**Financial Results**
**for the First Six Months of the Fiscal Year Ending December 31, 2016—Consolidated**
**[Japan GAAP]**

August 2, 2016

| | |
|---|---|
| Company name: | **Tokai Carbon Co., Ltd.** |
| Listings: | Tokyo Stock Exchange, first section |
| Security code: | 5301 |
| URL: | http://www.tokaicarbon.co.jp/ |
| Representative: | Hajime Nagasaka, President and CEO |
| Contact: | Kazuhiko Matsubara, Executive Officer and General Manager, Accounting Department, Corporate Administration Division |
| Tel: | +81-3-3746-5100 |

Scheduled dates

| | |
|---|---|
| Scheduled date for submission of quarterly report: | August 3, 2016 |
| Commencement of dividend payments: | September 1, 2016 |
| Supplementary reference documents to support the quarterly financial statements: | Yes |
| Explanatory meeting to discuss the quarterly financial statements will be held: | Yes (for institutional investors and analysts only) |

## 1. Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2016 (January 1 to June 30, 2016)

(Amounts rounded down to the nearest millions of yen)

### (1) Operating Results (Cumulative)

(Percentage figures represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit/(loss) attributable to owners of the parent company | |
|---|---|---|---|---|---|---|---|---|
| | millions of yen | % | millions of yen | % | millions of yen | % | millions of yen | % |
| Six months ended June 30, 2016 | 44,872 | (16.9) | (80) | — | (235) | — | (5,900) | — |
| Six months ended June 30, 2015 | 53,984 | (2.6) | 1,569 | 13.2 | 1,917 | 54.4 | 497 | (36.3) |

Note: Comprehensive income
Six months ended June 30, 2016: ¥(15,701) million (—%)
Six months ended June 30, 2015: ¥3,001 million (—%)

| | Profit per share | Profit per share—fully diluted |
|---|---|---|
| | yen | yen |
| Six months ended June 30, 2016 | (27.68) | — |
| Six months ended June 30, 2015 | 2.33 | — |

## (2) Financial Position

| | Total assets | Net assets | Shareholders' equity ratio |
|---|---|---|---|
| | millions of yen | millions of yen | % |
| As of June 30, 2016 | 154,251 | 108,579 | 69.2 |
| As of December 31, 2015 | 184,074 | 124,971 | 66.8 |

Note: Shareholders' equity:
As of June 30, 2016: ¥106,804 million
As of December 31, 2015: ¥122,915 million

## 2. Dividends

| Record date | Annual dividend | | | | |
|---|---|---|---|---|---|
| | End of 1st quarter | End of 2nd quarter | End of 3rd quarter | Year-end | Full-year |
| | yen | yen | yen | yen | yen |
| Year ended December 31, 2015 | — | 3.00 | — | 3.00 | 6.00 |
| Year ending December 31, 2016 | — | 3.00 | | | |
| Year ending December 31, 2016 (forecast) | | | — | 3.00 | 6.00 |

Note: Amendment of dividend forecast that have been disclosed lastly: None

## 3. Forecast of Consolidated Earnings for the Fiscal Year Ending December 31, 2016 (January 1 to December 31, 2016)

(Percentage figures represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Profit/(loss) attributable to the owners of the parent company | | Profit per share |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | yen |
| Full year | 87,000 | (17.0) | 200 | (95.1) | 200 | (95.4) | (5,700) | — | (26.74) |

Note: Amendment of dividend forecast that have been disclosed lastly: None

## *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) Application of accounting principles peculiar to quarterly consolidated financial statement preparation: None

### (3) Changes in accounting policies and estimates, and retrospective restatements

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: None
4) Retrospective restatement: None

## (4) Number of shares issued (common stock)

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

| | |
|---|---|
| As of June 30, 2016: | 224,943,104 shares |
| As of December 31, 2015: | 224,943,104 shares |

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

| | |
|---|---|
| As of June 30, 2016: | 11,764,431 shares |
| As of December 31, 2015: | 11,757,962 shares |

3) Average number of shares during the period (quarterly cumulative period):

| | |
|---|---|
| Six months ended June 30, 2016: | 213,182,637 shares |
| Six months ended June 30, 2015: | 213,221,650 shares |

***Status of conducting the "Quarterly Review"**

At the time that these quarterly financial results were released, the review process for disclosing quarterly consolidated financial statements under the Financial Instruments and Exchange Act had been completed.

***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, please refer to "1. (3) Description of Forecasts of Consolidated Results and Other Information on Future Projections" on page 4 in the "Attachments" section.

**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: August 5, 2016 (Friday)

# 1. Qualitative Information Related to Consolidated Quarterly Earnings Results

## (1) Description of Operating Results

During the first six months of the fiscal year under review (from January 1 to June 30, 2016), the Tokai Carbon Group's business environment continued to be harsh, due mainly to economic slowdowns in China and other emerging countries, the trend of a strong yen in foreign exchange markets, and the delayed recovery of the steel market. In the Group's core carbon black segment, production in the automobile and tire industries in Japan remained sluggish. Meanwhile, in the area of graphite electrodes, competition continued to be severe, due to declining demand for electric arc furnace steel caused by over-production of steel materials in China.

Under these circumstances, the Group has started the first year of the new three-year medium-term management plan, "T-2018," whose basic policies include structural reform, introduction of ROIC (return on investment capital) control, maintaining financial health and growth strategies with key performance targets; net sales of ¥110 billion, operating income of ¥9 billion, ROS (Rate of Sales) of 8% or higher and ROIC of 6% or higher in FY2018, the final year of T-2018. The Group regards 2016 to be a year of thorough structural reforms composed of "business reconstruction" and "internal awareness reforms." Specific measures under the reforms include pursuing the following by the second quarter: (1) reducing production capacity of isotropic graphite and narrowing the product line-up in the fine carbon business; (2) optimizing human resources; (3) further downsizing and industrial reorganization of the graphite electrodes business; (4) curtailing production capacity and shifting to a production system focusing on high value-added products in China in the carbon black business; (5) reducing inventory by approximately ¥8 billion on a corporate-wide basis; and, (6) improving internal communication by breaking down walls between divisions. While the Group recognizes that implementing measures as part of our structural reforms involves considerable pain, the Group has determined that these measures are inevitable for transforming the organization into a strong profit structure and achieving our targets before the end of the period.

Consolidated net sales for the first six months of the fiscal year under review decreased 16.9% from the corresponding period of the previous fiscal year to ¥44,872 million. In terms of income, although efforts were made to preserve margins, the Group was impacted by falling sales prices, recording expenses such as provisions of allowances for doubtful accounts for some business partners, posting a lump-sum cost associated with the purchase of assets for research and development, and other factors. As a result, the Group recorded an operating loss of ¥80 million (operating income of ¥1,569 million in the corresponding period of the previous fiscal year) and an ordinary loss of ¥235 million (ordinary income of ¥1,917 million in the corresponding period of the previous fiscal year). Loss attributable to owners of parent was ¥5,900 million (profit attributable to owners of parent of ¥497 million in the corresponding period of the previous fiscal year).

The performance of our principal business segments is as follows:

Effective from the three months ended March 31, 2016, the Group reorganized its reportable operating segment and changed the measurement method of operating segment profit or loss as stated in Notes (Note on segment information, etc.). Comparative figures in the previous year were reclassified to conform to the new segment classification in the current year for the year-on-year calculation.

**Carbon Black**

In Japan, production in the automobile and tire industries, in which the Group's customers operate, slipped below the level of the previous year; accordingly, demand for carbon black also remained sluggish. Furthermore, the inflow of low-priced Chinese products into Japan and southeast Asian markets continued, which affected both demand and pricing mainly in Thailand, which is one of the key operating locations of the Company.

As a result, consolidated net sales in the Carbon Black segment decreased 26.9% year on year to ¥18,297 million, caused in part by the impact of price revisions associated with falls in prices of crude oil used for carbon black from two years earlier. Meanwhile, operating income rose significantly from the previous year to ¥1,892 million as earnings improved and costs were cut at overseas subsidiaries.

**Graphite Electrodes**

Crude steel production has continued to show negative growth since the previous year both in Japan and abroad. Production in January through May of this year fell 2.2% year on year on a global basis and fell 2.0% year on year in Japan. While demand for steel remained weak, mainly in response to economic slowdowns in emerging countries, China continues to export steel materials at a pace of over 100 million tons per year. As such, the supply and demand imbalance for steel lingered around the world, and production in the electric arc furnace steel segment, an industrial segment in which the Group's customers operate, was sluggish both in Japan and abroad. Under such circumstances, the supply and demand imbalance for graphite electrodes also continued and the yen strengthened, while sales prices fell due to a deterioration of market conditions. Consequently, net sales dropped significantly.

As a result, net sales in the Graphite Electrodes segment fell 19.5% from a year earlier to ¥10,833 million and the segment posted operating loss of ¥370 million (operating income of ¥1,134 million in the corresponding period of the previous fiscal year).

**Fine Carbon**

Although demand for graphite material for fine carbon has been on a moderate recovery trend, the structural slump with supply exceeding demand continued. Although the Company managed to maintain a certain level of sales volume, the Company was forced to reduce prices, especially in Asian markets, and was impacted by a further appreciation of the yen.

As a result, net sales in the Fine Carbon segment fell 10.3% year on year to ¥6,770 million and the segment posted an operating loss of ¥1,254 million (operating income of ¥159 million a year earlier), due to the posting of a loss on the valuation of inventories for which no sales could be expected in the long term, recognizing the provision of an allowance for doubtful accounts in the first quarter due to a deterioration in the business results of customers, and other factors.

**Industrial Furnaces and Related Products**

Net sales of industrial furnaces, which are the Group's core product category, increased year on year due to demand for capital investment in some energy-related industries, in addition to the fact that the level of sales in IT-related industries, which are the main sources of demand for this segment, remained comparable to that in the same period of the previous year. Net sales of heating elements and other products remained flat year on year, mainly due to weak demand in China's glass industry, although demand was strong in China's power infrastructure segment.

As a result, in the Industrial Furnaces and Related Products segment, net sales increased 18.0% year on year to ¥2,956 million, and operating income rose 13.0% year on year to ¥381 million.

**Other Operations**

Friction Materials

Sales volumes in the areas of construction machines, agricultural machines, and commercial vehicles declined due to weaker demand among major sources of demand. Meanwhile, demand for applications in two-wheel vehicles was stable and sales volume remained strong.

As a result, net sales of friction materials decreased 9.6% year on year to ¥3,768 million.

Others

Net sales from property leasing and other businesses climbed 76.0% to ¥2,246 million owing to greater sales of anode material for rechargeable lithium-ion batteries.

As a result of the above, net sales in the Other Operations segment increased 10.4% year on year to ¥6,014 million, and operating income decreased 7.3% to ¥297 million.

## (2) Description of Financial Position

As of June 30, 2016, the end of the second quarter of the fiscal year under review, total assets amounted to ¥154,251 million, a decrease of ¥29,823 million from the end of the previous fiscal year. Current assets at the end of the second quarter of the fiscal year under review totaled ¥75,209 million, down ¥12,758 million from the end of the previous fiscal year, reflecting decreases mainly in notes and accounts receivable and inventories. Fixed assets amounted to ¥79,041 million, down

¥17,064 million from the end of the previous fiscal year, affected by decreases in tangible fixed assets and investment securities due to lower market prices.

Total liabilities were ¥45,672 million, a decrease of ¥13,431 million from the end of the previous fiscal year. Current liabilities came to ¥26,610 million, down ¥4,516 million from the end of the previous fiscal year, due to decreases mainly in notes, accounts payable and income taxes payable, partially offset by an increase in current portion of long-term debt. Fixed liabilities were ¥19,061 million, down ¥8,914 million from the end of the previous fiscal year, due to a decrease in long-term debt among other factors.

Total net assets were ¥108,579 million, down ¥16,391 million from the end of the previous fiscal year, due to decreases in retained earnings and foreign currency translation adjustments, etc.

As a result, the shareholders' equity ratio increased 2.4 percentage points from the end of the previous fiscal year, reaching 69.2%.

### (3) Description of Forecasts of Consolidated Results and Other Information on Future Projections

Taking into account the consolidated results of the first six months of the fiscal year under review and the further fall in sales prices caused by the continuing structural slump in the graphite electrodes business, the previous forecasts for net sales, operating income, ordinary income, and profit attributable to owners of parent are revised as announced in the "Notice on Recording of an Impairment Loss and Revision of Earnings Forecast" dated July 25, 2016.

## 2. Summary Information (Notes)

### (1) Changes in Accounting Policies and Estimates, and Retrospective Restatements
### (Change in accounting policy)
#### (Application of Accounting Standard, etc. for Business Combination)

Effective from January 1, 2016, the Company adopted the "Accounting Standard for Business Combinations" (Accounting Standard Board of Japan ("ASBJ") Statement No. 21, issued on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, issued on September 13, 2013) and "Accounting Standard for Business Divestiture" (ASBJ Statement No. 7, issued on September 13, 2013). Accordingly, the Company recorded differences caused by changes in the Company's equity in the subsidiaries and affiliates with controlling interests as capital surplus and changed the method to recognize acquisition-related expenses as expenses accruing during the consolidated financial year in which said acquisition takes place. For business combinations which take place after the beginning of the first quarter of the current consolidated financial year, the Company changed the method to present adjustments to allotment of acquisition cost after the confirmation of tentative accounting methods to reflect such adjustments in the consolidated quarterly financial results for the consolidated financial year in which said business combination takes place. In addition, presentation of quarterly net income was changed, and minority interests are now presented as non-controlling interests. In order to reflect such changes, figures for the first six months ended June 30, 2015 and the fiscal year ended December 31, 2015 were reclassified to conform with the presentation of the current year.

The application of the Accounting Standards for Business Combinations and its related standards is subject to the transitional treatments stipulated in the provisions of Article 58-2 (4) of Accounting Standard for Business Combinations, Article 44-5 (4) of Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of Accounting Standard for Business Divestiture, and has been underway since the beginning of the first quarter of the current consolidated financial year and will continue to be going forward.

There was no effect of this change on the consolidated income statement for the first six months ended June 30, 2016.

#### (Application of Practical Solution on a Change in Depreciation Method Due to the 2016 Tax Reform)

In conjunction with the revision of the Corporation Tax Act, the Company adopted the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (PTIF No. 32; issued on June 17, 2016) in the second quarter of the fiscal year under review and has changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

The impact of this change on operating loss, ordinary loss, and loss before income taxes for the first six months of the fiscal year under review is minimal.

## 3. Quarterly Consolidated Financial Statements

### (1) Quarterly Consolidated Balance Sheets

(millions of yen)

| | End of the previous fiscal year (As of December 31, 2015) | End of second quarter of the fiscal year under review (As of June 30, 2016) |
|---|---|---|
| | Amount | Amount |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | 16,045 | 18,319 |
| Notes and accounts receivable | 26,897 | 21,801 |
| Securities | 7,000 | 8,000 |
| Merchandise and finished goods | 13,828 | 8,427 |
| Work in process | 12,182 | 9,955 |
| Raw materials and supplies | 8,241 | 5,703 |
| Deferred tax assets | 1,384 | 1,335 |
| Other | 2,509 | 2,185 |
| Allowance for doubtful accounts | (122) | (518) |
| Total current assets | 87,968 | 75,209 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures, net | 18,282 | 14,341 |
| Machinery, equipment and vehicles, net | 26,576 | 22,523 |
| Furnaces, net | 998 | 817 |
| Land | 6,703 | 6,625 |
| Construction in progress | 3,070 | 1,418 |
| Other, net | 997 | 1,914 |
| Total tangible fixed assets | 56,629 | 47,640 |
| Intangible fixed assets | | |
| Software | 404 | 444 |
| Goodwill | 6,135 | 5,364 |
| Customer-related assets | 3,896 | 3,440 |
| Other | 888 | 757 |
| Total intangible fixed assets | 11,324 | 10,007 |
| Investments and other assets | | |
| Investment securities | 24,681 | 18,130 |
| Net defined benefit asset | 1,993 | 1,976 |
| Deferred tax assets | 606 | 530 |
| Other | 922 | 804 |
| Allowance for doubtful accounts | (51) | (48) |
| Total investment and other assets | 28,153 | 21,393 |
| Total fixed assets | 96,106 | 79,041 |
| **Total assets** | 184,074 | 154,251 |

(millions of yen)

| | End of the previous fiscal year (As of December 31, 2015) | End of second quarter of the fiscal year under review (As of June 30, 2016) |
|---|---|---|
| | Amount | Amount |
| **Liabilities** | | |
| Current liabilities | | |
| Notes and accounts payable | 9,196 | 5,237 |
| Electronically recorded obligations | 2,201 | 2,082 |
| Short-term borrowings | 7,469 | 5,737 |
| Current portion of long-term debt | 2,068 | 7,111 |
| Income taxes payable | 3,540 | 839 |
| Consumption taxes payable | 496 | — |
| Accrued expenses | 1,366 | 1,128 |
| Reserve for bonuses | 212 | 246 |
| Other | 4,575 | 4,227 |
| Total current liabilities | 31,126 | 26,610 |
| Fixed liabilities | | |
| Long-term debt | 14,398 | 7,857 |
| Deferred tax liabilities | 7,872 | 5,051 |
| Net defined benefit liability | 3,816 | 3,466 |
| Reserve for directors’ retirement benefits | 107 | 86 |
| Reserve for executive officers’ retirement benefits | 35 | 36 |
| Provision for environment and safety measures | 469 | 473 |
| Other | 1,276 | 2,089 |
| Total fixed liabilities | 27,976 | 19,061 |
| Total liabilities | 59,103 | 45,672 |
| **Net assets** | | |
| Shareholders' capital | | |
| Common stock | 20,436 | 20,436 |
| Additional paid-in capital | 17,502 | 17,502 |
| Retained earnings | 78,214 | 71,674 |
| Treasury stock | (7,243) | (7,244) |
| Total shareholders’ capital | 108,910 | 102,368 |
| Other accumulated comprehensive income | | |
| Net unrealized gains/losses on other securities | 9,392 | 5,397 |
| Deferred gains or losses on hedges | (0) | — |
| Foreign currency translation adjustments | 3,782 | (1,776) |
| Remeasurements of defined benefit plans | 830 | 814 |
| Total other accumulated comprehensive income | 14,004 | 4,435 |
| Non-controlling interests | 2,055 | 1,774 |
| Total net assets | 124,971 | 108,579 |
| **Total liabilities and net assets** | 184,074 | 154,251 |

### (2) Quarterly Consolidated Statements of Operations and Comprehensive Income
### (Quarterly Consolidated Statements of Operations)
### (First six months)

(millions of yen)

| | First six months of the previous fiscal year (From January 1 to June 30, 2015) | First six months of the fiscal year under review (From January 1 to June 30, 2016) |
|---|---|---|
| | Amount | Amount |
| Net sales | 53,984 | 44,872 |
| Cost of sales | 44,435 | 36,762 |
| Gross profit | 9,548 | 8,110 |
| Selling, general and administrative expenses | 7,979 | 8,191 |
| Operating income (loss) | 1,569 | (80) |
| Non-operating income | | |
| Interest income | 43 | 29 |
| Dividend income | 318 | 246 |
| Rental income | 155 | 152 |
| Equity in income of non-consolidated subsidiaries and affiliates | 236 | 435 |
| Other non-operating income | 339 | 234 |
| Total non-operating income | 1,093 | 1,098 |
| Non-operating expense | | |
| Interest expense | 317 | 234 |
| Foreign exchange losses | 19 | 724 |
| Other non-operating expense | 407 | 294 |
| Total non-operating expense | 744 | 1,253 |
| Ordinary income (loss) | 1,917 | (235) |
| Extraordinary income | | |
| Gain on sales of non-current assets | — | 1,380 |
| Gain on liquidation of subsidiaries and associates | 189 | — |
| Total extraordinary income | 189 | 1,380 |
| Extraordinary losses | | |
| Impairment loss | 89 | 6,487 |
| Demolition expenses | 106 | — |
| Contribution for liquidation of subsidiaries and associates | 86 | — |
| Loss on sales of shares of subsidiaries and associates | 78 | — |
| Total extraordinary losses | 360 | 6,487 |
| Income (loss) before income taxes | 1,746 | (5,342) |
| Income taxes, inhabitants tax, and enterprise taxes | 1,544 | 1,024 |
| Income taxes adjustments | (127) | (462) |
| Total income taxes | 1,416 | 562 |
| Profit/(loss) | 329 | (5,905) |
| Loss attributable to non-controlling shareholders | (167) | (5) |
| Profit/(loss) attributable to owners of the parent | 497 | (5,900) |

**(Quarterly Consolidated Statements of Comprehensive Income)**
**(First six months)**

(millions of yen)

| | First six months of the previous fiscal year (From January 1 to June 30, 2015) | First six months of the fiscal year under review (From January 1 to June 30, 2016) |
|---|---|---|
| | Amount | Amount |
| Profit/(loss) | 329 | (5,905) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 4,101 | (3,998) |
| Deferred gains or losses on hedges | — | 0 |
| Foreign currency translation adjustment | (1,567) | (4,934) |
| Remeasurements of defined benefit plans | (25) | (16) |
| Share of other comprehensive income of associates accounted for using equity method | 163 | (847) |
| Total other comprehensive income | 2,671 | (9,796) |
| Comprehensive income | 3,001 | (15,701) |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent | 3,174 | (15,469) |
| Comprehensive income attributable to non-controlling shareholders | (172) | (232) |

### (3) Quarterly Consolidated Statements of Cash Flows

(millions of yen)

| | First six months of the previous fiscal year (From January 1 to June 30, 2015) | First six months of the fiscal year under review (From January 1 to June 30, 2016) |
|---|---|---|
| | Amount | Amount |
| Cash flows from operating activities: | | |
| Income (loss) before income taxes | 1,746 | (5,342) |
| Depreciation and amortization | 4,540 | 4,008 |
| Impairment loss | 89 | 6,487 |
| Demolition expenses | 106 | — |
| Contribution for liquidation of subsidiaries and associates | 86 | — |
| Loss (gain) on liquidation of subsidiaries and associates | (189) | — |
| Loss (gain) on sales of shares of subsidiaries and associates | 78 | — |
| Loss (gain) on sales of property, plant and equipment | (4) | (1,376) |
| Amortization of goodwill | 218 | 190 |
| Increase (decrease) in allowance for doubtful accounts | 47 | 438 |
| Increase (decrease) in reserve for bonuses | 60 | 39 |
| Increase (decrease) in net defined benefit liability | (28) | (23) |
| Decrease (increase) in net defined benefit asset | (73) | 17 |
| Increase (decrease) in reserve for directors' retirement benefits | (19) | (21) |
| Increase (decrease) in reserve for executive officers' retirement benefits | (8) | 0 |
| Increase (decrease) in provision for environment and safety measures | (0) | 4 |
| Interest and dividends income | (361) | (275) |
| Interest paid | 317 | 234 |
| Foreign exchange (gain) loss | (31) | 191 |
| Equity in (income) loss of non-consolidated subsidiaries and affiliates | (236) | (435) |
| (Increase) decrease in trade receivables | 5,541 | 3,973 |
| (Increase) decrease in inventories | 2,771 | 8,707 |
| Increase (decrease) in trade payables | (3,774) | (3,453) |
| Other | 633 | (878) |
| Subtotal | 11,509 | 12,485 |
| Interest and dividends received | 558 | 372 |
| Interest paid | (294) | (226) |
| Income taxes paid | (1,073) | (3,697) |
| Net cash provided by (used in) operating activities | 10,700 | 8,933 |

(millions of yen)

| | First six months of the previous fiscal year (From January 1 to June 30, 2015) | First six months of the fiscal year under review (From January 1 to June 30, 2016) |
|---|---|---|
| | Amount | Amount |
| Cash flows from investing activities: | | |
| Payments into time deposits | (120) | (0) |
| Proceeds from withdrawal of time deposits | 120 | 111 |
| Purchase of tangible fixed assets | (3,645) | (2,907) |
| Proceeds from sales of property, plant and equipment | 45 | 1,564 |
| Purchase of intangible fixed assets | (76) | (74) |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | (44) | — |
| Payment of contribution for liquidation of subsidiaries and associates | (86) | — |
| Other | (4) | 7 |
| Net cash provided by (used in) investing activities | (3,811) | (1,298) |
| Cash flows from financing activities: | | |
| Net increase (decrease) in short-term borrowings | (7,428) | (980) |
| Proceeds from long-term debt | 4,000 | — |
| Repayment of long-term debt | (2,035) | (1,034) |
| Dividend paid | (639) | (639) |
| Cash dividends paid to non-controlling shareholders | (48) | (48) |
| Other | (35) | (29) |
| Net cash provided by (used in) financing activities | (6,189) | (2,732) |
| Effect of exchange rate changes on cash and cash equivalents | 35 | (1,508) |
| Increase (decrease) in cash and cash equivalents | 735 | 3,393 |
| Cash and cash equivalents at beginning of the period | 14,738 | 22,919 |
| Cash and cash equivalents at end of the period | 15,474 | 26,312 |

### (4) Notes to the Quarterly Consolidated Financial Statements
### (Notes on the Going-concern Assumption)

Not applicable

### (Notes When the Amount of Shareholders' Equity has Changed Significantly)

Not applicable

### (Segment Information)

**i) First six months of the previous fiscal year (From January 1 to June 30, 2015)**

1. Information concerning net sales and income or loss by reportable segment

(millions of yen)

| | Reportable Segment | | | | | Other Business (Note 1) | Total | Adjustments (Note 2) | Amounts on statements of operations (Note 3) |
|---|---|---|---|---|---|---|---|---|---|
| | Carbon Black | Graphite Electrodes | Fine Carbon | Industrial Furnaces and the Related Products | Total | | | | |
| Net sales: | | | | | | | | | |
| External sales | 25,034 | 13,455 | 7,544 | 2,504 | 48,538 | 5,446 | 53,984 | — | 53,984 |
| Inter-segment sales/transfer | 38 | 0 | 42 | 148 | 230 | — | 230 | (230) | — |
| Total | 25,072 | 13,455 | 7,587 | 2,653 | 48,768 | 5,446 | 54,214 | (230) | 53,984 |
| Segment income | 175 | 1,134 | 159 | 337 | 1,806 | 320 | 2,127 | (557) | 1,569 |

Notes:

1. "Other Business" is a business segment not included in the reporting segments. It includes businesses involving friction materials business and property leasing, etc.
2. The amount of adjustment of segment income is ¥(557) million, including ¥(552) million of the corporate expenses unallotted to each reportable segment. The corporate expenses consist of research and development expenses which are not attributed to the reportable segment.
3. Segment income corresponds to operating income in the quarterly consolidated statements of operations.

2. Information concerning impairment loss on non-current assets or goodwill, etc., by reportable segment

(Significant impairment loss relating to non-current assets)

In the Fine Carbon segment, the Company recorded an impairment loss with regard to assets scheduled to be retired for which retirement was determined due to the reorganization of plants in connection with the strategy to promote production optimization, since the recoverable amount fell below the book value. The amount of impairment loss posted in the first six months of the fiscal year under review was ¥50 million.

**ii) First six months of the fiscal year under review (From January 1 to June 30, 2016)**

1. Information concerning net sales and income or loss by reportable segment

(millions of yen)

| | Reportable Segment | | | | | Other Business (Note 1) | Total | Adjustments (Note 2) | Amounts on statements of operations (Note 3) |
|---|---|---|---|---|---|---|---|---|---|
| | Carbon Black | Graphite Electrodes | Fine Carbon | Industrial Furnaces and the Related Products | Total | | | | |
| Net sales: | | | | | | | | | |
| External sales | 18,297 | 10,833 | 6,770 | 2,956 | 38,858 | 6,014 | 44,872 | — | 44,872 |
| Inter-segment sales/transfer | 40 | 0 | 50 | 114 | 205 | — | 205 | (205) | — |
| Total | 18,338 | 10,833 | 6,821 | 3,070 | 39,063 | 6,014 | 45,077 | (205) | 44,872 |
| Segment income (loss) | 1,892 | (370) | (1,254) | 381 | 649 | 297 | 946 | (1,027) | (80) |

Notes:

1. “Other Business” is a business segment not included in the reportable segments. It includes businesses involving friction materials business and property leasing, etc.
2. The amount of adjustment of segment income is ¥(1,027) million, including ¥(1,030) million of the corporate expenses unallotted to each reportable segment. The corporate expenses consist of research and development expenses which are not attributed to the reportable segment.
3. Segment income (loss) corresponds to operating loss in the quarterly consolidated statements of operations.

2. Matters concerning change in reportable segments

(Change in classification of business segments)

Followed by the development of the three-year medium-term management plan, “T-2018,” with FY2016 as the first year and associated changes in the management policy, effective from the first quarter ended March 31, 2016, the Company reviewed the classification of its business segments and divided the existing reportable segment of “Carbon and Ceramics” into the new “Graphite Electrodes” segment and “Fine Carbon” segment.

Segment information in the first six months ended June 30, 2015 was presented after reclassifying based on the new reportable segment classification.

(Changes in the measurement method of business segment income or loss)

Effective from the first quarter ended March 31, 2016, the Company changed the allocation method of certain general and administrative expenses to evaluate segment performances more adequately.

Segment information in the first six months ended June 30, 2015 was presented after reclassifying based on the new reportable segment classification.

3. Information concerning impairment loss on non-current assets or goodwill, etc., by reportable segment

(Significant impairment loss relating to non-current assets)

The Company has recorded an impairment loss in the Carbon Black segment since the recoverable amount fell short of the book value with respect to idle assets for which no future use could be expected as a result of the decision to close one line of carbon black manufacturing and production facilities due to a decline in profitability. The amount of this impairment loss recorded in the first six months of the fiscal year under review is ¥2,259 million.

The Company has recorded an impairment loss in the Fine Carbon segment because the recoverable amount fell short of the book value with respect to idle assets for which no future use could be expected as a result of the decision to dispose of, suspend, etc. fine carbon manufacturing facilities due to a decline in profitability and outdated facilities based on a management rationalization measure. The amount of this impairment loss recorded in the first six months of the fiscal year under review is ¥4,228 million.