

Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [Japanese GAAP]

Company name: Tokai Carbon Co., Ltd. Listed on: Tokyo Stock Exchange
 Stock code: 5301 URL: <http://www.tokaicarbon.co.jp/en/>
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Scheduled date for the Annual Shareholders' Meeting: March 29, 2018
 Scheduled date for submission of the Annual Securities Report: March 29, 2018
 Date for commencement of dividend payments: March 30, 2018
 Supplementary notes to financial statements: Yes
 Briefing on financial statements: Yes, for analysts and institutional investors

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (January 1 to December 31, 2017)

(1) Consolidated Operating Results

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2017	106,252	19.9	11,486	915.1	13,249	678.3	11,816	—
Fiscal year ended December 31, 2016	88,580	(15.5)	1,131	(72.3)	1,702	(60.6)	(7,929)	—

Note: Comprehensive income: Fiscal year ended December 31, 2017: 17,086 million yen, —%
 Fiscal year ended December 31, 2016: (10,647 million yen), —%

	Net Income per Share	Net Income per Share Fully Diluted	Return on Equity	Ordinary Income to Asset Ratio	Operating Income to Net Sales Ratio
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2017	55.43	—	10.0	7.8	10.8
Fiscal year ended December 31, 2016	(37.20)	—	(6.8)	1.0	1.3

For reference: Share of profit (loss) of entities accounted for using equity method

As of December 31, 2017: 1,325 million yen
 As of December 31, 2016: 794 million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Capital-to-asset ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
Fiscal year ended December 31, 2017	182,972	126,599	68.8	590.35
Fiscal year ended December 31, 2016	158,824	112,989	69.9	520.69

For reference: Shareholders' capital: As of December 31, 2017: 125,835 million yen
 As of December 31, 2016: 110,990 million yen

(3) Consolidated Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended December 31, 2017	10,543	(14,039)	(4,534)	22,145
Fiscal year ended December 31, 2016	17,505	(3,622)	(7,613)	28,521

2. Dividends

	Annual Dividends					Total dividends paid (full year)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full Year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2016	–	3.00	–	3.00	6.00	1,279	–	1.1
Fiscal year ended December 31, 2017	–	6.00	–	6.00	12.00	2,557	21.6	2.2
Fiscal year ending December 31, 2018 (Forecast)	–	12.00	–	12.00	24.00		17.1	

Note: Breakdown of dividend per share the first six months of fiscal year ending December 31, 2018 (forecast)

Ordinary dividend: 10.00 yen 100th anniversary commemorative dividend: 2.00 yen

Breakdown of dividend per share at year-end of fiscal year ending December 31, 2018 (forecast)

Ordinary dividend: 10.00 yen 100th anniversary commemorative dividend: 2.00 yen

3. Consolidated Earnings Forecast for Fiscal Year Ending December 31, 2018 (January 1 to December 31, 2018)

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	79,200	61.0	16,700	294.9	17,000	245.2	12,000	105.0	56.30
Full year	174,000	63.8	43,000	274.3	44,000	232.1	30,000	153.9	140.74

* Notes:

(1) Material changes in the status of subsidiary consolidation during the current consolidated fiscal year (changes in the scope of consolidation for specific subsidiaries during the period in question): Yes

Newly consolidated: TOKAI CARBON GE LLC

Excluded from consolidation: __ company (name of company)

(Note) A subsidiary owned by TOKAI CARBON GE HOLDING LLC, of which all the shares were acquired as of November 7, 2017.

For details, refer to “3. (5) Notes to Consolidated Financial Statements (Business Combination)” on page 14 of the Supplemental Materials.

(2) Changes in accounting policy and changes and restatements of accounting estimates:

(a) Changes in accounting policy accompanying the revision of accounting standards: None

(b) Changes in accounting policy other than those listed in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(3) Number of shares issued (common stock)

(a) Number of shares issued at end of period (including treasury shares)

December 31, 2017	224,943,104 shares	December 31, 2016	224,943,104 shares
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(b) Number of treasury shares at end of period

December 31, 2017	11,786,878 shares	December 31, 2016	11,782,847 shares
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(c) Average number of shares during the period

December 31, 2017	213,158,516 shares	December 31, 2016	213,176,528 shares
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(Reference) Overview of Non-Consolidated Financial Results

Non-Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(1) Operating Results

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2017	51,751	12.2	4,346	–	6,836	–	8,225	–
Fiscal year ended December 31, 2016	46,125	(16.9)	(884)	–	157	(96.9)	(10,849)	–

	Net Income per Share	Net Income per Share Fully Diluted
	Yen	Yen
Fiscal year ended December 31, 2017	38.59	–
Fiscal year ended December 31, 2016	(50.90)	–

(2) Financial Position

	Total Assets	Net Assets	Capital-to-asset ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
Fiscal year ended December 31, 2017	134,865	93,469	69.3	438.50
Fiscal year ended December 31, 2016	122,384	85,002	69.5	398.77

For reference: Shareholders' capital: As of December 31, 2017: 93,469 million yen
As of December 31, 2016: 85,002 million yen

* The financial results are not subject to audit procedures.

* Appropriate use of earnings forecasts and other pertinent information

(Cautionary statement on forward-looking statements)

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 assumed conditions of the earnings forecasts and precautions in using earnings forecasts, refer to “(4) Future outlook” in “1. Operating Results” on page 4 of the Supplemental Materials.

(How to obtain supplemental materials to the financial statements)

Tokai Company has scheduled a briefing on financial results for analysts and institutional investors on Friday, February 16, 2018. The materials for this briefing will be posted on the corporate website on that day.

○ Supplemental Materials

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1. Operating Results

(1) Operating

The global economy experienced a continued and gradual improvement overall during the consolidated fiscal year under review (January 1 to December 31, 2017), mainly in Europe and the U.S. However, a high degree of uncertainty surrounds the global economy, which is facing a variety of issues such as management of government policy in the U.S., the direction of the Chinese economy, the political situation in the Korean peninsula, and the exit of the UK from the EU, and future trends bear careful watching.

Amid these conditions, we at the Group have utilized the benefits derived from the structural reform implemented in the initial year of our three-year Mid-Term Management Plan T-2018, to direct our focus on the growth strategy for the fiscal year under review, which was the second year of the Plan.

As a result, net sales for the fiscal year under review grew 19.9% year-on-year to 106,252 million yen. Operating income increased significantly to 11,486 million yen. Ordinary income increased significantly to 13,249 million yen. Net income attributable to owners of the parent company was 11,816 million yen (compared with a loss of 7,929 million yen during the previous fiscal year).

Results by business segment were as follows:

Carbon Black

The Carbon Black business recorded year-on-year growth in both sales and profit due to robust demand from the tire and automotive industries, which are end-users, an increase in product prices that accompanied the rise in the price of crude oil, and the benefits derived from the structural reform last year.

As a result, net sales for the Carbon Black business increased 26.6 % year-on-year to 47,828 million yen, and operating income rose 44.4% year-on-year to 6,868 million yen.

Graphite Electrodes

In the Graphite Electrode business, sales prices continued to decline due to a structural imbalance between supply and demand. However, the electrode market conditions have improved since the second half of the fiscal year under review, following a global recovery in electrode demand and short supply of major materials. However, the year-on-year increase in net income is mainly attributable to the benefits derived from the structural reform, and a full-scale impact of the sales price improvement will be seen in the following fiscal year onwards.

Since November 2017, the Company has been consolidating TOKAI CARBON GE HOLDING LLC, a manufacturing base in North America, and incorporating its sales of 2,180 million yen in the fiscal year under review.

As a result, net sales for the Graphite Electrodes business increased 14.0 % year-on-year to 23,610 million yen, and operating income was 1,748 million yen (compared with an operating loss of 1,290 million yen during the same period last year).

Fine Carbon

With strong demand in the market for general industrial-use products, the solar cell and semiconductor markets remained robust and graphite materials and CVD/CC products have seen increasing demand. This has helped the Group to maintain a high level of operation in its production facilities. Also, due to the benefits from the rationalization implemented last year and an increase in product prices, the Fine Carbon business recorded year-on-year growth in both sales and profit.

As a result, net sales for the Fine Carbon business rose 11.8% year-on-year to 14,447 million yen, and operating income was 1,738 million yen (compared with an operating loss of 1,825 million yen during the same period last year).

Industrial Furnaces and Related Products

Net sales of industrial furnaces increased significantly from the previous fiscal year as capital expenditure increased in both the information technology related industries and energy-related industries, which are the major demand destinations. Net sales of heating elements and other products increased from the previous fiscal year due to strong demand from the electronic components industry and glass industry, while demand from China's power infrastructure declined.

Operating income increased from the previous fiscal year due to higher sales of industrial furnaces and an improvement in the profitability of Chinese subsidiaries in the heating element business.

As a result, net sales for the Industrial Furnaces and Related Products business increased 30.1% year-on-year to 6,823 million yen, and operating income rose 160.0% year-on-year to 1,342 million yen.

Other Operations

Friction materials

With higher demand for machine tools including industrial robots, construction machinery, mining machinery, etc. net sales of friction materials remained solid.

As a result, net sales of friction materials grew 14.0% year-on-year to 8,671 million yen.

Anode materials

Due to expansion of the electric vehicle market that accompanied the strengthening of global environmental regulations, net sales of anode materials for secondary lithium-ion batteries rose.

As a result, net sales of Anode materials grew 12.3% year-on-year to 4,640 million yen.

Others

Net sales from real estate leasing and other businesses increased 18.3 % year-on-year to 230 million yen.

The above factors resulted in net sales for Other Operations of 13,542 million yen, an increase of 13.5% year-on-year. Operating income increased 64.3% year-on-year to 858 million yen.

(2) Financial Position

(Assets, Liabilities and Net Assets)

(a) Assets

Total assets at the end of the consolidated fiscal year under review came to 182,972 million yen, an increase of 24,148 million yen from the end of the previous consolidated fiscal year.

Current assets amounted to 85,241 million yen, an increase of 7,595 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in inventories and notes and accounts receivable, although there was a decrease in securities. Fixed assets amounted to 97,731 million yen, an increase of 16,552 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in goodwill and tangible fixed assets.

(b) Liabilities

Total liabilities at the end of the consolidated fiscal year under review came to 56,372 million yen, an increase of 10,537 million yen from the end of the previous consolidated fiscal year.

Current liabilities amounted to 36,870 million yen, an increase of 7,842 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in short-term loans payable and notes and accounts payable, although there was a decrease in current portion of long-term loans payable. Long-term liabilities amounted to 19,501 million yen, an increase of 2,695 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in net defined benefit liability and deferred tax liabilities, although there was a decrease in long-term loans payable.

(c) Net assets

Total net assets at the end of the consolidated fiscal year under review came to 126,599 million yen, an increase of 13,610 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in retained earnings.

As a result, the Group's equity ratio decreased 1.1 point year-on-year to 68.8%.

(3) Cash Flows

At the end of the consolidated fiscal year under review, the Group's cash and cash equivalents totaled 22,145 million yen, a decrease of 6,376 million yen from the previous consolidated fiscal year. Cash flows and the major sources and uses of cash in the consolidated fiscal year under review are summarized as follows.

(a) Cash flows from operating activities

Operating activities provided net cash of 10,543 million yen, a decrease of 6,962 million yen from the previous consolidated fiscal year. This was mainly due to a decrease in cash as a result of an increase of inventories, although there was an increase in cash as a result mainly of the posting of income before taxes.

(b) Cash flows from investing activities

Investing activities used net cash of 14,039 million yen, an increase of 10,416 million yen from the previous consolidated fiscal year. This was mainly due to expenditures on purchase of shares of subsidiaries resulting in a change in the scope of consolidation.

(c) Cash flows from financing activities

Financing activities used net cash of 4,534 million yen, a decrease of 3,079 million yen from the previous consolidated fiscal year, mainly due to an increase in short-term loans payable.

(4) Future outlook

The Japanese economy is expected to remain on a recovery path as the world economy is forecast to grow moderately. However, given uncertainties such as the development in the Korean Peninsula, the inward focus of the U.S. government, the economic trend of the Chinese economy associated with the shift from quantity to quality and the threat of spreading terrorism, it is imperative to establish a structure that can respond quickly to an economic downturn while closely tracking the future developments.

In this operating environment, the Group forecasts consolidated financial results for the consolidated fiscal year ending December 31, 2018 as follows: consolidated net sales of 174,000 million yen (an increase of 63.8% year-on-year), consolidated operating income of 43,000 million yen (up 274.3% year-on-year), consolidated ordinary income of 44,000 million yen up 232.1% year-on-year), and consolidated net income attributable to owners of the parent company of 30,000 million yen (up 153.9% year-on-year).

Furthermore, the Group forecasts that the balance of cash and cash equivalents at the end of the consolidated fiscal year ending December 31, 2018 will be approximately 24,000 million yen.

Also, the exchange rate assumption for the above forecasts is 105 yen to the U.S. dollar.

The above business outlook is based on the information available at the time of the release of these materials, and actual results may materially differ from the forecast, subject to variable factors that may arise in the future.

2. Basic Policy on Selecting Accounting Standards

In consideration of securing comparability of consolidated financial statements between fiscal years and companies, the Tokai Carbon Group will prepare its consolidated financial statements in accordance with the Japanese accounting standards for the time being. In the meantime, the Group will appropriately apply the International Financial Reporting Standards (IFRS) in consideration of various circumstances in Japan and overseas.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2016)	End of the Current Consolidated Fiscal Year (As of December 31, 2017)
Assets		
Current assets		
Cash and cash equivalents	16,528	22,152
Notes and accounts receivable	24,220	30,265
Securities	12,000	-
Merchandise and finished goods	7,516	9,257
Work in process	7,886	10,063
Raw materials and supplies	5,330	8,041
Deferred tax assets	1,677	1,312
Other	3,066	4,662
Allowance for doubtful accounts	(580)	(514)
Total current assets	77,645	85,241
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	12,965	13,672
Machinery, equipment and vehicles, net	20,496	24,857
Furnaces, net	744	813
Land	5,747	5,914
Construction in progress	1,214	1,113
Other, net	1,953	2,075
Total tangible fixed assets	43,122	48,447
Intangible fixed assets		
Software	559	867
Goodwill	5,604	12,683
Customer-related assets	3,612	3,495
Other	758	699
Total intangible fixed assets	10,534	17,746
Investments and other assets		
Investment securities	24,377	28,121
Net defined benefit asset	1,923	2,531
Deferred tax assets	564	225
Other	702	722
Allowance for doubtful accounts	(46)	(62)
Total investments and other assets	27,521	31,537
Total fixed assets	81,178	97,731
Total assets	158,824	182,972

(Millions of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2016)	End of the Current Consolidated Fiscal Year (As of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable	7,471	11,463
Electronically recorded obligations	2,120	3,059
Short-term loans payable	2,894	12,006
Current portion of long-term loans payable	10,016	2,068
Income tax payable	841	1,550
Consumption taxes payable	356	203
Accrued expenses	1,235	2,056
Reserve for bonuses	194	438
Other	3,897	4,023
Total current liabilities	29,028	36,870
Long-term liabilities		
Long-term loans payable	4,137	2,068
Deferred tax liabilities	6,037	8,053
Net defined benefit liability	3,840	6,189
Reserve for directors' retirement benefits	92	83
Reserve for executive officers' retirement benefits	42	39
Provision for environment and safety measures	473	45
Other	2,182	3,021
Total long-term liabilities	16,806	19,501
Total liabilities	45,834	56,372
Net assets		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,502	17,473
Retained earnings	69,005	78,902
Treasury stock	(7,250)	(7,253)
Total shareholder's capital	99,693	109,558
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	9,191	11,345
Foreign currency translation adjustments	1,356	3,631
Remeasurements of defined benefit plans	748	1,299
Total accumulated other comprehensive income	11,296	16,276
Non-controlling interests	1,998	763
Total net assets	112,989	126,599
Total liabilities and net assets	158,824	182,972

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2016)	Current Consolidated Fiscal Year (January 1 to December 31, 2017)
Net sales	88,580	106,252
Cost of sales	72,051	78,361
Gross profit	16,529	27,890
Selling, general and administrative expenses		
Selling expenses	4,762	4,542
General and administrative expenses	10,635	11,860
Total selling, general and administrative expenses	15,398	16,403
Operating income	1,131	11,486
Non-operating income		
Interest income	53	44
Dividend income	447	468
Royalty income	208	327
Rent income	293	138
Equity in income of non-consolidated subsidiaries and affiliates	794	1,325
Other	297	545
Total non-operating income	2,094	2,849
Non-operating expenses		
Interest expenses	418	334
Compensation expenses	60	121
Foreign exchange losses	224	68
Other non-operating expenses	820	562
Total non-operating expenses	1,523	1,087
Ordinary income	1,702	13,249
Extraordinary income		
Gain on sale of fixed assets	1,380	2,567
Gain on liquidation of subsidiaries and affiliates	-	522
Gain on sales of investment securities	-	58
Total extraordinary income	1,380	3,148
Extraordinary losses		
Loss on sales of shares of subsidiaries and associates	-	373
Loss on sale of equity invested in affiliates	-	96
Impairment loss	10,707	-
Special retirement expenses	314	-
Total extraordinary losses	11,021	470
Net income (loss) before income taxes	(7,938)	15,927
Income taxes - current	1,468	2,740
Income taxes - deferred	(1,535)	1,113
Total income taxes	(67)	3,854
Net income (loss)	(7,871)	12,073
Net income attributable to non-controlling interests	58	257
Net income (loss) attributable to owners of the parent company	(7,929)	11,816

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2016)	Current Consolidated Fiscal Year (January 1 to December 31, 2017)
Net income (loss)	(7,871)	12,073
Other comprehensive income		
Net unrealized gains/losses on other securities	(198)	2,149
Deferred gains or losses on hedges	0	-
Foreign currency translation adjustment	(2,101)	2,022
Remeasurements of defined benefit plans	(81)	550
Share of other comprehensive income of entities accounted for using equity method	(394)	289
Total other comprehensive income	(2,776)	5,012
Comprehensive income	(10,647)	17,086
(Of which)		
Comprehensive income attributable to owners of the parent	(10,638)	16,796
Comprehensive income attributable to non-controlling shareholders	(9)	289

(3) Consolidated Statements of Changes in Equity

Previous Consolidated Fiscal Year (January 1 to December 31, 2016)

(Millions of yen)

	Shareholder's Capital				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholder's Capital
Opening balance of the period	20,436	17,502	78,214	(7,243)	108,910
Changes of items during the period					
Dividends of surplus			(1,279)		(1,279)
Loss attributable to owners of the parent company			(7,929)		(7,929)
Purchase of treasury shares				(8)	(8)
Disposal of treasury shares			(0)	0	0
Net changes of items other than shareholders' equity					
Total of changes of items during the period	–	–	(9,209)	(7)	(9,216)
Balance at the end of the period	20,436	17,502	69,005	(7,250)	99,693

	Other Accumulated Comprehensive Income					Non-controlling Interests	Total Net Assets
	Net Unrealized Gains/Losses on Other Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustment	Remeasurements of Defined Benefit Plans	Total Other Accumulated Comprehensive Income		
Opening balance of the period	9,392	(0)	3,782	830	14,004	2,055	124,971
Changes of items during the period							
Dividends of surplus							(1,279)
Loss attributable to owners of the parent company							(7,929)
Purchase of treasury shares							(8)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	(200)	0	(2,425)	(81)	(2,708)	(57)	(2,765)
Total of changes of items during the period	(200)	0	(2,425)	(81)	(2,708)	(57)	(11,981)
Balance at the end of the period	9,191	–	1,356	748	11,296	1,998	112,989

Consolidated Fiscal Year under Review (January 1 to December 31, 2017)

(Millions of yen)

	Shareholder's Capital				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholder's Capital
Opening balance of the period	20,436	17,502	69,005	(7,250)	99,693
Changes of items during the period					
Dividends of surplus			(1,918)		(1,918)
Net income attributable to owners of the parent company			11,816		11,816
Purchase of treasury shares				(3)	(3)
Disposal of treasury shares		0		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(29)			
Net changes of items other than shareholders' equity					
Total of changes of items during the period	–	(29)	9,897	(3)	9,865
Balance at the end of the period	20,436	17,473	78,902	(7,253)	109,558

	Other Accumulated Comprehensive Income				Non-controlling Interests	Total Net Assets
	Net Unrealized Gains/Losses on Other Securities	Foreign Currency Translation Adjustment	Remeasurements of Defined Benefit Plans	Total Other Accumulated Comprehensive Income		
Opening balance of the period	9,191	1,356	748	11,296	1,998	112,989
Changes of items during the period						
Dividends of surplus						(1,918)
Net income attributable to owners of the parent company						11,816
Purchase of treasury shares						(3)
Disposal of treasury shares						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(29)
Net changes of items other than shareholders' equity	2,154	2,275	550	4,980	(1,234)	3,745
Total of changes of items during the period	2,154	2,275	550	4,980	(1,234)	13,610
Balance at the end of the period	11,345	3,631	1,299	16,276	763	126,599

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2016)	Current Consolidated Fiscal Year (January 1 to December 31, 2017)
Cash flows from operating activities		
Net income (loss) before income taxes	(7,938)	15,927
Depreciation	8,124	6,605
Impairment loss	10,707	-
Loss (gain) on sales of investment securities	(13)	(58)
Loss (gain) on liquidation of subsidiaries and associates	-	(522)
Loss (gain) on sales of equity invested in affiliates	-	96
Loss (gain) on sales of shares of subsidiaries and associates	-	373
Special retirement expenses	314	-
Loss (gain) on retirement / sales of tangible fixed assets	(1,383)	(2,567)
Amortization of goodwill	372	514
Increase (decrease) in allowance for doubtful accounts	429	(39)
Increase (decrease) in reserve for bonuses	(14)	114
Increase (decrease) in net defined benefit liability	65	(500)
Increase (decrease) in net defined benefit asset	70	(608)
Increase (decrease) in provision for environment and safety measures	4	(428)
Interest and dividend income	(500)	(513)
Interest expenses	418	334
Foreign exchange losses (gains)	30	20
Share of (profit) loss of entities accounted for using equity method	(794)	(1,325)
Decrease (increase) in notes and accounts receivable - trade	2,179	(4,586)
Decrease (increase) in inventories	12,611	(3,253)
Increase (decrease) in notes and accounts payable - trade	(1,440)	3,212
Increase (decrease) in accrued expenses	(101)	237
Increase (decrease) in accounts payable - other	(441)	71
Decrease (increase) in advance payments	(655)	(744)
Increase (decrease) in accrued consumption taxes	(140)	(162)
Other	(179)	195
Subtotal	21,724	12,395
Interest and dividend income received	597	724
Interest expenses paid	(429)	(324)
Income taxes paid	(4,149)	(2,252)
Payments for extra retirement payments	(236)	-
Cash flows from operating activities	17,505	10,543
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	108	-
Purchase of tangible fixed assets	(5,168)	(4,336)
Proceeds from sales of tangible fixed assets	1,610	2,704
Purchase of intangible fixed assets	(227)	(360)
Proceeds from sales of investment securities	15	109
Proceeds from liquidation of subsidiaries and associates	-	542
Proceeds from sales of shares of subsidiaries and associates	-	246
Purchase of shares of subsidiaries resulting in a change in the scope of consolidation	-	(12,964)
Other	37	19
Cash flows from investing activities	(3,622)	(14,039)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2016)	Current Consolidated Fiscal Year (January 1 to December 31, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(4,156)	9,019
Repayments of long-term loans payable	(2,068)	(10,042)
Cash dividends paid	(1,279)	(1,918)
Dividends paid to non-controlling interests	(47)	(54)
Purchase of shares of subsidiaries that do not result in a change in the scope of consolidation	-	(1,499)
Other	(61)	(38)
Cash flows from financing activities	(7,613)	(4,534)
Effect of exchange rate change on cash and cash equivalents	(667)	1,654
Net increase (decrease) in cash and cash equivalents	5,602	(6,376)
Cash and cash equivalents at beginning of the period	22,919	28,521
Cash and cash equivalents at end of the period	28,521	22,145

(5) Notes to Consolidated Financial Statements

(Notes on the Going-Concern Assumption)

N/A

(Business Combination)

Business combination by acquisition

An agreement was concluded on October 2, 2017 to acquire all shares of SGL GE Carbon Holding LLC, which was owned by SHOWA DENKO CARBON Holding GmbH (the company name was changed on October 2, 2017 when Showa Denko K.K. acquired all shares of SGL GE Holding GmbH), and make it a subsidiary. Based on this agreement, the Group completed acquiring shares of SGL GE Carbon Holding LLC on November 7, 2017 through the Group's consolidated subsidiary, TOKAI CARBON US HOLDINGS INC. (the company name was changed from TOKAI CARBON ELECTRODE SALES INC. on October 23, 2017) as below. This made SGL GE Carbon Holding LLC and its two fully owned subsidiaries the Group's consolidated subsidiaries.

1. Overview of business combination

(1) Name of acquired company and business line

Name of acquired company:	SGL GE Carbon Holding LLC
Business line:	Graphite electrodes manufacturing, sales, and R&D

(2) Main reason for business combination

In accordance with Phase 2 of the new three-year Mid-Term Management Plan T-2018 announced in February 2017, the Group is currently moving forward with efforts to direct its focus to the growth strategy. In addition, the Group has provided approximately 50 billion yen as a strategic investment frame for M&A, etc. The aim is to further increase corporate value based on an improvement in the profitability of its existing business and expansion of its business area.

As part of this effort, the Group aims, in the graphite electrode business, one of its main businesses, to enhance its own presence in North America, which is the world largest electric furnace market. It will do this by acquiring production bases in North America, with the aim of building a solid business foundation as a cornerstone of global players, and establishing a "three-pole structure" of Asia-Europe-North America. This will also allow it to optimize its global production structure and strengthen its cost competitiveness by transferring some production processes carried out in Japan to North America.

(3) Date of business combination

November 7, 2017

(4) Legal form of business combination

Acquisition of shares in exchange for cash

(5) Name of acquired company after combination

The company name was changed to TOKAI CARBON GE HOLDING LLC from November 7, 2017.

(6) Ratio of acquired voting rights

100%

(7) Major basis for determining the acquiring company

It is as a result of the Group's consolidated subsidiary, TOKAI CARBON US HOLDINGS INC. acquiring 100% of the voting rights of SGL GE Carbon Holding LLC through a share acquisition in exchange for cash.

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

The performance from November 1, 2017 to December 31, 2017 is included in the consolidated financial statements under review as October 31, 2017 is the deemed acquisition date.

3. Acquisition cost of the acquired company and its breakdown by type of consideration

Consideration for acquisition	Cash	13,376 million yen	(US\$118,184 thousand)
Acquisition cost		13,376 million yen	(US\$118,184 thousand)

4. Details and amount of major costs related to acquisition

Remuneration, commissions and other fees to advisors, etc.: 409 million yen

5. Goodwill arising from company acquisition, cause for accrual, and method and period of amortization

(1) Amount of goodwill

7,405 million yen (US\$65,443 thousand)

The above amount is calculated tentatively because allocation of the acquisition cost has not been completed as of the end of the consolidated fiscal year under review.

(2) Cause for accrual

It is primarily additional future income-generating power expected to derive from business development going forward.

(3) Method and period of amortization

Amortization over a 10-year period on a straight-line basis

6. Amount of assets and liabilities accepted as of the date of business combination and their major breakdown

Current assets	4,796 million yen	(US\$42,388 thousand)
Fixed assets	7,013 million yen	(US\$61,978 thousand)
Total assets	11,810 million yen	(US\$104,366 thousand)
Current liabilities	2,330 million yen	(US\$20,593 thousand)
Fixed liabilities	3,511 million yen	(US\$31,032 thousand)
Total liabilities	5,841 million yen	(US\$51,625 thousand)

7. Allocation of acquisition cost

At the end of the consolidated fiscal year under review, allocation of the acquisition cost has not been completed as the specification and marking to market of identifiable assets and liabilities as of the date of the business combination is as yet unfinished. Accordingly, the Group has used a provisional accounting treatment based on practical information then available.

8. Estimated amount of the effect on the consolidated statement of income for the consolidated fiscal year under review as though the business combination was completed as of the date of commencement of the consolidated fiscal year under review and its calculation method

Net sales	7,826 million yen
Operating loss	1,144 million yen

(Calculation method of the estimated amounts)

The above estimated amounts are based on the difference between the net sales and operating results calculated as though the business combination had been completed as of the date of commencement of the consolidated fiscal year under review and those shown in the consolidated statement of income of the Group. In addition, the amounts were adjusted by amortization as though the goodwill recognized at the time of the business combination had arisen as of the date of commencement of the consolidated fiscal year under review.

This note has not received audit certification.

(Segment Information)

(Segment Information)

1. Overview of Reportable Segments

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

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

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

The major products of each reportable segment are as follows:

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

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

The accounting methods adopted for reportable business segments are in accordance with the accounting principles adopted for preparation of consolidated financial statements.

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

The figure for inter-segment sales/transfer is based on the prevailing market value.

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

Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)

(Millions of yen)

	Reportable Segment					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Carbon Black	Graphite Electrodes	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net sales									
External sales	37,764	20,714	12,925	5,243	76,648	11,932	88,580	–	88,580
Inter-segment sales or transfers	64	4	86	264	420	–	420	(420)	–
Total	37,829	20,718	13,012	5,508	77,068	11,932	89,000	(420)	88,580
Segment income (loss)	4,755	(1,290)	(1,825)	516	2,156	522	2,678	(1,546)	1,131
Segment assets	56,859	25,588	23,557	6,152	112,158	11,342	123,500	35,323	158,824
Other items									
Depreciation	3,449	1,838	1,474	176	6,939	731	7,671	452	8,124
Impairment loss	2,186	3,911	4,228	–	10,326	–	10,326	380	10,707
Investment in equity-method affiliates	–	69	5,187	–	5,257	–	5,257	–	5,257
Increase in tangible and intangible fixed assets	1,951	1,122	1,048	376	4,499	892	5,392	620	6,013

- Notes: 1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, real estate leasing business, and other businesses.
2. The adjustment amounts are as follows.
- (1) The 1,546 million yen negative adjustment in segment income (loss) includes company-wide expenses of 1,534 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.
 - (2) The adjustment of segment assets, which is 35,323 million yen, includes 35,322 million yen of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus funds (e.g., cash and deposits) and investment securities, etc.
 - (3) The adjustment of impairment loss, 380 million yen, is the impairment loss of the corporate-wide assets not allocated to each reportable segment.
 - (4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is 620 million yen, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.
3. Segment income or loss is adjusted with the operating income reported in the consolidated financial statements.

Fiscal year ended December 31, 2017 (January 1 to December 31, 2017)

(Millions of yen)

	Reportable Segments					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Carbon Black	Graphite Electrodes	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net sales									
External sales	47,828	23,610	14,447	6,823	92,709	13,542	106,252	–	106,252
Inter-segment sales or transfers	57	14	158	283	513	–	513	(513)	–
Total	47,886	23,624	14,605	7,106	93,223	13,542	106,765	(513)	106,252
Segment income	6,868	1,748	1,738	1,342	11,698	858	12,556	(1,069)	11,486
Segment assets	62,522	49,153	24,280	8,577	144,533	12,249	156,783	26,189	182,972
Other items									
Depreciation	3,302	1,134	958	179	5,574	665	6,240	365	6,605
Investment in equity-method affiliates	–	–	5,911	–	5,911	–	5,911	–	5,911
Increase in tangible and intangible fixed assets	2,224	679	410	189	3,503	506	4,010	272	4,282

- Notes: 1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, real estate leasing business, and other businesses.
2. The adjustment amounts are as follows.
- (1) The 1,069 million yen negative adjustment in segment income includes company-wide expenses of 1,052 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.
 - (2) The adjustment of segment assets, which is 26,189 million yen, includes 26,160 million yen of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus funds (e.g., cash and deposits) and investment securities, etc.
 - (3) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is 272 million yen, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.
3. Segment income is adjusted with the operating income reported in the consolidated financial statements.

(Related Information)

Fiscal year ended December 31, 2016 (January 1 to December 31, 2016)

Information on each region

Net sales

(Millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
43,372	8,827	15,402	11,029	9,948	88,580

Note: Net sales are based on the locations of the customers and are classified into countries or regions.

Fiscal year ended December 31, 2017 (January 1 to December 31, 2017)

Information on each region

Net sales

(Millions of yen)

Japan	Thailand	Asia	Europe	Other regions	Total
49,623	12,094	18,225	12,310	13,997	106,252

Note: Net sales are based on the locations of the customers and are classified into countries or regions.

(Per Share Information)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2016)	Current Consolidated Fiscal Year (January 1 to December 31, 2017)
Net assets per share	520.69 yen	590.35 yen
Net income (loss) per share	(37.20) yen	55.43 yen

Notes: 1. Net income per share - fully diluted is not listed for the fiscal year ended December 31, 2016, as a net loss was recorded for this fiscal year and there were no potential common shares at the end of the fiscal year.

Net income per share - fully diluted is not listed for the fiscal year ended December 31, 2017, as there were no potential common shares at the end of the fiscal year.

2. The basis of calculation of net income (loss) per share is as follows.

	Previous Consolidated Fiscal Year (January 1 to December 31, 2016)	Current Consolidated Fiscal Year (January 1 to December 31, 2017)
Net income (loss) attributable to owners of the parent company (millions of yen)	(7,929)	11,816
Amount not attributable to common shareholders (millions of yen)	-	-
Net income (loss) available to common shares attributable to owners of the parent company (millions of yen)	(7,929)	11,816
Average number of common shares during the period (thousands of shares)	213,176	213,158

(Subsequent Material Events)

N/A