 million as "Other non-operating expense".

Consolidated Statements of Cash Flows

"Loss (gain) on sales of investment securities" included in "Other" under "Cash flows from operating activities" in the previous fiscal year is independently presented as of the fiscal year under review due to an increase in significance of its monetary value. Account items in the consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥449 million posted in "Other" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified so that ¥(2) million is presented as "Loss (gain) on sales of investment securities" and ¥452 million as "Other".

"Reserve for executive officers' retirement benefits" independently presented under "Cash flows from investing activities" in the previous fiscal year is included in "Other" as of the fiscal year under review due to a decrease in significance of its monetary value. Account items in consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥0 million presented in "Increase (decrease) in reserve for executive officers' retirement benefits" under "Cash flows from operating activities" in the Consolidated Financial Statements of Cash Flows for the previous fiscal year has been reclassified as "Other".

"Proceeds from sales of investment securities" included in "Other" under "Cash flows from investing activities" in the previous fiscal year is independently presented as of the fiscal year under review due to an increase in significance of its monetary value. Account items in consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥(10) million presented in "Other" under "Cash flows from investing activities" in the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified so that ¥2 million is presented as "Proceeds from sales of investment securities" and ¥(12) million as "Other".

V. Matters Related to the Consolidated Statements of Income

* Impairment loss

The Tokai Carbon Group recognizes an impairment loss for the following asset group.

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

1) Assets for which an impairment loss is recognized

Usage	Category	Company name	Location	Impairment loss (millions of yen)
Idle assets	Land	Tokai Carbon Co., Ltd.	Gotemba City, Shizuoka	¥ 39
Assets scheduled for retirement	Buildings and structures Machinery, equipment and vehicles Furnaces Others	Tokai Carbon Co., Ltd.	Ashikita-machi, Ashikita-gun, Kumamoto	50
Assets scheduled for retirement	Buildings and structures	Tokai Carbon Co., Ltd.	Taketoyo-cho, Chita-gun, Aichi	1
Assets scheduled for retirement	Buildings and structures	Tokai Carbon Co., Ltd.	Omihachiman City, Shiga	17
Assets scheduled for retirement	Buildings and structures	Tokai Carbon Co., Ltd.	Hofu City, Yamaguchi	30
Assets scheduled for retirement	Buildings and structures Machinery, equipment and vehicles	Tokai Konetsu Kogyo Co., Ltd.	Nagoya City, Aichi	226
Production facilities of heating elements and other products	Machinery, equipment and vehicles	Tokai Konetsu Kogyo Co., Ltd.	Shibata-cho, Shibata-gun, Miyagi	0
Production facilities of carbon black	Machinery, equipment and vehicles Construction in progress	Tokai Carbon (Tianjin) Company Ltd.	China Tianjin City	3,958
Idle assets	Machinery, equipment and vehicles	Tokai Carbon Co., Ltd.	Ishinomaki City, Miyagi	¥ 1

2) Background relating to the recognition of impairment loss

As for the Group's land in Gotemba City, Shizuoka, an impairment loss is recognized as the land is unused with no future use prospects and its recoverable value fell below its carrying amount.

As for the Group's assets scheduled for retirement in Ashikita-machi, Ashikita-gun, Kumamoto, an impairment loss is recognized as the Group had decided to retire the assets due to restructuring of the plants in accordance with optimization of production in the Carbon and Ceramics segment and their recoverable value fell below their carrying amount.

As for the Group's assets scheduled for retirement in Omihachiman City, Shiga, and Hofu City, Yamaguchi, an impairment loss is recognized as the Group had decided to retire the assets as they have no prospects for future use and their recoverable amounts fell below their carrying amounts.

As for the Group's asset scheduled for retirement in Nagoya City, Aichi, an impairment loss is recognized as the Group had decided to retire the asset following sales of the plant site and its

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5. Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
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recoverable value fell below its carrying amount.

As for the production facilities for heating elements and other products in Shibata-cho, Shibata-gun, Miyagi, an impairment loss is recognized as its recoverable value fell below its carrying amount as a result of decreased profitability.

As for the production facilities for carbon black in Tianjin City, China, an impairment loss is recognized as its recoverable value fell below its carrying amount as a result of decreased profitability.

As for the machinery equipment in Ishinomaki City, Miyagi, an impairment loss is recognized as it has no prospects for future use and its recoverable value fell below its carrying amount.

3) Breakdown of impairment loss by type of asset group

Buildings and structures:	¥302 million	Land	¥39 million
Machinery, equipment and vehicles	¥3,881 million	Construction in progress	¥91 million
Furnaces	¥9 million	Other	¥3 million

4) Outline of the asset group for which an impairment loss has been recognized and grouping method

- Asset group
  - Idle assets of Tokai Carbon Co., Ltd.
  - Assets scheduled for retirement of Tokai Carbon Co., Ltd.
  - Assets scheduled for retirement of Tokai Konetsu Kogyo Co., Ltd.
  - Production facilities for heating elements and other products of Tokai Konetsu Kogyo Co., Ltd.
  - Production facilities for carbon black of Tokai Carbon (Tianjin) Company Ltd

- Grouping method
  - Evaluation of fixed asset impairment is performed by grouping assets according to management accounting classifications, while assets for lease, idle assets and assets scheduled for retirement are grouped on an individual property basis.

5) Method of calculation of recoverable value

The recoverable value of the idle assets in Gotemba City, Shizuoka, is measured by net realizable sale price and evaluated by the amount based on assessed value of fixed assets.

Assets scheduled for retirement in Ashikita-machi, Ashikita-gun, Kumamoto, are evaluated on a value-in-use basis. Assets scheduled for retirement in Taketoyo-cho, Chita-gun, Aichi, Omihachiman City, Shiga, Hofu City, Yamaguchi and Nagoya City, Aichi, are evaluated at memorandum value.

The recoverable value of production facilities for heating elements and other products in Shibata-cho, Shibata-gun, Miyagi, is estimated based on the value in use. Their estimated value in use based on future cash flow is negative, and therefore, their recoverable value is estimated to be zero.

The recoverable value of production facilities for carbon black in Tianjin City, China, is measured in terms of its value in use, which is calculated by discounting expected future cash flows by 6.0%.

The recoverable value of the idle assets in Ishinomaki City, Miyagi, is evaluated at memorandum value.

6. Segment Information

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

I. Segment Information

1. Overview of reportable segments

The Company's reportable segments are those components of the Company for which discrete financial information is available and that are subject to regular reviews by the Board of Directors to determine the allocation of management resources and to evaluate business performance.

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

2. Methods for calculating the amounts of net sales, operating income or loss, assets and other accounts items for each reportable segment

The accounting methods adopted for reportable business segments are the same as those provided under the Basis for Preparation of Consolidated Financial Statements.

Income for reportable segments consists of figures based on operating income.

Inter-segment sales/transfer is based on the prevailing market value.

3. Information on the amounts of net sales, operating income or loss, assets, and other account items for each reportable segment

Fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

	Millions of Yen							
	Reportable Segments							
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total	Other business *1	Total	Adjustment *2	Amount recorded in the consolidated financial statements *3
Net sales								
External sales	¥54,836	¥44,487	¥4,671	¥103,995	¥10,580	¥114,576	—	¥114,576
Inter-segment sales / transfer	63	77	764	905	—	905	¥ (905)	—
Total	54,899	44,565	5,435	104,901	10,580	115,481	(905)	114,576
Segment income	2,811	1,269	626	4,707	368	5,076	(1,372)	3,703
Segment assets	88,404	75,730	7,223	171,358	11,350	182,709	27,730	210,439
Other items								
Depreciation and amortization	3,989	3,375	188	7,553	778	8,332	296	8,629
Impairment loss	—	—	—	—	—	—	14	14
Investment in equity-method affiliates	—	4,593	80	4,673	—	4,673	—	4,673
Increase in tangible and intangible fixed assets	¥ 3,457	¥ 2,114	¥ 152	¥ 5,724	¥ 688	¥ 6,412	¥ 417	¥ 6,830

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 ¥(1,372) million, includes ¥(1,304) 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 ¥27,730 million, includes ¥28,128 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, ¥14 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 ¥417 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.

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6. Segment Information

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
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Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

	Millions of Yen							
	Reportable Segments							
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total	Other business *1	Total	Adjustment *2	Amount recorded in the consolidated financial statements *3
Net sales								
External sales	¥46,224	¥41,933	¥5,212	¥ 93,369	¥11,495	¥104,864	—	¥104,864
Inter-segment sales / transfer	66	88	257	412	—	412	¥ (412)	—
Total	46,291	42,021	5,469	93,781	11,495	105,277	(412)	104,864
Segment income	1,305	2,729	676	4,712	621	5,333	(1,244)	4,088
Segment assets	67,070	70,523	6,964	144,558	10,531	155,090	28,984	184,074
Other items								
Depreciation and amortization	4,540	3,477	183	8,201	743	8,944	297	9,242
Impairment loss	3,961	98	226	4,287	—	4,287	39	4,326
Investment in equity-method affiliates	—	4,952	—	4,952	—	4,952	—	4,952
Increase in tangible and intangible fixed assets	¥ 2,394	¥ 2,086	¥ 139	¥ 4,621	¥ 437	¥ 5,058	¥ 242	¥ 5,301

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 ¥(1,244) million, includes ¥(1,265) 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 ¥28,984 million, includes ¥29,106 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, ¥39 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 ¥242 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.

II. Related Information

Fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

1. Information on each product and service

Because the same information is disclosed in the segment information, the entry is omitted here.

2. Information on each region

a. Net sale

Millions of Yen						
Japan	Thailand	U.S.	Asia	Europe	Other regions	Total
¥53,292	¥14,624	¥9,117	¥17,543	¥16,553	¥3,444	¥114,576

Note: The revenue is based on the locations of the customers and is classified into countries or regions.

b. Tangible fixed assets

Millions of Yen					
Japan	China	Asia	Europe	Other regions	Total
¥38,131	¥10,389	¥7,058	¥4,534	¥7,467	¥67,581

3. Information on each major customer

Of the net sales accounted for by external customers, there is no counterparty that accounts for 10% or more of net sales in the Consolidated Statement of Operation. Therefore, the entry is omitted here.

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

1. Information on each product and service

Because the same information is disclosed in the segment information, the entry is omitted here.

2. Information on each region

a. Net sales

Millions of Yen						
Japan	Thailand	U.S.	Asia	Europe	Other regions	Total
¥47,526	¥11,151	¥10,982	¥18,179	¥13,643	¥3,381	¥104,864

Note: The revenue is based on the locations of the customers and is classified into countries or regions.

b. Tangible fixed assets

Millions of Yen					
Japan	China	Asia	Europe	Other regions	Total
¥35,219	¥5,853	¥5,209	¥3,933	¥6,412	¥56,629

3. Information on each major customer

Of the net sales accounted for by external customers, there is no counterparty that accounts for 10% or more of net sales in the Consolidated Statement of Operation. Therefore, the entry is omitted here.

Consolidated Financial Statements

6. Segment Information

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2015 and 2014

III. Information on the Impairment Loss of Fixed Assets by Reportable Segment

Fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)
Because the same information is disclosed in the segment information, the entry is omitted here.

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)
Because the same information is disclosed in the segment information, the entry is omitted here.

IV. Information on the Amount of Amortized Goodwill and the Unamortized Balance by Reportable Segment

Fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)

	Millions of Yen					
	Reportable Segments				Eliminations and all-company	Total
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total		
Amortized goodwill for the fiscal year ended December 31, 2014	¥ 290	—	—	¥ 290	—	¥ 290
Unamortized balance as of December 31, 2014	¥7,581	—	—	¥7,581	—	¥7,581

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)

	Millions of Yen					
	Reportable Segments				Eliminations and all-company	Total
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total		
Amortized goodwill for the fiscal year ended December 31, 2015	**¥ 426**	**—**	**—**	**¥ 426**	**—**	**¥ 426**
Unamortized balance as of December 31, 2015	**¥6,135**	**—**	**—**	**¥6,135**	**—**	**¥6,135**

V. Information on the Gain on Negative Goodwill by Reportable Segment

Fiscal year ended December 31, 2014 (January 1, 2014 to December 31, 2014)
Because this information has little materiality, the entry is omitted here.

Fiscal year ended December 31, 2015 (January 1, 2015 to December 31, 2015)
Not applicable

VI. Per Share Information

	Year ended December 31, 2015	Year ended December 31, 2014
Net assets per share	**576.57**	609.60
Net income per share	**11.65**	12.00

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.

	Millions of Yen	
	Year ended December 31, 2015	Year ended December 31, 2014
Net income	**¥ 2,484**	¥ 2,562
Amount not attributable to common shareholders	**—**	—
Net income attributable to common shares	**2,484**	2,562
Average number of common shares during the period (thousands of shares)	**¥213,210**	¥213,458

VII. Subsequent Material Events

Not applicable

VIII. Disclosures Omitted

Notes concerning consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' capital, consolidated statements of cash flows, lease transactions, financial products, securities, derivatives transactions, retirement benefits, deferred tax accounting, asset retirement obligations, real estate rental, and information on related parties are omitted because there is deemed to be no material need to disclose such information in the earnings briefing.

Board of Directors, Executive Officers and Audit & Supervisory Board Members
(as of March 30, 2016)

Board of Directors

President and Chief Executive Office	Hajime Nagasaka
Senior Managing Executive Officer	Nobuyuki Murofushi
Managing Executive Officers	Masanao Hosoya Toshiaki Fukuda
Executive Officers	Yuji Serizawa
Director	Kanji Sugihara
External Director	Yoshio Kumakura Nobumitsu Kanbayashi

Executive Officers

Kazuhiko Matsubara
Masafumi Tsuji
Yuji Yamake

Audit & Supervisory Board Members

Seiichiro Sasao*
Yukihisa Asakawa*
Tsunehisa Samukawa
Kazuyuki Kakehashi

*External Member

Corporate Data (as of December 31, 2015)

Company Name	TOKAI CARBON CO., LTD.
Established	April 8, 1918
Paid-in Capital	¥20,436 million ($193,909,000)
Head Office	Aoyama Bldg.2-3, Kita-Aoyama 1-Chome, Minato-ku, Tokyo 107-8636, Japan TEL: +81-3-3746-5100 FAX: +81-3-3405-7205 Web site: http://www.tokaicarbon.co.jp/
Number of Employees	2,092(as a consolidated basis)
Branch Offices	Osaka Branch (Osaka) Nagoya Branch (Aichi)
Laboratories	Fuji Research Laboratory (Shizuoka) Chigasaki Laboratory (Kanagawa) Chita Laboratory (Aichi) Hofu Laboratory (Yamaguchi) Tanoura Laboratory (Kumamoto)
Plants in Japan	Ishinomaki Plant (Miyagi) Shonan Plant (Kanagawa) Chita Plant (Aichi) Shiga Plant (Shiga) Hofu Plant (Yamaguchi) Kyusyu Wakamatsu Plant (Fukuoka) Tanoura Plant (Kumamoto)
Representative Office	Thailand Representative Office

Group Companies and Affiliates

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

EUROPE

United Kingdom
Consolidated Subsidiaries
- Tokai Carbon Europe Ltd.

Germany
Consolidated Subsidiaries
- Tokai Erftcarbon GmbH
- Tokai Carbon Europe GmbH
- Tokai Carbon Deutschland GmbH

Italy
Consolidated Subsidiary
- Tokai Carbon Italia S.R.L.

Affiliate Accounted for by Equity Method
- Schunk Tokai Scandinavia 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.

Canada
Consolidated Subsidiary
- Cancarb Limited

ASIA

Japan
Consolidated Subsidiaries
- Tokai Konetsu Kogyo Co., Ltd.
- Tokai Material Co., Ltd.
- Tokai Fine Carbon 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.

China
Consolidated Subsidiaries
- Tokai Carbon (Tianjin) Co., Ltd.
- Tokai Carbon (Dalian) Co., Ltd.
- Shanghai Tokai Konetsu Co., Ltd.
- Tokai Carbon (Suzhou) Co., Ltd.
- Tokai Konetsu (Suzhou) Co., Ltd.

Affiliates Accounted for by Equity Method
- SGL Tokai Carbon Ltd.Shanghai

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, 2015)

Fiscal year end	December 31
General Meeting of Shareholders	March
Common Stock	Authorized Shares: 598,764,000 shares Outstanding Shares: 224,943,104 shares
Number of shareholders	11,761

Major shareholders

Shareholders	Number of shares held (thousand shares)	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	16,873	7.50
Japan Trustee Services Bank, Ltd.(Trust Account)	16,638	7.40
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,958	3.54
Mitsubishi Corp.	6,748	3.00
Mitsubishi UFJ Trust and Banking Corp.	6,290	2.80
The Master Trust Bank of Japan Ltd. (Mitsubishi Chemical Corp. Retirement Benefit Trust Account)	5,900	2.62
CBNY DFA INTL Small Cap Value Portfolio (USA)	5,161	2.29
JUNIPER (SAUDI ARABIA)	4,978	2.21
Deutsche Bank AG (GERMANY)	4,504	2.00

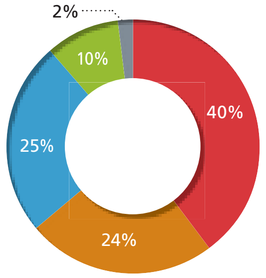
treasury stock of 11,757 thousand shares (5.23%)

Stock Exchange Listing	First Section of the Tokyo Stock Exchange
Securities code number	5301
Transfer agent	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	89,826,034
Japanese Individuals and Others	54,113,175
Foreign Investors	55,633,160
Other Japanese companies	21,401,832
Japanese Securities Companies	3,968,843
Total	224,943,104

Notes: 'Japanese Individuals and Others' contains 11,757 thousand treasury stocks



Leading the Way into the Future >>

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