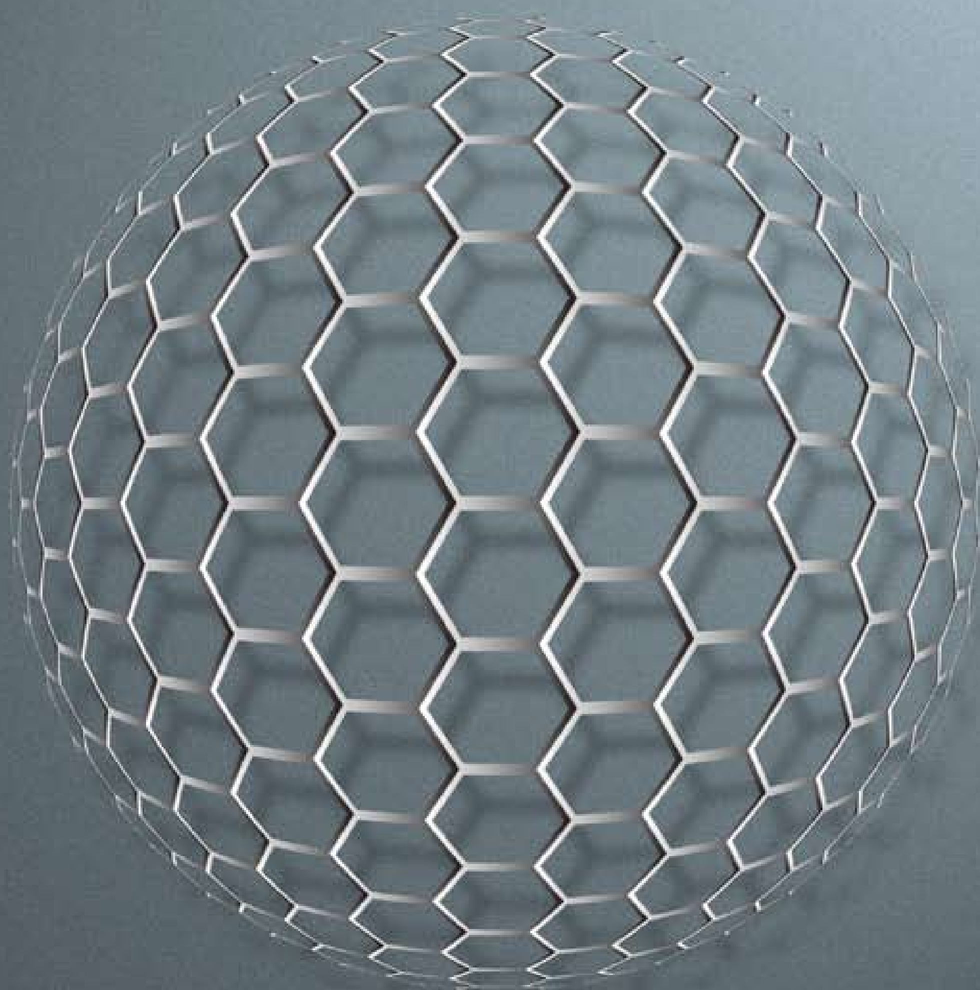
TOKAI CARBON CO., LTD.

Annual Report 2007

For the Year Ended December 31, 2007



Leading the Way into the Future >>

Profile

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

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

Tokai Carbon is renowned for being a pioneer in the carbon industry with 90 years of history, and is recognized as having overall technological expertise and capability in its new product development. The Company endeavors to be a forerunner of technological innovation in the rapidly advancing business world and to attain steady growth in its earnings.

Consolidated Financial Highlights

Years ended December 31	Millions of Yen 2007	Millions of Yen 2006	Percentage Change 2007/2006	Thousands of U.S. Dollars 2007
For the Year:				
Net sales	**¥117,433**	¥99,095	18.5%	**$1,028,760**
Operating income	**20,746**	14,800	40.2	**181,743**
Income before income taxes and minority interests	**21,044**	13,716	53.4	**184,354**
Net income	**11,404**	7,968	43.1	**99,904**
At Year-End:				
Total assets	**¥174,279**	¥164,062	6.2%	**$1,526,754**
Total net assets	**111,152**	99,398	11.8	**973,736**
	Yen			U.S. Dollars
Per Share Data:				
Net income	**¥ 53.42**	¥ 39.92	33.8%	**$ 0.47**
Total net assets	**499.42**	475.25	5.0	**4.37**
Cash dividends applicable to the year	**9.00**	7.00	28.5	**0.08**

Note: U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥114.15=US$1, the approximate rate of exchange at December 31, 2007.

Contents

Forward-Looking Statements
Forward-looking statements made in this annual report concerning performance or business strategies have been determined according to assumptions and beliefs based on information available at the time of publication and may contain elements of risk and uncertainty.

Business Results for Year Ended December 31, 2007

The Japanese economy was affected by a range of developments during the fiscal year under review, and uncertainty regarding future trends increased towards the end of the year. These developments included the continued rise in crude oil and raw materials prices, concerns of a recession in the U.S. economy stemming from the subprime mortgage crisis, and a decline in housing investment in Japan due to the impact of the revised Building Standards Act. Corporate earnings over the fiscal year, however, remained strong, assisted by robust exports as the Chinese economy continued expanding rapidly and South East Asian economies also exhibited strong growth. The domestic economy expanded gradually as consumer spending remained firm on an improved employment situation.

Under such circumstances, domestic and overseas growth in demand was strong in the Group's client industries, which comprise rubber products, steel, semiconductors, construction machinery, and IT equipment.

Overall Group Performance

Responding to strong demand from all fields, the Group continued producing at full capacity and pursued further cost reductions. Prices of raw materials continued to increase sharply throughout the year, spurred on by the historic rise in crude oil prices. It was therefore impossible for us to completely absorb the higher costs of materials solely through our own efforts, and with the understanding of customers, we adjusted our selling prices.

Under our policy of "pursuing globalization while reinforcing domestic business," and aiming to meet future expansions in demand, we executed large-scale capital investments focusing on two domestic plants: Tanoura Plant in Kumamoto Prefecture (to expand and enhance the fine grain graphite production facility; works scheduled for completion in 2008) and Hofu Plant in Yamaguchi Prefecture (to de-bottleneck graphitizing facilities, scheduled for completion in 2009).

As a result of the above, consolidated net sales for the fiscal year under review rose 18.5% over the year to ¥117 billion, exceeding ¥100 billion for the first time. Consolidated operating income advanced 40.2% to ¥20 billion, and ordinary income surged 44.7% to ¥20 billion, for a fourth consecutive year of renewed highs for both figures. We also marked a second consecutive year of record-high consolidated net income, which rose 43.1% over the year to ¥11 billion.

The Tokai Carbon Group has firmly moved forward as a pioneer in the carbon industry and has actively contributed to the development of society with its diversified carbon-related products.

The Group has steadily expanded the scale of its business to ensure an 8% return on assets (ROA) and reach almost ¥100 billion in consolidated net sales for fiscal 2006, the year ending December 31, 2006, which is the final year of the three-year managerial plan T-2006, through a combination of corporate globalization and accelerated technological innovations.

Although uncertain factors persist and increase in the current global economy and our business environment, the Group has set its next medium-term managerial plan, T-2009, of medium-term business objectives to cope with such uncertainty. The T-2009 plan includes return on equity (ROE) as a new indicator to reinforce a policy of improving capital efficiency.

Based on the corporate philosophy of reliability, the Company continues to pursue its corporate vision—Tokai Carbon is a Global Leader of the Carbon Industry—while endeavoring to improve operating results in accordance with such action guidelines as fairness, environment concern and globalization. Specifically, the Group has set its consolidated managerial targets for fiscal 2009 as follows:

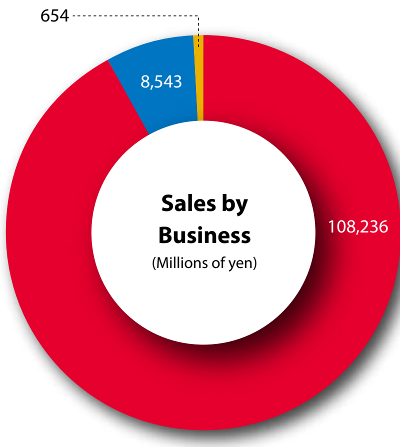
Net sales target >>	¥130 billion
Profitability targets >>	Operating margin: 15%
	ROA: 10%
	ROE: 10%

Moreover, the Group has set another challenging target of ¥150 billion in net sales for fiscal 2011, and intends to focus on the development of human resources and R&D activities. Meanwhile, we will make every effort to improve internal controls, ensure security, and preserve the environment as part of our continued reinforcement of corporate governance and CSR.

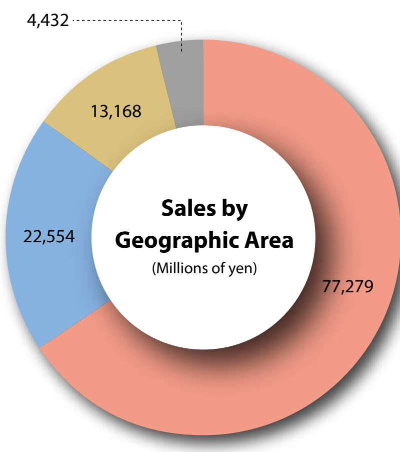
We look forward to your continued support and encouragement.

Yoshinari Kudo
President and Chief Executive Officer

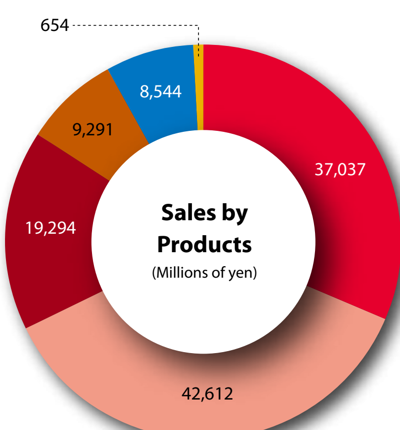
Fiscal 2007 Sales by Segments



- Carbon and Graphite Products
- Industrial Furnaces and Related Products
- Other Businesses



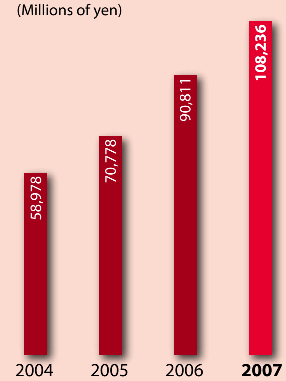
- Japan
- Europe
- Asia
- Others



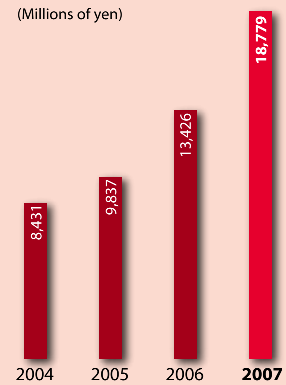
- Carbon Black
- Graphite Electrodes
- Fine Carbon
- Friction Materials
- Industrial Furnaces and Related Products
- Other Businesses

Carbon and Graphite Products

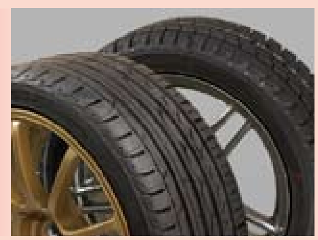
Sales
(Years ended December 31)
(Millions of yen)



Operating Income
(Years ended December 31)
(Millions of yen)



Carbon Black



With regard to carbon black production, our efforts to establish a production network spanning three locations in Asia progressed, as Tokai Carbon (Tianjin) Co., Ltd., went into almost full-fledged production at the end of last year. The Company began operating in Tianjin, China, in February 2006, and joins the production bases in Japan and Thai Tokai Carbon Product Co., Ltd., in Thailand. On the sales front, robust domestic and overseas demand continued in the tire and auto parts industries, and net sales revenue for carbon black increased as the Group revised selling prices to reflect higher prices of raw materials caused by surging crude oil prices. As a result, the carbon black division posted consolidated net sales of ¥37,037 million.

Graphite Electrodes

In the graphite electrodes business, production at domestic plants continued at full capacity, and the Group utilized its Japan–Europe alliance in both sales and technology with ERFTCARBON GmbH in Germany to further enhance production efficiency. With regard to sales, the Group revised prices following increases in the prices of coke and pitch, the main raw materials used in graphite electrodes. The demand for electrodes remained strong on the back of a booming global steel industry, putting pressure on supply. Although selling prices for these products consequently rose both within Japan and abroad, the price increases were particularly large overseas. This led to a significant increase in net sales revenues. As a result, the graphite electrodes business achieved consolidated net sales of ¥42,612 million.

Fine Carbon

Amid a continuing shortage of fine carbon materials, the Group has been carrying out plans to enhance its production capacity, primarily for isotropic graphite, in response to anticipated growth in demand both within Japan and abroad. Sales revenues increased on the back of strong demand in semiconductor and solar cell industries, reflecting the Group's revised prices. As a result, the fine carbon business posted consolidated net sales of ¥19,294 million.

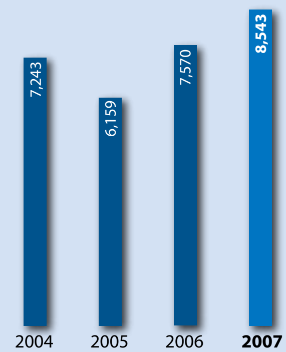
Friction Materials

Net sales of friction materials increased overall. Although sales for agricultural machinery applications fell, owing to adjustments in inventories of tractors for the North American market, sales to the construction machinery market rose, buoyed by brisk mine development and construction activity worldwide. As a result, the friction material business achieved consolidated net sales of ¥9,291 million.

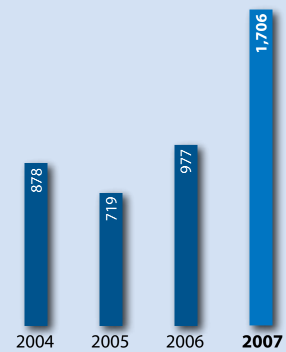
Strong performances were posted by each of the four businesses addressed above, and this pushed consolidated net sales in the carbon products division to ¥108,236 million, a year-on-year rise of 19.2%. Operating income rose 39.9% to ¥18,779 million. This result reflects continued efforts to cut costs and streamline management, and adjustments to selling prices to correspond to the increase in prices of raw materials. Increases in selling prices of graphite electrodes at ERFTCARBON GmbH and other overseas locations also contributed significantly towards improving earnings.

Industrial Furnaces and Related Products

Sales
(Years ended December 31)
(Millions of yen)



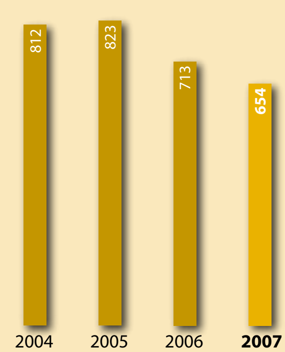
Operating Income
(Years ended December 31)
(Millions of yen)



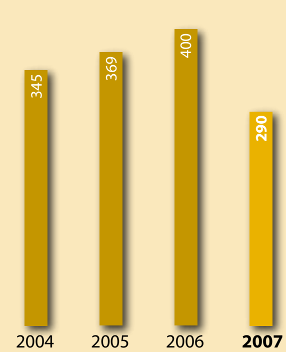
Sales of heating devices and heating elements were strong, reflecting proactive capital investment activity from IT-related industries—the main user of these products—in response to rising demand for digital devices. As a result, net sales for the division increased 12.9% year on year to ¥8,543 million, and operating income surged 74.7% to ¥1,706 million, driven by the impact of efforts to restructure workplaces and improved performance at subsidiaries.

Other Businesses

Sales
(Years ended December 31)
(Millions of yen)



Operating Income
(Years ended December 31)
(Millions of yen)



Revenue from other operations, which includes rental revenues from real estate, declined by 8.4% year on year to ¥654 million, and operating income fell 27.8% to ¥290 million.

Announcement of Acquisition of Equity in Carbon Industrie-Produkte GmbH and Carbon Mechanik GmbH

On December 27, 2006, Tokai Carbon acquired 80% equity in Carbon Industrie-Produkte GmbH and Carbon Mechanik GmbH ("CIP Group"). The CIP Group became a Tokai Carbon subsidiary. Tokai Carbon announces the following with regard to that decision.

Tokai Carbon has decided to acquire equity in the CIP Group, which sells and machines isotropic graphite, extruded graphite, molded graphite and carbon—carbon composite.

Tokai Carbon exports these graphite and carbon products to Europe and sells them through existing European subsidiaries. This acquisition lifts Tokai Carbon to a high position in Europe for Specialty Graphite, and allows Tokai Carbon to achieve a strong foothold in the largest market in Europe, and to give better and more comprehensive services to its customers.

Tokai Carbon's Fine Carbon Division already has 8 subsidiaries, affiliates and offices—3 in Europe, 2 in the United states and 3 in Asia. The CIP Group becomes the 9th member of Tokai Carbon's global network and contributes to its worldwide business strategy.

Regarding the Third Phase of Isotropic Graphite Production Capacity Increase

We would like to announce our decision to increase the production capacity of isotropic graphite, the main product of our fine grain graphite business. We will expand the capacity 1.4 times, to 9,000 tons per annum, increasing our total fine grain graphite production output, inclusive of extruded graphite, to a total of 14,000 tons per annum.

Owing to the increasing demand for fine grain graphite products during recent years, Tokai Carbon has expanded its production capacity twice in the past three years. We have decided to execute yet another phase of capacity increase to cope with the growing isotropic graphite demand from existing markets, such as in semiconductors, as well as to capitalize on the growth of our strategy markets/business segments, such as the alternative energy market represented by PV, the ecology market requiring automobile parts used for eco-friendly hybrid cars, the die/mould industry in need of ultra-high-precision EDM electrodes, the emerging markets benchmarked by BRICs countries, and also for fulfilling demand from our major customers for a long-term graphite supply contract.

To carry out timely shipments and to respond to this graphite demand, we plan to commence the expansion work from the second quarter of 2007, with delivery beginning from the fourth quarter of 2008. In addition to the graphite material production facility, arrangements have been made to add more capacity to machining and purification facilities. We expect total investment to reach ¥7 billion.

With this expansion we will establish a 14,000 tons per annum production capacity of fine grain graphite, although depending on the market situation we may consider another phase of capacity increase. Our goal is to become one of the world's largest suppliers of fine grain graphite and ultimately to win the top share in the world market.

Tokai Carbon Establishes New Company to Control European Fine Carbon Business

Tokai Carbon announced that on September 11, 2007, it established a new company in Grevenbroich, Germany (near Düsseldorf), to control its fine carbon business in Europe.

The fine carbon market is expected to post significant growth in Europe in the future, especially in the renewable energy field, including that of solar cells. The Company currently operates processing and/or sales companies in Germany, the U.K., Italy and Sweden and came to the decision to establish a supervising company in Germany to achieve a more organic and efficient group business operation in the growing market.

Tokai Carbon Obtains Credit Rating from R&I

Tokai Carbon announced that the Company has newly obtained the following credit rating from Rating and Investment Information, Inc. (R&I).

Please refer to the press release issued by Rating and Investment Information Inc. for details.

Name	Rating	Rating outlook
R&I	A	Stable

Board of Directors, Officers and Corporate Auditors (as of March 28, 2008)

Board of Directors and Executive Officers

Chairman of the Board

Shikio Ohtake

President and CEO

Yoshinari Kudo

Deputy President and CFO

Katsuhiko Namba

Senior Managing Executive Officer and CTO

Kiyonari Nakai

Managing Executive Officers

Takashi Takenaka

Nobuyuki Murofushi

Hajime Nagasaka

Executive Officers

Naoshi Takahashi

Yoshio Kumakura*1

*1 External Director

Executive Officers

Managing Executive Officers

Shigeto Mori

Hiroshi Hirama

Executive Officers

Hideki Saito

Masahiro Saeki

Yuji Serizawa

Tatsuo Abe

Hideo Toko

Masanao Hosoya

Corporate Auditors

Corporate Auditors

Tsunehisa Samukawa

Masahiro Kusaba*2

Masanobu Dohki*2

Ryuichi Sato*2

*2 External Auditor

Corporate Governance

Basic Policy for Corporate Governance

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

Measures for Corporate Governance

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

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

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

Takeover Defense Measures

The Basic Policy on Countermeasures to prepare attempted large-scale purchases of Company stock or other securities (hereinafter, the Plan), was approved and passed at the 146th Ordinary General Meeting of Shareholders held on March 28, 2008, with the aim of ensuring and enhancing the corporate value of Tokai Carbon and the common interests of its shareholders. The Plan shall remain in effect for a period of 3 years until the date of conclusion of the Ordinary General Meeting of Shareholders to be held in 2011.

FINANCIAL SECTION

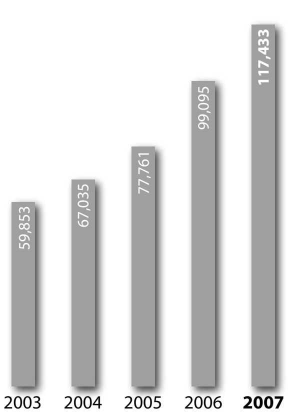
Five-Year Financial Summary

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years ended December 31, 2007, 2006, 2005, 2004 and 2003

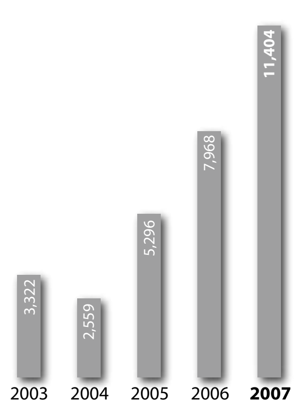
	Millions of Yen					Thousands of U.S. Dollars
	2007	2006	2005	2004	2003	2007
For the Year:						
Net sales	**¥117,433**	¥99,095	¥77,761	¥67,035	¥59,853	**$1,028,760**
Carbon and Graphite Products	**108,236**	90,812	70,779	58,979	54,088	**948,191**
Industrial Furnaces and Related Products	**8,543**	7,570	6,159	7,243	4,545	**74,840**
Others	**654**	713	823	813	1,220	**5,729**
Gross profit	**37,340**	29,327	23,059	19,727	16,210	**327,113**
Operating income	**20,746**	14,800	10,778	9,414	6,155	**181,743**
Income before income taxes and minority interests	**21,044**	13,716	9,968	5,426	5,619	**184,354**
Net income	**11,404**	7,968	5,296	2,559	3,322	**99,904**
Depreciation and amortization	**6,283**	5,112	4,164	3,618	3,668	**55,042**
Research and development costs	**1,655**	1,491	1,525	1,291	1,340	**14,498**
Capital expenditures	**13,034**	6,276	10,527	4,339	3,752	**114,183**
At Year-End:						
Total assets	**¥174,279**	¥164,062	¥149,749	¥124,944	¥119,004	**$1,526,754**
Total net assets	**111,152**	99,398	85,817	74,315	70,815	**973,736**
	Yen					U.S. Dollars
Per Share Data:						
Net income	**¥ 53.42**	¥ 39.92	¥ 26.20	¥ 12.22	¥ 16.04	**$0.47**
Total net assets	**499.42**	475.25	436.11	369.35	347.43	**4.37**
Cash dividends applicable to the year	**9.00**	7.00	6.00	5.00	5.00	**0.08**
Financial Ratios:						
Return on assets (%)	**12.4%**	9.21%	8.06%	7.86%	4.50%	**12.4%**
Return on equity (%)	**11.0**	8.67	6.61	3.53	4.87	**11.0**
Equity ratio (%)	**62.8**	59.70	57.30	59.50	59.50	**62.8**

Note: U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥114.15=US$1, the approximate rate of exchange at December 31, 2007.

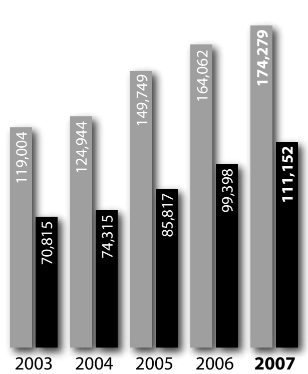
Net Sales
(Years ended December 31)
(Millions of yen)



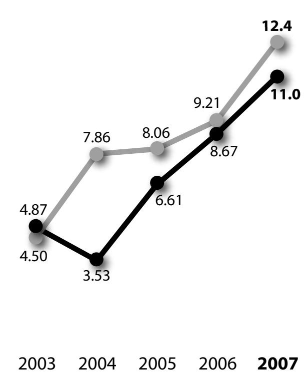
Net Income
(Years ended December 31)
(Millions of yen)



Total Assets
Total Net Assets
(December 31)
(Millions of yen)



Return on Assets
Return on Equity
(Years ended December 31)
(%)



Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥13,066**	¥ 10,862	**$ 114,463**
Receivables:			
Trade notes and accounts	**36,182**	32,119	**316,969**
Unconsolidated subsidiaries and associated companies	**956**	1,124	**8,375**
Allowance for doubtful receivables	**(66)**	(63)	**(578)**
Inventories (Note 4)	**29,543**	24,542	**258,809**
Deferred tax assets (Note 10)	**763**	725	**6,684**
Prepaid expenses and other current assets	**2,724**	3,215	**23,863**
Total current assets	**83,168**	72,524	**728,585**
PROPERTY, PLANT AND EQUIPMENT (Note 5)**:**			
Land	**7,557**	7,227	**66,202**
Buildings and structures	**42,214**	39,929	**369,812**
Machinery and equipment	**105,085**	94,451	**920,587**
Furniture and fixtures	**6,058**	5,046	**53,070**
Construction in progress	**4,379**	1,832	**38,362**
Total	**165,293**	148,485	**1,448,033**
Accumulated depreciation	**(114,391)**	(105,328)	**(1,002,111)**
Net property, plant and equipment	**50,902**	43,157	**445,922**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**33,525**	41,382	**293,693**
Investments in and advances to unconsolidated subsidiaries and associated companies	**2,954**	3,911	**25,869**
Goodwill	**1,281**	574	**11,222**
Deferred tax assets (Note 10)	**281**	528	**2,462**
Other assets	**2,168**	1,986	**19,001**
Total investments and other assets	**40,209**	48,381	**352,247**
TOTAL	**¥174,279**	¥164,062	**$1,526,754**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	**¥ 14,603**	¥ 13,600	**$127,928**
Current portion of long-term debt (Note 5)	**1,717**	104	**15,042**
Payables:			
Trade notes and accounts	**17,396**	14,144	**152,396**
Unconsolidated subsidiaries and associated companies	**291**	154	**2,549**
Income taxes payable	**4,448**	4,230	**38,966**
Accrued expenses	**2,632**	2,073	**23,058**
Other current liabilities	**6,369**	3,511	**55,795**
Total current liabilities	**47,456**	37,816	**415,734**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**805**	9,371	**7,052**
Liability for retirement benefits (Note 7)	**2,360**	2,261	**20,674**
Retirement allowances for directors, corporate auditors and operating officers (Note 8)	**314**	307	**2,751**
Allowance for environmental safety measures (Note 2.h)	**728**	728	**6,378**
Deferred tax liabilities (Note 10)	**10,434**	13,280	**91,406**
Other	**1,030**	901	**9,023**
Total long-term liabilities	**15,671**	26,848	**137,284**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14)			
EQUITY (Note 9)**:**			
Common stock—authorized, 598,764,000 shares; issued, 222,029,384 shares in 2007 and 208,378,414 shares in 2006	**19,693**	16,212	**172,519**
Capital surplus	**16,769**	13,285	**146,903**
Retained earnings	**57,896**	48,295	**507,192**
Net unrealized gain on available-for-sale securities	**14,499**	19,805	**127,017**
Deferred loss on derivatives under hedge accounting	**(1)**	(10)	**(9)**
Foreign currency translation adjustments	**2,446**	1,706	**21,428**
Treasury stock—at cost, 2,742,327 shares in 2007 and 2,405,905 shares in 2006	**(1,785)**	(1,404)	**(15,637)**
Total	**109,517**	97,889	**959,413**
Minority interests	**1,635**	1,509	**14,323**
Total equity	**111,152**	99,398	**973,736**
TOTAL	**¥174,279**	¥164,062	**$1,526,754**

See notes to consolidated financial statements.

Consolidated Statements of Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
NET SALES	**¥117,433**	¥99,095	**$1,028,760**
COST OF SALES	**80,093**	69,768	**701,647**
Gross profit	**37,340**	29,327	**327,113**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**16,594**	14,527	**145,370**
Operating income	**20,746**	14,800	**181,743**
OTHER INCOME (EXPENSES):			
Interest and dividends	**613**	450	**5,370**
Interest expense	**(863)**	(707)	**(7,560)**
Exchange gain (loss)	**(323)**	118	**(2,830)**
Equity in gains of associated companies	**749**	389	**6,562**
Gain on sales of property, plant and equipment		272	
Restructuring expenses		(241)	
Provision for environmental safety measures		(728)	
Other—net	**122**	(637)	**1,069**
Other income (expenses)—net	**298**	(1,084)	**2,611**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**21,044**	13,716	**184,354**
INCOME TAXES (Note 10)**:**			
Current	**8,755**	6,520	**76,697**
Deferred	**895**	(850)	**7,841**
Total	**9,650**	5,670	**84,538**
MINORITY INTERESTS IN NET INCOME (LOSS)	**(10)**	78	**(88)**
NET INCOME	**¥ 11,404**	¥7,968	**$ 99,904**

	Yen		U.S. Dollars (Note 1)
	2007	2006	**2007**
PER SHARE OF COMMON STOCK (Notes 2.o and 15)**:**			
Net income	**¥53.42**	¥39.92	**$0.47**
Diluted net income	**51.29**	36.51	**0.45**
Cash dividends applicable to the year	**9.00**	7.00	**0.08**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2007 and 2006

	Thousands			
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings
BALANCE, JANUARY 1, 2006	**204,089**	**¥15,436**	**¥10,876**	**¥41,579**
Reclassified balance as of January 1, 2006 (Note 2.q)				
Issuance of new shares	4,289	776	2,406	
Net income				7,968
Cash dividends, ¥6.00 per share				(1,180)
Bonuses to directors				(72)
Decrease in treasury stock (5,087 thousand shares)				
Gain on sales of treasury stock			3	
Net decrease in unrealized loss on available-for-sale securities				
Net increase in foreign currency translation adjustments				
Net change in the year				
BALANCE, DECEMBER 31, 2006	**208,378**	**16,212**	**13,285**	**48,295**
Issuance of new shares	13,651	3,481	3,481	
Net income				11,404
Cash dividends, ¥8.00 per share				(1,670)
Increase in treasury stock (336 thousand shares)				
Gain on sales of treasury stock			3	
Net change in the year				(133)
BALANCE, DECEMBER 31, 2007	**222,029**	**¥19,693**	**¥16,769**	**¥57,896**

	Common Stock	Capital Surplus	Retained Earnings
BALANCE, DECEMBER 31, 2006	**$142,024**	**$116,373**	**$423,084**
Issuance of new shares	30,495	30,495	
Net income			99,904
Cash dividends, $0.07 per share			(14,630)
Increase in treasury stock (336 thousand shares)			
Gain on sales of treasury stock		35	
Net change in the year			(1,166)
BALANCE, DECEMBER 31, 2007	**$172,519**	**$146,903**	**$507,192**

See notes to consolidated financial statements.

Millions of Yen						
Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
¥20,648		**¥ 424**	**¥(3,146)**	**¥ 85,817**		**¥ 85,817**
					¥5,287	5,287
				3,182		3,182
				7,968		7,968
				(1,180)		(1,180)
				(72)		(72)
			1,742	1,742		1,742
				3		3
(843)				(843)		(843)
		1,282		1,282		1,282
	¥(10)			(10)	(3,778)	(3,788)
19,805	**(10)**	**1,706**	**(1,404)**	**97,889**	**1,509**	**99,398**
				6,962		6,962
				11,404		11,404
				(1,670)		(1,670)
			(381)	(381)		(381)
				3		3
(5,306)	9	740		(4,690)	126	(4,564)
¥14,499	**¥ (1)**	**¥2,446**	**¥(1,785)**	**¥109,517**	**¥1,635**	**¥111,152**

Thousands of U.S. Dollars (Note 1)						
Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
$173,500	**$(97)**	**$14,945**	**$(12,299)**	**$857,530**	**$13,219**	**$870,749**
				60,990		60,990
				99,904		99,904
				(14,630)		(14,630)
			(3,338)	(3,338)		(3,338)
				35		35
(46,483)	88	6,483		(41,078)	1,104	(39,974)
$127,017	**$ (9)**	**$21,428**	**$(15,637)**	**$959,413**	**$14,323**	**$973,736**

Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥21,044**	¥13,716	**$184,354**
Adjustments for:			
Income taxes—paid	**(8,793)**	(4,762)	**(77,030)**
Depreciation and amortization	**6,283**	5,112	**55,042**
Amortization of consolidation differences	**768**	1,147	**6,728**
(Increase) decrease in prepaid expense for pension cost	**(4)**	372	**(44)**
Increase in allowance for environmental safety measures		728	
Exchange loss (gain)	**41**	(6)	**359**
Equity in gains of associated companies	**(749)**	(389)	**(6,562)**
Gain on sales of securities	**(91)**	(32)	**(797)**
Gain on sales of property, plant and equipment		(272)	
Loss on disposal of property, plant and equipment		104	
Impairment loss on long-lived assets	**23**		**201**
Restructuring expenses		241	
Increase in trade notes and accounts receivable	**(3,038)**	(5,992)	**(26,614)**
Increase in inventories	**(4,273)**	(3,996)	**(37,433)**
Decrease (increase) in payment in advance	**644**	(1,174)	**5,642**
Increase in notes and accounts payable	**2,919**	1,868	**25,572**
Decrease in provisional payment		141	
(Decrease) increase in consumption tax payable	**(318)**	310	**(2,786)**
Decrease in interest and dividend receivables	**63**	5	**552**
(Decrease) increase in interest payable	**(3)**	1	**(26)**
Payment of a fine to the Korean Commission		(146)	
Other—net	**1,599**	(286)	**14,016**
Total adjustments	**(4,929)**	(7,026)	**(43,180)**
Net cash provided by operating activities	**16,115**	6,690	**141,174**
INVESTING ACTIVITIES:			
Payment for deposit	**(200)**		**(1,752)**
Payment for purchase of property, plant and equipment	**(10,364)**	(5,947)	**(90,793)**
Proceeds from sales of property, plant and equipment		289	
Payment for purchase of intangible fixed assets	**(248)**	(461)	**(2,172)**
Payment for purchase of investment securities	**(1,010)**	(510)	**(8,848)**
Proceeds from sales of investment securities	**112**		**981**
Increase in investment in consolidated subsidiaries		(230)	
Increase in investment in associated companies		(1,673)	
Proceeds from purchase of investment in consolidated subsidiaries	**113**		**990**
Proceeds from sales of investment in consolidated subsidiaries	**59**	163	**517**
Payment for long-term loans	**(247)**		**(2,164)**
Other	**78**	3	**683**
Net cash used in investing activities	**(11,707)**	(8,366)	**(102,558)**
FINANCING ACTIVITIES:			
Decrease (increase) in short-term bank loans—net	**(77)**	1,179	**(675)**
Proceeds from long-term debt		924	
Repayments of long-term debt	**(194)**	(208)	**(1,699)**
Payment for purchase of treasury stock	**(385)**	(1,270)	**(3,373)**
Dividends paid	**(1,686)**	(1,244)	**(14,770)**
Other	**7**	7	**61**
Net cash used in financing activities	**(2,335)**	(612)	**(20,456)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(20)**	80	**(175)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,053**	(2,208)	**17,985**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**151**		**1,323**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**10,862**	13,070	**95,155**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥13,066**	¥10,862	**$114,463**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock (Note 9.d)	**¥ 3,481**	¥ 776	**$ 30,495**
Convertible bonds converted into capital surplus (Note 9.d)	**3,481**	776	**30,495**

Certain reclassifications have been made in the 2006 consolidated financial statements to conform to the classifications used in 2007.
See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law (formerly 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 2006 consolidated financial statements to conform to the classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKAI CARBON Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥114.15 to $1, the approximate rate of exchange at December 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of December 31, 2007 include the accounts of the Company and its significant 21 (19 in 2006) subsidiaries (together, the "Group").

Five subsidiaries are newly included in the consolidated financial statements as of December 31, 2007. Three subsidiaries, which were included in the consolidated financial statements as of December 31, 2006, have been excluded from the consolidated financial statements as of December 31, 2007. However, the consolidated financial statements as of December 31, 2006 are not restated.

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 6 (4 in 2006) associated companies are accounted for by the equity method. Investments in the remaining 2 (5 in 2006) unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries and associated companies is deferred and amortized using the straight-line method over a certain period which is derived on an individual case basis, with the exception of minor differences which are charged or credited to income in the period of acquisition.

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

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

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

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

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

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

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

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

Employees' retirement benefits are accounted for as a liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

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

The liability for retirement benefits for directors and corporate auditors is stated at the fixed amount required to be paid in accordance with the Company's internal regulations if they had retired on March 30, 2006, because such plan for directors and corporate auditors was repealed, effective March 30, 2006.

h. Allowance for Environmental Safety Measures—In accordance with the Special Measures Law for the Promotion of Proper Disposal of Polychlorinated Biphenyl ("PCB") Waste, the Company sets aside a reserve in an amount equal to the estimated disposal expenses for stored PCBs as of the balance sheet date.

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

j. Leases—The Company and its consolidated domestic subsidiaries account for all leases as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated 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 consolidated 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 consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

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

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

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

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

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

The interest rate swaps are measured at the fair value and the unrealized gains/losses are recognized in income.

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

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

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

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

3. INVESTMENT SECURITIES

Investment securities as of December 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Non-current:			
Marketable equity securities	**¥33,524**	¥41,381	**$293,684**
Trust fund investments and other	**1**	1	**9**
Total	**¥33,525**	**¥41,382**	**$293,693**

The carrying amounts and aggregate fair values of marketable and investment securities at December 31, 2007 and 2006 were as follows:

	Millions of Yen			
December 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**¥9,293**	**¥24,216**	**¥(46)**	**¥33,463**
Debt securities with contractual maturities	**12**		**(2)**	**10**
December 31, 2006				
Securities classified as available-for-sale:				
Equity securities	¥8,303	¥33,016		¥41,319
Debt securities with contractual maturities	12			12
	Thousands of U.S. Dollars			
December 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	**$81,410**	**$212,142**	**$(403)**	**$293,149**
Debt securities with contractual maturities	**105**		**(17)**	**88**

Available-for-sale securities whose fair value is not readily determinable as of December 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥51**	¥50	**$447**
Other	**1**	1	**9**
Total	**¥52**	¥51	**$456**

Proceeds from sales of available-for-sale securities for the years ended December 31, 2007 and 2006 were ¥112 million ($981 thousand) and ¥0 million, respectively. Realized gains on these sales, computed on the moving average cost basis, were ¥91 million ($797 thousand) for the year ended December 31, 2007 and ¥32 million for the year ended December 31, 2006.

4. INVENTORIES

Inventories at December 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Merchandise	**¥ 96**	¥ 10	**$ 841**
Finished products	**6,300**	5,009	**55,191**
Work in process	**15,252**	13,157	**133,614**
Raw materials and supplies	**7,895**	6,366	**69,163**
Total	**¥29,543**	¥24,542	**$258,809**

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

Short-term bank loans at December 31, 2007 and 2006 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.2375% to 10.00% and 0.908% to 10.00% at December 31, 2007 and 2006, respectively.

Long-term debt at December 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Unsecured zero coupon yen convertible bonds, due 2008	**¥ 1,486**	¥8,448	**$ 13,018**
Long-term loans from banks and insurance companies due through at interest rates ranging from 5.75% to 6.18%	**1,036**	1,027	**9,076**
Less current portion	**(1,717)**	(104)	**(15,042)**
Long-term debt, less current portion	**¥ 805**	¥9,371	**$ 7,052**

Annual maturities of long-term debt at December 31, 2007 were as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥1,717	$15,042
2009	805	7,052
Total	¥2,522	$22,094

On August 10, 2004, the Company issued ¥10,000 million ($87,604 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 ($4.47) per share.

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥100 million ($876 thousand) at December 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥6,941	$60,806

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, 2007 and as a result, recognized an impairment loss of ¥23 million ($201 thousand) as an other expense for certain idle assets of Shizuoka land.

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, 2007 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 6,440	$ 56,417
Fair value of plan assets	(5,051)	(44,249)
Unrecognized actuarial gain	769	6,737
Prepaid expense for pension cost	202	1,769
Net liability	**¥ 2,360**	**$ 20,674**

The components of net periodic benefit costs for the year ended December 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 449	$ 3,933
Interest cost	98	858
Expected return on plan assets	(115)	(1,007)
Amortization of actuarial gain	(28)	(245)
Other	76	666
Net periodic benefit costs	**¥ 480**	**$ 4,205**

Assumptions used for the year ended December 31, 2007 are set forth as follows:

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

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

Retirement allowances for directors, corporate auditors and operating officers are paid subject to approval of the shareholders in accordance with the Japanese Corporate Law (the "Corporate Law").

The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors, corporate auditors and operating officers. The annual provisions for retirement allowances for directors, corporate auditors and operating officers for the years ended December 31, 2007 and 2006 were ¥42 million ($368 thousand) and ¥44 million, respectively.

In addition, the director retirement bonus plan was abolished.

9. EQUITY

On and after May 1, 2006, Japanese companies are subject to the Corporate Law, which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal year ending on after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

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

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

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

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

d. Issuance of New Shares

During the years ended December 31, 2007 and 2006, common stock increased by 13,651 thousand shares and 4,289 thousand shares, respectively, upon the execution of the stock acquisition rights associated with convertible bonds.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended December 31, 2007 and 2006.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at December 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Deferred tax assets:			
Depreciation and amortization	**¥ 170**	¥ 238	**$ 1,489**
Impairment loss on long-lived assets	**444**	435	**3,890**
Retirement and severance benefits	**302**	312	**2,646**
Allowance for officers' retirement benefits	**97**	93	**850**
Allowance for environmental safety measures	**291**	291	**2,549**
Accrued enterprise tax	**304**	313	**2,663**
Unrealized gain on sale of assets eliminated in consolidation	**440**	330	**3,854**
Loss carryforward of subsidiaries	**1,178**	1,109	**10,320**
Valuation loss on investment securities	**297**	297	**2,602**
Other	**415**	428	**3,635**
Less valuation allowance	**(1,515)**	(1,211)	**(13,272)**
Deferred tax assets	**2,423**	2,635	**21,226**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**9,669**	13,207	**84,704**
Deferred profits on property for income tax purposes	**1,278**	1,273	**11,196**
Retained earnings of overseas consolidated subsidiaries	**737**		**6,456**
Prepaid expense for pension cost	**80**	79	**701**
Other	**49**	103	**429**
Deferred tax liabilities	**11,813**	14,662	**103,486**
Net deferred tax liabilities	**¥ 9,390**	¥ 12,027	**$ 82,260**

Net deferred tax liabilities presented in the consolidated balance sheets at December 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current assets—deferred tax assets	¥ (763)	¥ (725)	$ (6,684)
Investments and other assets—deferred tax assets	(281)	(528)	(2,462)
Long-term liabilities—deferred tax liabilities	10,434	13,280	91,406
Deferred tax liabilities	¥ 9,390	¥12,027	$82,260

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	40.0%	40.0%
Expenses not deductible for income tax purposes	0.8	1.1
Income not taxable for income tax purposes	(0.4)	(0.5)
Amortization of consolidation differences	1.7	3.4
Undistributed earnings of overseas subsidiaries	3.5	
Valuation allowance	1.4	
Tax credit for experimental and research expense	(0.6)	(1.0)
Other—net	(0.5)	(1.7)
Actual effective tax rate	45.9%	41.3%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,655 million ($14,498 thousand) and ¥1,491 million for the years ended December 31, 2007 and 2006, respectively.

12. LEASES

Certain key information on such lease contracts for the years ended December 31, 2007 and 2006 was as follows:

As a lessee

	Millions of Yen							
	2007				2006			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥7	¥44	¥4	¥55	¥7	¥44		¥51
Accumulated depreciation	5	26	1	32	3	18		21
Net leased property	¥2	¥18	¥3	¥23	¥4	¥26		¥30

	Thousands of U.S. Dollars			
	2007			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	$61	$386	$35	$482
Accumulated depreciation	43	228	9	280
Net leased property	$18	$158	$26	$202

Future minimum lease payments:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥10	¥10	$ 88
Due after one year	17	20	114
Total	¥27	¥30	$202

Paid lease fees and depreciation expense:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Paid lease fees	**¥11**	¥11	**$96**
Depreciation expense	**11**	11	**96**

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.

13. DERIVATIVES

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

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

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

Fair Value of Derivative Financial Instruments

The fair value of the Group's derivative financial instruments at December 31, 2007 and 2006:

	Millions of Yen					
	2007			2006		
	Contract Amount	Fair Value	Unrealized Gain	Contract Amount	Fair Value	Unrealized Loss
Interest rate swaps—Pay fixed/receive floating	**¥875**	**¥7**	**¥7**	¥1,174	¥2	¥2

	Thousands of U.S. Dollars		
	2007		
	Contract Amount	Fair Value	Unrealized Gain
Interest rate swaps—Pay fixed/receive floating	**$7,665**	**$61**	**$61**

Foreign currency forward contracts which qualify for hedge accounting for the years ended December 31, 2007 and 2006 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at December 31, 2007 and 2006, are excluded from the disclosure of market value information.

14. CONTINGENT LIABILITIES

At December 31, 2007, the Group guaranteed borrowings of affiliated companies in the amount of ¥461 million ($4,039 thousand).

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended December 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥11,404**	**213,476**	**¥53.42**	**$0.47**
Effect of dilutive securities—Convertible bonds		**8,880**		
Diluted EPS—Net income for computation	**¥11,404**	**222,356**	**¥51.29**	**$0.45**

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

16. SUBSEQUENT EVENT

The following appropriations of retained earnings at December 31, 2007 were approved at the Company's shareholders' meeting held on March 28, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5.00 ($0.04) per share	¥1,096	$9,601

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, 2007 and 2006 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen				
	2007				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Sales to customers	**¥108,236**	**¥8,543**	**¥ 654**		**¥117,433**
Intersegment sales	**723**	**128**	**613**	**¥(1,464)**	
Total sales	**108,959**	**8,671**	**1,267**	**(1,464)**	**117,433**
Operating expenses	**90,180**	**6,964**	**977**	**(1,434)**	**96,687**
Operating income	**¥18,779**	**¥1,707**	**¥ 290**	**¥ (30)**	**¥ 20,746**

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

	Millions of Yen				
	2007				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Assets	**¥123,249**	**¥13,249**	**¥1,918**	**¥35,863**	**¥174,279**
Depreciation	**5,742**	**248**	**297**	**(4)**	**6,283**
Impairment loss on long-lived assets			**23**		**23**
Capital expenditures	**12,697**	**308**	**38**	**(9)**	**13,034**

a. Sales and Operating Income

	Thousands of U.S. Dollars				
	2007				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Sales to customers	**$948,191**	**$74,840**	**$ 5,729**		**$1,028,760**
Intersegment sales	**6,334**	**1,121**	**5,370**	**$(12,825)**	
Total sales	**954,525**	**75,961**	**11,099**	**(12,825)**	**1,028,760**
Operating expenses	**790,013**	**61,007**	**8,559**	**(12,562)**	**847,017**
Operating income	**$164,512**	**$14,954**	**$ 2,540**	**$ (263)**	**$ 181,743**

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

	Thousands of U.S. Dollars				
	2007				
	Carbon and Graphite Products	Industrial Furnaces and Related Products	Others	Elimination/ Corporate	Consolidated
Assets	**$1,079,711**	**$116,067**	**$16,802**	**$314,174**	**$1,526,754**
Depreciation	**50,302**	**2,173**	**2,602**	**(35)**	**55,042**
Impairment loss on long-lived assets			**201**		**201**
Capital expenditures	**111,231**	**2,698**	**333**	**(79)**	**114,183**

a. Sales and Operating Income

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

b. Assets, Depreciation and Capital Expenditures

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

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended December 31, 2007 and 2006 are summarized as follows:

	Millions of Yen					
	2007					
	Japan	Europe	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	**¥ 77,279**	**¥22,554**	**¥13,168**	**¥4,432**		**¥117,433**
Interarea transfer	**5,430**	**57**	**511**	**37**	**¥ (6,035)**	
Total sales	**82,709**	**22,611**	**13,679**	**4,469**	**(6,035)**	**117,433**
Operating expenses	**68,065**	**17,536**	**13,197**	**3,875**	**(5,986)**	**96,687**
Operating income	**¥ 14,644**	**¥ 5,075**	**¥ 482**	**¥ 594**	**¥ (49)**	**¥ 20,746**
Assets	**¥100,250**	**¥15,329**	**¥19,906**	**¥3,768**	**¥35,026**	**¥174,279**

	Thousands of U.S. Dollars					
	2007					
	Japan	Europe	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	**$676,995**	**$197,582**	**$115,357**	**$38,826**		**$1,028,760**
Interarea transfer	**47,569**	**499**	**4,477**	**324**	**$ (52,869)**	
Total sales	**724,564**	**198,081**	**119,834**	**39,150**	**(52,869)**	**1,028,760**
Operating expenses	**596,277**	**153,622**	**115,611**	**33,946**	**(52,439)**	**847,017**
Operating income	**$128,287**	**$ 44,459**	**$ 4,223**	**$ 5,204**	**$ (430)**	**$ 181,743**
Assets	**$878,230**	**$134,288**	**$174,385**	**$33,009**	**$306,842**	**$1,526,754**

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

(3) Sales to Foreign Customers

	Millions of Yen			
	2007			
	Asia	Europe	Others	Total
Overseas sales	**¥26,482**	**¥19,549**	**¥12,394**	**¥58,425**
Net sales				**117,433**
Ratio of overseas sales to net sales	**22.6%**	**16.6%**	**10.6%**	**49.8%**

	Thousands of U.S. Dollars			
	2007			
	Asia	Europe	Others	Total
Overseas sales	**$231,993**	**$171,257**	**$108,577**	**$511,827**
Net sales				**1,028,760**

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

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of TOKAI CARBON Co., Ltd. (the "Company") and consolidated subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKAI CARBON Co., Ltd. and consolidated subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

March 28, 2008

Member of
Deloitte Touche Tohmatsu

Corporate Data (as of December 31, 2007)

Company Name	TOKAI CARBON CO., LTD.
Head Office	Aoyama Bldg. 2-3, Kita-Aoyama 1-chome, Minato-ku, Tokyo 107-8636, Japan
	Tel: 03-3746-5100 Fax: 03-3405-7205
Date of Foundation	April 8, 1918
Paid-in Capital	¥19,693 million
Number of Employees	1,794 (on a consolidated basis)

Network

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

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

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

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

Oversea Office
Shanghai Representative Office (China)

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

Investor Information (as of December 31, 2007)

Common Stock	Authorized shares	598,764,000 shares
	Outstanding shares	222,029,384 shares
Stock Exchange Listing	First Section of the Tokyo Stock Exchange	
Securities Code Number	5301	
Fiscal Year-End	December 31	
Number of Shareholders	19,760	
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation	

Major Shareholders (Top 10)

	Number of shares held (Thousands of shares)	Percentage of total shares issued (%)
Japan Trustee Service Bank, Ltd. (Trust Account)	20,466	9.21
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,902	8.51
State Street Bank & Trust Company	10,598	4.77
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	8,842	3.98
Mitsubishi UFJ Trust and Banking Corporation	6,988	3.14
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corporation Retirement Benefit Trust Account)	5,900	2.65
Mitsubishi Corporation	5,844	2.63
Tokio Marine & Nichido Fire Insurance Co., Ltd.	5,055	2.27
Amethyst	3,687	1.66
Goldman Sachs International	2,867	1.29

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