

# THE 147<sup>th</sup> BUSINESS TERM

(Period from January 1, 2005 to December 31, 2005)

## FINANCIAL REPORT

NIPPON CARBON CO., LTD.

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## Overview of Business

The Japanese economy in the current term has become firmer with the increase in capital investment supported by strong corporate results and the increased consumer spending due to the improved employment situation. In the meantime, the fact that the price of crude oil remains at its highest level and the prices of raw materials such as iron and steel also remain at high levels is cause for concern in the future. However, our economy has been maintaining a slow but steady recovery supported by the strong expansion in both domestic and overseas private sector demand.

In the iron and steel industry, the main industry linked with our company group's business, the demand has been firm to date because the domestic demand for steel materials used in the manufacturing industries such as automobile and ship building industries or used in the private sector's capital investment were high. However, a bipolar phenomenon was observed, in which the demand for high-quality products was high while the demand for general-purpose products was relatively low due to stockpiling of cheap imports. As a whole, a strong economic situation has continued.

In the chemical industry, there was a steep rise in the prices of crude oil and raw materials. However, because the demand for our products in China and other Asian countries increased, our overall business has been steady.

In the semiconductor industry, the inventory adjustment cycle was completed in the first half of the year and the orders increased toward the end of the year.

Under these circumstances, as a manufacturer our company group has been engaged in the corporate reform in order to further improve the quality of products, reduce their manufacturing costs and strengthen the risk hedge against exchange rate and interest rate fluctuations.

To cope with the increase in the price of raw materials caused by high-price of crude oil, we actively promoted passing the increased price along to the price of products. At the same

time, with carbon fiber products (GF, CCM<sup>®</sup>) in high demand, we made a large capital investment in our Shiga Plant to increase its production capacity, which resulted in the expansion of our sales. Meanwhile, among our chemical products, we are executing a long-term strategy for our Resbon<sup>®</sup> business, starting up Nippon Carbon Lorraine Co., Ltd. as a joint venture company with Carbone Lorraine in France in September 2005.

As a result, the sales volume in this consolidated accounting year reached 25.99 billion yen, an increase of 9.2 percent over the previous consolidated accounting year (non-consolidated sales was 18.578 billion yen, an increase of 10.5 percent over the previous term). In terms of the profit-loss balance, because of the progress in the price correction of artificial graphite electrode, cost reduction effect due to the increased operating uptime of production facilities and the good business results achieved by the group companies such as Nippon-Techno Carbon Co., Ltd., the company's pretax profit was 3.122 billion yen, an increase of 43.2 percent over the previous consolidated accounting year (non-consolidated profit was 1.79 billion yen, an increase of 27.3 percent over the previous term). The net profit in this current term was 1.337 billion yen, an increase of 32.5 percent over the previous term (non-consolidated profit was 945 million yen, an increase of 8.2 percent over the previous term).

Considering all this and according to our basic policy that the company pays dividends stably over a long term and while considering our reserves, the company decided to pay a dividend of 4 yen per share.

The following is the business situation in the individual segments of our company group.

#### [Carbon products related business]

Our company group has made capital investment in its facilities to cope with increasing demand and also has established a production system capable of adjusting to fluctuating demands. In addition, in order to expand business and establish high added

value with simultaneous placement of new products on the market as well as establish a high profit making structure, we have been making efforts to expand sales of products and adjust their prices. As a result, the sales volume reached 24.616 billion yen (an increase of 8.4 percent over the previous consolidated accounting year).

Among the main product divisions in the carbon products related business, in the electrode division we were engaged in the sales price correction of products for both domestic and overseas markets as the most important matter, because of the high-price of raw materials. As a result of this effort as well as the increase in the volume of products sold, the sales have increased. Regarding production, we also made efforts to greatly improve the quality of products and reduce their manufacturing costs.

In the chemical products division, severe conditions still prevail along with fierce competition both in domestic and overseas markets. Being supported by good business results of those companies in the chemical industry for the recent years, new investments have been made for the renewal of their facilities, which increased the demand for our products. By thus meeting this demand, we have achieved our initial sales target.

As having been described previously, among our chemical products regarding the business of impervious graphite for chemical structure (RESBON®), we established Nippon Carbon Lorraine Co., Ltd. as a joint venture with Carbone Lorraine in France in September 2005 in order to strengthen our ability to meet diversified needs.

With respect to the fine carbon division, the demand for carbon products used in the semiconductor industry and high-temperature products used inside furnaces for general industry has been firm both in domestic and overseas markets. To meet the growing demand, we made a large capital investment in facilities for carbon fiber products, establishing a system capable of meeting a further demand increase in the future.

In the newly developed products division, the demand for Nicalon® and graphite powder anode material for lithium ion

battery has grown, though there were fluctuations.

[Real estate rental business]

In the Yokohama region, the lowering trend for office rent is still continuing. By increasing the occupancy rate the sales were 646 million yen (an increase of 4.9 percent over the previous consolidated accounting year).

[Other businesses]

The sales were 727 million yen (an increase of 48.9 percent over the previous consolidated accounting year).

(Main issues the corporate group needs to deal with)

As for the domestic economy in the future, an upward momentum is expected to continue. However, there are many destabilizing factors, such as the high price of raw materials and crude oil and the effects of tight monetary policy taken by the United States and China, which may cause an economic downturn. Accordingly, an unpredictable situation is thought to continue.

Concerning the business environment surrounding our company group, though strong manufacturing activity is continuing in the iron & steel and semiconductor industries, when the adverse effects caused by the price increase of raw materials are taken into account, we cannot be too optimistic about the situation.

Here, our company group has successfully completed a 3-year midterm business plan that was started in 2003, centering around the reconstruction of our business and the resumption of dividends, reaching its main goals in 2005.

In addition, aiming at further business expansion, our company started a new 3-year midterm business plan "Growing Plan - 08" from 2006, in which we would like to increase our corporate value further and contribute to the society as a good corporate citizen.

Accordingly, our company group decided that the foundation to achieve the targets of "Growing Plan - 08" by 2008

should be established in fiscal year 2006, the first year of this midterm business plan. If the prices of crude oil and raw materials stay high and the end of deflation is clear, the economic situation will likely be unfavorable to our company in terms of both currency exchange and interest rate. Whatever change happens in our economic environment, we will overcome the difficulties as rapidly as possible, promote the development of high value-added products, and meet the needs in the market. At the same time, by continuously making efforts to lower the production costs and other expenditures we will strengthen our profit base. Using our company group's business resources fully, we will maximize the synergy within the group for its future progress.

In order to achieve the above mentioned;

(1) We aim to complete the first-year target of the new 3-year midterm business plan.

(2) We will establish a solid foundation for our electrode business.

(3) We will expand our business overseas as well as domestic market for carbon fiber products such as general-purpose carbon fiber (GF) and carbon fiber reinforced carbon composite materials (CCM®). At the same time, by developing and commercializing the next-generation Lithium-ion battery anode materials (LD) timely, we will further increase our sales.

(4) For the further growth of our group companies, we will set in order various existing systems and educate and activate human resources, so that the group functions more effectively.

To carry out all these measures we will use all the resources available in our group companies, and thus raise our corporate value. We are also aware that without respecting and complying ethics laws and regulations, our company cannot survive in the long term, much less prosper stably. That is, we believe that our basic business principle must be the thorough respect of ethics laws and regulations. Therefore, we will be establishing our compliance program schemes with those laws and regulations.

We would be very grateful if our shareholders understand what we are striving for, and support our efforts.

[Regarding The New Midterm Business Plan "Growing Plan - 08"]

#### Basic Policy

Our company group started the new midterm business plan "Growing Plan - 08" this January. To increase our corporate value further and increase our contribution to society as a corporate citizen, we are aiming to achieve an annual sales volume of 31.0 billion yen with a pretax profit of 3.3 billion yen for a profit rate of 11 percent in 2008.

#### Important implementation issues

In order to attain this target, we will implement the following important issues while considering the unique features of products our company group handles, the importance and urgency of these measures, the profitability and development potential of each operation, and the necessity of developing new products on which our company group will depend in the future.

##### 1. Strengthening and expansion of the electrode business

Concentrating our business resources in electrodes, our core business, we will expand and deepen this sector so that we produce electrodes with the best quality in the world. For this purpose, we must renew the production facilities of our Toyama Plant where graphite electrodes are produced to manufacture high-quality electrodes of up to 32-inch size while reducing their production cost and meet the demand in the global market.

##### 2. Business expansion of carbon fiber products (GF/CCM®)

As for the general purpose carbon fiber (GF) and carbon fiber reinforced carbon composite (CCM®) whose demand is brisk in the semiconductor industry and as parts used inside general industrial high-temperature furnaces, we are making large capital investments, which are contributing to sales. By

expanding this business further, we are aiming to increase our sales to 5.0 billion yen in 2008.

### 3. Development and sales of high-capacity Lithium-ion battery anode materials, including development and marketing for hybrid electric vehicles

The demand for Lithium-ion battery anode materials has been increasing due to an increase in their use in PC's, mobile phones and others. In addition, considering their new applications such as in hybrid electric vehicles, we will make further efforts to improve the capacity and quality of Lithium-ion battery anode materials, in hopes of entering the hybrid electric vehicles market, which should lead to increasing profits.

**NIPPON CARBON CO., LTD.**

**Board of Directors :**

<b>President and Representative Director</b>	<b>:</b>	<b>Yuichi Toba</b>
<b>Executive Vice President and Representative Director</b>	<b>:</b>	<b>Michio Inoue</b>
<b>Senior Managing Director</b>	<b>:</b>	<b>Shigeo Tajima</b>
<b>Managing Director</b>	<b>:</b>	<b>Tadao Masuda</b>
<b>Managing Director</b>	<b>:</b>	<b>Yoshitake Yamaguchi</b>
<b>Director</b>	<b>:</b>	<b>Ikuo Itoh</b>
<b>Director</b>	<b>:</b>	<b>Yoshikazu Tanaka</b>

**Auditors :**

<b>Standing Auditor</b>	<b>:</b>	<b>Tadayasu Masuko</b>
<b>Standing Auditor</b>	<b>:</b>	<b>Yutaka Kitamura</b>
<b>Auditor</b>	<b>:</b>	<b>Takeru Yamazaki</b>

**(current as of March30 , 2006)**

# THE 147<sup>th</sup> BUSINESS TERM

(Period from January 1, 2005 to December 31, 2005)

## FINANCIAL REPORT

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Nippon Carbon Co., Ltd.

NIPPON CARBON CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2005 AND 2004

ASSETS

JPY in millions

	2004	2005
I . Current assets :		
1. Cash on hand and in banks	5,346	4,043
2. Notes receivable, trade and Accounts Receivable, trade	7,331	8,351
3. Inventories	6,062	7,121
4. Deferred tax assets	371	131
5. Other current assets	846	636
6. Allowance for doubtful accounts	△ 2	△ 5
<u>Total current assets</u>	19,957	20,278
II . Fixed assets :		
1. Tangible fixed assets :		
(1) Buildings and structures	8,899	8,838
(2) Machinery, equipment and furnaces	6,782	7,131
(3) Vehicles, tools, furniture and fixtures	423	443
(4) Land	4,027	4,028
(5) Construction in progress	325	224
<u>Total tangible fixed assets</u>	20,458	20,665
2. Intangible fixed assets	85	123
3. Investments and other assets :		
(1) Investment securities	4,258	6,708
(2) Long-term loans	36	54
(3) Deferred tax assets	120	158
(4) Other assets	596	570
(5) Allowance for doubtful accounts	△ 68	△ 59
<u>Total investments and other assets</u>	4,944	7,432
<u>Total fixed assets</u>	25,488	28,222
<u>Total Assets</u>	45,445	48,500

NIPPON CARBON CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2005 AND 2004

LIABILITIES

JPY in millions

	2004	2005
I . Current liabilities :		
1. Notes payable, trade and Accounts payable, trade	3,908	4,602
2. Short-term debts	14,449	12,361
3. Accrued corporate tax, etc.	227	1,006
4. Deferred tax liabilities	1	1
5. Reserve for bonus payments	40	42
6. Other current liabilities	1,619	1,539
<u>Total current liabilities</u>	20,245	19,554
II . Long-term liabilities :		
1. Long-term debts	2,490	2,230
2. Deferred tax liabilities	943	1,914
3. Provision for employees' retirement benefits	1,650	1,827
4. Provision for directors' retirement allowance	210	242
5. Other long-term liabilities	1,073	1,032
<u>Total long-term liabilities</u>	6,368	7,247
<u>Total liabilities</u>	26,614	26,801

MINORITY STOCKHOLDERS' EQUITY INCONSOLIDATED ENTITIES

Minority stockholders' equity in consolidated entities	1,512	1,930
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STOCKHOLDERS' EQUITY

I . Common stock	7,402	7,402
II . Legal capital surplus	0	0
III . Legal retained surplus	7,797	7,797
IV . Retained earnings; - unappropriated retained earnings, or undisposed deficits (△)	1,084	2,062
V . Net unrealized gains on securities	1,374	2,844
VI . Adjustment on foreign currency exchange	△ 37	△ 26
VII . Common stock held in treasury	△ 302	△ 311
<u>Total stockholders' equity</u>	17,318	19,768
<u>Total Liabilities and Stockholders' Equity</u>	45,445	48,500

NIPPON CARBON CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENT  
FISCAL YEAR ENDED DECEMBER 31, 2005 AND 2004

JPY in millions

	2004	2005
I . Net sales	23,807	25,990
II . Cost of sales	17,253	18,371
Gross profit	6,554	7,618
III . Selling, general and administrative expenses	4,226	4,434
Operating income (△loss)	2,328	3,184
IV . Non-operating income :		
1. Interest received	27	3
2. Dividend received	35	50
3. Foreign currency exchange gain	38	98
4. Other income	110	82
V . Non-operating expenses :		
1. Interest paid	257	210
2. Loss on investment	0	20
3. Other expenses	103	66
Ordinary income (△loss)	2,180	3,122
VI . Extraordinary income :		
1. Profit on sales of fixed assets	57	0
2. Profit on sales of investment securities	246	4
3. Indemnity received	126	0
4. Profit on revision from the previous period	0	135
5. Reversal of allowance for bad debts	31	4
VII . Extraordinary expenses :		
1. Loss on disposition of fixed assets	310	66
2. Loss on evaluation of fixed assets	57	0
3. Loss on evaluation of inventory	191	41
4. Advanced depreciation deduction, etc.	54	0
5. Revaluation loss on investment securities	0	4
6. Legal fees (Antitrust litigation, etc.)	1,006	0
Income (△loss) before corporation and inhabitants tax	1,020	3,154
Corporation and inhabitants taxes, etc.	△ 118	1,394
Minority stockholders' interest in net income	129	422
Net income (△loss) for the period	1,009	1,337

NIPPON CARBON CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EARNED SURPLUS  
FISCAL YEAR ENDED DECEMBER 31, 2005 AND 2004

	<u>JPY in millions</u>	
	<u>2004</u>	<u>2005</u>
[Capital surplus]		
I . Balance at beginning of the period	7,797	7,797
II . Decrease in capital surplus		
--- transfer to retained earnings	0	0
III . Balance at end of the projects	7,797	7,797
[Retained Capital surplus]		
I . Balance at beginning of the period (deficit $\Delta$ )	312	1,084
II . Increase in retained earnings		
--- net income	1,009	1,337
--- increase due to transfer of capital surplus	0	0
III . Decrease in retained earnings		
--- Dividend	232	348
--- Directors' bonus	5	12
--- Decrease due to equity fluctuation	0	0
IV . Balance at end of the period	1,084	2,062

NIPPON CARBON CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED CASH FLOW  
FISCAL YEAR ENDED DECEMBER 31, 2005 AND 2004

	JPY in millions	
	2004	2005
I. Cash flows from operating activities :		
1. Net income ( $\Delta$ loss) before corporation and inhabitants tax	1,020	3,154
2. Depreciation	1,586	1,753
3. Increase in reserve for retirement benefit	226	176
4. Increase in reserve for directors retirement allowance	40	31
5. Interest and dividend to be received	$\Delta$ 63	$\Delta$ 53
6. Foreign exchange profit and loss ( $\Delta$ )	$\Delta$ 56	$\Delta$ 23
7. Interest to be paid	257	210
8. Loss on investment	0	20
9. Profit on disposal of fixed assets and investment securities	$\Delta$ 303	$\Delta$ 4
10. Revaluation loss on investment securities	0	4
11. Loss on disposal of fixed assets	310	66
12. Revaluation loss on fixed assets	57	0
13. Legal fees (Antitrust litigation, etc.)	1,006	0
14. Profit on insurance	$\Delta$ 126	0
15. Advanced depreciation deduction, etc.	54	0
16. Profit on revision from the previous period	0	$\Delta$ 135
17. ( $\Delta$ Increase) Decrease in notes and accounts receivable	$\Delta$ 326	$\Delta$ 992
18. ( $\Delta$ Increase) Decrease in inventory	$\Delta$ 31	$\Delta$ 1,041
19. Increase ( $\Delta$ Decrease) in notes and accounts payable	537	678
20. Bonus paid to directors	$\Delta$ 8	$\Delta$ 18
21. Others	72	172
Sub Total	4,252	3,999
22. Interest and dividend received	63	53
23. Interest paid	$\Delta$ 254	$\Delta$ 228
24. Indemnity received	23	23
25. Legal fees paid, or compensation paid on product, etc.	$\Delta$ 1,031	$\Delta$ 18
26. Corporate taxes paid or refund	$\Delta$ 69	$\Delta$ 489
Net cash provided ( $\Delta$ used) by operating activities	2,985	3,340
II. Cash flows from investing activities :		
1. Payments for purchase of tangible fixed assets	$\Delta$ 2,668	$\Delta$ 1,890
2. Proceeds from sales of tangible fixed assets	112	11
3. Payments for purchase of investment securities	$\Delta$ 3	$\Delta$ 3
4. Proceeds from sales of investment securities	417	11
5. Others	$\Delta$ 22	$\Delta$ 20
Net cash provided ( $\Delta$ used) in investing activities	$\Delta$ 2,164	$\Delta$ 1,889
III. Cash flows from financing activities :		
1. Increase ( $\Delta$ Decrease) in short-term borrowings	$\Delta$ 88	$\Delta$ 2,096
2. Proceeds from long term loans	2,550	1,850
3. Repayment of long-term debts	$\Delta$ 2,053	$\Delta$ 2,115
4. Others	$\Delta$ 266	$\Delta$ 393
Net cash provided ( $\Delta$ used) by financing activities	140	$\Delta$ 2,756
IV. Increase ( $\Delta$ decrease) in cash and cash equivalents	1,026	$\Delta$ 1,259
V. Cash and cash equivalents at the beginning of period	4,217	5,211
VI. Cash and cash equivalents at new affiliates	0	0
VII. Cash and cash equivalents at the end of period	5,211	3,928

## Company profile of Nippon Carbon Co., Ltd.

### 1. Profile

Establishment: December 20, 1915  
Capital: 7,402 million yen (as of December 31, 2005)  
Nos. of employees: 239 (as of December 31, 2005)

### 2. History

1915 Nippon Carbon established in Yokohama City. Begins production of natural graphite electrodes.  
1927 Successful manufacturing of artificial graphite electrode for the first time in Japan.  
1933 Yamanashi plant established for production of artificial graphite anodes.  
1934 Toyama Plant established for production of artificial graphite electrodes for steelmaking.  
1938 Renewed Yokohama Plant established for mass production of carbon brushes and other high-grade carbon products.  
1949 Production of impervious graphite RESBON™ for chemical application begins.  
1962 Production of carbon fiber CARBOLON™ begins.  
1966 Production of APEX SEAL for rotary engines begins.  
1970 Production of high-strength, high-modulus carbon fiber CARBOLON-Z™ begins.  
1974 Production of flexible graphite sheet NICAFILM™ begins.  
1980 Authorized by Japan Science and Technology Corporation (JST) to develop manufacturing technology for silicon carbide continuous fiber NICALON™.  
1983 Production of isotropic graphite begins at Yamanashi Plant. Received acknowledgement from JST for the successful development of production technology for NICALON™.  
1985 Awarded the Deming Application Prize.  
1987 Shirakawa Plant established for production of high-performance sliding composites SC CARBON™.  
1992 Authorized by JST to develop manufacturing of ultra-high-heat-resistant silicon carbide continuous fiber HI-NICALON™ by an electron beam irradiation method.  
1993 Toyama Plant obtains ISO 9001 certification.  
1994 Shiga Plant (then Shin Nippon Carbon) obtains ISO 9002 certification and 1997 ISO 9001 certification. Production of dia. 30 inch graphite electrodes for DC (Direct Current) arc furnaces begins.  
1995 Received acknowledgement from JST for the successful development of production technology for ultra-high-heat-resistant silicon carbide continuous fiber HI-NICALON™.  
1998 Yamanashi Plant obtains ISO 9001 certification. Toyama Plant, Yamanashi Plant and Shiga Plant (then Shin Nippon Carbon) obtains ISO 14001 certification.  
1999 Merged with Shin Nippon Carbon and named as Shiga Plant of the Company.  
2000 Yokohama Technical Center shut down as one of measures of the Company's comprehensive series of restructuring and streamlining (2001.12 merged with Yamanashi Carbon and 2002.6 merged with Nippon Carbon Shoji.)  
2003.1 Establishment Nippon Techno-Carbon Co., Ltd., a subsidiary company, specialized in specialty carbon business, owned by 50:50 with Nippon Steel Chemical Co., Ltd.  
2005.9 Established Nippon Carbon Lorraine Co.,Ltd. a joint-venture in the area of anti-corrosion graphite equipment for domestic chemical industries.Owned by 50:50 with Carbone Lorraine.

### 3. Offices, Plants, and Laboratory

Head Office: Tokyo  
Sales Offices: Osaka Branch/ Nagoya/ Toyama/ Fukuoka  
Plants: Toyama/ Shiga/Yamanashi/ Shirakawa  
Laboratory: Shiga

### 4. Affiliated companies

Nippon Techno-Carbon Co., Ltd., Miyagi Pref.  
(Nippon Carbon Seiko Co., Ltd., Kanagawa Pref. Yamagata Carbon Co., Ltd., Yamagata Pref.)  
(Kyushu Tanso Kogyo Co., Ltd., Fukuoka Pref. Keihan Tanso Kogyo Co., Ltd., Mie Pref.)  
Nippon Carbon Engineering Co., Ltd., Toyama Pref. Nikkaen Co., Ltd., Shiga Pref.  
Toho Tanso Kogyo Co., Ltd., Kyoto Central Carbon Co., Ltd., Taiwan, ROC

NIPPON CARBON CO., LTD.  
BALANCE SHEET  
AS OF DECEMBER 31, 2005 AND 2004

ASSETS

JPY in millions

	2004	2005
I. Current assets :		
1. Cash on hand and in banks	3,881	2,611
2. Notes receivable, trade	175	235
3. Accounts receivable, trade	4,227	5,086
4. Inventories :		
(1) Finished goods	563	643
(2) Semi-finished goods and work in process	2,828	3,340
(3) Raw materials and supplies	346	442
5. Prepaid expenses	108	108
6. Deferred tax assets	288	56
7. Short-term loans to subsidiaries	421	405
8. Other current assets	662	490
9. Allowance for doubtful accounts	0	△ 2
<u>Total current assets</u>	13,505	13,421
II. Fixed assets :		
1. Tangible fixed assets :		
(1) Buildings and structures	7,894	7,810
(2) Machinery, equipment and furnaces	5,442	5,573
(3) Vehicles, tools, furniture and fixtures	216	253
(4) Land	3,769	3,769
(5) Construction in progress	287	192
<u>Total tangible fixed assets</u>	17,612	17,602
2. Intangible fixed assets	53	71
3. Investments and other assets :		
(1) Investment securities	4,173	6,608
(2) Investments in subsidiaries	1,453	1,458
(3) Long-term loans to subsidiaries	1,150	1,159
(4) Other assets	469	440
(5) Allowance for doubtful accounts	△ 40	△ 34
<u>Total investments and other assets</u>	7,208	9,635
<u>Total fixed assets</u>	24,875	27,308
<u>Total Assets</u>	38,381	40,730

NIPPON CARBON CO., LTD.  
BALANCE SHEET  
AS OF DECEMBER 31, 2005 AND 2004

LIABILITIES

JPY in millions

	2004	2005
I . Current liabilities :		
1. Notes payable, trade	408	524
2. Accounts payable, trade	2,419	2,713
3. Short-term debts	10,915	9,310
4. Account payable, others	375	243
5. Accrued expenses	307	368
6. Accrued income tax, consumption tax	25	593
7. Notes payable for equipment	69	274
8. Other current liabilities	290	251
<u>Total current liabilities</u>	14,810	14,298
II . Long-term liabilities :		
1. Long-term debts	2,490	2,230
2. Deffered tax liability	914	1,890
3. Provision for employees' retirement benefits	1,269	1,377
4. Provision for directors' retirement allowance	160	192
5. Other long-term liabilities	1,072	1,030
<u>Total long-term liabilities</u>	5,907	6,721
<u>Total liabilities</u>	20,717	21,019

STOCKHOLDERS' EQUITY

I . Common stock, JPY 50 par value per share (400,000,000 shares authorized. 118,325,045 shares issued)	7,402	7,402
II . Legal capital surplus	1,851	1,851
III . Legal retained surplus	5,946	5,946
IV . Retained earnings; – unappropriated retained earnings, or undisposed deficits (△)	1,393	1,987
V . Net unrealized gains on securities	1,371	2,835
VI . Common stock held in treasury	△ 302	△ 311
<u>Total stockholders' equity</u>	17,663	19,710
<u>Total Liabilities and Stockholders' Equity</u>	38,381	40,730

NIPPON CARBON CO., LTD.  
INCOME STATEMENT  
FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004

	JPY in millions	
	2004	2005
I . Net sales	16,809	18,578
II . Cost of sales	12,072	13,274
Gross profit	4,737	5,304
III. Selling, general and administrative expenses	3,256	3,531
Operating income (△loss)	1,480	1,773
IV. Non-operating income :		
1. Interest received	51	24
2. Dividend received	45	67
3. Rent received	11	15
4. Other income	84	120
V . Non-operating expenses :		
1. Interest paid	203	167
2. Foreign currency exchange loss	0	0
3. Other expenses	64	42
Ordinary income (△loss)	1,406	1,790
VI. Extraordinary income :		
1. Profit on sales of fixed assets and investment securities	303	4
2. Reversal of allowance for bad debts, etc.	35	3
3. Indemnity received	28	0
VII. Extraordinary expenses :		
1. Loss on disposition of fixed assets	77	63
2. Loss on evaluation of inventory	86	18
3. Legal fees (Antitrust litigation, etc.)	1,006	0
4. Revaluation loss on investment securities	0	4
Income (△loss) before corporation and inhabitants tax	604	1,712
Corporation and inhabitants taxes, etc.	△ 269	766
Net income (△loss) for the period	873	945
Accumulated earnings (△deficits) brought forward from the previous period	519	1,041
Unappropriated earnings, or unabsorbed deficits(△)	1,393	1,987

NOTES TO BALANCE SHEET  
AS OF DECEMBER 31, 2005 AND 2004

JPY in millions, except per share data

	<u>2004</u>	<u>2004</u>
1. Receivable from and payable to subsidiaries :		
Receivable from subsidiaries – current	1,220	1,308
Receivable from subsidiaries – long term	1,150	1,159
Payable to subsidiaries – current	376	185
2. Accumulated depreciation on tangible fixed assets	20,439	21,385
3. Assets pledged as security for bank loans and other financing arrangements with banks:		
Tangible fixed assets	11,350	11,657
Investment securities	1,341	2,117
4. Machining facilities and equipments for graphite electrodes are not only provided as fix assets in balance sheet but also used under lease agreement.		
5. According to the Company's accounting measures for maturity bills, those are cashed or settled on the maturity dated of the bills. However, the followings are those which matured on the last day of the business year, and included in the balance as of the end of the year because the banking firms are closed on the day.		
Notes receivable	0	1
Notes payable	97	99
Notes payable for equipments	7	26
6. Net profit ( $\Delta$ loss) per share (Fiscal year ended 2004 and 2003)	JPY 7.49	JPY 7.97

NOTES TO INCOME STATEMENT  
FISCAL YEAR ENDED DECEMBER 31, 2005 AND 2004

	<u>2004</u>	<u>2005</u>
Transaction to/from subsidiary companies :		
Sales to subsidiaries	2,181	2,233
Purchase from subsidiaries	1,110	813
Non-operating transactions	334	391

STATEMENT OF APPROPRIATION

JPY in millions

	<u>2004</u>	<u>2005</u>
I . Unappropriated retained earnings	1,393	1,987
II . Dividends	348	463
III . Directors' bonus	3	19
IV . Retained earnings brought forward to the next period	1,041	1,503