

# Q1 2017 Consolidated Financial Results

(Japanese Accounting Standards)

May 9, 2017

Company Name: **Tokai Carbon Co., Ltd.**  
 Listings: Tokyo Stock Exchange, first section  
 Code No.: 5301  
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## Scheduled dates

Schedule date of submission of quarterly report: May 10, 2017  
 Commencement of dividend payments: -  
 Supplementary reference documents to support the quarterly financial statements: Yes  
 Conference call presentation of the Q1 results: Yes

(Amounts rounded down to the nearest millions of yen)

## 1. Consolidated Financial Results for the First Quarter FY 2017 (January 1 - March 31, 2017)

### (1) Consolidated Operating Results (First three month period)

(Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Quarterly profit/(loss) attributable to owners of the parent company	
At the end of First Quarter of the year ending	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
December 2017	24,104	6.5	1,781 219.3		2,014	282.6	1,604	-
December 2016	22,643	(18.1)	557	(47.5)	526	(49.6)	36	(92.5)

(Note) Comprehensive income

Three months ended March 31, 2017 JPY 810 million (-%)

Three months ended March 31, 2016 JPY (3,734) million (-%)

	Quarterly profit per share	Quarterly profit per share - fully diluted
	Yen	Yen
At the end of First Quarter of the year ending December 2017	7.53	-
At the end of First Quarter of the year ending December 2016	0.17	-

### (2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
At the end of First Quarter of the year ending December 2017	151,785	112,077	73.2
Year ending December 2017	158,824	112,989	69.9

(Note) Shareholders' equity:

As of March 31, 2017 JPY111,063 million

As of December 31, 2016 JPY 110,990 million

## 2. Dividends

	Annual dividend				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of term	Total
	Yen	Yen	Yen	Yen	Yen
Year ending December 31, 2016	-	3.00	-	3.00	6.00
Year ending December 31, 2017	-				
Year ending December 31, 2017 (Forecast)		4.00	-	4.00	8.00

(Note) Amendment of dividend forecast that have been disclosed lastly: No

## 3. Forecast of Consolidated Earnings for the Fiscal Year Ending December 31, 2017 (January 1 - December 31, 2017) (Percentage figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit/(loss) attributable to owners of the parent company		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
At the end of 2nd quarter (cumulative)	47,000	4.7	3,100	-	3,500	-	4,700	-	22.05
Full year	95,000	7.2	6,700	492.1	7,800	358.2	8,200	-	38.47

(Note) Amendment of earnings forecast that have been disclosed lastly: Yes

### \*Notes

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

(2) Application of accounting principles peculiar to quarterly consolidated financial statement preparation: No

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

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

(4) Number of shares issued (common stock)

(1) Number of shares issued at end of term (including treasury stock)	1Q of the year ending December 31 2017	224,943,104 shares	Year ending December 2016	224,943,104 shares
(2) Number of shares in treasury stock at the end of the period	1Q of the year ending December 31 2017	11,783,457 shares	Year ending December 2016	11,782,847 shares
(3) Average number of shares during the period (quarterly cumulative period)	1Q of the year ending December 31 2017	213,159,916 shares	1Q of the year ending December 2016	213,184,438 shares

\* Fourth quarter financial results are not included in the fourth quarter review

\* Explanation for appropriate use of Earnings Forecast and other special items  
(Precautions regarding descriptions about the future prospects)

Descriptions of the Earnings Forecast regarding 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.

(How to obtain Quarterly Account Settlement Supplementary Explanation)

Tokai Carbon plans to hold an explanatory meeting to discuss the financial statements in the form of a phone meeting for institutional investors and analysts on May 9, 2017 (Tue). The materials for this explanatory meeting will be posted on the Company website on the day of the meeting.

○Table of contents for the “Attachments” section

1. Qualitative information related to this quarter's settlement .....	2
(1) Explanation regarding business performance.....	2
2. Quarterly Financial Instruments and Exchange Act and Main Notes.....	3
(1) Quarterly Consolidated Balance Sheet.....	3
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income .....	5
Quarterly Consolidated Statements of Income	
First Quarter Consolidated Cumulative Period.....	5
Quarterly Consolidated Statements of Comprehensive Income	
First Quarter Consolidated Cumulative Period.....	6
(3) Notes related to the Quarterly Financial Instruments and Exchange Act .....	7
(Notes concerning the premise of going concerns) .....	7
(Notes when there are notable fluctuations in shareholders' stock amount fluctuates) .....	7
(Segment Information) .....	8

## 1. Qualitative information related to this quarter's settlement

### (1) Explanation regarding business performance

The world economy during the first quarter consolidated cumulative period of 2017 (January 1 to March 31, 2017) was experiencing a continuous gradual recovery trend, especially in Europe and the United States. However, there is a high level of uncertainty in the world economy due to matters such as policy operation of the US President, trends in the Chinese economy, political status of North Korea and Brexit, and hence, it is necessary to focus on these trends from now on.

In this state of affairs, this period marks the second year of the three-year Mid-Term Management Plan T-2018. The Tokai Carbon group took advantage of the results of the structural reforms arranged the previous year. Tokai Carbon is focusing on a Growth Strategy in which 2018 target figures are sales of JPY 110 billion, operating income of JPY 9 billion, ROS (Net sales operating income ratio) of 8% or more and ROIC (Return on Invested Capital) of 6% or more.

As a result, sales increased 6.5% year on year for the first quarter consolidated cumulative period of 2017, reaching JPY 24.104 billion. Operating income showed year on year growth of 219.3% at JPY 1.781 billion. Ordinary Income showed year on year growth of 282.6% for JPY 2.014 billion. Net Income/ (Loss) attributable to the parent company increased greatly over the previous year reaching JPY 1.604 billion.

Segment-wise results are as follows.

#### [Carbon Black]

Increase in sales in the Carbon Black business and the accompanying improved operability contributed to increase in sales and operating income.

The result of this was year on year sales growth of 19.6% in this division reaching JPY 11.344 billion and year on year growth for operating income was 32.4% at a total of JPY 1.479 billion.

#### [Graphite Electrodes Division]

Sales price decreased compared to the year before due to the structural supply-demand imbalance of Graphite Electrodes. The result of this was year on year decline of sales in this division of 7.0% dropping to JPY 5.136 billion and year on year decline for operating income was 18.8% at a total of JPY 144 million.

#### [Fine Carbon Division]

While demand for the ability to supply graphite materials for special carbon is still increasing, as the general industry market steadily shifts, the solar battery and semiconductor markets are recovering and prices seem to have hit rock bottom. Furthermore, as part of the Structural Reforms, there were production capacity rationalization effects including the reduction of human resources in the previous year in this business division and business improved compared to the previous year.

The result of this was a year on year decline of sales in this division of 1.2% reaching JPY 3.394 billion and operating income reached JPY 47 million (Operating loss in the previous year had been JPY 804 million).

#### [Industrial Furnaces and Related Products]

Sales for industrial furnaces shifted in line with the previous year for information and technology related industries where the highest demand lies, but sales in China temporarily decreased. While there was a decrease in demand for heat resistant materials, sales for heat generators and other products steadily shifted with the demand in the electronics and glass industries and for China's electrical power infrastructure.

The result of this was a year on year decline of sales in this division of 2.7% dropping to JPY 1.207 billion and year on year growth for operating income was 29.0% for a total of JPY 195 million.

#### [Other Operations]

##### Friction Materials

Sales for Friction Materials grew for construction equipment due to the recovery of China's hydraulic shovel market and grew for agricultural equipment due to increase in production of tractors for North America.

The result of this has that Friction Materials sales showed year on year growth of 5.6% for JPY 2.033 billion.

##### Anode Materials

Year on year sales of anode materials for secondary lithium ion batteries decreased 6.1% dropping to JPY 930 million due to the sales volume dropping below client manufacturing procurement.

##### Other

Real estate rental sales showed year on year growth of 42.7% for JPY 58 million.

Therefore, year on year growth of sales in this division of 2.2% reaching JPY 3.021 billion and year on year growth for operating income was 38.0% for a total of JPY 209 million.

## 2. Quarterly Financial Instruments and Exchange Act and Main Notes

## (1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2016)	First Quarter Consolidated accounting period of 2017 (March 31, 2017)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	16,528	17,920
Notes and accounts receivable	24,220	23,235
Securities	12,000	4,500
Merchandise and finished goods	7,516	6,975
Work in process	7,886	8,133
Raw materials and supplies	5,330	6,340
Deferred tax assets	1,677	1,703
Other	3,066	3,527
Allowance for doubtful receivables	(580)	(526)
Total current assets	77,645	71,809
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	12,965	12,752
Machinery, equipment and vehicles (net)	20,496	19,534
Furnaces (net)	744	791
Land	5,747	5,735
Construction in progress	1,214	1,614
Other (net)	1,953	1,970
Total tangible fixed assets	43,122	42,399
Intangible fixed assets		
Software	559	543
Goodwill	5,604	5,362
Customer-related assets	3,612	3,450
Other	758	711
Total intangible fixed assets	10,534	10,067
Investments and other assets		
Investment and securities	24,377	24,446
Assets related to retirement benefits	1,923	1,907
Deferred tax assets	564	484
Other	702	739
Allowance for doubtful receivables	(46)	(68)
Total investment and other assets	27,521	27,509
Total fixed assets	81,178	79,976
Total assets	158,824	151,785

(Unit: Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2016)	First quarter consolidated accounting period of 2017 (March 31, 2017)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	7,471	7,810
Electronically recorded obligations	2,120	2,211
Short-term borrowings	2,894	3,426
Current portion of long-term debt within one year	10,016	3,697
Income taxes payable	841	248
Consumption taxes payable	356	-
Accrued expenses	1,235	909
Reserve for bonuses	194	677
Other	3,897	4,076
Total current liabilities	29,028	23,057
Fixed liabilities		
Long-term debt	4,137	4,137
Deferred tax liabilities	6,037	5,981
Reserve for directors' retirement benefits	3,840	3,775
Reserve for executive officers' retirement benefits	92	74
Reserve for operating officers' retirement benefits	42	35
Provision for environment and safety measures	473	480
Other	2,182	2,165
Total fixed liabilities	16,806	16,650
Total liabilities	45,834	39,708
<b>Net assets</b>		
Shareholders' equity		
Common stock	20,436	20,436
Additional paid-in capita	17,502	17,461
Retained earnings	69,005	69,970
Treasury stock	(7,250)	(7,250)
Total shareholders' capital	99,693	100,616
Other accumulated comprehensive income		
Unrealized gains on other marketable securities	9,191	9,222
Foreign currency translation adjustments	1,356	489
Accumulated adjustment on retirement benefits	748	734
Total other accumulated comprehensive income	11,296	10,446
Non-controlling interests	1,998	1,014
Total net assets	112,989	112,077
Total liabilities and net assets	158,824	151,785

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income  
 (Quarterly Consolidated Statements of Income)  
 (First Quarter Consolidated Cumulative Period)

(Unit: Millions of yen)

	Previous first quarter consolidated cumulative period (January 1 to March 31, 2016)	First quarter consolidated cumulative period of 2017 (January 1 to March 31, 2017)
Sales	22,643	24,104
Cost of sales	17,967	18,648
Gross profit	4,675	5,456
Selling expenses and general administrative	4,117	3,674
Operating income	557	1,781
Non-operating income		
Interest received	13	10
Dividend received	95	75
Rent received	76	32
Income and gains through equity	210	194
Other	117	280
Total non-operating income	512	592
Non-operating expense		
Interest expense	121	93
Foreign exchange losses	308	171
Other	114	94
Total non-operating expenses	544	359
Ordinary income	526	2,014
Extraordinary income		
Gain on sales of investment securities	-	58
Total extraordinary income	-	58
Quarterly net income before tax and other	526	2,073
Income tax, inhabitants tax, and enterprise tax	332	374
Income tax adjustment	152	35
Total income tax and other taxes	485	409
Quarterly net income	41	1,663
Quarterly net income attributable to non-controlling	5	59
Quarterly net income attributable to parent company	36	1,604

(Quarterly Consolidated Comprehensive Income Statements of Operations)  
(First Quarter Consolidated Cumulative Period)

(Unit: Millions of yen)

	Previous first quarter consolidated cumulative period (January 1 to March 31, 2016)	First quarter consolidated cumulative period of 2017 (January 1 to March 31, 2017)
Quarterly net income	41	1,663
Other comprehensive incomes		
Unrealized gains on other marketable securities	(2,360)	29
Deferred gains or losses on hedges expenses	0	-
Foreign currency translation adjustments	(1,397)	(744)
Adjustment amount on retirement benefits	2	(14)
Equity equivalent for the Affiliated accounted for by the equity method	(20)	(123)
Total other comprehensive income	(3,776)	(853)
Quarterly Comprehensive income	(3,734)	810
(Breakdown)		
Quarterly comprehensive income attributable to the shareholders of the parent	(3,655)	754
Quarterly comprehensive income attributable to non-controlling shareholders	(79)	56



(3) Notes related to the Quarterly Financial Instruments and Exchange Act

(Notes concerning the premise of going concerns)

Not applicable.

(Notes when there are notable fluctuations in shareholders' stock amount)

Not applicable.

## (Segment Information)

I First three months of the previous fiscal year (From January 1 to March 31, 2016)

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

(Unit: Millions of yen)

	Reportable segment					Other Business (Note 1)	Total	Adjustment (Note 2)	Amounts on quarterly consolidated statements of operations (Note 3)
	Carbon Black	Graphite Electrodes	Fine Carbon	Industrial Furnaces and Related Products	Total				
Net sales									
External sales	9,487	5,522	3,435	1,240	19,686	2,957	22,643	-	22,643
Internal segment sales/ transfer	14	0	28	59	101		101	(101)	-
Total	9,502	5,522	3,463	1,299	19,788	2,957	22,745	(101)	22,643
Segment income/(loss)	1,117	178	804	151	643	151	794	236	557

(Note) 1 "Other business" is a business segment not included in the reporting segments. It includes businesses involving the friction materials business and property lasting, etc.

2 The amount of adjustment of segment is JPY (236) million, including JPY (235) million of the corporate expenses unallotted to each reportable statement. 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. Items related to Reportable Segment changes, etc.

(Change in the business segment categorization method)

From the first quarter consolidated accounting period of 2017, through drafting of the three-year Mid-Term Management Plan called T-2018, with 2016 as the first year and the changes in management policy that accompanied this, we are reviewing the categorization method of business segments and changing the Reportable Segments disclosed conventionally as Carbon and Ceramics to Graphite Electrodes and Fine Carbon business.

(Changes in the method of measuring profit or loss of business segments)

From the first quarter consolidated accounting period of 2017, in order to more appropriately evaluate each segment's performance, the distribution method of expenses for the general management expenses of Tokai Carbon is being changed.

II The first three months of the fiscal year under review (From January 1 to March 31, 2017)  
Information concerning net sales and income or loss by reportable segment

(Unit: Millions of yen)

	Reportable segment					Other Business (Note 1)	Total	Adjustment (Note 2)	Amounts on quarterly consolidated statements of operations (Note 3)
	Carbon Black	Graphite Electrodes	Fine Carbon	Industrial Furnaces and Related Products	Total				
Sales									
External sales	11,344	5,136	3,394	1,207	21,082	3,021	24,104		24,104
Inter-segment sales/transfer	18	2	33	47	102	-	102	(102)	-
Total	11,363	5,139	3,428	1,254	21,185	3,021	24,707	(102)	24,104
Segment income/(loss)	1,479	144	47	195	1,867	209	2,076	(294)	1,781

- (Note)
- 1 "Other business" is a business segment not included in the reporting segments. It includes businesses involving the friction materials business and property lasting, etc.
  - 2 The amount of adjustment of segment is JPY(294) million, including JPY(277) million of the corporate expenses unallotted to each reportable statement. 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.