Financial Results
for the Year Ended December 31, 2013—(J-GAAP) Consolidated

February 10, 2014

Company name:	**Tokai Carbon Co., Ltd.**
Listings:	Tokyo Stock Exchange, first section
Security code:	5301
URL:	http://www.tokaicarbon.co.jp/
Representative:	Yoshinari Kudo, President and CEO
Contact:	Kazuhiko Matsubara, General Manager, Accounting Department, Corporate Administration Division
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Scheduled dates

Annual shareholders' meeting:	March 28, 2014
Commencement of dividend payments:	March 31, 2014
Submission of financial statements:	March 28, 2014
Supplementary reference documents to support the financial statements:	Yes
Explanatory meeting to discuss the financial statements will be held:	Yes (for institutional investors and analysts only)

1. Consolidated Financial Results for the Year Ended December 31, 2013 (January 1, 2013 to December 31, 2013)

(Amounts rounded down to the nearest million yen)

(1) Operating Results

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2013	100,935	2.3	1,655	(71.0)	3,114	(51.9)	1,213	(39.1)
Year ended December 31, 2012	98,704	(5.9)	5,700	(45.5)	6,470	(36.0)	1,993	(67.4)

Note: Comprehensive Income:
Year ended December 31, 2013: ¥12,687 million (62.4%)
Year ended December 31, 2012: ¥7,812 million (196.5%)

	Net income per share	Net income per share—fully diluted	Return on equity	Ordinary income / Total assets	Operating income / Net sales
	yen	yen	%	%	%
Year ended December 31, 2013	5.68	—	1.0	1.8	1.6
Year ended December 31, 2012	9.34	—	1.9	3.9	5.8

Note: Equity method investment gains or losses:
Year ended December 31, 2013: ¥(6) million
Year ended December 31, 2012: ¥84 million

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
As of December 31, 2013	183,427	123,232	66.0	567.19
As of December 31, 2012	166,668	113,266	66.1	515.90

Note: Shareholders' equity:
As of December 31, 2013: ¥121,101 million
As of December 31, 2012: ¥110,170 million

(3) Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Year ended December 31, 2013	11,606	(10,791)	1,441	16,046
Year ended December 31, 2012	8,828	(12,770)	(3,611)	11,891

2. Dividends

Record date	Dividend per share					Total dividends paid (full year)	Payout ratio (consolidated)	Dividends / Net assets (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full-year			
	yen	yen	yen	yen	yen	million yen	%	%
Year ended December 31, 2012	—	4.00	—	3.00	7.00	1,494	74.9	1.4
Year ended December 31, 2013	—	3.00	—	3.00	6.00	1,281	105.6	1.1
Year ending December 31, 2014 (forecast)	—	3.00	—	3.00	6.00		55.7	

3. Forecast of Consolidated Earnings for the Year Ending December 31, 2014 (January 1, 2014 to December 31, 2014)

(Percentages represent year-on-year changes for the full year and increase/decrease from the same period of the previous year for the first six months)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First six months	54,000	7.1	1,600	87.2	1,300	(34.7)	800	(19.3)	3.75
Full year	110,000	10.0	3,800	129.6	3,600	15.6	2,300	89.6	10.77

***Notes**

(1) Changes in significant subsidiaries during the period (that accompanied changes in the scope of consolidation): None

Newly consolidated:	__ company (companies)	(name of company)
Excluded from consolidation:	__ company (companies)	(name of company)

(2) Changes in accounting policies or estimates and retrospective restatement

1) Changes in accounting policies due to revisions of accounting standards, etc.: Yes
2) Changes in accounting policies other than item 1) above: None
3) Changes in accounting estimates: Yes
4) Retrospective restatement: None

(3) Number of shares issued (common stock)

1) Number of shares issued at end of the period (including treasury stock):

As of December 31, 2013: 224,943,104 shares
As of December 31, 2012: 224,943,104 shares

2) Number of shares held in treasury at end of the period:

As of December 31, 2013: 11,432,175 shares
As of December 31, 2012: 11,393,790 shares

3) Average Number of shares during the period

Year ended December 31, 2013: 213,533,885 shares
Year ended December 31, 2012: 213,556,722 shares

Reference: Overview of Non-Consolidated Financial Results

Non-Consolidated Financial Results for the Year Ended December 31, 2013 (January 1, 2013 to December 31, 2013)

(1) Operating Results

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Year ended December 31, 2013	59,243	(4.5)	2,322	(0.2)	5,088	22.7	2,997	105.3
Year ended December 31, 2012	62,064	(4.9)	2,326	(50.0)	4,147	(21.7)	1,459	(54.9)

	Net income per share	Net income per share—fully diluted
	yen	yen
Year ended December 31, 2013	14.04	—
Year ended December 31, 2012	6.84	—

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
As of December 31, 2013	141,995	95,624	67.3	447.86
As of December 31, 2012	131,138	89,185	68.0	417.63

Note: Shareholders' equity:
As of December 31, 2013: ¥95,624 million
As of December 31, 2012: ¥89,185 million

***Presentation of implementation status for audit procedure**

The audit procedure based on the Financial Instruments and Exchange Act does not apply to these Financial Results, and the audit procedure based on the Financial Instruments and Exchange Act had not been completed as of the release of these Financial Results.

***Appropriate Use of Earnings Forecasts and Other Important Information**

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors. For the assumptions underlying the earnings forecasts presented and other information regarding the use of such forecasts, refer to "1. Analysis of Business Results and Financial Position (1) Analysis of Business Results" on page 6-7.

Contents of the “Attachments” Section

*The company intends to conduct an explanatory meeting for investors on the date indicated below. The documents distributed during that explanatory meeting will be posted on the company website at the earliest possible opportunity.

- Explanatory meeting for analysts: February 14, 2014 (Friday)

1. Analysis of Business Results and Financial Position

(1) Analysis of Business Results

The world economy remained weak but was on an upward trend on the whole during 2013. Although there were effects from the prolonged economic stagnancy in Europe and economic slowdowns in China and other emerging countries, the steady U.S. economy contributed to keeping global economic conditions on track and European economies also began showing signs of recovery in the latter half of the year. Meanwhile, in Japan, the government's economic policies kept the yen on a depreciating trend and caused stock prices to rise and consumer spending to increase. Despite a delayed improvement in its income environment, the Japanese economy was on a moderate upward trend as seen by the recovered strength in capital investment activities and improvement in corporate earnings, backed by demand associated with restoration efforts following the Great East Japan Earthquake and improvement in export conditions.
Under these circumstances, the Tokai Carbon Group took initiatives to strengthen cost competitiveness, reorganize the domestic fine carbon business, mainly to enhance operating efficiency, expand overseas business, promote research and development, etc., during the fiscal year under review, which was the initial year of the Group's three-year medium-term management plan "T-2015," and achieved a certain level of progress. On the other hand, the industries in which the Group's customers operate (e.g., rubber products, steel, semiconductor, IT hardware, and industrial machinery) continued to face challenging operating conditions and experienced a recovery in demand that was generally in the automobile-related segments, while recognizing delays in recovery in other areas..
As a result, consolidated net sales in the fiscal year under review increased 2.3% year on year to ¥100,935 million. In terms of income, the Group worked to reduce costs in all aspects, temporarily suspended operations, applied for an employment adjustment subsidy, and took other measures. However, there was a significant impact mainly from the low operation rate caused by the response to the fall in sales volume and an increase in depreciation expenses associated with facility expansion, although there were positive effects from the weak yen. Consequently, operating income dropped 71.0% from a year earlier to ¥1,655 million, ordinary income decreased 51.9% year on year to ¥3,114 million, and net income came to ¥1,213 million, a year-on-year decrease of 39.1%.

The performance of our principal business segments is as follows:

Carbon Black
Demand in Japan for carbon black has been recovering gradually, primarily because tire production saw an upturn after slumping in the beginning of the year. Demand was strong in Thailand, supported by the growth in automobile and tire production. In China, new car sales by Japanese automakers have also been recovering on the back of favorable demand for automobiles. Meanwhile, although the Ishinomaki Plant resumed full production in June 2012 and the subsidiary in Thailand began operating its expanded facility in December 2012, the business was affected by the rising presence of low-price Chinese products distributed in Japanese and Thai markets, and the sales volume showed only a slight increase year on year. Additionally, sales prices were revised in response to the hike in crude oil prices.
As a result, although net sales in the Carbon Black segment increased 9.6% year on year to ¥44,910 million, operating income fell 48.2% from a year earlier to ¥2,257 million. This was due to a lower operation rate, an increase in depreciation expenses associated with facility reinforcement, and other factors.

Carbon and Ceramics
Graphite Electrodes
Global crude steel production was above the level of the previous fiscal year on the whole, due to increases mainly in China and India. On the other hand, production dropped primarily in North America and Europe. In the segment of electric arc furnace steel, an industry where the Group's customers operate, production fell year on year in regions other than China and Oceania. Under such circumstances, the sales volume of graphite electrodes declined year on year, due mainly to the effects of sluggish demand in the principal regions of demand such as Europe, the U.S. and South Korea and the delayed recovery in demand in Japan. Furthermore, sales prices were weak both in Japan and overseas. As a result, despite the positive effects of the weak yen, net sales of graphite electrodes decreased 4.5% year on year to ¥29,465 million.

Fine Carbon

Overall sales of fine carbon were on a recovery path due to the relatively strong performance overseas, although there was a delay in recovery in Japan. While demand for applications in solar cells was generally slow, signs of recovery began to appear in the fourth quarter due mainly to the progress in inventory adjustments by demanders. Demand for fine carbon products for general industrial applications remained strong from early in the year. Consequently, despite the positive effects of the weak yen, net sales of fine carbon fell 8.8% year on year to ¥12,558 million.
As a result of the above, net sales in the Carbon and Ceramics segment decreased 5.8% year on year to ¥42,024 million, and operating income slumped 95.4% from a year earlier to ¥112 million, due mainly to the effects of a lower operation rate despite the positive effects of the weak yen.

Industrial Furnaces and Related Products
In the IT-related industries, which are the main sources of demand for the Group's products, overall conditions were not strong enough for companies to resume capital investments despite signs of a partial recovery. Consequently, net sales of industrial furnaces, the Group's core products, declined year on year. Although net sales of heating elements and other products increased year on year, supported by the recovery of demand in the electronic components industry and the Chinese glass market, a full-scale recovery has yet to be seen.
As a result, in the Industrial Furnaces and Related Products segment, net sales declined 0.6% year on year to ¥4,213 million; however, operating income surged 118.2% to ¥393 million, mainly due to a decrease in costs related to developed products.

Other Operations
Friction Materials
Sales in the construction machinery markets, the main sources of demand, decreased because demand for use in mining machines has remained weak over a long period of time due to the effects of the worldwide slump in resource prices. As a result, net sales of friction materials declined 0.4% year on year to ¥8,118 million, although sales of friction materials for agricultural and industrial machines increased on the back of strong demand, while sales for two-wheel and four-wheel vehicles were also favorable.
Others
Net sales from property leasing and other businesses surged 128.6% year on year to ¥1,670 million as a result of growth in sales of anode material for rechargeable lithium-ion batteries.
As a result of the above, net sales in the Other Operations segment increased 10.2% year on year to ¥9,788 million; however, operating income fell 92.7% to ¥5 million primarily due to the deterioration in earnings of friction materials.

Outlook for the Year Ending December 31, 2014
Assuming an exchange rate of ¥98 to the U.S. dollar, the Group forecasts 2014 consolidated net sales of ¥111,000 million, operating income of ¥3,800 million, ordinary income of ¥3,600 million, and net income of ¥2,300 million.
Furthermore, the Group forecasts that the balance of cash and cash equivalents at the end of the fiscal year will be approximately ¥10,000 million.
As announced in the "Announcement of Acquisition of Equity in Cancarb (Canadian Carbon Black Producer) and Related Assets" dated January 20, 2014, Tokai Carbon is currently examining the impact on its consolidated earnings forecast for the fiscal year of making Cancarb Limited a subsidiary and will make a timely disclosure should the need to revise the forecast arise.

(2) Analysis of Financial Position

Assets, Liabilities, and Net Assets
1) Assets
At December 31, 2013, consolidated assets totaled ¥183,427 million, an increase of ¥16,759 million from December 31, 2012.
Current assets in the fiscal year under review totaled ¥90,984 million, up ¥4,104 million from the previous fiscal year, reflecting increases mainly in cash and deposits although decreases were recorded mainly in inventories. Fixed assets amounted to ¥92,443 million, an increase of ¥12,655 million from the year before, resulting from rises mainly in tangible fixed assets and increases mainly in investment securities.

2) Liabilities
Consolidated liabilities totaled ¥60,195 million at December 31, 2013, an increase of ¥6,793 million from the previous fiscal year.

Current liabilities were ¥42,385 million, up ¥4,335 million from the end of the previous fiscal year, due to increases mainly in short-term borrowings. Fixed liabilities totaled ¥17,809 million, up ¥2,457 million from the end of the previous fiscal year, owing to increases mainly in deferred tax liabilities, although decreases were recorded largely in long-term debt.

3) Net assets

Consolidated net assets at December 31, 2013 were ¥123,232 million, an increase of ¥9,966 million from the end of the previous fiscal year due mainly to the rise in other accumulated comprehensive income caused by increases primarily in foreign currency translation adjustments and net unrealized gains/losses on other securities.

As a result, at the end of the fiscal year under review, the Group's shareholders' equity ratio was 66.0%, down 0.1 percentage points from December 31, 2012.

Cash Flows

At the end of the fiscal year under review, the Group's cash and cash equivalents totaled ¥16,046 million, up ¥4,155 million from the previous fiscal year. Cash flows and the major sources and uses of cash in fiscal year 2013 are summarized as follows.

1) Cash flow from operating activities

Operating activities provided net cash of ¥11,606 million, an increase of ¥2,778 million from fiscal 2012, mainly due to an increase of revenue resulted from a decrease in inventories.

2) Cash flow from investing activities

Investing activities used net cash of ¥10,791 million, a decrease of ¥1,978 million from fiscal 2012, mainly due to a decrease in purchase of tangible fixed assets despite increases primarily in purchase of investments in capital of subsidiaries.

3) Cash flow from financing activities

Financing activities provided net cash of ¥1,441 million compared to net cash used of ¥3,611 million in the previous fiscal year. This was due primarily to declines in repayment of long-term debt and dividend paid.

Cash Flow Metrics

Year ended December 31,	2009	2010	2011	2012	2013
Shareholders' equity ratio (%)	67.2	66.6	64.5	66.1	66.0
Shareholder's equity ratio at market value (%)	64.7	69.4	55.3	46.0	42.7
Ratio of debt to cash flow	1.8	1.0	1.7	2.4	2.2
Interest coverage ratio (times)	21.7	28.8	24.0	14.6	17.1

Notes:

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.

(3) Dividend Policy and 2013-14 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 2013 dividend, including the interim dividend, to ¥6 per share.

For 2014, 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.

2. The Corporate Group

Tokai Carbon group (the "Group") comprises Tokai Carbon Co., Ltd. (the "Company"), 27 subsidiaries, and 5 affiliates. The principal business fields of the Group, and the respective positions of the Company and its related companies within each of the business fields, as well as information on the linkages of the Company and its related companies with segments, are as follows.

Carbon Black

The Company, Thai Tokai Carbon Product Co., Ltd., and Tokai Carbon (Tianjin) Company Ltd. engage in production and sales of carbon black for use in rubber products, black pigments, and conductive materials.
Tokai Transportation Co., Ltd., operates a general cargo trucking business and a cargo handling business. The Company outsources transportation and packaging of its products to Tokai Transportation.

Carbon and Ceramics

The Company engages in production and sales of artificial graphite electrodes for use in electric arc furnaces for steel production, fine carbon (specialty carbon products), and carbon brushes, as well as in production and sales of other products.
The Company outsources processing of fine carbon and other materials to Tokai Fine Carbon Co., Ltd., and to Oriental Sangyo Co., Ltd.
Tokai Fine Carbon Co., Ltd., also engages in sales of fine carbon and other materials, while Oriental Sangyo Co., Ltd., also engages in production and sales of pencil lead-cores and in other businesses.
Tokai Carbon (Shanghai) Co., Ltd. engages in sales of fine carbon. Tokai Carbon (Dalian) Co., Ltd. is responsible for processing and distribution of fine carbon products. Tokai Carbon Electrode Sales Inc. and Tokai Carbon Electrode Sales LLC engage in sales, etc., of graphite electrodes. Tokai Carbon U.S.A., Inc. and MWI, Inc. engage in production and sales of fine carbon. Tokai Erftcarbon GmbH engages in production and sales of graphite electrodes, while Tokai Carbon Europe GmbH, Tokai Carbon Europe, Ltd., Tokai Carbon Italia S.R.L, Svensk Specialgrafit AB, and Tokai Carbon Deutschland GmbH engage in businesses related to fine carbon.
Furthermore, as a joint venture, Tokai Carbon Korea Co., Ltd. engages in production and sales of fine carbon, while SGL Tokai Carbon Ltd., Shanghai engages in processing and sales of graphite electrodes, and SGL Tokai Process Technology Pte. Ltd. engages in businesses related to impervious graphite.

Industrial Furnaces and Related Products

Tokai Konetsu Kogyo Co., Ltd., engages in production and sales of industrial furnaces, gas furnaces, silicon carbide, alumina refractory materials, insulating firebrick, silicon carbide heating elements, and ceramic resistors. Tokai Konetsu Engineering Co., Ltd., Shanghai Tokai Konetsu Co., Ltd., Tokai Konetsu (Suzhou) Co., Ltd., and Heisei Ceramics Co., Ltd., also engage in the business field of industrial furnaces and related products.

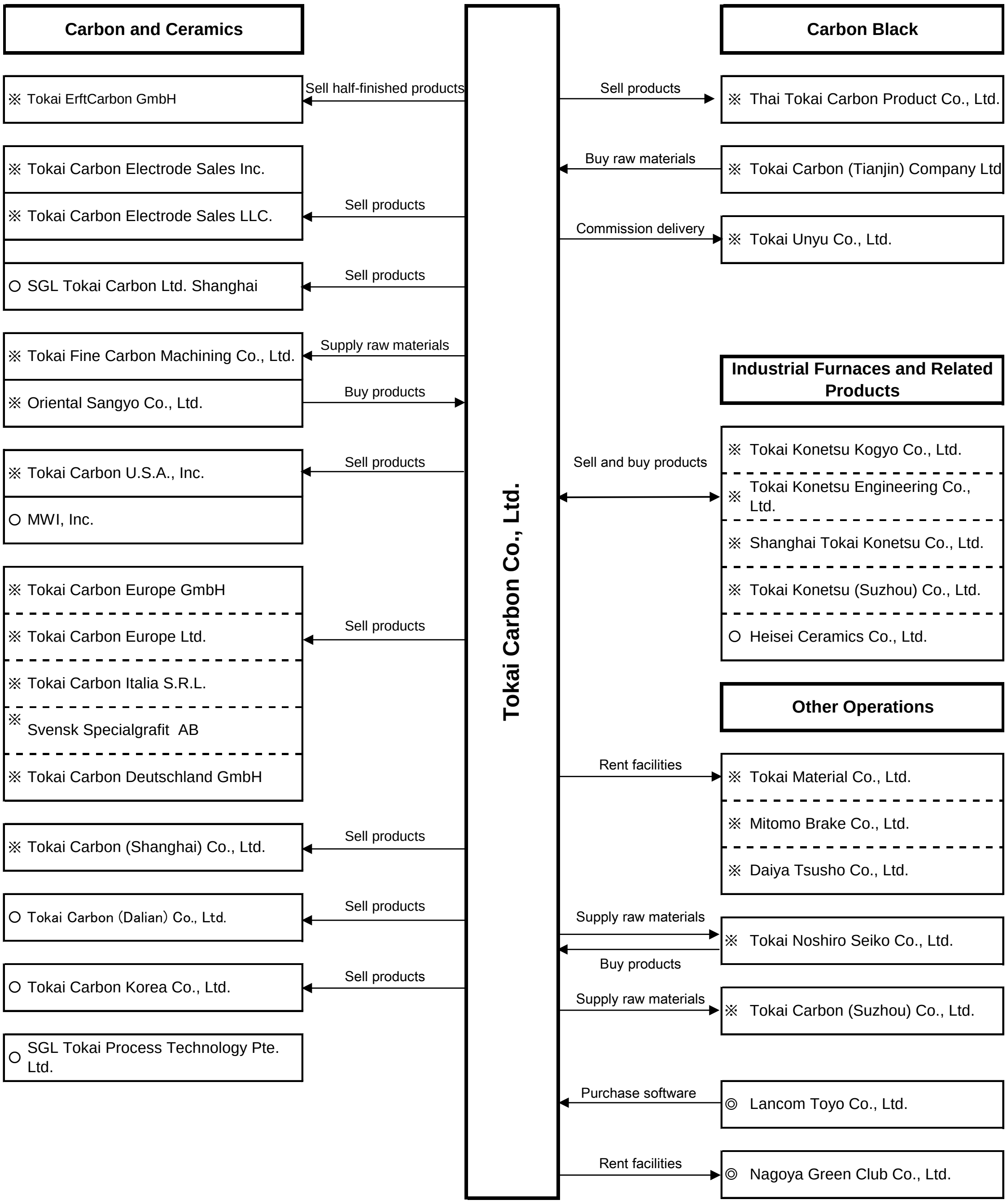
Other Operations

The Company engages in production and sales of friction materials as well as in property leasing business. Tokai Material Co., Ltd., Mitomo Brake Co., Ltd., Daiya Tsusho Co., Ltd., Tokai Noshiro Seiko Co., Ltd., and Tokai Carbon (Suzhou) Co., Ltd. engage in businesses related to friction materials.

Lancom Toyo Co., Ltd., engages mainly in development and sales of computer software.
Nagoya Green Club Co., Ltd., engages in management of golf driving ranges.

An overview diagram of the aforementioned matters is as follows.

Group structure



Notes:
1. ※: Consolidated subsidiaries
   ◎: Non-consolidated subsidiaries not accounted for under the equity method
   ○: Affiliated companies accounted for under the equity method
2. Tokai Fine Carbon Machining Co., Ltd. changed its name to Tokai Fine Carbon Co., Ltd.
3. The equity-method affiliate Dalian Tokai-Jinqi-Fuji Carbon Co., Ltd. became a consolidated subsidiary after the Company acquired an additional stake in the affiliate, and the corporate name was changed to Tokai Carbon (Dalian) Co., Ltd.
4. Carbon-Mechanik GmbH, which used to be a consolidated subsidiary, was excluded from the scope of consolidation as it was merged by absorption by Tokai Carbon Deutschland GmbH.
5. Tokai Konetsu (Suzhou) Co., Ltd. was newly established on September 9, 2013 and became a consolidated subsidiary.

3. Management Policy

(1) Basic Corporate Philosophy

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

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

(2) Management Goals and Objectives

The Group considers net sales, ROS (operating income/net sales), and ROA (ordinary income/total assets) to be important performance indicators.

(3) 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. In this medium-term management plan, the Group has set specific numerical targets for 2015, which are to achieve net sales of ¥140 billion, ROS (operating income/net sales) of 11%, and ROA (ordinary income/total assets) of 8%. In addition, the Group plans on 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 aims to achieve consolidated net sales of ¥200 billion (2018), the establishment of a distinguished competitive advantage, and CSR and the reduction of the environmental burden. The Group regards "T-2015" as the first step in driving further corporate growth, and in 2018, the year marking the 100th anniversary of the Company's founding, it strives to attain the capability to earn target net sales of no less than ¥200 billion as a truly global company with a 100-year history.

(4) Issues to be Addressed by the Company

It is anticipated that the Japanese economy will continue to move on a recovery trend, against the backdrop of the positive effects of various measures implemented by the government and strong consumer spending, although there are concerns about an economic slowdown that might be caused by a reaction after a jump in demand before the consumption tax rate increase and 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.

The initiatives taken in connection with the acquisition of shares of Cancarb Limited, a Canadian carbon black manufacturer, which was approved at the meeting of the Company's board of directors on January 20, 2014, are part of a strong step taken to move forward with the Group's strategies. The Company also believes that such initiatives significantly contribute to expanding the business scope.

Furthermore, the Group is committed to paying even greater attention to the fundamentals of manufacturing companies – security assurance, quality control, and environmental protection – and it will continue making efforts to strengthen corporate governance and corporate social responsibility (CSR) activities. 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 (J-SOX).

(5) Other Important Management Issues

Not applicable

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(millions of yen)

	As of December 31, 2012	As of December 31, 2013
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	11,891	16,048
Notes and accounts receivable	28,259	30,075
Merchandise and finished goods	14,188	14,589
Work in process	16,233	15,666
Raw materials and supplies	12,571	11,251
Deferred tax assets	1,161	982
Other	2,627	2,624
Allowance for doubtful accounts	(54)	(253)
Total current assets	86,879	90,984
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	15,543	16,548
Machinery, equipment and vehicles, net	24,692	25,258
Furnaces, net	1,701	1,355
Land	7,080	7,143
Construction in progress	8,089	10,614
Other, net	1,062	1,064
Total tangible fixed assets	58,169	61,985
Intangible fixed assets		
Software	408	417
Other	30	46
Total intangible fixed assets	438	464
Investments and other assets		
Investment securities	19,405	27,939
Deferred tax assets	396	346
Other	1,437	1,764
Allowance for doubtful accounts	(58)	(57)
Total investment and other assets	21,179	29,994
Total fixed assets	79,788	92,443
Total assets	166,668	183,427

(millions of yen)

	As of December 31, 2012	As of December 31, 2013
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable	16,145	12,704
Electronically recorded obligations-operating	—	1,474
Short-term borrowings	13,784	19,267
Current portion of long-term debt	851	1,450
Income taxes payable	1,011	910
Consumption tax payable	18	271
Accrued expenses	1,091	1,350
Reserve for bonuses	155	163
Deferred tax liabilities	2	—
Other	4,988	4,792
Total current liabilities	38,050	42,385
Fixed liabilities		
Long-term debt	6,191	5,044
Deferred tax liabilities	3,911	6,627
Provision for retirement benefits	3,096	3,708
Reserve for directors' retirement benefits	146	130
Reserve for executive officers' retirement benefits	37	34
Provision for environment and safety measures	616	557
Other	1,352	1,706
Total fixed liabilities	15,351	17,809
Total liabilities	53,401	60,195
Net assets		
Shareholders' capital		
Common stock	20,436	20,436
Additional paid-in capital	17,502	17,502
Retained earnings	76,082	76,014
Treasury stock	(7,134)	(7,146)
Total shareholders' capital	106,887	106,807
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	5,666	10,715
Deferred hedge gain/loss	(2)	—
Foreign currency translation adjustments	(2,381)	3,578
Total other accumulated comprehensive income	3,282	14,294
Minority interests	3,096	2,131
Total net assets	113,266	123,232
Total liabilities and net assets	166,668	183,427

(2) Consolidated Statements of Operations and Comprehensive Income
(Consolidated Statement of Operation)

(millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
	Amount	Amount
Net sales	98,704	100,935
Cost of sales	80,144	85,668
Gross profit	18,560	15,267
Selling, general and administrative expenses		
Selling expenses	4,112	4,551
General and administrative expenses	8,747	9,060
Total selling, general and administrative expenses	12,859	13,611
Operating income	5,700	1,655
Non-operating income		
Interest income	120	79
Dividend income	354	408
Rental income	284	241
Equity in income of non-consolidated subsidiaries and affiliates	84	—
Foreign exchange gains	849	1,558
Other non-operating income	724	572
Total non-operating income	2,418	2,861
Non-operating expense		
Interest expense	902	678
Expense on facilities for rent	146	203
Equity in losses of affiliates	—	6
Other non-operating expense	599	513
Total non-operating expense	1,648	1,401
Ordinary income	6,470	3,114
Extraordinary income		
Gain on step acquisitions	—	29
Total extraordinary income	—	29
Extraordinary losses		
Provision for environment and safety measures	—	131
Impairment loss	*1 2,140	*1 86
Business restructuring expenses	237	—
Loss on valuation of investment securities	100	—
Total extraordinary losses	2,478	217
Income before income taxes	3,992	2,926
Income taxes, inhabitants tax, and enterprise taxes	2,218	1,556
Income taxes adjustments	(75)	246
Total income taxes	2,142	1,802
Income before minority interests	1,849	1,124
Minority interests in loss	(144)	(89)
Net income	1,993	1,213

(Consolidated Statement of Comprehensive Income)

(millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
	Amount	Amount
Income before minority interests	1,849	1,124
Other comprehensive income		
Valuation difference on available-for-sale securities	2,127	5,052
Deferred gains or losses on hedges	(2)	2
Foreign currency translation adjustment	3,467	5,928
Share of other comprehensive income of associates accounted for using equity method	369	579
Total other comprehensive income	5,963	11,563
Comprehensive income	7,812	12,687
(breakdown)		
Comprehensive income attributable to owners of the parent company	7,599	12,225
Comprehensive income attributable to minority interests	212	462

(3) Consolidated Statements of Changes in Shareholders' Capital

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012)

(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	75,798	(7,130)	106,606
Changes of items during the period					
Dividends from surplus			(1,708)		(1,708)
Net income			1,993		1,993
Purchase of treasury stock				(4)	(4)
Disposal of treasury stock			(0)	0	0
Net changes of items other than shareholders' capital					
Total changes of items during the period	—	—	284	(3)	281
Balance at the end of the period	20,436	17,502	76,082	(7,134)	106,887

	Other accumulated comprehensive income				Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Total other accumulated comprehensive income		
Balance at the beginning of the period	3,539	0	(5,863)	(2,323)	2,940	107,223
Changes of items during the period						
Dividends from surplus						(1,708)
Net income						1,993
Purchase of treasury stock						(4)
Disposal of treasury stock						0
Net changes of items other than shareholders' capital	2,127	(2)	3,481	5,606	155	5,762
Total changes of items during the period	2,127	(2)	3,481	5,606	155	6,043
Balance at the end of the period	5,666	(2)	(2,381)	3,282	3,096	113,266

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				Minority interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred hedge gain/loss	Foreign currency translation adjustments	Total other accumulated comprehensive income		
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

(4) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes	3,992	2,926
Depreciation and amortization	8,712	8,656
Impairment loss	2,140	86
Increase (decrease) in allowance for doubtful accounts	1	189
Increase (decrease) in reserve for bonuses	(25)	8
Increase (decrease) in provision for retirement benefits	495	36
(Increase) decrease in prepaid pension cost	(211)	(189)
Increase (decrease) in reserve for directors' retirement benefits	5	(16)
Increase (decrease) in reserve for executive officers' retirement benefits	(12)	(2)
Increase (decrease) in provision for environment and safety measures	(254)	(59)
Interest and dividends income	(474)	(488)
Interest paid	902	678
Foreign exchange (gain) loss	(198)	(709)
Equity in (income) loss of non-consolidated subsidiaries and affiliates	(84)	6
Loss (Gain) on step acquisitions	—	(29)
(Gain) loss on valuation of investment securities	100	—
Business restructuring expenses	237	—
(Increase) decrease in trade receivables	1,195	(245)
(Increase) decrease in inventories	(3,523)	4,403
Increase (decrease) in trade payables	(416)	(2,778)
Increase (decrease) in accrued expenses	(227)	163
Increase (decrease) in accounts payable-others	52	157
(Increase) decrease in advance payment	79	240
Increase (decrease) in accrued consumption taxes	(30)	252
Other	(203)	39
Subtotal	12,249	13,325
Interest and dividends received	623	531
Interest paid	(604)	(679)
Income taxes paid	(2,619)	(1,569)
Proceeds from subsidy	500	—
Payment amount of loss on disaster	(1,321)	—
Net cash provided by (used in) operating activities	8,828	11,606

(millions of yen)

	Year ended December 31, 2012	Year ended December 31, 2013
	Amount	Amount
Cash flows from investing activities:		
Purchase of tangible fixed assets	(12,870)	(9,034)
Purchase of intangible fixed assets	(213)	(168)
Proceeds from cancellation of insurance funds	325	—
Purchase of investments in capital of subsidiaries	—	(1,579)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	26
Other	(11)	(35)
Net cash provided by (used in) investing activities	(12,770)	(10,791)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	3,408	3,725
Proceeds from long-term debt	5,044	—
Repayment of long-term debt	(10,267)	(959)
Dividend paid	(1,708)	(1,281)
Proceeds from minority shareholders	—	110
Cash dividends paid to minority shareholders	(56)	(86)
Other	(31)	(66)
Net cash provided by (used in) financing activities	(3,611)	1,441
Effect of exchange rate changes on cash and cash equivalents	878	1,898
Increase (decrease) in cash and cash equivalents	(6,674)	4,155
Cash and cash equivalents at beginning of the period	18,565	11,891
Cash and cash equivalents at end of the period	11,891	16,046

(5) Notes to Consolidated Financial Statements
(Notes on the Going Concern Assumption)

Not applicable

(Basis for Preparation of Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 25 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., 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.

Effective April 1 of the fiscal year under review, part of the Company's fine carbon production business along with the domestic sales business was transferred to Tokai Fine Carbon Machining Co., Ltd., the Company's consolidated subsidiary, and the subsidiary's name was changed to Tokai Fine Carbon Co., Ltd.

The equity-method affiliate Dalian Tokai-Jinqi-Fuji Carbon Co., Ltd. became a consolidated subsidiary after the Company acquired an additional stake in the affiliate, and the corporate name was changed to Tokai Carbon (Dalian) Co., Ltd.

Carbon-Mechanik GmbH, which used to be a consolidated subsidiary, was excluded from the scope of consolidation as it was merged by absorption by Tokai Carbon Deutschland GmbH.

Tokai Konetsu (Suzhou) Co., Ltd., a joint venture newly established by Tokai Konetsu Kogyo Co., Ltd., was included in the scope of consolidation.

(2) 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

(1) Number of non-consolidated affiliates accounted for by the equity method: 5 companies

Names of the affiliates:

Tokai Carbon Korea Co., Ltd., SGL Tokai Carbon Ltd., Shanghai, Heisei Ceramics Co., Ltd., MWI, Inc., SGL Tokai Process Technology PTE. Ltd.

(2) 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.

(3) 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

(1) 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.

(2) 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).

3) Lease assets

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

Of non-ownership-transfer finance lease transactions, accounting treatment based on ordinary lease transactions continues to be adopted to those for which the lease transaction start date is on or before December 31, 2008.

(3) 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) Provision for retirement benefits

In providing for payments of employees' retirement benefits, the Company and its domestic consolidated subsidiaries record an amount based on the estimated retirement benefit obligations and estimated pension assets at the end of the fiscal year.

Actuarial differences are to be recognized in expenses from the following fiscal year as incurred using the straight-line method over the average of the estimated remaining

service years (10 years) of the employees when incurred in each fiscal year.
Past service liability is accounted for as an expense in lump sum in the fiscal year when is incurred.

3) 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.

4) 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.

5) 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.

(4) 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.

(5) Material hedge accounting method
1) Hedge accounting method
As a general rule, deferral hedge accounting is adopted.
Furthermore, allocation treatment is adopted in forward exchange contracts that meet the allocation treatment requirements, and unified treatment (allocation treatment, special accounting treatment) is adopted for interest rate and currency swaps that meet the unified treatment (allocation treatment, special accounting 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

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 and currency swaps accounted for under unified treatment (allocation treatment, special accounting treatment).

6) 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.

7) 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.

(Changes in Accounting Policies, etc.)

(Change in accounting policy, which is difficult to distinguish from a change in an accounting estimate)

In accordance with the amendment to the Corporation Tax Act, the Company and its domestic consolidated subsidiaries have changed the depreciation method for tangible fixed assets acquired on or after January 1, 2013 to the one provided in the revised Corporation Tax Act, effective the fiscal year under review.

This change has minimal impact on consolidated operating income, ordinary income, and income before income taxes for the fiscal year under review.

(Changes in Method of Presentation)

(Consolidated Statement of Operation)

"Expense on facilities for rent," which was included in "Other non-operating expense" under "Non-operating expense" in the previous fiscal year is presented separately for the fiscal year under review, since it exceeded 10% of the total amount of non-operating expense. Account items in the consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥746 million presented in "Other non-operating expense" under "Non-operating expense" in the Consolidated Statement of Operation in the previous fiscal year has been reclassified and presented as ¥146 million in "Expense on facilities for rent" and ¥599 million in "Other non-operating expense."

(Consolidated Statements of Cash Flows)

"Proceeds from sales of investment securities," which were presented separately under "Cash flows from investing activities" in the previous fiscal year are included in "Other" for the fiscal year under review as they have become immaterial in terms of monetary value. Account items in consolidated financial statements for the previous fiscal year have been reclassified accordingly in order to reflect this change in the method of presentation.

As a result, ¥4 million in "Proceeds from sales of investment securities" presented under "Cash flows from investing activities" in the Consolidated Statements of Cash Flows for the previous fiscal year have been reclassified and included in "Other."

(Consolidated Statements of Operations)

*1. Impairment loss

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012)

In the fiscal year under review, the Group recorded impairment losses for the following asset groups.

1) Assets with recognized impairment losses

Use	Type	Company	Location	Impairment loss (millions of yen)
Idle assets	Land	Tokai Carbon Co., Ltd.	Gotemba City, Shizuoka	62
Idle assets	Buildings and structures, machinery, equipment, and vehicles, and other	Tokai Carbon Co., Ltd.	Chigasaki City, Kanagawa	19
Production facility for heating elements and other products	Buildings and structures; machinery, equipment and vehicles; furnaces; other	Tokai Konetsu Kogyo Co., Ltd.	Shibata-gun, Miyagi	423
Carbon black production facility	Furnaces; machinery, equipment and vehicles; construction in progress	Tokai Carbon (Tianjin) Company Ltd.	Tianjin, China	1,634

2) Reason for recognition of impairment loss

An impairment loss has been recognized for land of Tokai Carbon Co., Ltd. in Gotemba City, Shizuoka, because it was in idle condition, its future use was undetermined, and its recoverable value fell below its book value.

An impairment loss has been recognized for the asset group of Tokai Carbon Co., Ltd. of Chigasaki City, Kanagawa, because the group was in idle condition as a result of a business reorganization and the recoverable value fell below the book value.

An impairment loss has been recognized for the production facility for heating elements and other products at Tokai Konetsu Kogyo Co., Ltd., because profitability dropped and the recoverable value fell below the book value.

An impairment loss has been recognized for the carbon black production facility at Tokai Carbon (Tianjin) Company Ltd., because profitability dropped and the recoverable value fell below the book value.

3) Impairment loss amounts and breakdown by type

Buildings and structures	¥305 million
Machinery, equipment, and vehicles	¥614 million
Furnaces	¥80 million
Land	¥62 million
Construction in progress	¥1,076 million
Other	¥2 million

4) Overview of and grouping method for asset groups with recognized impairment losses

- Asset group

  Idle assets of Tokai Carbon Co., Ltd.
  Production facility for heating elements and other products at Tokai Konetsu Kogyo Co., Ltd.
  Carbon black production facility at Tokai Carbon (Tianjin) Company Ltd.

- Grouping method

  The management accounting classifications are used as the grouping units. However, for lease assets and idles assets respectively, the grouping is by each individual property.

5) Method of calculation of recoverable amount

The recoverable amount of the Idle assets of Tokai Carbon Co., Ltd. in Gotemba City, Shizuoka, is estimated from the net sales value and assessed by using the value computed based on the assessed value of fixed assets.
The recoverable amount of the Idle assets of Tokai Carbon Co., Ltd. of Chigasaki City, Kanagawa, is calculated by determining the value in use, discounting the future cash flows by 10.0%.
While the recoverable amount of the asset group of production facility for heating elements and other products of Tokai Konetsu Kogyo Co., Ltd. is calculated by determining the value in use, the recoverable amount is assumed to be zero for calculation purposes as the value in use based on the future cash flows is negative.
The recoverable amount of the asset group of the carbon black production facility of Tokai Carbon (Tianjin) Company Ltd. is calculated by determining the value in use and discounting future cash flows by 6.0%.

Fiscal year ended December 31, 2013 (January 1, 2013 to December 31, 2013)
In the fiscal year under review, the Group recorded impairment losses for the following asset groups.

1) Assets with recognized impairment losses

Use	Type	Company	Location	Impairment loss (millions of yen)
Idle assets	Land	Tokai Carbon Co., Ltd.	Gotemba City, Shizuoka	14
Idle assets	Buildings and structures; machinery, equipment and vehicles; furnaces	Tokai Carbon Co., Ltd.	Ashikita-gun, Kumamoto	62
Assets scheduled for retirement	Buildings and structures; machinery, equipment and vehicles; other	Tokai Carbon Co., Ltd.	Ashikita-gun, Kumamoto	10

2) Reason for recognition of impairment loss
An impairment loss has been recognized for land in Gotemba City, Shizuoka, because it was in idle condition, its future use was undetermined, and its recoverable value fell below its book value.
An impairment loss has been recognized for the asset group of Tokai Carbon Co., Ltd. in Ashikita-gun, Kumamoto, because it was in idle condition, its future use was undetermined, and its recoverable value fell below its book value. An impairment loss has been recognized for the assets scheduled for retirement, because retirement was determined in connection with the newly constructed factory building and the recoverable value fell below the book value.

3) Impairment loss amounts and breakdown by type

Buildings and structures	¥8 million
Machinery, equipment, and vehicles	¥10 million
Furnaces	¥52 million
Land	¥14 million
Other	¥0 million

4) Overview of and grouping method for asset groups with recognized impairment losses

- Asset group
  Idle assets of Tokai Carbon Co., Ltd.
  Assets scheduled for retirement of Tokai Carbon Co., Ltd.
- Grouping method
  The management accounting classifications are used as the grouping units. However, for lease assets, idles assets and assets scheduled for retirement respectively, the grouping is by each individual property.

5) Method of calculation of recoverable amount

The recoverable amount of the idle assets in Gotemba City, Shizuoka, is estimated from the net sales value and assessed by using the value computed based on the assessed value of fixed assets.

While the recoverable amount of the idle assets in Ashikita-gun, Kumamoto is calculated by using the value in use, the assessment is performed based on the memorandum value since no future cash flow can be expected.

The assets scheduled for retirement in Ashikita-gun, Kumamoto are assessed based on the memorandum value.

(Segment Information)

(Segment Information)

1. Overview of reportable segments

The Company's reportable segments are those components of the Company for which discrete financial information is available and that are subject to regular reviews by the Board of Directors to determine the allocation of management resources and to evaluate business performance.
The Company establishes produce-specific divisions at the head office, and each division carries out business activities by formulating comprehensive domestic and overseas strategies for the products that it handles.
Accordingly, the Company is composed of product-specific segments based on divisions, and its three reportable segments are Carbon Black business, Carbon and Ceramics business, and Industrial Furnaces and Related Products business.
The major products of each reportable segment are as follow:

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

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

The accounting methods adopted for reportable business segments are the same as those provided under the Basis for Preparation of Consolidated Financial Statements.
Income for reportable segments consists of figures based on operating income.
Inter-segment sales/transfer is based on the prevailing market value.

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

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012) (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	40,968	44,616	4,239	89,825	8,879	98,704	—	98,704
Inter-segment sales/ transfer	58	76	510	645	—	645	(645)	—
Total	41,027	44,693	4,750	90,471	8,879	99,350	(645)	98,704
Segment income	4,357	2,460	180	6,997	69	7,067	(1,366)	5,700
Segment assets	50,815	68,723	4,990	124,529	10,979	135,508	31,160	166,668
Other items								
Depreciation and amortization	2,623	4,630	279	7,533	680	8,214	497	8,712
Impairment loss	1,634	19	423	2,078	—	2,078	62	2,140
Investment in equity-method affiliates	—	3,039	103	3,143	—	3,143	—	3,143
Increase in tangible and intangible fixed assets	6,193	3,801	150	10,145	1,717	11,862	424	12,287

Notes:

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 ¥(1,366) million, includes ¥(1,354) million of corporate-wide expenses not allocated to each reportable segment. Corporate-wide expenses include research and development expenses that do not belong to the reportable segments.
   (2) The adjustment of segment assets, which is ¥31,160 million, includes ¥31,767 million of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus working funds (e.g., cash and deposits) and investment securities.
   (3) The adjustment of impairment loss, ¥62 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 ¥424 million, is the amount of capital investment of the corporate-wide assets that is not allocated to each reportable segment.
3. Segment income is adjusted with the operating income reported in the consolidated financial statements.

Fiscal year ended December 31, 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	55,629	72,216	4,869	132,715	11,046	143,762	39,665	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

Notes:
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 ¥39,665 million, includes ¥40,215 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.

(Related Information)

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012)

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

   (1) Net sales

(millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
51,280	12,246	15,389	12,826	6,962	98,704

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

   (2) Tangible fixed assets

(millions of yen)

Japan	Thailand	China	Europe	Other regions	Total
39,868	7,818	5,841	3,641	1,000	58,169

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 Statements of Operations. Therefore, the entry is omitted here.

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

   (1) 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.

   (2) Tangible fixed assets

(millions of yen)

Japan	Thailand	China	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 Statements of Operations. Therefore, the entry is omitted here.

(Information on the Impairment Loss of Fixed Assets by Reportable Segment)

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012)

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

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.

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

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012)

Not applicable

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

Because this information has little materiality, the entry is omitted here.

(Information on the Gain on Negative Goodwill by Reportable Segment)

Fiscal year ended December 31, 2012 (January 1, 2012 to December 31, 2012)

Not applicable

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

Because this information has little materiality, the entry is omitted here.

(Per Share Information)

	Year ended December 31, 2012	Year ended December 31, 2013
Net assets per share	515.90	567.19
Net income per share	9.34	5.68

Notes:

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, 2012	Year ended December 31, 2013
Net income	1,993	1,213
Amount not attributable to common shareholders	—	—
Net income attributable to common shares	1,993	1,213
Average number of common shares during the period (thousands of shares)	213,556	213,533

(Subsequent Material Events)

The Company reached a resolution at the meeting of its board of directors held on January 20, 2014 to acquire all outstanding shares of Cancarb Limited (hereinafter, “Cancarb”) held by TransCanada PipeLines Limited, a subsidiary of TransCanada Corporation, and the waste heat recovery facility (hereinafter, “the Assets”) owned by TransCanada Energy Ltd., a group company of TransCanada Corporation. Additionally, effective the said date, the Company entered into a share transfer agreement with TransCanada PipeLines Limited and an asset transfer agreement with TransCanada Energy Ltd. Details are as provided below.

(1) Purpose of the acquisition of shares and fixed assets

The carbon black business is Tokai Carbon’s mid-to-long term growth target area and the Company has already established a leading position in Asia, mainly in China and Thailand, in addition to Japan, in the furnace black market. The Company believes that collaboration with Cancarb would help the Company to further improve its presence in the global carbon black market and accelerate growth. Additionally, entering into the thermal black field, which uses natural gas for its major ingredients, is expected to lead to the expansion of the product portfolio and technology platform of the Tokai Carbon Group as well as to strengthen earnings stability and cost competitiveness.

The Assets are related to a waste heat recovery facility that is operated in an integrated manner with Cancarb’s production facility and are acquired in this transaction as adjunct assets to Cancarb

(2) Overview of the other party in the acquisitions of shares and assets

Overview of the seller of the acquired company

Name	TransCanada PipeLines Limited
Location	450 1st Street S.W., Calgary, Alberta, Canada
Representative	Russell K. Girling, President
Business overview	Operations of natural gas and petroleum pipelines business
Substantial shareholder and its share ownership ratio	TransCanada Corporation (100%)

Overview of the seller of the acquired assets

Name	TransCanada Energy Ltd.
Location	450 1st Street S.W., Calgary, Alberta, Canada
Representative	Alexander J. Pourbaix, President
Business overview	Operations of energy businesses, such as power generation
Substantial shareholder and its share ownership ratio	701671 Alberta Ltd. (100%)

(3) Overview of the assets and transaction consideration

Name	Assets related to waste heat recovery facility
Location	1702 Brier Park Crescent N.W., Medicine Hat, Alberta, Canada
Use	Power generation using the waste heat generated from carbon black production in the thermal method and sale of electric power to the city of Medicine Hat
Transaction consideration	CAD 15 million

(4) Overview of the acquired company

Name	Cancarb Limited
Location	1702 Brier Park Crescent N.W., Medicine Hat, Alberta, Canada
Representative	David Petrie, President
Business overview	Developing, manufacturing and marketing of thermal black, others
Capital	CAD 426,182 (As of December 31, 2012)

(5) Timeline for the acquisition of shares

March 2014 (plan*)
*Subject to approval from the relevant authorities, etc.

(6) Number of shares to be acquired, transaction consideration, and share ownership ratio after acquisition

Number of shares for acquisition	12
Transaction consideration	CAD 175 million
Share ownership ratio after acquisition	100%

The transaction consideration is to be adjusted based on the movements of the working capital of Cancarb up to the share acquisition date.

(7) Procurement of funds for the acquisition

The Company plans to procure funds through borrowings from financial institutions.

(Disclosures Omitted)

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

5. Other

(1) Changes in Management

1) Appointment of Representative Director

Not applicable

2) Other Changes in Management

(a) Directors scheduled for promotion

New position	Name	Current position
Member of the Board , Representative Director, Deputy President and Executive Officer in charge of Carbon Black Division, Graphite Electrode Division and Raw Material Procurement Division	Hajime Nagasaka	Member of the Board , Representative Director and Senior Managing Executive Officer in charge of Carbon Black Division and Graphite Electrode Division; General Manager, Osaka Branch; and General Manager, Nagoya Branch

(b) Newly appointed director

New position	Name	Current position
Member of the Board , Executive Officer, and General Manager, Production Technology Manager and Business Management Manager, Fine Carbon Division	Kanji Sugihara	Executive Officer, Assistant-in-charge of Fine Carbon Division and General Manager, Fine Carbon Division
Member of the Board (part-time)	Ryoichi Hayashi	Advisor

The Company plans on appointing Mr. Kanji Sugihara and Mr. Ryoichi Hayashi as Director of the Board, provided that approval is obtained at the 152nd General Meeting of Shareholders scheduled on March 28, 2014.

(c) Retiring director

Current position	Name	Post-retirement
Member of the Board and Senior Managing Executive Officer in charge of Friction Materials Division and General Manager, Friction Materials Division	Kiyonari Nakai	Auditor
Member of the Board and Managing Executive Officer, Assistant-in-charge of Graphite Electrode Division and General Manager of Graphite Electrode Division and Purchase & Administration Dept.	Naoshi Takahashi	—
Member of the Board and Executive Officer; General Manager, Tanoura Research Laboratory; and General Manager, Tanoura Plant	Yuji Serizawa	Executive Officer and General Manager, Graphite Electrode Division

The Company plans on appointing Mr. Kiyonari Nakai as Auditor, provided that approval is obtained at the 152nd General Meeting of Shareholders scheduled on March 28, 2014.

(d) Other changes in directors

New position	Name	Current position
Member of the Board and Executive Officer, Assistant-in-charge of Fine Carbon Division and General Manager, Development Strategy Headquarters	Toshiaki Fukuda	Director and Executive Officer, Assistant-in-charge of Development Strategy Headquarters and Fine Carbon Division, and General Manager, Development Strategy Headquarters

(e) Newly appointed executive officer

New position	Name	Current position
Executive Officer and General Manager, Friction Materials Division	Kazuhide Kikuchi	Business Director and General Manager, Shonan Plant
Executive Officer, Chief Safety Officer; and Deputy General Manager, Graphite Electrode Division	Yuji Yamake	Business Director, Assistant Safety Officer, and Assistant-in-charge and Deputy General Manager, Graphite Electrode Division

(f) Retiring executive officer

Current position	Name	Post-retirement
Managing Executive Officer, Chief Safety Officer, Assistant-in-charge of Carbon Black Division, and Manager, Carbon Black Division	Hideo Toko	(Representative Director and President, Tokai Transportation Co., Ltd. (incumbent and post-retirement))
Executive Officer and Assistant-in-charge and Deputy General Manager, Friction Materials Division	Eiichi Nishii	Senior General Manager attached to General Manager, Friction Materials Division (President and Accounting Manager, Tokai Carbon (Suzhou) Co., Ltd.)
Executive Officer and Information System Officer, Corporate Administration Division	Yoshikazu Matsuyama	Senior General Manager and Information System Officer, Corporate Administration Division
Executive Officer and General Manager, General Affairs Department, Corporate Administration Division	Makoto Itoi	—

(g) Newly appointed senior fellows

New position	Name	Current position
Senior Fellow (Executive Officer treatment) and Manager, Hofu Laboratory	Toru Kida	Junior Counselor and Manager, Hofu Laboratory

(h) Retiring auditor

Current position	Name	Post-retirement
Audit & Supervisory Board Member	Tatsuo Abe	(Auditor, Tokai Konetsu Co., Ltd. (incumbent and post-retirement))

3) Date of scheduled appointments and retirements March 28, 2014