TOKAI CARBON CO., LTD.

ANNUAL REPORT 2004

PROFILE

Tokai Carbon Co., Ltd., headquartered in Tokyo, Japan, and listed at Tokyo Stock Exchange, is one of the world's major manufacturers of carbon and graphite for diverse applications: *Carbon Black, Graphite Electrodes, Fine Carbon products, Friction Materials* and *Industrial Furnaces and Heating Elements.*

Main use of *Carbon Black* is reinforcing agent of industrial rubber products, typically auto tires. Among other important uses are electro-conductive filler and coloring agent for printing ink, paint and plastics.

Graphite Electrodes function as conductors of electricity that are consumed in an electric furnace in the steel-making process.

Fine Carbon products are a wide variety of specialty graphites which are characterized for excellent electric conductance, high heat resistance, mechanical strength and lubricant ability, and are applied as key parts in the manufacturing processes of electric appliances, semi-conductors, etc.

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

Industrial Furnaces and Heating Elements are manufactured by Tokai Konetsu Kogyo Co., Ltd. (subsidiary and a listed company at Tokyo Stock Exchange) for the purposes of heating, sintering, dissolving and heat-treating such objects as ceramics, electronic parts, metals, glass and powdered materials.

The company is renowned for a pioneer in the carbon industry with 87 years of history, and is recognized as having overall technological expertise and capability in its new product development. The company endeavors to be a forerunner of technological innovation in the rapidly advancing business world and to attain steady growth in its earnings.

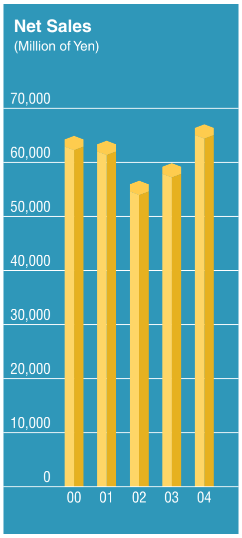
CONTENTS

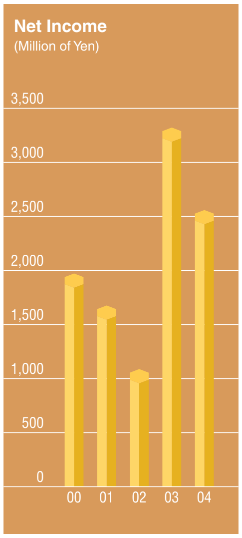
CONSOLIDATED FINANCIAL HIGHLIGHTS

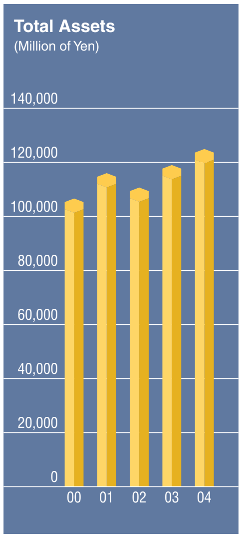
TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

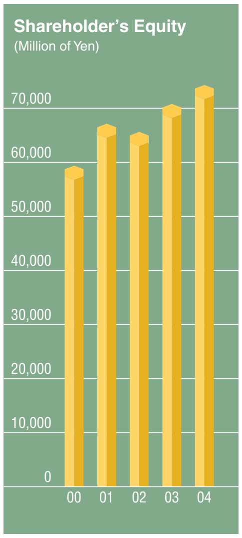
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
For the Year			
Net sales	**¥ 67,035**	¥ 59,853	**$ 643,268**
Operating income	**9,414**	6,155	**90,337**
Income before income taxes and minority interests	**5,426**	5,619	**52,068**
Net imcome	**2,559**	3,322	**24,556**
Net cash provided by operating activities	**10,355**	8,183	**99,367**
Capital expenditures	**4,339**	3,752	**41,641**
Research and deveropment costs	**1,291**	1,340	**12,859**
At Year-End			
Total assets	**124,944**	119,004	**1,198,964**
Shareholders' equity	**74,315**	70,815	**713,128**
	Yen		U.S. Dollars
Per Share Data			
Net income	**12.22**	16.04	**0.12**
Total shareholders' equity	**369.35**	347.43	**3.24**
Cash dividends applicable to the year	**5.00**	5.00	**0.05**
	%		
Financial Ratios			
Return on assets	**2.10**	2.89	
Return on equity	**3.53**	4.87	
Equity ratio	**59.50**	59.50	

Note: U.S.dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥104.21=US$1, the approximate exchange rate at December 31,2004.









Business Performance

In 2004, Japan's economy experienced a solid start amid global economic growth driven by the increased demand in China. Corporate performance has also remained strong. In the second half of the fiscal year, however, in addition to policy tightening in China, soaring prices for primary commodities spearheaded by crude oil and progressing appreciation of the yen caused the economy a growth slowdown and reaching a plateau.

In this setting, the Group, based on its corporate vision as a "Global Leader of Carbon Materials", worked across all business divisions to strengthen production, sales, and product development toward attainment of the goals proposed under the management plan T-2006 starting with fiscal 2004. During the year, the Group revised its product selling prices in those areas where sharp increases in raw material prices could not be absorbed by itself alone. At the same time, the Group moved to adopt fixed-asset impairment accounting at an early stage, executed pending asset disposals, and strove to further increase the efficiency of management resources. Additionally, the Company issued ¥10 billion of zero coupon yen convertible bonds, with proceeds allocated to capital expenditure, equity investment and lending, and in part repayment of borrowings.

On the production side, the Company set up a new plant in Tianjin, China and expand production lines in Thailand. In so doing, it responded to rapid evolvement of the automobile industry in the Asian region to ready itself for strong demand expansion for carbon black for use in tire production. In domestic operations the Group invested in upgrading of its production facilities for graphite electrodes and fine carbon products. Tokai Konetsu Kogyo Co., Ltd., one of the group companies, also initiated a reorganization of its production plants.

As a result of these business initiatives, consolidated net sales increased 12% from the previous fiscal year to 67.03 billion yen. Ordinary income expanded 85.7% from the previous fiscal year to 9.59 billion yen, posting a new historical high. However, due to extraordinary losses recognized in connection with a loss of 1.61 billion from litigation in Europe, impairment losses of 1.02 billion, and fixed-asset disposal losses of 999 million yen, consolidated net income for the period came to 2.56 billion yen, or a decline of 23.0% from the previous fiscal year.

Our Management Strategies

We have currently in place a three year management plan called T-2006. Towards attainment of the goals under the plan, which calls for consolidated ROA of at least 8% as a cornerstone, the Group will implement the following strategies.

(1) Full utilization of management resources

Through activation of human resources by way of increased personnel exchange between group companies including overseas affiliates, enhancement of operating efficiency, and generation of additional cash flows from streamlining of assets, the Group seeks to develop personnel and generate cash flows that will be required to ensure successful expansion of its global operations, and thereby reinforce its corporate infrastructure.

(2) 5-billion-yen sales of proprietary products by reinforcing and speeding up product development

As an important strategy toward the achievement of 8% ROA, the Group aims to develop new markets with introduction of new products in the areas of electronics, new energy and environment (the "3-E" markets.) The Group will also endeavor to increase the speed of product development by promoting joint development with other companies, educational and public institutions, in addition to upgrading inter-group and inter-divisional cooperation.

(3) Successful production start-up and stable earning base in China market

In carbon product division, the Group will make all-out efforts to ensure the success of its carbon-black operations set up in China. Simultaneously, the Group will work to put the existing electrode production on track at an early stage, expand fine-carbon sales, and realize local production of friction materials through business alliances. The Group will also strive to expand earnings at its Shanghai-based Erema operations, which belong to the industrial furnaces and related-products division.

We appreciate your investment in Tokai Carbon and will continue to act in your best interest as we work to improve returns and maximize shareholder value.

Sincerely,

Shikio Ohtake, President

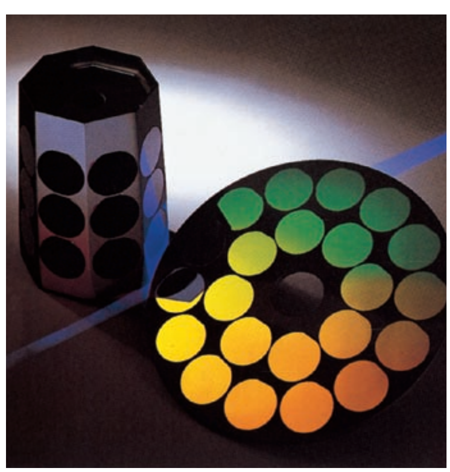
Carbon and Graphite Products

Carbon black production increased, attended by firm demand, which in the domestic market resulted from large export volumes of car tires by tire makers, the main users of carbon black. Healthy automobile production was another factor. Outside Japan, demand for tires was strong in Thailand, with additional support coming from production-capacity increases at local subsidiaries. Sales expanded by a wide margin as a result.

Graphite electrodes benefited from globally growing production in the steel industry, spearheaded by China. Although demand increased in total, in Japan, operators of electric furnaces for steel making maintained solid production levels of specialty steels and steel shapes, but in response to market conditions widened production cuts for small-sized steel rods for construction use. Thus, performance varied by steel types and industries, and demand overall

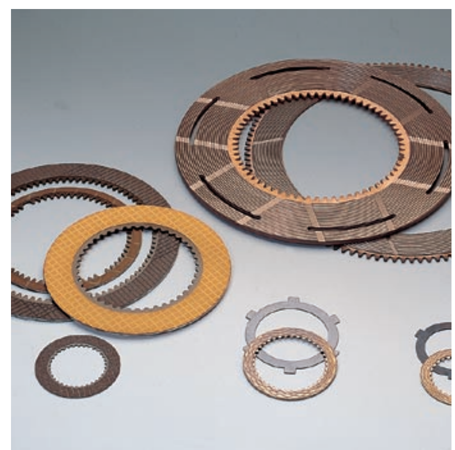
remained flat. Amid these conditions, since the Group was exposed to surging raw material prices, it employed a price-focused marketing strategy in and outside Japan, which contributed to the increase in total sales for the Group.

Fine carbon (Specialty graphite) enjoyed strong sales as the semiconductor industry, the main user of fine carbon, experienced demand growth from information technology appliances and mobile phones. Product shipments to the



semiconductor industry expanded as a result. Products related to new energy sources also performed favorably. In foreign markets, particularly in the U.S. and Korea, demand from the semiconductor industry expanded, as did demand from other industries thanks to a favorable global economy. Thanks also to emerging effects from our initiatives in new markets centered on China, sales expanded strongly.

Friction materials saw production



increases driven by higher output levels at construction machinery makers for exports to Europe, the US, and China, and at agricultural machinery makers for exports to North America due to strong demand from new housing construction starts. Sales to these two industries, the main users of friction materials, increased as a result. Furthermore, sales increased also to transportation equipment and mechanical press makers, both of which experienced strong exports. Shipments developed favorably at a new Group subsidiary added in the second half of the previous fiscal year, causing friction material sales to expand by a wide margin.

As a result, divisional consolidated sales increased 9.0% from the previous fiscal year to 58.98 billion yen. Although surging raw material prices impacted earnings, the Group persisted in its cost cutting efforts while price revisions implemented by sales operations across all products also contributed. As a result, consolidated operating income increased 49.8% from the previous fiscal year to 8.43 billion yen.

Industrial Furnaces and Related-Products

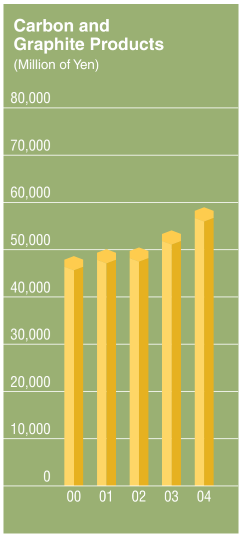
Heating devices and Erema products saw favorable demand from IT-related industries where digital-related equipment demand was stable and capital expenditures solid. Demand growth was solid also in heating elements backed by market conditions surrounding electronic parts, optical, and liquid crystal glass industries.

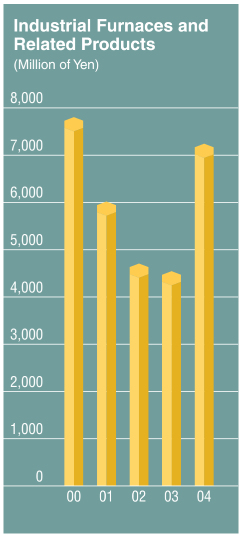
As a result, divisional sales increased 59.4% from the previous fiscal year to 7.24 billion yen. Earnings additionally benefited from the efforts to structurally enhance profitability through cost cutting and the introduction of efficient production systems. Operating income increased 285.8% from the previous fiscal year to 878 million yen.

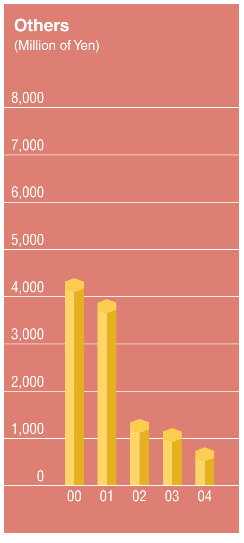
Others

Revenues from property leases, etc. declined 33.4% from the previous fiscal year to 813 million yen, with operating income declining 12.6% to 345 million yen.

Trends in Sales







CONSOLIDATED BALANCE SHEETS

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 19,177**	¥ 16,782	**$ 184,023**
Receivables:			
Trade notes and accounts	**23,050**	20,273	**221,188**
Unconsolidated subsidiaries and associated companies	**792**	744	**7,600**
Allowance for doubtful receivables	**(81)**	(85)	**(777)**
Inventories (Note 4)	**14,445**	14,604	**138,614**
Deferred tax assets (Note 10)	**1,101**	650	**10,565**
Prepaid expenses and other current assets	**1,689**	1,244	**16,208**
Total current assets	**60,173**	54,212	**577,421**
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 6):			
Land	**7,401**	8,429	**71,020**
Buildings and structures	**37,356**	39,496	**358,468**
Machinery and equipment	**77,273**	75,568	**741,512**
Furniture and fixtures	**4,356**	4,620	**41,801**
Construction in progress	**1,612**	928	**15,469**
Total	**127,998**	129,041	**1,228,270**
Accumulated depreciation	**(95,327)**	(94,641)	**(914,759)**
Net property, plant and equipment	**32,671**	34,400	**313,511**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**27,562**	22,428	**264,485**
Investments in and advances to unconsolidated subsidiaries and associated companies	**1,089**	1,015	**10,450**
Deferred tax assets (Note 10)	**340**	396	**3,263**
Other assets (Note 14)	**3,109**	6,553	**29,834**
Total investments and other assets	**32,100**	30,392	**308,032**
TOTAL	**¥124,944**	¥119,004	**$1,198,964**

See notes to consolidated financial statements.

	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term bank loans (Note 5)	**¥ 7,125**	¥ 19,007	**$ 68,372**
Current portion of long-term debt (Note 5)	**416**	408	**3,992**
Payables:			
Trade notes and accounts	**10,845**	8,787	**104,069**
Unconsolidated subsidiaries and associated companies	**71**	171	**681**
Income taxes payable	**1,987**	2,228	**19,067**
Accrued expenses	**2,023**	1,970	**19,413**
Loss contingency liabilities	**495**		**4,750**
Other current liabilities	**1,714**	1,840	**16,448**
Total current liabilities	**24,676**	34,411	**236,792**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**10,357**	632	**99,386**
Liability for retirement benefits (Note 7)	**966**	969	**9,270**
Retirement allowances for directors and corporate auditors (Note 8)	**303**	331	**2,908**
Deferred tax liabilities (Note 10)	**8,756**	7,056	**84,023**
Others	**848**	724	**8,135**
Total long-term liabilities	**21,230**	9,712	**203,722**
MINORITY INTERESTS	**4,723**	4,066	**45,322**
CONTINGENT LIABILITIES (Notes 12 and 14)			
SHAREHOLDERS' EQUITY (Notes 5 and 9):			
Common stock-authorized, 598,764,000 shares; issued, 204,089,391 shares in 2004 and 2003	**15,436**	15,436	**148,124**
Additional paid-in capital	**10,875**	10,874	**104,357**
Retained earnings	**37,447**	35,955	**359,342**
Net unrealized gain on available-for-sale securities	**11,761**	8,635	**112,859**
Foreign currency translation adjustments	**(142)**	3	**(1,363)**
Total	**75,377**	70,903	**723,319**
Treasury stock-at cost, 3,083,735 shares in 2004 and 422,149 shares in 2003	**(1,062)**	(88)	**(10,191)**
Total shareholders' equity	**74,315**	70,815	**713,128**
TOTAL	**¥124,944**	¥119,004	**$1,198,964**

CONSOLIDATED STATEMENTS OF INCOME

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
NET SALES	**¥67,035**	¥ 59,853	**$ 643,268**
COST OF SALES	**47,308**	43,643	**453,968**
Gross profit	**19,727**	16,210	**189,300**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**10,313**	10,055	**98,963**
Operating income	**9,414**	6,155	**90,337**
OTHER INCOME (EXPENSES):			
Interest and dividends	**360**	194	**3,455**
Interest expense	**(271)**	(357)	**(2,601)**
Exchange gain (loss)	**59**	(186)	**566**
Equity in losses of associated companies	**(6)**	(252)	**(58)**
Loss on sales of property, plant and equipment	**(999)**		**(9,586)**
Loss on litigation in Europe	**(1,609)**		**(15,440)**
Impairment loss on long-lived assets (Note 6)	**(1,018)**		**(9,769)**
Provision for loss contingency liability	**(495)**		**(4,750)**
Other-net	**(9)**	65	**(86)**
Other expenses-net	**(3,988)**	(536)	**(38,269)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**5,426**	5,619	**52,068**
INCOME TAXES (Note 10):			
Current	**3,286**	2,567	**31,532**
Deferred	**(795)**	(268)	**(7,628)**
Total	**2,491**	2,299	**23,904**
MINORITY INTERESTS IN NET INCOME	**376**	(2)	**3,608**
NET INCOME	**¥ 2,559**	¥ 3,322	**$ 24,556**

	Yen		U.S. Dollars
	2004	2003	**2004**
PER SHARE OF COMMON STOCK (Notes 2.p and 15):			
Net income	**¥12.22**	¥16.04	**$0.12**
Diluted net income	**11.78**		**0.11**
Cash dividends applicable to the year	**5.00**	5.00	**0.05**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, JANUARY 1, 2003	204,089	¥15,436	¥10,874	¥33,688	¥5,591	¥ 113	¥ (61)
Net income				3,322			
Cash dividends, ¥5.00 per share				(1,019)			
Bonuses to directors				(36)			
Increase in treasury stock (105 thousand shares)							(27)
Net increase in unrealized gain on available-for-sale securities					3,044		
Net decrease in foreign currency translation adjustments						(110)	
BALANCE, DECEMBER 31, 2003	204,089	15,436	10,874	35,955	8,635	3	(88)
Net income				2,559			
Cash dividends, ¥5.00 per share				(1,018)			
Bonuses to directors				(49)			
Increase in treasury stock (2,662 thousand shares)							(974)
Gain on sales of treasury stock			1				
Net increase in unrealized gain on available-for-sale securities					3,126		
Net decrease in foreign currency translation adjustments						(145)	
BALANCE, DECEMBER 31, 2004	204,089	¥15,436	¥10,875	¥37,447	¥11,761	¥(142)	¥(1,062)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, DECEMBER 31, 2003	$148,124	$104,344	$345,028	$ 82,862	$ 27	$ (840)
Net income			24,556			
Cash dividends, $0.05 per share			(9,770)			
Bonuses to directors			(472)			
Increase in treasury stock						(9,351)
Gain on sales of treasury stock		13				
Net increase in unrealized gain on available-for-sale securities				29,997		
Net decrease in foreign currency translation adjustments					(1,390)	
BALANCE, DECEMBER 31, 2004	$148,124	$104,357	$359,342	$112,859	$(1,363)	$(10,191)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 5,426**	¥ 5,619	**$ 52,068**
Adjustments for			
Income taxes-paid	**(3,521)**	(413)	**(33,788)**
Depreciation and amortization	**3,618**	3,668	**34,718**
Amortization of consolidation differences	**19**	171	**182**
Decrease (increase) in prepaid expense for pension cost	**33**	(37)	**317**
Increase in loss contingency liability	**495**		**4,750**
Exchange loss	**44**		**422**
Exchange gain		(4)	
Equity in losses of associated companies	**6**	252	**58**
Gain on sales of securities	**(248)**	(216)	**(2,380)**
Loss on litigation in Europe	**1,609**		**15,440**
Impairment loss on long-lived assets	**1,018**		**9,769**
Loss on sales of property, plant and equipment	**999**		**9,586**
Loss on sales of subsidiaries securities	**133**		**1,276**
Restructuring expenses	**184**		**1,766**
Increase in trade notes and accounts receivable	**(2,889)**	(1,542)	**(27,723)**
Decrease in inventories	**132**	665	**1,267**
Increase in notes and accounts payable	**1,967**	208	**18,875**
Increase (decrease) in provisional payment	**3,209**	(893)	**30,794**
Increase in consumption tax payable		117	
(Increase) decrease in interest and dividend receivables	**22**	(2)	**211**
Increase in interest payable	**20**	2	**192**
Payment of a fine to the European Commission	**(1,609)**		**(15,440)**
Payment of settlement payment for civil suit	**(424)**		**(4,069)**
Other-net	**112**	588	**1,076**
Total adjustments	**4,929**	2,564	**47,299**
Net cash provided by operating activities	**10,355**	8,183	**99,367**
INVESTING ACTIVITIES:			
(Payment for deposit) proceeds from repayment of time deposit	**(229)**	202	**(2,197)**
Payment for purchase of property, plant and equipment	**(4,358)**	(3,007)	**(41,819)**
Proceeds from sales of property, plant and equipment	**117**	68	**1,123**
Payment for purchase of intangible fixed assets	**(39)**	(92)	**(374)**
Proceeds from sales of investment securities	**350**	317	**3,359**
Payment for transfer of business		(1,373)	
Increase in investment in consolidated subsidiaries	**(34)**	(558)	**(326)**
Proceeds from minority interests	**409**		**3,925**
Other	**(20)**		**(194)**
Net cash used in investing activities	**(3,804)**	(4,443)	**(36,503)**
FINANCING ACTIVITIES:			
Decrease in short-term bank loans-net	**(11,760)**	(8)	**(112,849)**
Proceeds from long-term debt	**887**	459	**8,512**
Repayments of long-term debt	**(1,159)**	(673)	**(11,122)**
Proceeds from issuance of bonds with warrants	**10,000**		**95,960**
Payment for purchase of treasury stock	**(977)**		**(9,375)**
Dividends paid	**(1,077)**	(1,062)	**(10,335)**
Other	**4**	(26)	**38**
Net cash used in financing activities	**(4,082)**	(1,310)	**(39,171)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(74)**	(249)	**(710)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,395**	2,181	**22,983**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**16,782**	14,601	**161,040**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥19,177**	¥16,782	**$184,023**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form, which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKAI CARBON Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥104.21 to $1, the approximate rate of exchange at December 31, 2004. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of December 31, 2004 include the accounts of the Company and its significant 19 (20 in 2003) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (4 in 2003) associated companies are accounted for by the equity method. Investments in the remaining 2 (2 in 2003) unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the net assets at the respective dates of acquisition is insignificant and is charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

In April 2004, the Group established TOKAI CARBON (TIANJIN) CO., LTD., with the Company owning 80% of the company, which has become consolidated subsidiary of the Company during the year ended December 31, 2004.

In June 2004, TOKAI CARBON EUROPE LTD., a consolidated subsidiary, sold all the shares of TOKAI CARBON PORTUGAL, LDA., which was subsidiary of TOKAI CARBON EUROPE LTD., to a third party.

In December 2004, TOKAI CARBON EUROPE LTD., a consolidated subsidiary, liquidated GRAPHITE TECHNOLOGIES IRELAND LTD., which was subsidiary of TOKAI CARBON EUROPE LTD.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and mutual funds investing in bonds that represent short-term investments, securities purchased under resale arrangements, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories of the Company and consolidated domestic subsidiaries are stated at cost, cost being determined by the average method. Inventories of foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

d. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and (2) available-for-sale securities, securities not classified as the aforementioned securities, are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings of the Company and its domestic subsidiaries, and to the whole property, plant and equipment of consolidated foreign subsidiaries. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

The range of useful lives is principally from 2 to 60 years for buildings and structures, from 2 to 22 years for machinery and equipment, and from 4 to 12 years for furniture and fixtures.

f. Long-lived Assets — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets from the year ended December 31, 2004.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended December 31, 2004 by ¥1,067 million ($10,258 thousand).

g. Employees' Retirement Benefits — The Company and certain domestic consolidated subsidiaries have contributory funded pension plans. And other domestic consolidated subsidiaries have funded and unfunded retirement benefit plans.

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

h. Retirement Allowances for Directors and Corporate Auditors — Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

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

j. Leases — The Company and its consolidated domestic subsidiaries account for all leases as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

k. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings — Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

m. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

n. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

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

o. Derivatives and Hedging Activities — The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the maturity of the hedged transactions.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value.

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

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Diluted net income per share for the year ended December 31, 2003 is not disclosed because it was anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. INVESTMENT SECURITIES

Investment securities as of December 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Non-current:			
Marketable equity securities	**¥27,559**	¥22,425	**$264,456**
Trust fund investments and other	**3**	3	**29**
Total	**¥27,562**	¥22,428	**$264,485**

The carrying amounts and aggregate fair values of marketable and investment securities at December 31, 2004 and 2003 were as follows:

	Millions of Yen			
December 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥7,356	¥19,960	¥41	¥27,275
Debt securities by contractual maturities for securities classified as available-for-sale	12		4	8

	Millions of Yen			
December 31, 2003	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥7,450	¥14,800	¥110	¥22,140
Debt securities by contractual maturities for securities classified as available-for-sale	11		4	7

	Thousands of U.S. Dollars			
December 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$70,588	$191,536	$393	$261,731
Debt securities by contractual maturities for securities classified as available-for-sale	115		38	77

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Available-for-sale:			
Equity securities	**¥278**	¥278	**$2,667**
Other	**3**	3	**29**
Total	**¥281**	¥281	**$2,696**

Proceeds from sales of available-for-sale securities for the year ended December 31, 2004 were ¥350 million ($3,359 thousand). Realized gains on these sales, computed on the moving average cost basis, were ¥247 million ($2,380 thousand) for the year ended December 31, 2004.

4. INVENTORIES

Inventories at December 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Merchandise	**¥ 5**	¥ 8	**$ 48**
Finished products	**3,528**	3,368	**33,855**
Work in process	**8,158**	8,201	**78,284**
Raw materials and supplies	**2,754**	3,027	**26,427**
Total	**¥14,445**	¥14,604	**$138,614**

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

Short-term bank loans at December 31, 2004 and 2003 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.487% to 6.0% and 1.375% to 6.75% at December 31, 2004 and 2003, respectively.

Long-term debt at December 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured zero coupon yen convertible bonds, due 2008	**¥10,000**		**$95,960**
Long-term loans from banks and insurance companies due through at interest rates ranging from 1.55% to 7.34%	**773**	¥1,040	**7,418**
Less current portion	**(416)**	(408)	**(3,992)**
Long-term debt, less current portion	**¥10,357**	¥ 632	**$99,386**

Annual maturities of long-term debt at December 31, 2004 were as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 416	$ 3,992
2006	332	3,186
2007	8	77
2008	10,008	96,037
2009 and thereafter	9	86
Total	¥10,773	$103,378

On August 10, 2004, the Company issued ¥10,000 million ($95,960 thousand) of zero coupon yen convertible bonds (convertible bond-type bonds with stock acquisition rights) due 2008.

The stock acquisition rights are exercisable on or after August 24, 2004 up to and including July 25, 2008 at a conversion price of ¥510 ($4.89) per share.

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥100 million ($960 thousand) at December 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment-net of accumulated depreciation	¥5,644	$ 54,169

6. LONG-LIVED ASSETS

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

The Group reviewed its long-lived assets for impairment as of the year ended December 31, 2004 and as a result, recognized an impairment loss of ¥1,067 million ($10,258 thousand) as an other expense for certain idle assets of Shizuoka land, Kanagawa land, Fukushima land and plant assets group of Nagoya plant and Sendai plant. The carrying amount of relevant asset group was written down to the recoverable amount. The recoverable amount of that group was measured at its value in net selling price. In addition, impairment loss of ¥50 million ($489 thousand) about restructuring of business is included in "Other-net." Impairment loss about restructuring of business is Nagoya plant and Sendai plant.

7. RETIREMENT AND PENSION PLANS

Employees whose service with the Company and certain consolidated domestic subsidiaries is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs.

The liability (asset) for employees' retirement benefits at December 31, 2004 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 6,151	$ 59,025
Fair value of plan assets	(5,343)	(51,271)
Unrecognized actuarial gain	(680)	(6,525)
Unrecognized plan assets	158	1,516
Prepaid expense for pension cost	680	6,525
Net liability	¥ 966	$ 9,270

The components of net periodic benefit costs for the year ended December 31, 2004 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 360	$3,455
Interest cost	101	969
Expected return on plan assets	(100)	(960)
Amortization of actuarial gain	99	950
Other	43	413
Net periodic benefit costs	¥ 503	$4,827

Assumptions used for the year ended December 31, 2004 are set forth as follows:

Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Recognition period of actuarial gain/loss	10 years

8. RETIREMENT ALLOWANCES FOR DIRECTORS AND CORPORATE AUDITORS

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The annual provisions for retirement allowances for directors and corporate auditors for the years ended December 31, 2004 and 2003 were ¥303 million ($2,908 thousand) and ¥331 million, respectively.

9. SHAREHOLDERS' EQUITY

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

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

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

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

The amount of retained earnings available for dividends under the Code was ¥29,223 million ($280,424 thousand) as of December 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended December 31, 2004 and 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at December 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Depreciation and amortization	**¥253**	¥266	**$2,428**
Impairment loss on long-lived assets	**407**		**3,906**
Loss on sales of property, plant and equipment	**399**		**3,829**
Retirement and severance benefits	**361**	351	**3,464**
Allowance for officers' retirement benefits	**121**	133	**1,161**
Accrued enterprise tax	**174**	208	**1,670**
Unrealized gain on sale of assets eliminated in consolidation	**173**	164	**1,660**
Settlement payment for civil suit		181	
Provision for loss contingency liability	**198**		**1,900**
Loss carryforward of subsidiaries	**915**	967	**8,780**
Valuation loss on investment securities	**297**	297	**2,850**
Other	**438**	367	**4,202**
Less valuation allowance	**(1,198)**	(910)	**(11,496)**
Deferred tax assets	**2,538**	2,024	**24,354**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**7,966**	5,874	**76,442**
Deferred profits on property for income tax purposes	**1,534**	1,559	**14,720**
Prepaid expense for pension cost	**272**	276	**2,610**
Other	**81**	325	**777**
Deferred tax liabilities	**9,853**	8,034	**94,549**
Net deferred tax liabilities	**¥7,315**	¥6,010	**$70,195**

Net deferred tax liabilities presented in the consolidated balance sheets at December 31, 2004 and 2003 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current assets—deferred tax assets	**¥(1,101)**	¥ (650)	**$(10,565)**
Investments and other assets—deferred tax assets	**(340)**	(396)	**(3,263)**
Long-term liabilities—deferred tax liabilities	**8,756**	7,056	**84,023**
Deferred tax liabilities	**¥ 7,315**	¥6,010	**$ 70,195**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended December 31, 2004 is as follows:

	2004
Normal effective statutory tax rate	42.0%
Expenses not deductible for income tax purposes	1.4
Income not taxable for income tax purpose	(0.3)
Fluctuation of valuation allowance	5.5
Tax credit for experimental and research expense tax credit	(2.3)
Other—net	(0.4)
Actual effective tax rate	45.9%

Disclosure of the reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the year ended December 31, 2003 is omitted since the difference is immaterial.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,291 million ($12,859 thousand) and ¥1,340 million for the years ended December 31, 2004 and 2003, respectively.

12. LEASES

The Group has lease agreements whereby the Group acts both as a lessee and a lessor. Finance lease contracts (both as a lessee and as a lessor) other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases.

Certain key information on such lease contracts of the Group as a lessee and a lessor for the years ended December 31, 2004 and 2003 was as follows:

As a lessee

	Millions of Yen					
	2004			2003		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥10**	**¥27**	**¥37**	¥13	¥25	¥38
Accumulated depreciation	**6**	**12**	**18**	7	17	24
Net leased property	**¥ 4**	**¥15**	**¥19**	¥ 6	¥ 8	¥14

	Thousands of U.S. Dollars		
	2004		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**$95**	**$262**	**$357**
Accumulated depreciation	**60**	**114**	**174**
Net leased property	**$35**	**$148**	**$183**

Future minimum lease payments:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 6**	¥ 6	**$ 61**
Due after one year	**13**	8	**122**
Total	**¥19**	¥14	**$183**

Paid lease fees and depreciation expense:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Paid lease fees	**¥8**	¥11	**$76**
Depreciation expense	**8**	11	**76**

The acquisition cost and future minimum lease payments include the imputed interest expense portion.

Depreciation is based on the straight-line method over the lease term of the lease assets.

As a lessor

	Millions of Yen							
	2004				2003			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**¥61**	**¥17**	**¥3**	**¥81**	¥90	¥16	¥26	¥132
Accumulated depreciation	4**6**	**7**	**3**	**56**	61	11	25	97
Net leased property	**¥15**	**¥10**		**¥25**	¥29	¥ 5	¥ 1	¥ 35

	Thousands of U.S. Dollars			
	2004			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**$589**	**$159**	**$30**	**$778**
Accumulated depreciation	**443**	**68**	**30**	**541**
Net leased property	**$146**	**$ 91**		**$237**

Future minimum lease income:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥14**	¥24	**$128**
Due after one year	**14**	16	**137**
Total	**¥28**	¥40	**$265**

The minimum rental commitments under noncancelable operating leases at December 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year		¥4	
Total		¥4	

13. DERIVATIVES

The Company enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading purposes.

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

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

Foreign currency forward contracts which qualify for hedge accounting for the year ended December 31, 2004 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheet at December 31, 2004 are excluded from disclosure of market value information.

The Company enters into derivative financial instruments, including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

14. CONTINGENT LIABILITIES

At December 31, 2004, the Group guaranteed borrowings of affiliated companies and employees, in the amount of ¥798 million ($7,660 thousand).

On December 17, 2002, the Company was ordered to pay a fine of €6,970 thousand (¥987 million ($9,471 thousand)) by the European Commission, because of participation in a price cartel for isostatic speciality graphite. The Company recriminated against the European Court to complain about the Commission's order. On April 29, 2004, the European Court gives a ruling that the Company pay a fine of €12,276 thousand (¥1,608 million ($15,439 thousand)), because of participation in a price cartel for graphite electrodes. On basis of the ruling, the Company reasonably estimated the possible loss contingency liability from litigation for isostatic speciality graphite. The provisional payment of €6,970 thousand (¥987 million ($9,471 thousand)) is included in "Other assets" of "Investments and other assets."

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted EPS for the years ended December 31, 2004 and 2003 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended December 31, 2004	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥2,486	203,406	¥12.22	$0.12
Effect of dilutive securities—Convertible bonds		7,661		
Diluted EPS—Net income for computation	¥2,486	211,067	¥11.78	$0.11

Year Ended December 31, 2003			
Basic EPS—Net income available to common shareholders	¥3,267	203,727	¥16.04

16. SUBSEQUENT EVENT

The following appropriations of retained earnings at December 31, 2004 were approved at the Company's shareholders meeting held on March 30, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.50 ($0.02) per share	¥ 503	$4,822
Bonuses to directors	35	336

17. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended December 31, 2004 and 2003 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen				
	2004				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Sales to customers	¥58,979	¥7,243	¥ 813		¥67,035
Intersegment sales	464	64	1,020	¥(1,548)	
Total sales	59,443	7,307	1,833	(1,548)	67,035
Operating expenses	51,012	6,429	1,488	(1,308)	57,621
Operating income	¥ 8,431	¥ 878	¥ 345	¥ (240)	¥ 9,414

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

	Millions of Yen				
	2004				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Assets	¥73,001	¥10,344	¥5,045	¥36,554	¥124,944
Depreciation	3,052	136	431	(1)	3,618
Impairment loss on long-lived assets		50	1,017		1,067
Capital expenditures	3,872	334	133		4,339

a. Sales and Operating Income

	Thousands of U.S. Dollars				
	2004				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Sales to customers	$565,963	$69,504	$ 7,800		$643,267
Intersegment sales	4,448	618	9,785	$(14,851)	
Total sales	570,411	70,122	17,585	(14,851)	643,267
Operating expenses	489,506	61,696	14,274	(12,546)	552,930
Operating income	$ 80,905	$ 8,426	$ 3,311	$ (2,305)	$ 90,337

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

	Thousands of U.S. Dollars				
	2004				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Assets	$700,523	$99,262	$48,409	$350,772	$1,198,966
Depreciation	29,292	1,302	4,132	(4)	34,722
Impairment loss on long-lived assets		489	9,769		10,258
Capital expenditures	37,161	3,207	1,273		41,641

a. Sales and Operating Income

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

b. Assets, Depreciation and Capital Expenditures

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

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended December 31, 2004 and 2003 are summarized as follows:

	Millions of Yen			
	2004			
	Japan	Others	Elimination/ Corporate	Consolidated
Sales to customers	¥ 58,942	¥ 8,093		¥ 67,035
Interarea transfer	1,777	200	¥(1,977)	
Total sales	60,719	8,293	(1,977)	67,035
Operating expenses	52,037	7,391	(1,807)	57,621
Operating income	¥ 8,682	¥ 902	¥ (170)	¥ 9,414
Assets	¥120,935	¥11,673	¥(7,664)	¥124,944

	Thousands of U.S. Dollars			
	2004			
	Japan	Others	Elimination/ Corporate	Consolidated
Sales to customers	$ 565,604	$ 77,663		$ 643,267
Interarea transfer	17,056	1,918	$(18,974)	
Total sales	582,660	79,581	(18,974)	643,267
Operating expenses	499,351	70,928	(17,349)	552,930
Operating income	$83,309	$8,653	$(1,625)	$90,337
Assets	$1,160,489	$112,013	$(73,536)	$1,198,966

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

3) Sales to Foreign Customers

	Millions of Yen		
	2004		
	Asia	Others	Total
Overseas sales	¥14,124	¥6,604	¥20,728
Net sales			67,035
Ratio of overseas sales to net sales	21.1%	9.8%	30.9%

	Thousands of U.S. Dollars		
	2004		
	Asia	Others	Total
Overseas sales	$135,535	$63,373	$198,908
Net sales			643,267

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

Note: The countries included in each segment are as follows:
(1) Asia: Korea, China, Thailand, Indonesia, etc.
(2) Others: North America, Europe

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets from the year ended December 31, 2004.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

March 30, 2005

DIRECTORY

Directors, Officers and Auditors

(As of March 30, 2005)

Board of Directors and Executive Officers

Shikio Ohtake
President
Hiroshi Yamazaki
Executive Vice President
Tetsuo Okazaki
Executive Vice President
Katsuhiko Namba
Senior Managing Exective Officer
Takashi Takenaka
Managing Executive Officer
Kiyonari Nakai
Managing Executive Officer
Yoshinari Kudo
Managing Executive Officer
Nobuyuki Murofushi
Executive Officer
Hideki Saito
Executive Officer

Executive Officers

Ryouji Murota
Managing Executive Officer
Kouichi Masuda
Managing Executive Officer
Ichiro Fukushima
Managing Executive Officer
Kohta Himeno
Managing Executive Officer
Hajime Nagasaka
Executive Officer
Shigeto Mori
Executive Officer
Hiroshi Hirama
Executive Officer

Coporate Auditors

Tsunehisa Samukawa
Corporate Auditor
Masahiro Kusaba
Corporate Auditor
Toshio Nakada
Corporate Auditor
Masanobu Dohki
Corporate Auditor

Corporate Data

Date of Foundation
April 8, 1918
Paid-in Capital
15,436 million as of December 31,2004
Authorized Shares
598,764,000 shares
Outstanding Shares
204,089,391 shares
Number of Shareholders
24,901

Network

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Minato-ku, Tokyo 107-8636, Japan
Tel: 03-3746-5100
Fax: 03-3405-7205

Branch Office

Osaka Branch (Osaka)
Nagoya Branch (Aichi)
Fukuoka Branch (Fukuoka)

Laboratories

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

Industrial Complex

Shonan Industrial Complex (Kanagawa)
Chigasaki R&D Center
Chigasaki Plant
Chigasaki Second Plant

Plants

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

Oversea Office

Shanghai Representative Office(China)

Oversea Affiliated Companies

Thai Tokai Carbon Product Co., Ltd. (Thailand)
Tokai Carbon (Tianjin) Co., Ltd. (China)
Tokai Carbon U.S.A., Inc. (U.S.A.)
Tokai Carbon Europe Ltd. (U.K.)
Tokai Carbon Italia S.R.L. (Italy)
Svensk Specialgrafit AB (Sweden)
MWI, Inc. (U.S.A.)
Tokai Carbon Korea Co., Ltd. (Korea)
SGL Tokai Carbon Ltd., Shanghai (China)

TOKAI CARBON

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