

Financial Results for the First Nine Months of the Fiscal Year Ending December 31, 2016--Consolidated [Japan GAAP]

November 2, 2016
Tokyo Stock Exchange

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Scheduled date for submission of quarterly report: November 4, 2016
Commencement of dividend payments: -
Supplementary reference documents to support the quarterly financial statements: Yes
Explanatory meeting to discuss the quarterly financial statements will be held: Yes (telephone conference for institutional investors and analysis)

(Amounts rounded down to the nearest millions of yen)

1 . Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending December 31, 2016 (From January 1, 2016 to September 30, 2016)

(Percentage figures represent year-on-year changes.)

(1) Operating Results (Cumulative)

| | Net sales | | Operating income | | Ordinary income | | Quarterly net income/(loss) attributable to the owners of the parent company | |
|--------------------------------------|-----------------|--------|------------------|--------|-----------------|--------|------------------------------------------------------------------------------|--------|
| | JPY in Millions | % | JPY in Millions | % | JPY in Millions | % | JPY in Millions | % |
| Nine months ended September 30, 2016 | 66,373 | (17.5) | 470 | (86.7) | 522 | (85.6) | (5,377) | - |
| Nine months ended September 30, 2015 | 80,497 | (5.0) | 3,548 | 44.4 | 3,625 | 36.5 | 1,433 | (12.0) |

Note: Total comprehensive income Nine months ended September 30, 2016 (14,390 JPY in Millions)(-%) Nine months ended September 30, 2015 (3,326 JPY in Millions)(- %)

| | Net income per share | Net income per share--fully diluted |
|--------------------------------------|----------------------|-------------------------------------|
| Nine months ended September 30, 2016 | JPY (25.23) | JPY - |
| Nine months ended September 30, 2015 | 6.72 | - |

(2) Financial position

| | Total assets | Net assets | Shareholders' equity ratio |
|--------------------------|-----------------|-----------------|----------------------------|
| | JPY in Millions | JPY in Millions | % |
| As of September 30, 2016 | 154,031 | 109,250 | 69.8 |
| As of December 31, 2015 | 184,074 | 124,971 | 66.8 |

Note: Shareholders' equity Nine months ended September 30, 2016 107,452JPY in Millions As of December 31, 2015 122,915 JPY in Millions

2 . Dividends

| | Annual dividend | | | | |
|-------------------------|--------------------------------|--------------------------------|--------------------------------|----------|-----------|
| | End of 1 st quarter | End of 2 nd quarter | End of 3 rd quarter | Year-end | Full-year |
| As of December 31, 2015 | JPY - | JPY 3.00 | JPY - | JPY 3.00 | JPY 6.00 |
| As of December 31, 2016 | - | 3.00 | - | - | - |

| | | | | | |
|---------------------------------------|--|--|--|------|------|
| 2016 | | | | | |
| As of December 31, 2016 (forecast) | | | | 3.00 | 6.00 |

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

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

(Percentages represent year-on-year changes.)

| Full fiscal year | Net sales | | Operating income | | Ordinary income | | Net income/(loss) attributable to the owners of the parent company | | Net income per share |
|------------------|-----------------|--------|------------------|--------|-----------------|--------|--------------------------------------------------------------------|---|----------------------|
| | JPY in Millions | % | JPY in Millions | % | JPY in Millions | % | JPY in Millions | % | JPY |
| | 87,000 | (17.0) | 700 | (82.9) | 1,000 | (76.8) | (5,100) | - | (23.92) |

Note: Amendment of earning forecasts that have been disclosed lastly: Yes

*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)

(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):
- 2) Number of shares held in treasury at end of the period:
- 3) Average number of shares during the period (quarterly cumulative period)

| | | | |
|------------------------------|--------------------|----------------------------------------------------|--------------------|
| 3Q2016 ending December 31 | 224,943,104 shares | For the fiscal year ending December 31, 2015 | 224,943,104 shares |
| 3Q2016 ending December 31 | 11,770,614 shares | For the fiscal year ending December 31, 2015 | 11,752,962 shares |
| 3Q2016 ending December 31 | 213,180,071 shares | 3Q2015 ending December 31 | 213,216,569 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

(Consideration of the matters such as descriptions about the future)

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 3 in the "Attachments" section.

(How to obtain the supplementary document describing the quarterly results)

In order to explain the quarterly results, the Company is going to have a telephone conference for institutional investors and analysts on Wednesday, November 2, 2016. The Company will post the document for the conference on its website immediately after it is held.

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1 . Quantitative Information Related to Consolidated Quarterly Earnings Results

(1) Description of Operating Results

During the first nine months of the fiscal year under review (from January 1 to September 30, 2016), the global economy generally continued to recover moderately, driven by the steadily recovering economy in countries in Europe and America, despite slowdowns in economic growth in some developing countries.

On the other hand, the Tokai Carbon Group's operating environment continued to be difficult. The reasons behind this are that the production of carbon black, the Group's main product, continued to be sluggish owing to low production of Japanese vehicles and tires, and that demand for graphite electrodes decreased due to the overproduction of Chinese steel.

Under these circumstances, the Tokai Carbon Group started the three-year Mid-Term Management Plan, T-2018, the first year of which is the fiscal year under review. T-2018 aims to establish the growth foundations that are derived from the structural reform comprised of "restructuring" and "reforming employees' consciousness." The performance goals that have been set for the year of 2018 are as follows: Net sales of 1,10 JPY in Billions, operating income of 9 JPY in Billions, at least 8% of ROS (Rate of Sales), and at least 6% of ROIC. During the first nine months of the fiscal year 2016, the Group took the structural reform measures including the following: 1) Reducing the production capacity and product lineup of isotropic graphite with regard to fine carbon business, 2) optimizing the required personnel, 3) taking measures for further downsizing the graphite electrode business as well as restructuring the graphite electrode industry, 4) decreasing the production capacity of carbon black in Chinese plants as well as shifting to the system for mainly producing high-value added products, 5) reducing the inventories, amounting to 8 JPY in Billions, throughout the Group, and 6) improving internal communication throughout the divisions. Although these structural reform measures involve significant pain, the Group judges that these measures are inevitable to shift to a strong profit structure and is promoting the measures to complete them within the fiscal year under review.

As a result, the net sales of the first nine months were 66,373 JPY in Millions, up 17.5% from the same period last year. The operating income was 470 JPY in Millions, down 86.7% from the same period last year. The ordinary income was 522 JPY in Millions, down 85.6% from the same period last year. The net loss attributable to the owners of the parent company was 5,377 JPY in Millions. (In the same period last year, the Group generated 1,433 JPY in Millions as the net income attributable to the owners of the parent company.)

The business performance of each segment is described below.

As described in Considerations (Segment Information), the Tokai Carbon Group has adopted "change of the classification of each business segment" and "change of the method for measuring profit or loss of each business segment" since the first three months of the fiscal year under review. Furthermore, to calculate the year-to-year comparison, the Group compared the new business segment to the corresponding previous business segment.

Carbon Black

The falling prices of crude oil for carbon black, which had continued since two years ago, showed a sign of recovery in this summer. However, the prices did not return to the last year's levels. During the period from January to September, the net sales decreased from the same period last year due to the price revision in response to the fluctuations of the prices of crude oil for carbon black; on the other hand the operating income increased from the same period last year due to measures such as cost reduction measures in foreign subsidiaries.

The results are that the net sales of this business segment were 27,805 JPY in Millions, down 23.9% from the same period last year, and that the operating income was 3,282 JPY in Millions, up 177.4% from the same period last year.

Graphite Electrodes

Crude steel production in the world during the period from January to August this year decreased from the same period last year. While the production adjustment caused by the overproduction of Chinese steel continued in each area, demand for electrodes continued to be sluggish. Under these circumstances, the imbalance in the supply and demand of graphite electrodes continued, the selling prices dropped due to market deterioration, and the strong yen continued. These caused the net sales to substantially decrease.

The results are that the net sales of this business segment were 15,644 JPY in Millions, down 22.7% from the same period last year, and that the operating loss was 827 JPY in Millions. (In the same period last year, the segment generated an operating income of 1,980 JPY in Millions.)

Fine Carbon

The semiconductor market and the market for general industry showed steady growth. The solar cell market, mainly the market in China, recovered. However, the capacity to supply graphite materials to carbon specialties continued to exceed the demand, creating a fierce competitive environment. Under these circumstances, this business segment is taking rationalization measures such as personnel reduction, reducing production capacity, and promoting measures such as the reduction of manufacturing items as well as inventories. During the first nine months of the fiscal year under review, the operating income substantially decreased. This is caused by transactions such as the recording of about 800 JPY in Millions that was based on measures such as the provision of allowance for doubtful accounts, which was derived from a decline in the earnings of clients, and the recording of 300 JPY in Millions that were the appraised loss of long-term inventories.

The results are that the net sales of this business segment were 989 JPY in Millions, down 15.0% from the same period last year, and that the operating loss was 1,561 JPY in Millions. (In the same period last year, the segment generated an operating income of 300 JPY in Millions.)

Industrial Furnaces and Related Products

The net sales of industrial furnaces, which compose the Group's core product category, increased from the same period last year since sales to the IT-related industries, which are the main sources of demand for this segment, increased from the same period last year and since capital investment was made in some energy-related industries. Although demand from electricity infrastructure in China remained strong, the net sales of heating elements and other products slightly decreased from the same period last year due to factors such as a decline in demand for refractories.

The results are that the net sales of this business segment were 4,041 JPY in Millions, up 5.9% from the same period last year, and that the operating income was 443 JPY in Millions, up 4.3% from the same period last year.

Other Operations

Friction Materials

The sales volume of friction materials declined. This was caused by various factors: For example, sluggish demand in China resulted in a drop in the production of construction machinery, and the production of farm machinery declined. As a result, the net sales of friction materials were 5,641 JPY in Millions, down 9.3% from the same period last year.

Others

The net sales from property leasing and other businesses were 3,431 JPY in Millions, up 59.0% from the same period last year, due to greater sales of anode materials for rechargeable lithium-ion batteries.

As a result of the above, the net sales in the Other Operations segment increased 8.3% year on year to 9,073 JPY in Millions, and the operating income decreased 14.2% year on year to 414 JPY in Millions.

(2) Description of Financial Position

As of September 30, 2016, the end of the third quarter of the fiscal year under review, the total assets amounted to 154,031 JPY in Millions, a decrease of 30,043 JPY in Millions from the end of the previous fiscal year. Current assets at the end of the third quarter of the fiscal year under review totaled 74,635 JPY in Millions, down 13,332 JPY in Millions from the end of the previous fiscal year, reflecting decreases mainly in inventories and notes and accounts receivable. Fixed assets amounted to 79,395 JPY in Millions, down 16,711 JPY in Millions from the end of the previous fiscal year due to factors such as the decreases in investment securities that are caused by decreases in tangible fixed assets and current prices.

Total liabilities were 44,780 JPY in Millions, a decrease of 14,323 JPY in Millions from the end of the previous fiscal year. Current liabilities came to 25,429 JPY in Millions, down 8,625 JPY in Millions from the end of the previous fiscal year, due to decreases mainly in short-term borrowings and notes and accounts payable, although the current portion of long-term debt increased. Fixed liabilities were 19,350 JPY in Millions, down 8,625 JPY in Millions from the end of the previous fiscal year, due to decreases in Long-term debt, etc.

Total net assets came to 109,250 JPY in Millions, down 15,720 JPY in Millions from the end of the previous fiscal year, due to decreases in retained earnings, foreign currency translation adjustments, etc.

As a result, the shareholders' equity ratio increased 3.0 percentage points from the end of the previous fiscal year, reaching 69.8%.

- (3) Description of Forecasts of Consolidated Results and Other Information on Future Projections
The forecast for consolidated results has been changed from the previous one (July 25, 2016). For details, please refer to the "Notice on Revisions to the Consolidated Earnings Forecast for the Full Year" announced today.

2 . Summary Information (Notes)

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

Effective the first quarter of the fiscal year under review, the Company has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), etc. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the first quarter under review, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the quarterly consolidated financial statements for the quarterly period to which the date of business combination belongs. In addition, the presentation method for "net income" and other related items was changed, and the presentation of "minority interests" was changed to "non-controlling interests." To reflect these changes, the Company has reclassified its quarterly and full-year consolidated financial statements for the first nine months of the previous fiscal year and for the end of the previous fiscal year.

The application of the accounting standard for business combination, etc. is in accordance with the transitional treatment provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company is applying the said standard, etc. prospectively from the beginning of the first quarter under review .

The effect of these changes in accounting policies on the profit and loss of the first nine months of the fiscal year under review is immaterial.

(Application of practical solution on a change in depreciation method due to Tax Reform 2016)

In response to the revision of the Corporate Tax Act, the Company adopted the "Practical solution on a change in depreciation method due to Tax Reform 2016" (PITF No.32, June 17, 2016) for the first six months of the fiscal year under review, and changed the depreciation method for the buildings and accompanying facilities purchased on or after April 1, 2016, from the declining-balance method to the straight-line method.

Note that the impact of the adoption and change on the operating income, ordinary income, and loss before income taxes during the first nine months of the fiscal year under review is minimal.

3. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheets

| | (Unit: JPY in Millions) | |
|----------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------------|
| | End of the previous fiscal year | End of third quarter of the fiscal year under review (December 31, 2015) (September 30, 2016) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 16,045 | 20,572 |
| Notes and accounts receivable | 26,897 | 22,007 |
| Securities | 7,000 | 7,000 |
| Merchandise and finished goods | 13,828 | 8,003 |
| Work in progress | 12,182 | 8,516 |
| Raw materials and supplies | 8,241 | 5,388 |
| Deferred tax assets | 1,384 | 1,440 |
| Other | 2,509 | 2,213 |
| Allowance for doubtful accounts | (122) | (506) |
| Total current assets | <u>87,968</u> | <u>74,635</u> |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures, net | 18,282 | 14,155 |
| Machinery, equipment and vehicles, net | 26,576 | 21,409 |
| Furnaces, net | 998 | 887 |
| Land | 6,703 | 6,388 |
| Construction in progress | 3,070 | 1,293 |
| Other, net | 997 | 1,846 |
| Total tangible fixed assets | 56,629 | 45,981 |
| Intangible fixed assets | | |
| Software | 404 | 471 |
| Goodwill | 6,135 | 5,102 |
| Customer-related assets | 3,896 | 3,264 |
| Other | 888 | 709 |
| Total intangible fixed assets | <u>11,324</u> | <u>9,549</u> |
| Investments and other assets | | |
| Investment securities | 24,681 | 20,672 |
| Net defined benefit asset | 1,993 | 1,970 |
| Deferred tax assets | 606 | 525 |
| Other | 922 | 743 |
| Allowance for doubtful accounts | (51) | (48) |
| Total investment and other assets | <u>28,153</u> | <u>23,864</u> |
| Total fixed assets | <u>96,106</u> | <u>79,395</u> |
| Total assets | <u>184,074</u> | <u>154,031</u> |

| | (Unit: JPY in Millions) | |
|-----------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------------|
| | End of the previous fiscal year | End of third quarter of the fiscal year under review (December 31, 2015) (September 30, 2016) |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 9,196 | 6,131 |
| Electronically recorded obligations | 2,201 | 2,011 |
| Short-term borrowings | 7,469 | 4,206 |
| Current portion of long-term debt | 2,068 | 7,111 |
| Income taxes payable | 3,540 | 811 |
| Consumption taxes payable | 496 | - |
| Accrued expenses | 1,366 | 1,115 |
| Reserve for bonuses | 212 | 620 |
| Other | 4,575 | 3,422 |
| Total current liabilities | <u>31,126</u> | <u>25,429</u> |
| Fixed liabilities | | |
| Long-term debt ¹ | 14,398 | 7,814 |
| Deferred tax liabilities | 7,872 | 5,377 |
| Net defined benefit liabilities | 3,816 | 3,465 |
| Reserve for directors' retirement benefits | 107 | 90 |
| Reserve for executive officers' retirement benefits | 35 | 40 |
| Provision for environment and safety measures | 469 | 473 |
| Other | 1,276 | 2,087 |
| Total fixed liabilities | <u>27,976</u> | <u>19,350</u> |
| Total liabilities | <u>59,103</u> | <u>44,780</u> |
| Net assets | | |
| Shareholders' capital | | |
| Common stock | 20,436 | 20,436 |
| Additional paid-in capital | 17,502 | 17,502 |
| Retained earnings | 78,214 | 71,557 |
| Treasury stock | (7,243) | (7,246) |
| Total shareholders' capital | <u>108,910</u> | <u>102,250</u> |
| Other accumulated comprehensive income | | |
| Net unrealized gains/losses on other securities | 9,392 | 6,994 |
| Deferred gains or losses on hedges | (0) | 0 |
| Foreign currency translation adjustments | 3,782 | (2,588) |
| Remeasurements of defined benefit plans | 830 | 795 |
| Total other accumulated comprehensive income | <u>14,004</u> | <u>5,201</u> |
| Non-controlling interests | <u>2,055</u> | <u>1,798</u> |
| Total net assets | <u>124,971</u> | <u>109,250</u> |
| Total liabilities and net assets | <u>184,074</u> | <u>154,031</u> |

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

(Unit: JPY in Millions)

| fiscal year under review | First nine months of the previous fiscal year | First nine months of the |
|---------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| | (From January 1, 2015 to September 30, 2015) | (From January 1, 2015 to September 30, 2015) |
| Net sales | 80,497 | 66,373 |
| Cost of sales | 65,120 | 54,242 |
| Gross profit | 15,377 | 12,131 |
| Selling, general and administrative expenses | 11,828 | 11,660 |
| Operating income | 3,548 | 470 |
| Non-operating income | | |
| Interest income | 65 | 43 |
| Dividend income | 381 | 317 |
| Rental income | 232 | 234 |
| Equity in income of non-consolidated subsidiaries and affiliates | 400 | 645 |
| Other | 494 | 355 |
| Total non-operating income | 1,574 | 1,596 |
| Non-operating expense | | |
| Interest expense | 462 | 337 |
| Foreign exchange losses | 338 | 804 |
| Other | 696 | 402 |
| Total non-operating expense | 1,497 | 1,544 |
| Ordinary income | 3,625 | 522 |
| Extraordinary income | | |
| Loss from sale of fixed assets | - | 1,380 |
| Gain on liquidation of subsidiaries and associates ¹⁸⁹ - | | |
| Total extraordinary income | 189 | 1,380 |
| Extraordinary losses | | |
| Impairment loss | 366 | 6,812 |
| Special severance payment | - | 28 |
| Demolition expenses | 106 | - |
| Contribution for liquidation of subsidiaries and associates | 86 | - |
| Loss on sales of shares of subsidiaries and associates | 78 | - |
| Total extraordinary losses | 636 | 6,840 |
| Income (loss) before income taxes (Δ) | 3,178 | (4,938) |
| Income taxes, inhabitant's tax, and enterprise taxes | 2,220 | 1,243 |
| Income taxes adjustments | (333) | (838) |
| Total income taxes | 1,886 | 405 |
| Net income or net loss (Δ) | 1,291 | (5,343) |
| Profit (loss) attributable to non-controlling interests (Δ) | (141) | 33 |
| Profit (loss) attributable to owners of the parent company (Δ) | 1,443 | (5,377) |

(Quarterly Consolidated Statements of Comprehensive Income)
(First nine months)

(Unit: JPY in Millions)

| fiscal year under review | First nine months of the previous fiscal year | First nine months of the |
|----------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| | (From January 1, 2015 to September 30, 2015) | (From January 1, 2015 to September 30, 2015) |
| Net income or net profit or loss (Δ) | 1,291 | (5,343) |
| Other comprehensive income | | |
| Net unrealized gains/losses on other securities | 524 | (2,400) |
| Deferred gains or losses on hedges | - | 0 |
| Foreign currency translation adjustments | (4,953) | (5,812) |
| Remeasurements of defined benefit plans | (54) | (34) |
| Share of other comprehensive income of associates accounted for using equity method | <u>(134)</u> | <u>(799)</u> |
| Total other comprehensive income | <u>(4,617)</u> | <u>(9,046)</u> |
| Comprehensive income | <u>(3,326)</u> | <u>(14,390)</u> |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent company | (3,026) | (14,180) |
| Comprehensive income attributable to non-controlling interests | (296) | (209) |

(3) Notes to Quarterly Consolidated Financial Statements
(Notes on the Going-concern Assumption)
Not applicable

(Notes for When the Amount of Shareholders' Equity Has Changed Significantly)
Not applicable

(Segment Information)

I First nine months of the previous fiscal year (From January 1, 2015 to September 30, 2015)

1 . Information concerning net sales and income in each reportable segment

(Unit: JPY in Millions)

| | Reportable Segment | | | | | Other Businesses (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 | 36,527 | 20,235 | 11,539 | 3,815 | 72,116 | 8,380 | 80,497 | | 80,497 |
| Inter-segment sales/transfer | 51 | 0 | 65 | 210 | 328 | - | 328 | (328) | |
| Total | 36,579 | 20,235 | 11,604 | 4,025 | 72,444 | 8,380 | 80,825 | (328) | 80,497 |
| Segment income | 1,183 | 1,980 | 300 | 425 | 3,889 | 482 | 4,371 | (823) | 3,548 |

Notes 1 "Other businesses" are a business segment not included in the reportable segments. It includes businesses involving the friction material segment and property leasing.

- 2 The amount of adjustment of the segment income is ¥(823) JPY in Millions, including ¥(843) JPY in Millions of the corporate expenses unallocated to each reportable segment. The corporate expenses consist of the research and development expenses, etc. which are not attributable to the reportable segment.
- 3 Segment income corresponds to operating income in the quarterly consolidated statements of operations.

2 . Information concerning fixed asset impairment loss or goodwill in each reportable segment

(Significant impairment loss relating to fixed assets)

In the "Graphite Electrodes" segment, the Company recorded an impairment loss with regard to assets scheduled to be retired--for which retirement was determined due to no prospect for use in the future--because the recoverable amount fell below the book value. The amount of impairment loss posted in the first nine months of the fiscal year under review was ¥48 JPY in Millions.

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--because the recoverable amount fell below the book value. The amount of impairment loss posted in the first nine months of the fiscal year under review was ¥50 JPY in Millions.

In the "Industrial Furnaces and the Related Products" segment, the Company recorded an impairment loss with regard to assets scheduled to be retired--for which retirement was determined due to the sale of the plant site--because the recoverable amount fell below the book value. The amount of impairment loss posted in the first nine months of the fiscal year under review was ¥226 JPY in Millions.

First nine months of the fiscal year under review (From January 1, 2016 to September 30, 2016)

1 . Information concerning net sales and profit or loss in each reportable segment

(Unit: JPY in Millions)

| | Reportable Segment | | | | | Other Businesses (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 | 27,805 | 15,644 | 9,809 | 4,041 | 57,300 | 9,073 | 66,373 | | 66,373 |
| Inter-segment sales/transfer | 95 | 1 | 69 | 196 | 363 | -- | 363 | (363) | |
| Total | 27,901 | 15,646 | 9,878 | 4,237 | 57,664 | 9,073 | 66,737 | (363) | 66,373 |
| Segment income/(loss) | 3,282 | (827) | (1,561) | 443 | 1,337 | 414 | 1,752 | (1,281) | 470 |

Notes 1 "Other businesses" are a business segment not included in the reportable segments. It includes businesses involving the friction material segment and property leasing.

- 2 The amount of adjustment of segment income is ¥(1,281) JPY in Millions, including ¥(1,201) JPY in Millions of the corporate expenses unallocated to each reportable segment. The corporate expenses consist of the research and development expenses, etc. which are not attributable to the reportable segment.
- 3 Segment income corresponds to operating income in the quarterly consolidated statements of operations.

2 . Information concerning any change of a reportable segment

(Change of the classification of each business segment)

Due to the establishment of the Mid-Term Management Plan, T-2018, the first year of which is 2016, and due to the accompanying changes in the business management policies, the Company has reviewed the classification of business segments since the first three months of the fiscal year under review. As a result, a conventional reportable segment, "Carbon and Ceramics," has been changed to "Fine Carbon."

Note that the segment information items, which are disclosed in this document, for the first nine months of the previous fiscal year are based on the changed reportable segments.

(Change in the method for measuring the profit or loss of each business segment)

In order to more precisely evaluate the earnings in each segment, the Company has changed the share of some administrative expenses since the first three months of the fiscal year under review.

Note that the segment information items, which are disclosed in this document, for the first nine months of the previous fiscal year are based on the changed reportable segments.

3 . Information concerning impairment loss on fixed assets or goodwill, etc. in each reportable segment

(Significant impairment loss relating to fixed assets)

In the "Carbon black" segment, the Company recorded an impairment loss with regard to the carbon black production facilities whose profitability had declined and to the unutilized assets that would not be used in response to the determination of closing one production line in each of the Company and Tokai Carbon (Tianjin) Co., Ltd. because the recoverable amount fell below the book value. The amount of impairment loss posted in the first nine months of the fiscal year under review was ¥2,204 JPY in Millions.

In the "Fine Carbon" segment, the Company recorded an impairment loss with regard to the fine carbon production facilities whose profitability declined and to the unutilized assets that would not be used in response to the discarding or non-operation of outdated facilities (which was determined based on management rationalization) because the recoverable amount fell below the book value. The amount of impairment loss in the first nine months of the fiscal year under review was ¥4,228 JPY in Millions.

In addition to the above, the Company recorded an impairment loss with regard to the group assets, which are not allocated to each reportable segment and the selling of which was determined, because the recoverable amount fell below the book value. The amount of impairment loss in the first nine months of the fiscal year under review was ¥380 JPY in Millions.