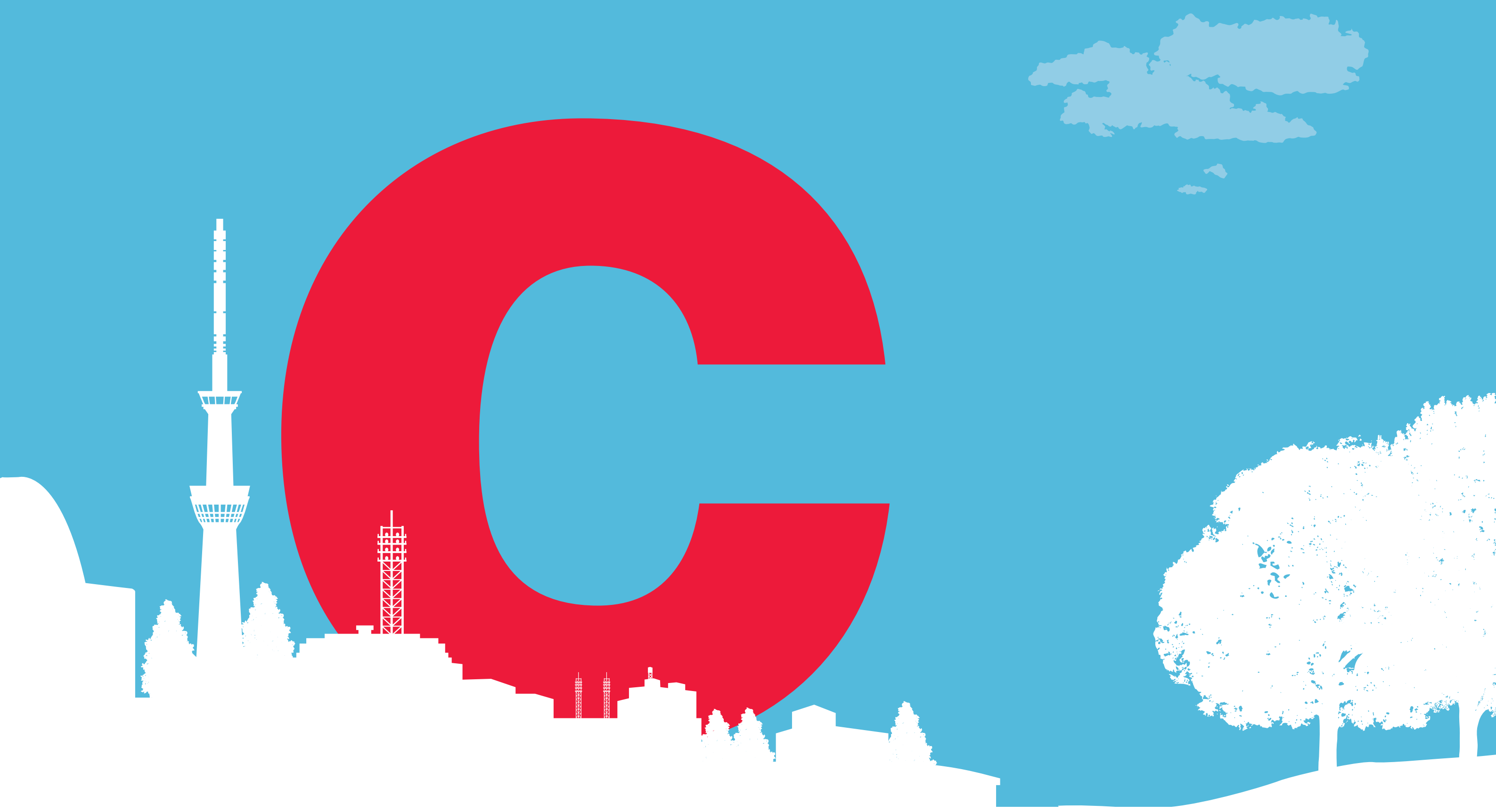
TOKAI CARBON CO., LTD.

ANNUAL REPORT 2014

For the Year Ended December 31, 2014



ANNUAL REPORT 2014

For the Year Ended December 31, 2014

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Message from President

Hajime Nagasaka
President and CEO

Analysis of Business Results for Year Ended December 31, 2014

The world economy remained on a moderate recovery path on the whole during 2014, as the U.S. economy continued to strengthen, centering on private-sector demand, and European economies, mainly the U.K., also showed signs of improvement. On the other hand, concerns increased towards the end of the year about the risk of recurrence of the debt crisis in the southern European region triggered by the unstable political situation in Greece, a slower pace of growth in the Chinese and other emerging economies, and economic stagnation caused by geopolitical risk mainly in Thailand, Ukraine and the Middle East. Meanwhile, in Japan, the government's various economic policies contributed to maintaining a stable economic environment and keeping the yen on a depreciating trend, and caused corporate earnings and employment conditions to improve, consumer spending to recover, and capital investment activities of companies to regain strength. Despite a temporary slowdown in economic conditions affected by a reaction to last-minute demand before the consumption tax hike and a lack of growth in real wages, the Japanese economy continued to show a moderate recovery trend during the year.

Under these circumstances, the Tokai Carbon Group continued to take initiatives to strengthen cost competitiveness, expand its overseas business, and promote research and development, during the fiscal year under review, which was the second year of the Group's "T-2015" three-year medium-term management plan and achieved a certain level of progress. Cancarb Limited, a Canadian carbon black manufacturer, which the Company acquired in April 2014 and made it a consolidated subsidiary as part of its strategy to expand overseas business, maintains an absolute advantage in the niche market and is expected to contribute to the Group's earnings and generate synergistic effects going forward. In the industries in which the Group's customers operate (e.g., rubber products, steel, semiconductors, IT hardware, and industrial machinery), the automobile-related segments continued to show a strong recovery trend, and other areas in general also exhibited a moderate pickup trend.

As a result, consolidated net sales in the fiscal year under review increased 13.5% year on year to ¥114,576 million. In terms of income, operating income surged 123.7% year on year to ¥3,703 million. This favorable result was attributable mainly to a contribution to earnings by Cancarb Limited, which became a consolidated subsidiary, and continuing efforts to reduce costs despite the effects of unfavorable factors, namely the inflow of cheap Chinese products into the domestic and overseas market for the carbon black business and the sluggish prices of graphite electrodes. Ordinary income rose 34.2% from a year earlier to ¥4,180 million and net income jumped 111.2% year on year to ¥2,562 million.

Dividend Policy and 2014-15 Dividends

In the aim of increasing shareholder returns, enhancing corporate value, and strengthening the Group's operational foundation, the Company has adopted a policy of setting dividends based on its earnings status viewed from a medium-term perspective, while also maintaining sufficient retained earnings. The Company retains earnings to fund strategic investments in new businesses, including M&A, invest in improving existing operations' efficiency, solidify its financial condition, and maintain stable dividends.

The Company plans to pay a year-end dividend of ¥3 per share, which is the same as the year-end dividend paid in the previous fiscal year. The year-end dividend will bring the total 2014 dividend, including the interim dividend, to ¥6 per share.

For 2015, the Company plans to pay a total annual dividend of ¥6 per share, consisting of an interim dividend of ¥3 per share and a year-end dividend of ¥3 per share.

Medium-Term Management Strategies

The Group has formulated "T-2015," a new three-year management plan which begins in 2013, in the aim of clarifying the direction of the Group, defining medium- and long-term management strategies and continuously carrying out reforms. Based on T-2015 for which the next fiscal year will be the final year of the plan, the Group has made a certain level of progress to date. Although it will unfortunately be quite challenging to achieve the quantitative targets for 2015 – net sales of ¥140 billion, ROS (operating income/net sales) of 11% and ROA (ordinary income/total assets) of 8% - the Group will continue to make efforts in pursuing ongoing initiatives, i.e., promoting the growth of existing businesses and development, deepening the strengths of each business, accelerating the global expansion of the businesses, and making use of M&A (mergers and acquisitions) and alliances to further expand its business fields.

Furthermore, as a mid- to long-term vision, the Group will promote reinforcement of its operating structure through pushing innovation in its aim to become a company with strong earning capability as a truly global company with a 100-year history in 2018, the year marking the 100th anniversary of the Company's founding.

Issues to be Addressed by the Company

It is anticipated that the Japanese economy will move on an upward trend, against the backdrop of the positive effects of various measures implemented by the government and the recovered strength in consumer spending as a reaction against the last-minute demand before the consumption tax hike has run its course, although there are concerns about downturns in overseas economies.

Under such circumstances, the Group continues to operate under its corporate philosophy, "Ties of Reliability," and the basic operating guidelines – ability to create value, fairness, ecology, and internationalism – as it pursues the path to become the "Global Leader of Carbon Materials." The Group is making concerted efforts to achieve its three-year medium-term management plan, "T-2015" in an aim to enhance corporate value.

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

Basic Corporate Philosophy

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

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

Profile

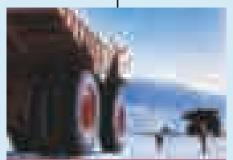
The Tokai Carbon Group commenced operations as a pioneer in the carbon industry in Japan in 1918.

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

The "Carbon Black" as a reinforcing material for rubber tires, the "Graphite Electrode" as an indispensable material to melt scrap to reproduce steel in electric arc furnace, the "Fine Carbon" used in variety of field for high technology such as solar cell and semi-conductors, the "Friction material" for use in brakes and clutches on engineering vehicles, motorcycles and the "Industrial furnace & related products" which is active in heat treatment process for ceramics, electrical parts, metal and glass.

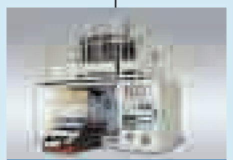
Growing together with these five core divisions, Tokai carbon continues to spread its wings globally.

Global Leader of Carbon Materials
TOKAI CARBON


Carbon Black
For
Tire industry,
Rubber industry

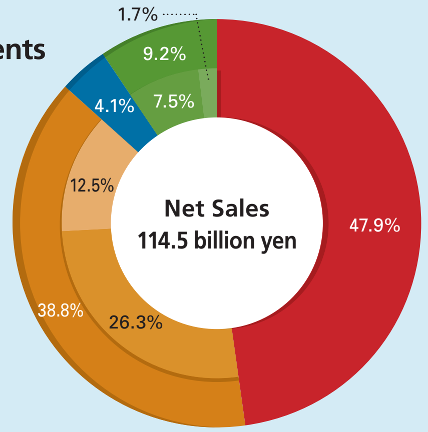

Graphite Electrode
For
Steel Industry


Fine Carbon
For
Solar cell industry,
Semi-conductor industry


Industrial Furnace and Related Products
For
Fine Ceramic industry,
Glass industry


Friction Materials
For
Motorcycle, Construction Machinery and Automobiles industries

Sales by Segments (2014)



- Carbon Black Segment
- Carbon and Ceramics Segment
  - Graphite Electrodes
  - Fine Carbon
- Industrial Furnaces and Related Products Segment
- Other Operations Segment
  - Friction Materials
  - Others

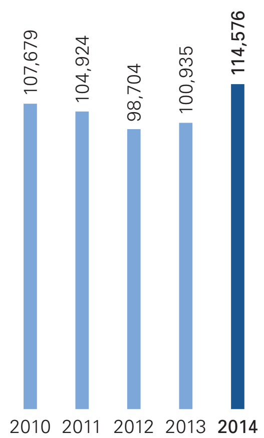
Five-Year Financial Highlights

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

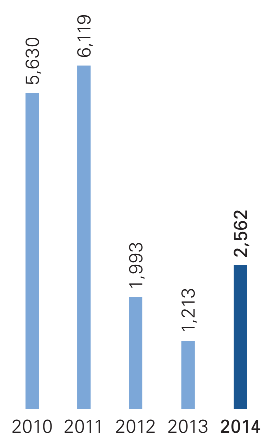
	Millions of Yen					Thousands of U.S. Dollars
	2010	2011	2012	2013	**2014**	**2014**
For the Year:						
Net Sales	¥107,679	¥104,924	¥98,704	¥100,935	**¥114,576**	**$1,082,437**
Carbon Black	40,017	40,077	40,968	44,910	**54,836**	**518,054**
Carbon and Ceramics	53,020	49,858	44,616	42,024	**44,487**	**420,283**
Industrial Furnaces and Related Products	5,628	5,401	4,239	4,213	**4,671**	**44,128**
Other Operations	9,014	9,586	8,879	9,788	**10,580**	**99,953**
Gross Profit	24,348	23,958	18,560	15,267	**18,651**	**176,202**
Operating Income	10,575	10,467	5,700	1,655	**3,703**	**34,983**
Income Before Income Taxes and Minority Interests	9,211	9,336	3,992	2,926	**4,345**	**41,228**
Net Income	5,630	6,119	1,993	1,213	**2,562**	**24,310**
Depreciation and Amortization	8,853	8,286	8,712	8,656	**8,629**	**81,877**
Research and Development Costs	2,012	1,956	1,962	1,799	**1,882**	**17,857**
Capital Expenditures	6,710	13,975	12,287	9,007	**6,830**	**64,807**
At Year-End:						
Total Assets	¥155,304	¥161,563	¥166,668	¥183,427	**¥210,439**	**$1,745,657**
Total Net Assets	105,605	107,223	113,266	123,232	**132,343**	**1,097,827**
Per Share Data:	Yen					U.S. Dollars
Net Income	¥ 26.05	¥ 28.66	¥ 9.34	¥ 5.68	**¥ 12.00**	**$0.11**
Total Net assets	484.53	488.30	515.90	567.19	**609.6**	**5.76**
Cash Dividends Applicable to The Year	8.00	8.00	7.00	6.00	**6.00**	**0.06**
Financial Ratios: (%)						
Return on Assets	6.4%	6.4%	3.9%	1.8%	**2.1%**	**2.1%**
Return on Equity	5.4	5.9	1.9	1.0	**2.0**	**2.0**
Equity Ratio	66.6	64.5	66.1	66.0	**61.8**	**61.8**

Note:U.S. dollar amounts in this page are translated from Japanese yen, for convenience only.
¥105.85=US$1, the exchange rate of average in 2014 to [For the Year] and [Per Share Data]
¥120.55=US$1, the exchange rate at December 31, 2014 to [At Year-End]

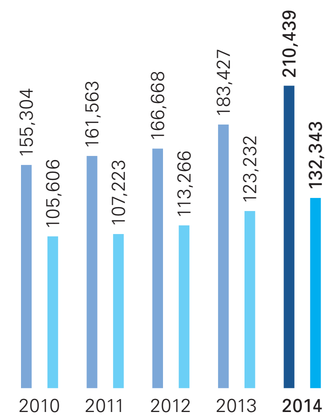
Net Sales (Millions of yen)



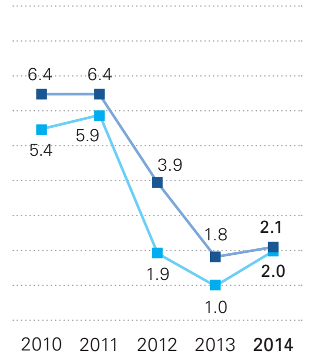
Net Income (Millions of yen)



Total Assets
Total Net Assets
(Millions of yen)



Return on Assets
Return on Equity
(%)

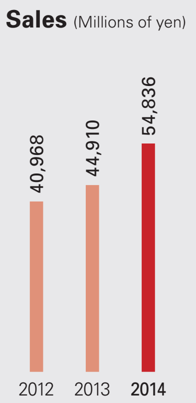


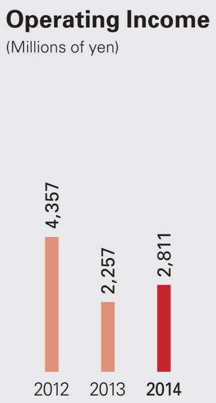
Carbon Black

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

In Japan, the automobile and tire industries, in which the Group's customers operate, remained favorable until around the summer, backed by last-minute demand associated with the consumption tax hike. Since the impact of a reaction to last-minute demand thereafter was limited, demand for carbon black generally remained strong throughout the year, although there was a period of temporary weakening. While the inflow of low-priced Chinese products into Japan and Thailand, which are the Group's key markets, continued, sales volume increased year on year thanks to the effects of a moderate recovery trend mainly in North America.

As a result, net sales in the carbon black segment increased 22.1% year on year to ¥54,836 million and operating income rose 24.5% from a year earlier to ¥2,811 million, partly due to a contribution to earnings by Cancarb Limited and revisions to domestic prices.





Tokai Carbon purchased Canadian Carbon Black manufacturer "Cancarb Limited" in April, 2014.

Topic

Cancarb engages in developing, manufacturing and marketing thermal black used for rubber auto parts and for refractory in global marketplace, including in the U.S., Europe and Asia.

As a producer of thermal black, which is made of natural gas, Cancarb seizes more than 50% share (Company estimate) in the global thermal black market and has achieved stable earnings through sale of high-value-added products, taking advantage of its favorable location with easy access to rich North American natural gas supply including shale gas.

Carbon and Ceramics

Graphite Electrodes

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

Global crude steel production exceeded the level of the previous fiscal year. In the segment of electric arc furnace steel, an industry in which the Group's customers operate, production was also higher than that of the previous fiscal year. Demand for graphite electrodes was above the level of a year earlier in the North American, European and Japanese markets. However, in Asia, which is the Company's key market, demand for steel slumped and demand for graphite electrodes was also sluggish due to the effects of the inflow of steel materials from China where oversupply continues.

Consequently, the sales volume increased only slightly year on year. Sales prices remained on a bearish trend both in Japan and overseas as the imbalance between supply and demand of graphite electrodes could not be resolved. However, net sales of graphite electrodes increased 2.1% from a year earlier to ¥30,088 million due partly to the effects of the weaker yen on foreign currency-denominated export sales.

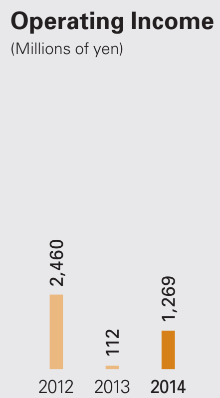
Fine Carbon

Fine carbon products are a wide variety of specialty graphites that are characterized by excellent electric conductance, high heat resistance, mechanical strength and lubricant ability, and are applied as key parts in the manufacturing processes of electric appliances, semiconductors, solar cells and LED, among other products.

In the area of fine carbon, demand continued on a moderate upward trend on the whole, supported by recovered strengths in the industries in which the Group's customers operate. By region, in the U.S., demand increased for applications in semiconductors and polysilicon and general industrial applications also remained strong. In Europe, where general industrial applications are at the core, demand was favorable until the latter half of the year when concerns about a slump in economic conditions caused by the situations in Russia and Ukraine began to show. Looking at Asia, although the pace of growth in demand was slow in Japan, demand for LED applications was generally favorable in Korea. Also in China, demand for general industrial applications and LEDs likewise continued to be favorable in addition to the recovery in demand for fine carbon for solar cells.

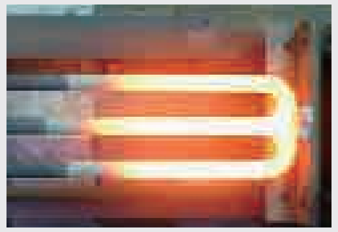
Consequently, net sales of fine carbon increased 14.7% year on year to ¥14,399 million, supported also by the benefits of the weaker yen.

As a result of the above, net sales in the Carbon and Ceramics segment increased 5.9% from a year earlier to ¥44,487 million.Operating income surged 1,031.1% year on year to ¥1,269 million thanks also to the benefits of the weaker yen.



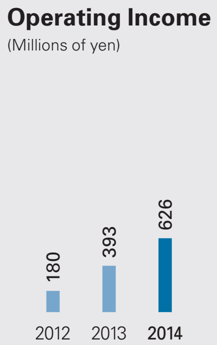
Industrial Furnaces and Related Product

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



In the IT-related industries, which are the main sources of demand for the Group's products, net sales of industrial furnaces increased significantly year on year, thanks to signs of partial recovery in the industries and to large-scale construction orders received. Net sales of heating elements and other products increased slightly from a year earlier due to robust demand in part of the Japanese electronic components industry and favorable conditions in the Chinese glass industry.

As a result, in the Industrial Furnaces and Related Products segment, net sales increased 10.9% year on year to ¥4,671 million, and operating income surged 59.1% year on year to ¥626 million.



Other Operations

Friction Materials

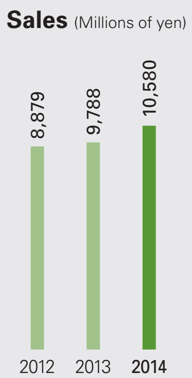
Friction materials are widely used for clutches and brakes of automobiles, motorcycles, construction, agricultural, transportation and other industrial machinery.

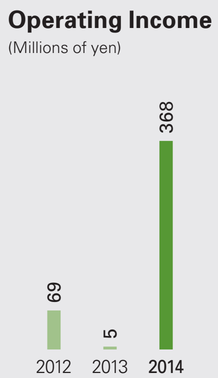
In the construction machinery markets, which are the main sources of demand for the Group's products, demand that had continued to be sluggish since the latter half of 2012 did not recover fully and the sales volume increased only marginally in response to spot demand. Meanwhile, in the agricultural machinery segment, sales volume rose on the back of strong demand in the North American markets. Sales volumes of friction materials for two-wheel and four-wheel vehicles were also favorable. As a result, net sales of friction materials rose 6.1% to ¥8,610 million.

Others

Net sales from property leasing and other businesses surged 17.9% year on year to ¥1,969 million as a result of growth in sales volume of anode material for rechargeable lithium-ion batteries.

As a result of the above, net sales in the Other Operations segment increased 8.1% year on year to ¥10,580 million, and operating income improved significantly from a year earlier to ¥368 million as a result of increased sales and improvement in operation rate.





Research and Development

Description of main research and development

Despite the superior material characteristics and multiple applications of our fine carbon and fine ceramics, both positioned as growing fields, the Company has recently been conducting product development to meet the hi-tech needs of the fast-growing energy, semiconductor, electronics and environment sectors.

Based on fostered technologies, we are investing in the research and development of carbon negative electrodes for lithium batteries, aqueous carbon black for inkjet printer pigment and fuel cell separators, among others.

Tokai Konetsu Kogyo Co., Ltd. is feverishly developing products differentiated from other rivals in multiple aspects including energy-saving equipment mostly for the environmental and energy markets, heat treatment furnaces for ceramic electronic components made with new, proprietary technology, and more.

New product
Hydrophilic Carbon Black
"Aqua-Black®" for Inkjet printer

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

Amount of R&D expenses

R&D expenses for the consolidated fiscal year under review totaled ¥1,882 million.

Capital Investment

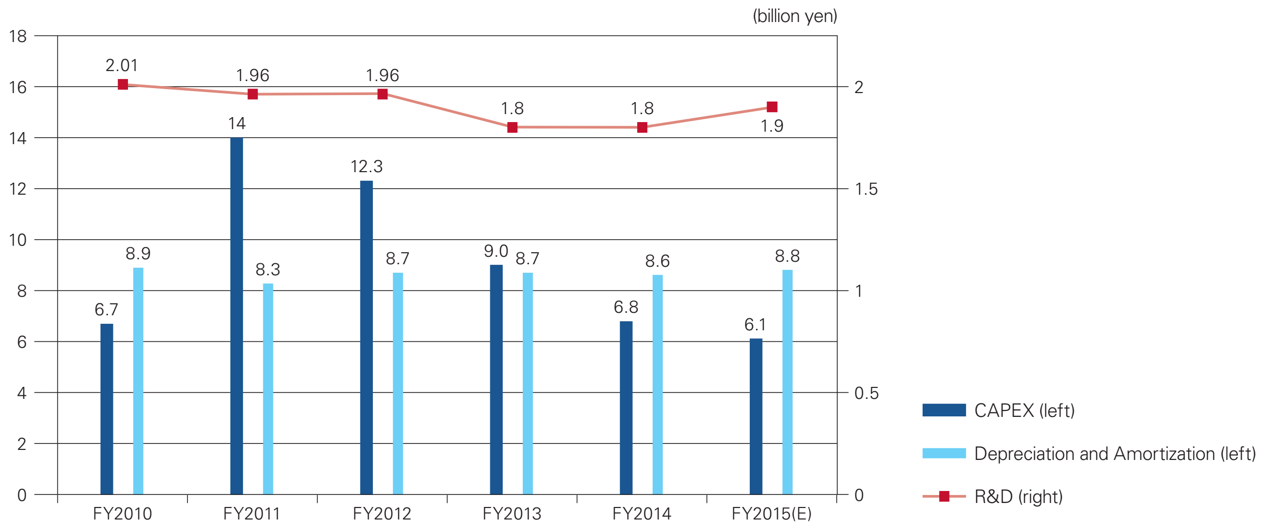
The Group focuses on product fields expected to grow over the long term and makes investments that aim to reduce labor, rationalize and enhance product reliability. During the consolidated fiscal year under review, ¥6,830 million in capital investments were made overall mostly in the carbon black business.

For the carbon black business, a capital investment of ¥3,457 million was made for the acquisition of exhaust heat treatment equipment incidental to the acquisition of Cancarb Limited.

For the carbon and ceramics business, a capital investment of ¥2,114 million was made mostly in the Company.

For the industrial furnace-related products business, a capital investment of ¥152 million was made mostly in Tokai Konetsu Engineering Co., Ltd. and Tokai Konetsu Kogyo Co., Ltd.

For the other business, a capital investment of ¥688 million was made mostly in the Company.



Analysis of financial position, operating results and cash flows

1. Important accounting policies and estimates

The consolidated financial statements for the Group were prepared based on generally accepted accounting standards in Japan. When preparing consolidated financial statements, estimates are made that affect the reported amounts of assets and liabilities on the accounts settlement date, as well as the reported amounts of earnings and expenses over the reporting period. However, actual results may differ from these estimates as they and other determinations are based on various factors deemed reasonable according to historical results and conditions.

2. Analysis of operating results for the consolidated fiscal year under review

Net sales for the consolidated fiscal year under review increased 13.5% year on year to ¥114,576 million thanks to a modest recovery in demand in the industries we support, the consolidation of Cancarb Limited and revenue increasing effects from yen depreciation, despite the influx of low-cost Chinese products in the Japanese carbon black market and low graphite electrode prices, among others.

The cost of sales ratio was 83.7%, 1.2 points lower than the previous fiscal year partially due to an increase in operation rate to meet higher sales volumes for graphite electrodes and fine carbon. As a result, gross profit rose 22.2% year on year to ¥18,651 million.

Sales expenses increased 7.1% year on year to ¥4,874 million in parallel with the rise in net sales. General and administrative expenses rose 11.2% year on year to ¥10,072 million partially due to the consolidation of Cancarb Limited and goodwill amortization coinciding with the acquisition thereof. Total selling, general and administrative expenses climbed 9.8% year on year to ¥14,947 million, with a ratio to net sales down 0.5 points to 13.0%. As a result, operating income increased 123.7% year on year to ¥3,703 million.

Nonoperating income increased 3.8% year on year to ¥2,969 million partially due to higher investment return under the equity method. Nonoperating expenses elevated 77.8% year on year to ¥2,492 million partially due to a provision of allowance for doubtful accounts and the consolidation of Cancarb Limited. As a result, ordinary income rose 34.2% year on year to ¥4,180 million.

Regarding extraordinary income, ¥179 million in gains from sale of noncurrent assets was posted. Regarding extraordinary loss, a ¥14 million impairment loss was posted. As a result, income before income taxes and other adjustments rose 48.5% year on year to ¥4,345 million.

Total corporation tax, inhabitants tax and enterprise tax as well as income taxes-deferred fell 3.0% year on year to ¥1,749 million. Consequently, the burden ratio of taxes including corporation tax was 40.2%. As a result, net income increased 111.2% year on year to ¥2,562 million.

Total assets for the consolidated fiscal year under review increased ¥27,011 million compared to the previous fiscal year-end to ¥210,439 million partially due to the consolidation of Cancarb Limited, goodwill amortization coinciding with the acquisition thereof and the posting of customer-related assets.

As a result, ROA (“Return On Assets,” ordinary income/total assets) for the consolidated fiscal year under review is up 0.3 points compared to the previous fiscal year to 2.1%.

3. Strategy status and outlook

The Group has formulated “T-2015,” a new three-year medium-term management plan which begins in 2013, in the aim of clarifying the direction of the Group, defining medium- and long-term management strategies and continuously carrying out reforms. Within this plan, the achievement of quantitative targets for 2015, namely net sales of ¥140 billion, ROS (“Return On Sales,”operating income/net sales) of 11% and ROA (ordinary income/total assets) of 8%, is unfortunately difficult under current conditions, however, promoting the growth of existing businesses and development, deepening the innate strengths of each business, accelerating the global expansion of the businesses, and making use of M&A (mergers and acquisitions) and alliances to further expand its business fields are issues we are facing.

Furthermore, as a mid-to-long term vision, we will strive to strengthen our corporate structure through innovation aiming to be a profitable, truly global company with a 100-year history by 2018, the year that will mark the 100th anniversary since our founding.

4. Cash Flows

At the end of the fiscal year under review, the Group’s cash and cash equivalents totaled ¥14,738 million, down ¥1,307 million from the previous fiscal year. Cash flows and the major sources and uses of cash in fiscal year 2014 are summarized as follows.

a. Cash flow from operating activities

Operating activities provided net cash of ¥11,983 million, an increase of ¥376 million from fiscal 2013, mainly due to an increase in trade payable.

b. Cash flow from investing activities

Investing activities used net cash of ¥24,027 million, an increase of ¥13,236 million from fiscal 2013, mainly due to an increase in purchase of shares of subsidiaries.

c. Cash flow from financing activities

Financing activities provided net cash of ¥9,728 million, an increase of ¥8,287 million from fiscal 2013, mainly due to an increase of cash from long-term debt.

Cash Flow Metrics

Year ended December 31,	2010	2011	2012	2013	**2014**
Shareholders' equity ratio (%)	66.6%	64.5%	66.1%	66.0%	**61.8%**
Shareholder's equity ratio at market value (%)	69.4%	55.3%	46.0%	42.7%	**36.0%**
Ratio of debt to cash flow	1.0	1.7	2.4	2.2	**3.2**
Interest coverage ratio (times)	28.8	24.0	14.6	17.1	**16.3**

Note: (1) The above ratios were calculated as follows using consolidated financial statement data.
Shareholders' equity ratio: shareholders' equity / total assets
Shareholders' equity ratio at market value: market capitalization / total assets
Ratio of debt to cash flow: interest-bearing debt / operating cash flow
Interest coverage ratio: operating cash flow / interest expense
(2) Market capitalization was calculated by multiplying the Company’s year-end closing share price by the number of shares outstanding (net of treasury stock) at year-end.
(3) Interest-bearing debt was calculated as the sum of all consolidated on-balance-sheet liabilities upon which interest is payable.
(4) Operating cash flow and interest expense are respectively "net cash provided by (used in) operating activities" and "interest paid" as reported on Consolidated Statements of Cash Flows.

Outlook for the Year Ending December 31, 2015

Assuming an exchange rate of \110 to the U.S. dollar, the Group forecasts 2015 consolidated net sales of ¥111,000 million, operating income of ¥4,000 million, ordinary income of ¥3,800 million, and net income of ¥1,800 million.

Furthermore, the Group forecasts that the balance of cash and cash equivalents at the end of the fiscal year will be approximately ¥14,000 million.

Outlook for FY 2015

(million yen)	FY2014 (Results)	FY2015 (Forecast)			Increase / Decrease
		1st Half	2nd Half	**The year**	
Net Sales	¥114,600	¥55,000	¥56,000	**¥111,000**	△ ¥3,600 △ 3.1%
Operating Income	3,700	1,600	2,400	**4,000**	300
Operating income margin (%)	3.2%	2.9%	4.3%	**3.6%**	8.0%
Ordinary Income	4,200	1,400	2,400	**3,800**	△ 400
Ordinary income margin (%)	3.6%	2.5%	4.3%	**3.4%**	△ 9.1%
Net Income	2,600	400	1,400	**1,800**	△ 800
Net income margin (%)	2.2%	0.7%	2.5%	**1.6%**	△ 29.8%

Note: Exchange rate assumptions for FY2015 110yen to the US dollar, 130 yen to the euro.

Status of Corporate Governance

1. Corporate Governance System

a. Overview of Corporate Governance System

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

Tokai Carbon's basic management policies are determined by its Board of Directors, which consists of eight Directors (of whom one is an external Director). The Board of Directors operates under a clear mandate as the body responsible for making decisions on strategy. Their meetings are usually held once a month and otherwise as necessary to make decisions on matters required by the Companies Act and important business issues, or to share reports on the status of business operations. The Company introduced the Executive Officer System in March 1999. Under this system, the Board of Directors selects and appoints the President and CEO and ten Executive Officers (of whom six serve concurrently as Directors) who take charge of business operations in different departments of the Company to accelerate operational decision making and clarify responsibilities. The President and CEO and Executive Officers in charge of different business operations have a Managing Executives Meeting once a month to deliberate on managerial matters. The Company appointed an external Director in March 2007 to strengthen the management supervision and checking function.

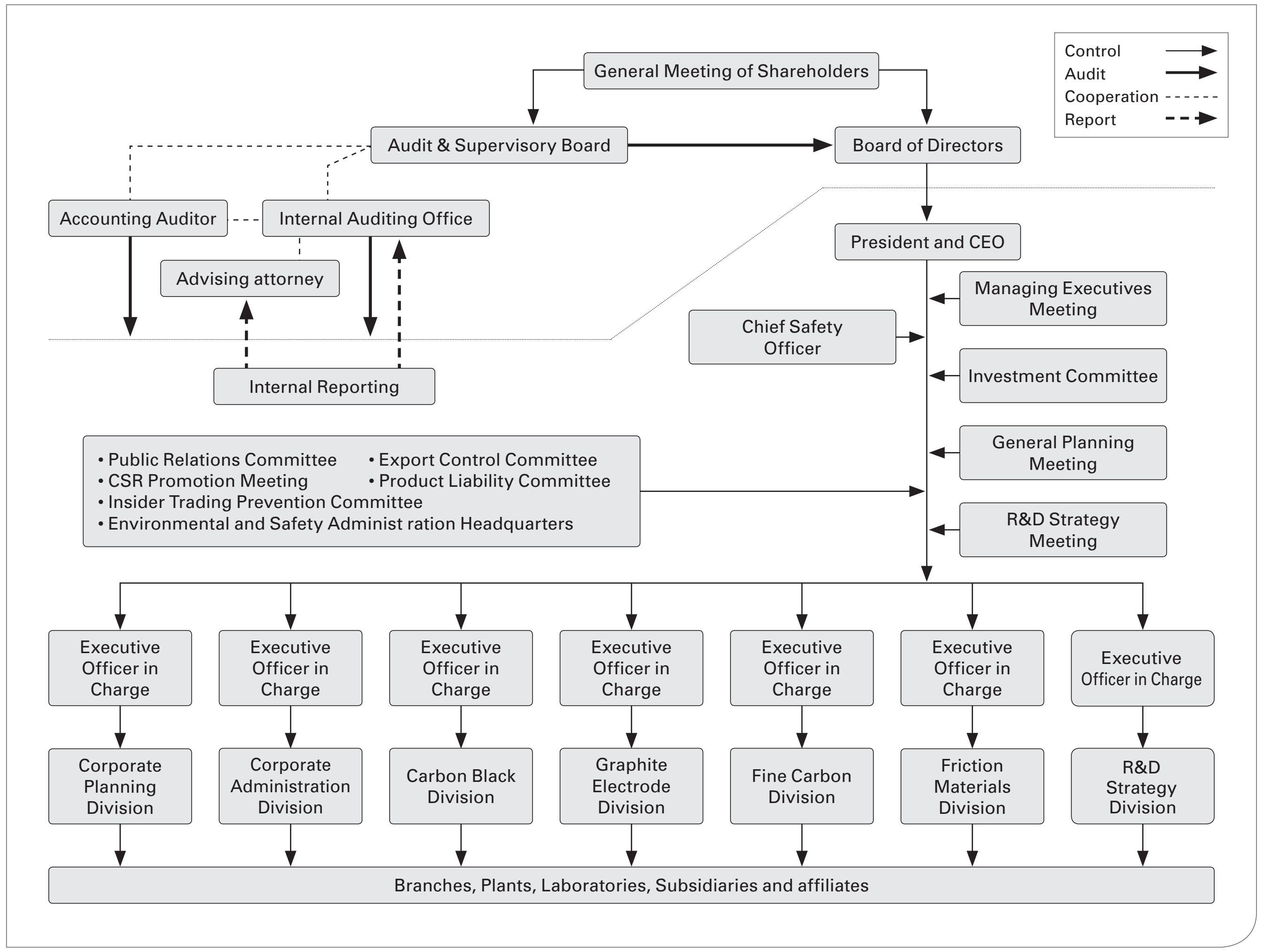
The Company has adopted the Audit & Supervisory Board Members system. The Audit & Supervisory Board consists of four Audit & Supervisory Board Members, two of whom are external members. Audit & Supervisory Board Members are required to conduct a fair and independent audit of the Company's business operations.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

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

b. Reason for Adoption of Corporate Governance System

The Company employs the current Audit & Supervisory Board Member system to ensure effective corporate governance. The Audit & Supervisory Board Members include external members who maintain a certain level of independence from management. The Audit & Supervisory Board Members attend all important meetings including Board of Directors' Meetings and Managing Executives Meetings. By voicing objective opinions at these meetings, the Audit & Supervisory Board Members enhance effective direction and oversight of the Company. Management considers that this system is amply sufficient to ensure the independence of audits and effective corporate governance given the scale and organizational structure of the Company.

Tokai Carbon Corporate Governance Structure (Outline as of March 27, 2015)



2. Status of Company Functions and Internal Control System

a. Internal Control System

"Fair business activities" represent one of our corporate policies, and this has led to the enactment of our Corporate Code of Ethics, which serves as a standard for behavior that must be strictly observed by all executives and other employees. The code is designed to ensure both lawful and fair business practices on a daily basis. Moreover, we are also striving to raise awareness of compliance as a key initiative of our CSR Promotion Meeting.

Tokai Carbon has also enacted a wide range of internal regulations regarding the execution of our business affairs and clarified the organizations for performing operations, as well as their authority and responsibility. These measures are part of the Company's ongoing efforts to establish a system that ensures fair business practices and accurate financial reporting.

b. Internal Auditing and Audit & Supervisory Board Member's Audits

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

In addition to attending the Board of Directors' Meetings and other important meetings to listen to directors and Executive Officers report on the status of their duties in accordance with the auditing policies and work allocation prescriptions stipulated by the Audit & Supervisory Board, the Audit & Supervisory Board Members also peruse all documents relating to important decisions. The Audit & Supervisory Board meeting was convened thirteen times during the fiscal year under review. The Audit & Supervisory Board Members also examine business practices and asset management within the head office and all other offices, request reports on operations from subsidiary companies when necessary, and closely audit the business practices of all Directors and Executive Officers.

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

Meetings are also held between the Audit & Supervisory Board Members and the Accounting Auditors when necessary to exchange information and generally ensure that communication links are maintained.

Audit & Supervisory Board Members cooperate with Accounting Auditors to establish auditing plans and attend the audits of the Accounting Auditors if necessary. They also receive reports and explanations regarding auditing processes and results, and audit consolidated accounts, account statements, and other necessary documents.

Audit & Supervisory Board Member Tsunehisa Samukawa has experienced being General Manager of the Company's Accounting Department and has significant knowledge of finance and accounting.

c. Accounts Auditing

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

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

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

Names of Certified Public Accountants Who Carried Out Auditing Duties: Designated limited liability partner, engagement partner: Koichi Yano, Saori Yamaguchi Composition of the Assistants Involved in Auditing Duties: Seven certified public accountants and ten other personnel.

d. Relationship with External Director and External Audit & Supervisory Board Members

The Company appoints one external Director and two external Audit & Supervisory Board Members

Although the Company has not stipulated any independence standards or policies concerning external Directors and Audit & Supervisory Board Members, it refers to the independence standard and disclosure requirement rules of the Tokyo Stock Exchange when selecting candidates for the positions to appoint candidates who have no risk of causing conflicts of interest with general shareholders.

External Director Masahiro Watanabe previously worked for Tohmatsu LLC, a limited liability audit corporation that conducts accounting audits of the Company, until December 2010. We pay an annual fee of 60 million yen as remuneration for the accounting auditing service to the corporation (actual amount as of December 2014). We believe that Mr. Watanabe has extensive knowledge and abundant experience as a certified public accountant and is able to provide supervision of our management team's business execution from an independent position. Also, he does not fall under any of the criteria stipulated in the abovementioned independence standard and disclosure requirement rules and has no risk of causing conflicts of interest with general shareholders.

External Audit & Supervisory Board Member Ryuichi Sato previously worked for Mitsubishi Chemical Corporation, with which the Company has a business relationship, until March 2008. The Company procures raw materials from Mitsubishi Chemical and sells final products to it; however the volume of this business accounts for just a fraction of our overall transaction volumes. Mr. Sato contributes to auditing our overall business by making use of the rich management experience and knowledge that he acquired during his employment at a listed manufacturing company. Moreover, he does not fall under any of the criteria stipulated in the abovementioned independence standard and disclosure requirement rules and has no risk of causing conflicts of interest with general shareholders.

Audit & Supervisory Board Member (External Member) Sasao Seiichiro previously worked for Mitsubishi UFJ Trust and Banking Corporation, with which the Company has banking relationship, as an executive officer until March 2009. The Company has a bank loan of 3,761 million yen from the bank as of December 31, 2014. Mr. Sasao contributes to auditing our overall business by making use of the abundant business and management experience that he acquired at the bank and its affiliated company. While the Company has banking transactions with several banks, the bank loan from Mitsubishi UFJ Trust and Banking only accounted for 2.4% of all bank loans as of December 31, 2014, showing that the Company's dependence on the bank is low. Also, the ratio of the Company's shares held by the bank was 3.11% as of December 31, 2014, limiting its influence on the Company's management and making it unlikely that Mr. Sasao will have a risk of causing conflicts of interest with general shareholders.

At the Board of Directors' meeting, the external director and external Audit & Supervisory Board Members receive reports on the basic policy for establishing an internal control system, the status of these initiatives, and their results.

Moreover, the external Audit & Supervisory Board Members coordinate with the other Audit & Supervisory Board Members through the Audit & Supervisory Board meeting to conduct audits from multiple perspectives through mutual coordination with the internal audit and the accounting audit and with the departments responsible for internal control, as noted in "b. Internal Auditing and Audit & Supervisory Board Member's Audits."

3. Risk Management System

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

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

4. Overview of Responsibility Limitation Contracts

Contracts limiting liability for damages based on Article 427, Paragraph 1 and Article 423, Paragraph 1 of the Companies Act of Japan have been concluded between Tokai Carbon and the external Director Masahiro Watanabe and the external Audit & Supervisory Board Member Ryuichi Sato. The amount of the limit for liability stipulated in these contracts shall be determined in accordance with the law for both the external Director and the external Audit & Supervisory Board Member. The limitations on responsibility as stipulated in these contracts apply only in the case where the external Director and the external Audit & Supervisory Board Member have discharged the duties that have made them responsible for damage in good faith and without gross negligence.

5. Number of Directors

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

6. Appointment of Directors

The articles of incorporation stipulate that Directors shall be appointed only by a resolution of a meeting of shareholders holding at least one third of the voting rights and being eligible to vote, where the motion to appoint a Director is passed by a majority of the voting rights. Moreover, the articles of incorporation further stipulate that a resolution to appoint a Director may not be decided by cumulative voting.

7. Acquisition of Treasury Stocks

The articles of incorporation stipulate that treasury stock may be acquired by a resolution of the Board of Directors as stipulated in Article 165, Paragraph 2, of the Companies Act. The objective of this is to enable the company to acquire its own stock via market transactions in order to promote a flexible capital policy to cope with changes in the business management environment.

8. Interim Dividends

The articles of incorporation stipulate that Tokai Carbon may pay out surplus funds as dividends (interim dividends) in accordance with Article 454, Paragraph 5, of the Companies Act upon a resolution of the Board of Directors. The objective of this is to provide a flexible return of profits to shareholders.

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

The articles of incorporation stipulate that requests for extraordinary resolutions during the General Meeting of Shareholders as stipulated in Article 309, Paragraph 2, of the Companies Act may be passed only by a resolution of a meeting of shareholders holding at least one third of the voting rights and being eligible to vote, where the resolution is passed by a two-third majority. The objective of this is to facilitate the smooth running of the General Meeting of Shareholders by relaxing the quorum requirements for extraordinary resolutions during the General Meeting of Shareholders.

Status of Corporate Governance

10. Executive Remuneration

a. Total Amounts of Remuneration Paid to Directors and Audit & Supervisory Board Members, Total Amounts of Each Type of Remuneration, and Number of Eligible Recipients

Classification	Total amount of remuneration (Millions of yen)	Total amount of remuneration by type (Millions of yen)				Number of eligible recipients
		Basic remuneration	Stock options	Bonuses	Retirement allowances	
Directors (Excluding external Directors)	174	135	—	38	—	10
Audit & Supervisory Board Members (Excluding external Audit & Supervisory Board Members)	20	20	—	—	—	3
External Directors and External Audit & Supervisory Board Members	34	32	—	1	—	3

Note: (1) It was resolved at the 144th General Meeting of Shareholders held on March 30, 2006, that the maximum amount of remuneration paid to Directors shall be less than ¥350 million per annum.
(2) It was resolved at the 144th General Meeting of Shareholders held on March 30, 2006, that the maximum amount of remuneration paid to Audit & Supervisory Board Members shall be less than ¥65 million per annum.
(3) The figures for total remuneration amount and numbers of eligible recipients include three Directors and one External Audit & Supervisory Board Member who retired at the end of the 151st General Meeting of Shareholders held on March 27, 2014.

b. Method for Determining Amounts of Remuneration for Directors and Audit & Supervisory Board Members

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

The Company's policy is to pay a remuneration amount within the limits for remuneration approved at the General Meeting of Shareholders, in consideration of business performance, returns to shareholders, employee bonuses and other factors, and in accordance with the timing and calculation method stipulated in the Company's internal regulations.

c. Total Amount of Consolidated Remuneration Paid to Individual Directors and Audit & Supervisory Board Members

Since no Directors or Audit & Supervisory Board Members received consolidated remuneration in excess of ¥100 million for the fiscal year under review, no data is disclosed.

Compliance

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

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

Compliance Manual

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

Internal Reporting System

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

Exclusion of Antisocial Elements

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

Awareness-Raising and Education

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

Consolidated Financial Statements

Consolidated Balance Sheets

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

	Millions of Yen	
	2014	2013
ASSETS		
Current assets		
Cash and cash equivalents	**¥ 14,862**	¥ 16,048
Notes and accounts receivable	**33,972**	30,075
Merchandise and finished goods	**15,574**	14,589
Work in process	**13,585**	15,666
Raw materials and supplies	**12,138**	11,251
Deferred tax assets	**1,133**	982
Other	**3,568**	2,624
Allowance for doubtful accounts	**(149)**	(253)
Total current assets	**94,685**	90,984
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	**18,807**	16,548
Machinery, equipment and vehicles, net	**34,570**	25,258
Furnaces, net	**1,350**	1,355
Land	**7,219**	7,143
Construction in progress	**4,525**	10,614
Other, net	**1,107**	1,064
Total tangible fixed assets	**67,581**	61,985
Intangible fixed assets		
Software	**416**	417
Goodwill	**7,581**	—
Customer-related assets	**4,933**	—
Other	**1,171**	46
Total intangible fixed assets	**14,103**	464
Investments and other assets		
Investment securities	**30,590**	27,939
Net defined benefit asset	**2,318**	—
Deferred tax assets	**384**	346
Other	**834**	1,764
Allowance for doubtful accounts	**(59)**	(57)
Total investment and other assets	**34,069**	29,994
Total fixed assets	**115,753**	92,443
Total assets	**¥210,439**	¥183,427

	Millions of Yen	
	2014	2013
LIABILITIES		
Current liabilities		
Notes and accounts payable	**¥ 13,717**	¥ 12,704
Electronically recorded obligations-operating	**2,334**	1,474
Short-term borrowings	**19,504**	19,267
Current portion of long-term debt	**2,071**	1,450
Income taxes payable	**750**	910
Consumption tax payable	**313**	271
Accrued expenses	**1,135**	1,350
Reserve for bonuses	**200**	163
Other	**4,870**	4,792
Total current liabilities	**44,897**	42,385
Fixed liabilities		
Long-term debt	**16,713**	5,044
Deferred tax liabilities	**10,274**	6,627
Provision for retirement benefits	**—**	3,708
Net defined benefit liability	**4,145**	—
Reserve for directors' retirement benefits	**119**	130
Reserve for executive officers' retirement benefits	**35**	34
Provision for environment and safety measures	**477**	557
Other	**1,433**	1,706
Total fixed liabilities	**33,198**	17,809
Total liabilities	**78,096**	60,195
NET ASSETS		
Shareholders' capital		
Common stock	**20,436**	20,436
Additional paid-in capital	**17,502**	17,502
Retained earnings	**77,295**	76,014
Treasury stock	**(7,227)**	(7,146)
Total shareholders' capital	**108,006**	106,807
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	**11,958**	10,715
Foreign currency translation adjustments	**9,212**	3,578
Remeasurements of defined benefit plans	**806**	—
Total other accumulated comprehensive income	**21,977**	14,294
Minority interests	**2,359**	2,131
Total net assets	**132,343**	123,232
Total liabilities and net assets	**¥210,439**	¥183,427

Consolidated Statements of Operations and Comprehensive Income

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

Consolidated Statement of Operation

	Millions of Yen	
	2014	2013
Net sales	**¥114,576**	¥100,935
Cost of sales	**95,924**	85,668
Gross profit	**18,651**	15,267
Selling, general and administrative expenses		
Selling expenses	**4,874**	4,551
General and administrative expenses	**10,072**	9,060
Total selling, general and administrative expenses	**14,947**	13,611
Operating income	**3,703**	1,655
Non-operating income		
Interest income	**96**	79
Dividend income	**508**	408
Rental income	**294**	241
Equity in income of non-consolidated subsidiaries and affiliates	**609**	—
Foreign exchange gains	**910**	1,558
Other non-operating income	**549**	572
Total non-operating income	**2,969**	2,861
Non-operating expense		
Interest expense	**744**	678
Expense on facilities for rent	**71**	203
Equity in losses of affiliates	**—**	6
Other non-operating expense	**1,676**	513
Total non-operating expense	**2,492**	1,401
Ordinary income	**4,180**	3,114
Extraordinary income		
Gain on sales of fixed assets	**179**	—
Gain on step acquisitions	**—**	29
Total extraordinary income	**179**	29
Extraordinary losses		
Impairment loss	**14**	86
Provision for environment and safety measures	**—**	131
Total extraordinary losses	**14**	217
Income before income taxes	**4,345**	2,926
Income taxes, inhabitants tax, and enterprise taxes	**1,928**	1,556
Income taxes adjustments	**(179)**	246
Total income taxes	**1,749**	1,802
Income before minority interests	**2,596**	1,124
Minority interests in income (loss)	**34**	(89)
Net income	**¥ 2,562**	¥ 1,213

Consolidated Statement of Comprehensive Income

	Millions of Yen	
	2014	2013
Income before minority interests	**¥ 2,596**	¥1,124
Other comprehensive income		
Valuation difference on available-for-sale securities	**1,247**	5,052
Deferred gains or losses on hedges	**—**	2
Foreign currency translation adjustment	**5,352**	5,928
Share of other comprehensive income of associates accounted for using equity method	**540**	579
Total other comprehensive income	**7,140**	11,563
Comprehensive income	**9,737**	12,687
Comprehensive income attributable to owners of the parent company	**9,439**	12,225
Comprehensive income attributable to minority interests	**¥ 298**	¥ 462

Consolidated Statements of Changes in Shareholders' Capital

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013) (millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance at the beginning of the period	¥20,436	¥17,502	¥76,082	¥(7,134)	¥106,887
Changes of items during the period					
Dividends from surplus			(1,281)		(1,281)
Net income			1,213		1,213
Purchase of treasury stock				(13)	(13)
Disposal of treasury stock			(0)	0	0
Net changes of items other than shareholders' capital					
Total changes of items during the period	—	—	(68)	(12)	(80)
Balance at the end of the period	¥20,436	¥17,502	¥76,014	¥(7,146)	¥106,807

	Other accumulated comprehensive income						
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total other accumulated comprehensive income	Minority interests	Total net assets
Balance at the beginning of the period	¥ 5,666	¥(2)	¥(2,381)	—	¥ 3,282	¥3,096	¥113,266
Changes of items during the period							
Dividends from surplus							(1,281)
Net income							1,213
Purchase of treasury stock							(13)
Disposal of treasury stock							0
Net changes of items other than shareholders' capital	5,048	2	5,960	—	11,012	(964)	10,047
Total changes of items during the period	5,048	2	5,960	—	11,012	(964)	9,966
Balance at the end of the period	¥10,715	—	¥ 3,578	—	¥14,294	¥2,131	¥123,232

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

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

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

Consolidated Statements of Cash Flows

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

	Millions of Yen	
	2014	2013
Cash flows from operating activities:		
Income before income taxes	**¥ 4,345**	¥ 2,926
Depreciation and amortization	**8,629**	8,656
Impairment loss	**14**	86
Loss (gain) on sales of property, plant and equipment	**(178)**	—
Amortization of goodwill	**290**	20
Increase (decrease) in allowance for doubtful accounts	**(105)**	189
Increase (decrease) in reserve for bonuses	**34**	8
Increase (decrease) in provision for retirement benefits	**—**	36
Increase (decrease) in net defined benefit liability	**383**	—
Decrease (increase) in net defined benefit asset	**(108)**	—
(Increase) decrease in prepaid pension cost	**—**	(189)
Increase (decrease) in reserve for directors' retirement benefits	**(11)**	(16)
Increase (decrease) in reserve for executive officers' retirement benefits	**0**	(2)
Increase (decrease) in provision for environment and safety measures	**(79)**	(59)
Interest and dividends income	**(605)**	(488)
Interest paid	**744**	678
Foreign exchange (gain) loss	**(203)**	(709)
Equity in (income) loss of non-consolidated subsidiaries and affiliates	**(609)**	6
Loss (Gain) on step acquisitions	**—**	(29)
(Increase) decrease in trade receivables	**(1,775)**	(245)
(Increase) decrease in inventories	**2,435**	4,403
Increase (decrease) in trade payables	**1,226**	(2,778)
Increase (decrease) in accrued expenses	**(267)**	163
Increase (decrease) in accounts payable-others	**202**	157
(Increase) decrease in advance payment	**(366)**	240
Increase (decrease) in accrued consumption taxes	**42**	252
Other	**449**	18
Subtotal	**14,487**	13,325
Interest and dividends received	**622**	531
Interest paid	**(734)**	(679)
Income taxes paid	**(2,391)**	(1,569)
Net cash provided by (used in) operating activities	**¥11,983**	¥11,606

	Millions of Yen	
	2014	2013
Cash flows from investing activities:		
Payments into time deposits	**¥ (107)**	—
Net decrease (increase) in short-term loans receivable	**198**	¥ 0
Purchase of tangible fixed assets	**(7,522)**	(9,034)
Proceeds from sales of property, plant and equipment	**224**	—
Purchase of intangible fixed assets	**(106)**	(168)
Purchase of investments in capital of subsidiaries	**—**	(1,579)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(16,823)**	—
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	26
Proceeds from sales of capital of subsidiaries and affiliates	**119**	—
Other	**(10)**	(35)
Net cash provided by (used in) investing activities	**(24,027)**	(10,791)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	**(853)**	3,725
Proceeds from long-term debt	**13,467**	—
Repayment of long-term debt	**(1,407)**	(959)
Dividend paid	**(1,281)**	(1,281)
Proceeds from minority shareholders	**—**	110
Cash dividends paid to minority shareholders	**(59)**	(86)
Other	**(137)**	(66)
Net cash provided by (used in) financing activities	**9,728**	1,441
Effect of exchange rate changes on cash and cash equivalents	**1,006**	1,898
Increase (decrease) in cash and cash equivalents	**(1,307)**	4,155
Cash and cash equivalents at beginning of the period	**16,046**	11,891
Cash and cash equivalents at end of the period	**¥ 14,738**	¥ 16,046

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

I. Notes on the Going Concern Assumption

Not applicable

II. Basis for Preparation of Consolidated Financial Statements

1. Scope of consolidation

a. Number of consolidated subsidiaries: 26 companies

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

Cancarb Limited has been included in the scope of consolidation as a result of the Company's acquisition of all of Cancarb's shares effective April 15, 2014.

b. Names of non-consolidated subsidiaries

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

Reason for exclusion from scope of consolidation

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

2. Application of equity method

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

Names of the affiliates:
Tokai Carbon Korea Co., Ltd., SGL Tokai Carbon Ltd., Shanghai, Heisei Ceramics Co.,Ltd., MWI, Inc., SGL Tokai Process Technology PTE. Ltd.

b.

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

c.

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

3. Fiscal years, etc., of consolidated subsidiaries

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

4. Accounting standards

a. Valuation standard and valuation method for important assets

(1) Securities

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

(2) Inventories

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

(3) Derivatives

Derivative instruments are valued by the market value method.

b. Depreciation method of important depreciable assets

(1) Tangible fixed assets (excluding lease assets)

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

The main useful lives are as follows.

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

(2) Intangible fixed assets (excluding lease assets)

The straight-line method is adopted.

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

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

(3) Lease assets

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

c. Recognition of important allowances

(1) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on a reasonable standard such as the historical experience of bad debt for ordinary accounts.

For specific accounts such as doubtful accounts receivable, the collectability is determined individually, and the estimated uncollectible amount is recorded.

(2) Reserve for directors' retirement benefits

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

Additional information

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

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

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

(3) Reserve for executive officers' retirement benefits

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

(4) Provision for environment and safety measures

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

d. Accounting method relating to retirement benefits

(1) Period attribution method for expected retirement benefit payments

In calculating retirement benefit obligations, the Company adopts the straight-line attribution standards for the method of attributing expected retirement benefit payments to the period up to the end of the fiscal year under review.

(2) Accounting for actuarial differences and prior service cost

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

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

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

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

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

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

f. Material hedge accounting method

(1) Hedge accounting method

As a general rule, deferral hedge accounting is adopted.

Foreign exchange contracts that meet the requirements for designation are accounted for by the allocation method and interest rate swaps that meet the requirements for special treatment are accounted for by the special accounting method.

Also, unified treatment (allocation treatment, special treatment) is adopted for interest rate and currency swaps that meet the unified treatment (allocation treatment, special treatment) requirements.

(2) Hedging instruments and hedged items

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

a) Hedging instruments:
Forward exchange contracts

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

b) Hedging instruments:
Interest rate and currency swaps

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

(3) Hedging policy

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

(4) Method of assessing the effectiveness of hedges

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

g. Method and period of amortization of goodwill

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

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

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

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

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

Accounting for consumption taxes

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

III. Changes in Accounting Policies, etc.

Application of accounting standard for retirement benefits

Effective the end of the fiscal year under review, the Company adopts the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012); provided, however, provisions in the main text of Paragraph 35 of the "Accounting Standard for Retirement Benefits" and those in the main text of Paragraph 67 of the "Guidance on Accounting Standard for Retirement Benefits" are excluded. Accordingly, the Company has changed its policy by adopting the method of recording the amount derived by deducting the amount of pension assets from retirement benefit obligation to net defined benefit asset or net defined benefit liability and posting unrecognized actuarial differences to net defined benefit liability.

The application of Accounting Standard for Retirement Benefits is in accordance with the transitional treatment provided in Paragraph 37 of the Accounting Standard for Retirement Benefits, and the amount of impact associated with this change has been reflected in remeasurements of defined benefit plans under accumulated other comprehensive income as of the end of the fiscal year under review.

As a result, net defined benefit assets of ¥1,240 million were recorded and accumulated other comprehensive income increased ¥806 million as of the end of the fiscal year under review.

Net assets per share increased ¥3.78.

IV. Changes in Method of Presentation

Consolidated Statements of Cash Flows

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

As a result, ¥20 million posted in "Other" under "Cash flows from operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year have been reclassified and included in "Amortization of goodwill."

"Net decrease (increase) in short-term loans receivable," which was included in "Other" under "Cash flows from investing activities" in the previous fiscal year is independently presented effective the fiscal year under review due to an increase in significance of its monetary value.

Notes to Consolidated Financial Statements

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

Account items in consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥0 million presented in "Other" under "Cash flows from investing activities" in the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified and included in "Net decrease (increase) in short-term loans receivable."

V. Business Combinations

Business combination through acquisition

1. Overview of business combination

a. Name of acquired company and its business

Name of acquired company: Cancarb Limited
Business description: Development, manufacture and marketing of thermal black; other

b. Major reasons for executing the business combination

In recognition that the carbon black business is its mid- to long-term growth target area, the Company has already established a leading position in Asia, mainly in China and Thailand, in addition to Japan in the furnace black field. It believes that collaboration with Cancarb Limited would contribute to further heightening its presence in the global carbon black market and achieving the objective of accelerating growth. The Company also expects that entering into the thermal black field, which uses natural gas as a major component, would drive the expansion of the product portfolio and technology base of the Tokai Carbon Group and thereby strengthening the earnings stability and cost competitiveness of the Group.

c. Date of business combination

April 15, 2014

d. Legal format of business combination

Acquisition of shares

e.Name of company after combination

There is no change to the name of the company after combination.

f.Ratio of voting rights acquired

Ratio of voting rights owned prior to the acquisition of shares: 0%
Ratio of voting rights acquired on the date of business combination: 100%
Ratio of voting rights after acquisition: 100%

g.Major reason underlying the decision for business combination

As a result of the share acquisition against cash consideration, the Company had 100% ownership of voting rights of Cancarb Limited.

2. Period of operating performance of the acquired company included in the consolidated financial statements

Since April 30, 2014 is regarded as the acquisition date, the operating performance for the period between May 1, 2014 and December 31, 2014 is included.

3. Cost of acquisition of the acquired company and the breakdown thereof

Consideration of acquisition: ¥17.059 million
Expenses directly required for the acquisition (advisory expenses, etc.): ¥385 million
Cost of acquisition: ¥17,444 million

4. Goodwill incurred - amount, cause, method and period of amortization

Expenses directly required for the acquisition (advisory expenses, etc.): ¥385 million
Cost of acquisition: ¥17,444 million

a. Amount of goodwill

¥7,171 million

b. Cause

It is primarily the excess profit generating capability expected through the deployment of business activities going forward.

c. Method and period of amortization

Straight-line method over a period of 17 years

5. Breakdown of assets and liabilities transferred as of the date of business combination

Current assets	¥ 3,222 million	Current liabilities	¥ 979 million
Fixed assets	¥10,249 million	Fixed liabilities	¥2,272 million
Total assets	¥13,472 million	Total liabilities	¥3,252 million

6. Intangible fixed assets other than goodwill – amount, major categories, and weighted average depreciation period in total and by major category

Category	Amount	Weighted average depreciation period
Assets relating to customers	¥4,642 million	17 Years
Assets relating to technology	¥ 927 million	10 Years
Assets relating to trademar	¥ 84 million	5 Years
Total	¥5,654 million	15 Years

7. Estimated amount of impact of business combination on the consolidated statement of operation for the fiscal year under review assuming it was completed on the initial date of the consolidated fiscal year under review and the method of estimate calculation

Net sales	¥2,668 million	Operating income	¥382 million

Method of estimate calculation

The Company recognizes the estimated amount of impact of the business combination as the difference between the net sales and income & loss information calculated on assumption that the business combination was completed on the initial date of the fiscal year under review and the net sales and income & loss information on the Company's consolidated statement of operation.

Additionally, the Company has remeasured and calculated the amount of amortization of goodwill on assumption that goodwill was recognized on the initial date of the fiscal year under review.

Notes herein have not received an audit certification.

Segment Information

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

I. Segment Information

1. Overview of reportable segments

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

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

Accordingly, the Company is composed of product-specific segments based on divisions, and its three reportable segments are Carbon Black business, Carbon and Ceramics business, and Industrial Furnaces and Related Products business.

The major products of each reportable segment are as follow:

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

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

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

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

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

Change in the method of measurement of segment assets

Effective the fiscal year under review, the Company, in conjunction with the change in its asset management policy, has changed the method of measurement of segment assets in order to more accurately present the actual status of assets by segment, by posting cash and deposits, etc. of consolidated subsidiaries that were included in all-company assets up till the previous fiscal year as assets by business segment.

The segment information for the previous fiscal year is disclosed based on the method prior to the change.

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

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013) (millions of yen)

	Reportable Segments				Other business *1	Total	Adjustment *2	Amount recorded in the consolidated financial statements *3
	Carbon black business	Carbon and ceramics business	Industrial furnaces and related products business	Total				
Net sales								
External sales	¥44,910	¥42,024	¥4,213	¥91,147	¥ 9,788	¥100,935	—	¥100,935
Inter-segment sales / transfer	62	121	308	492	—	492	¥(492)	—
Total	44,972	42,146	4,521	91,640	9,788	101,428	(492)	100,935
Segment income	2,257	112	393	2,763	5	2,768	(1,113)	1,655
Segment assets	59,379	76,365	6,170	141,915	11,209	153,125	30,302	183,427
Other items								
Depreciation and amortization	3,533	3,794	196	7,524	780	8,305	351	8,656
Impairment loss	—	72	—	72	—	72	14	86
Investment in equity-method affiliates	—	3,606	93	3,699	—	3,699	—	3,699
Increase in tangible and intangible fixed assets	¥ 3,565	¥ 4,086	¥ 137	¥ 7,789	¥ 999	¥ 8,788	¥218	¥ 9,007

Note: 1. The Other Business segment is a business segment that is not included in the reportable segments. It includes Friction Materials business and Property Leasing.
2. The adjustment amounts are as follows.
(1) The adjustment of segment income, which is ¥(1,113) million, includes ¥(1,106) million of corporate-wide expenses not allocated to each reportable segment. Corporate-wide expenses include research and development expenses that do not belong to the reportable segments.
(2) The adjustment of segment assets, which is ¥30,302 million, includes ¥30,674 million of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus working funds (e.g., cash and deposits) and investment securities.
(3) The adjustment of impairment loss, ¥14 million, is the impairment loss of the corporate-wide assets not allocated to each reportable segment.
(4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥218 million, is the amount of capital investment of the corporate-wide assets that is not allocated to each reportable segment.
3. Segment income is adjusted with the operating income reported in the consolidated financial statements.

Segment Information

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

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

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

Note: 1. The Other Business segment is a business segment that is not included in the reportable segments. It includes Friction Materials business and Property Leasing.
2. The adjustment amounts are as follows.
(1) The adjustment of segment income, which is ¥(1,372) million, includes ¥(1,304) million of corporate-wide expenses not allocated to each reportable segment. Corporate-wide expenses include research and development expenses that do not belong to the reportable segments.
(2) The adjustment of segment assets, which is ¥27,730 million, includes ¥28,128 million of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus working funds (e.g., cash and deposits) and investment securities.
(3) The adjustment of impairment loss, ¥14 million, is the impairment loss of the corporate-wide assets not allocated to each reportable segment.
(4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥417 million, is the amount of capital investment of the corporate-wide assets that is not allocated to each reportable segment.
3. Segment income is adjusted with the operating income reported in the consolidated financial statements.

Related Information

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)

1. Information on each product and service

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

2. Information on each region

a. Net sales (millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
¥51,123	¥13,702	¥15,150	¥11,775	¥9,184	¥100,935

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

b. Tangible fixed assets (millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
¥39,687	¥7,398	¥9,182	¥4,618	¥1,097	¥61,985

3. Information on each major customer

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

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

1. Information on each product and service

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

2. Information on each region

a. Net sales (millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
¥53,292	¥14,624	¥17,543	¥16,553	¥12,561	¥114,576

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

b. Tangible fixed assets (millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
¥38,131	¥7,058	¥10,389	¥4,534	¥7,467	¥67,581

3. Information on each major customer

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

Segment Information

TOKAI CARBON Co., Ltd. and Consolidated Subsidiaries
December 31, 2014 and 2013

Information on the Impairment Loss of Fixed Assets by Reportable Segment

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)
Because the same information is disclosed in the segment information, the entry is omitted here.

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

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

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)
Because this information has little materiality, the entry is omitted here.

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

(millions of yen)

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

Information on the Gain on Negative Goodwill by Reportable Segment

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)
Because this information has little materiality, the entry is omitted here.

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

II. Per Share Information

	Year ended December 31, 2014	Year ended December 31, 2013
Net assets per share	609.60	567.19
Net income per share	12.00	5.68

Note: 1. Net income per share – fully diluted is not listed as there were no potential common shares at the end of the fiscal year under review.
2. The basis of calculation of net income per share is as follows.

(millions of yen)

	Year ended December 31, 2014	Year ended December 31, 2013
Net income	¥ 2,562	¥ 1,213
Amount not attributable to common shareholders	—	—
Net income attributable to common shares	2,562	1,213
Average number of common shares during the period (thousands of shares)	¥213,458	¥213,533

III. Subsequent Material Events

Not applicable

Board of Directors, Executive Officers and Audit & Supervisory Board Members (as of March 27, 2015)

Board of Directors

President and CEO	Hajime Nagasaka
Senior Managing Executive Officer	Nobuyuki Murofushi
Managing Executive Officers	Masanao Hosoya Toshiaki Fukuda Kanji Sugihara
Executive Officers	Yuji Serizawa Ryoichi Hayashi
External Director	Masahiro Watanabe

Executive Officers

	Masafumi Tsuji Kazuhiko Matsubara Kazuhide Kikuchi Yuji Yamake
Senior fellow	Toru Kida

Audit & Supervisory Board Members

Seiichiro Sasao*
Kiyonari Nakai
Tsunehisa Samukawa
Ryuichi Sato*

*External Member

Corporate Data (as of December 31, 2014)

Company Name	TOKAI CARBON CO., LTD.
Established	April 8, 1918
Paid-in Capital	¥20,436 million ($193,909,000)
Head Office	Aoyama Bldg.2-3, Kita-Aoyama 1-Chome, Minato-ku, Tokyo 107-8636, Japan TEL: +81-3-3746-5100 FAX: +81-3-3405-7205 Web site: http://www.tokaicarbon.co.jp/
Number of Employees	2,064 (as a consolidated basis)
Branch Offices	Osaka Branch (Osaka) Nagoya Branch (Aichi) Fukuoka Branch (Fukuoka)
Laboratories	Fuji Research Laboratory (Shizuoka) Chigasaki Laboratory (Kanagawa) Chita Laboratory (Aichi) Hofu Laboratory (Yamaguchi) Tanoura Laboratory (Kumamoto)
Plants	Ishinomaki Plant (Miyagi) Shonan Plant (Kanagawa) Chita Plant (Aichi) Shiga Plant (Shiga) Hofu Plant (Yamaguchi) Kyusyu Wakamatsu Plant (Fukuoka) Tanoura Plant (Kumamoto)
Representative Office	Thailand Representative Office

Group Companies and Affiliates

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

EUROPE

United Kingdom
Consolidated Subsidiaries
- Tokai Carbon Europe Ltd.

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

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

Sweden
Consolidated Subsidiary
- Svensk Special grafit AB

NORTH AMERICA

U.S.A.
Consolidated Subsidiaries
- Tokai Carbon U.S.A., Inc.
- Tokai Carbon Electrode Sales Inc.
- Tokai Carbon Electrode Sales LLC.

Affiliate Accounted for by Equity Method
- MWI, Inc.

Canada
Consolidated Subsidiary
- Cancarb Limited

ASIA

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

Affiliate Accounted for by Equity Method
- Heisei Ceramics Co., Ltd.

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

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

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

Thailand
Consolidated Subsidiary
- Thai Tokai Carbon Product Co., Ltd.

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

Investor Information (as of December 31, 2014)

Fiscal year end	December 31
General Meeting of Shareholders	March
Common Stock	Authorized Shares: 598,764,000 shares Outstanding Shares: 224,943,104 shares
Number of shareholders	17,371

Major shareholders

Shareholders	Number of shares held	%
Japan Trustee Services Bank, Ltd. (Trust Account)	17,842,000	8.37
The Master Trust Bank of Japan, Ltd.(Trust Account)	15,792,000	7.41
The Bank of Tokyo-Mitsubishi UFJ,Ltd.	7,958,000	3.73
Mitsubishi Corp.	6,748,000	3.17
Mitsubishi UFJ Trust and Banking Corp.	6,639,000	3.11
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corp. Retirement Benefit Trust Account)	59,000	2.77
Deutsche Bank AG Frankfurt	4,504,000	2.11
The Nomura Trust and Banking Co., Ltd. (Trust Account)	4,323,000	2.03
BNP Paribas Securities (Japan) Limited	4,092,000	1.92
Tokyo Marine & Nichido Fire Insurance Co., Ltd.	4,044,000	1.90

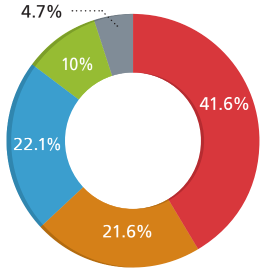
In addition to the above,Tokai Carbon Co.,Ltd. holds treasury stock of 11,714,000 shares (5.21%).

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

Ownership and Distribution of Shares

Japanese Financial Institutions	88,640,000
Japanese Individuals and Others	46,108,000
Foreign Investors	47,114,000
Other Japanese companies	21,294,000
Japanese Securities Companies	10,070,000
Total	213,226,000

Notes: "Japanese Individuals and Others" contains 11,714,000 treasury stocks.



Leading the Way into the Future >>

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