August 2, 2017

Consolidated Financial Results for the First Six Months of Fiscal Year Ending 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/
Representative:	Hajime Nagasaka, President & Chief Executive Officer	
Contact:	Kazuhiko Matsubara, Executive Officer and General Manager, Accounting & Finance Department Tel.: 81-3-3746-5100	

Scheduled date for submission of quarterly report:	August 3, 2017
Date for commencement of dividend payments:	September 1, 2017
Supplementary notes to financial statements:	Yes
Briefing on quarterly financial statements:	Yes, for analysts and institutional investors

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the First Six Months of Fiscal Year Ending December 31, 2017 (January 1 to June 30, 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	%
First six months of fiscal year ending December 31, 2017	49,184	9.6	4,228	–	4,924	–	5,854	–
First six months of fiscal year ending December 31, 2016	44,872	(16.9)	(80)	–	(235)	–	(5,900)	–

Note: Comprehensive income: First six months of fiscal year ending December 31, 2017: 7,299 million yen, –%
First six months of fiscal year ending December 31, 2016: (15,701 million yen), –%

	Net Income per Share	Net Income per Share Fully Diluted
	Yen	Yen
First six months of fiscal year ending December 31, 2017	27.47	–
First six months of fiscal year ending December 31, 2016	(27.68)	–

(2) Consolidated Financial Position

	Total Assets	Net Assets	Capital-to-asset ratio
	Millions of yen	Millions of yen	%
First six months of fiscal year ending December 31, 2017	158,903	118,561	73.9
Fiscal year ended December 31, 2016	158,824	112,989	69.9

For reference: Shareholders' capital: As of June 30, 2017: 117,458 million yen
As of December 31, 2016: 110,990 million yen

2. Dividends

	Annual Dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	–	3.00	–	3.00	6.00
Fiscal year ending December 31, 2017	–	6.00			
Fiscal year ending December 31, 2017 (Forecast)			–	6.00	12.00

Note: The dividend forecast has not been revised from the most recently announced forecast.

3. Consolidated Earnings Forecast for Fiscal Year Ending December 31, 2017 (January 1 to December 31, 2017)

(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
Full year	98,000	10.6	8,500	651.1	9,700	469.8	9,100	–	42.69

Note: The earnings forecast has not been revised from the most recently announced forecast.

(The most recent earnings and dividend forecasts were announced on July 31, 2017 in Notice of Revision of Earnings and Dividend Forecasts.)

* Notes:

(1) Material changes in the status of subsidiary consolidation during the current consolidated fiscal period (changes in the scope of consolidation for specific subsidiaries during the period in question): None

(2) Application of special accounting methods in producing the quarterly consolidated financial statements: None

(3) 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

(4) Number of shares issued (common stock)

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

End of 2nd quarter (June 30, 2017)	224,943,104 shares	December 31, 2016	224,943,104 shares

(b) Number of treasury shares at end of period

End of 2nd quarter (June 30, 2017)	11,784,572 shares	December 31, 2016	11,782,847 shares

(c) Average number of shares during the period (January 1 to June 30, 2017)

First six months of FY 2017 (January 1 to June 30, 2017)	213,159,519 shares	June 30, 2016	213,182,637 shares

* The quarterly financial statements are not subject to quarterly review process under the Financial Instruments and Exchange Act and the review process has therefore not been completed.

* 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.

(How to obtain supplemental materials to the quarterly financial statements)

Tokai Company has scheduled a briefing on financial results for analysts and institutional investors on Wednesday, August 9, 2017. The materials for this briefing will be posted on the corporate website on that day.

○ Supplemental Materials

1. Qualitative Information Related to Consolidated Quarterly Financial Results

(1) Operating Results

The global economy experienced continued gradual improvement overall during the first six months of the current consolidated fiscal year (January 1 to June 30, 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, Tokai Carbon has employed the benefits derived from the structural reform implemented last year to direct our focus to the growth strategy for the current fiscal year, which marks the second year of our three-year Mid-Term Management Plan T-2018, and achieve the operating goals for 2018 of 110 billion yen in net sales, 9 billion yen in operating income, ROS (return on sales) of 8% or higher, and ROIC (return on invested capital) of 6% or more.

As a result, net sales for the first six months of the current consolidated fiscal year grew 9.6% YoY to 49,184 million yen. Operating income was 4,228 million yen (compared to an operating loss of 80 million yen during the same period last year), ordinary income was 4,924 million yen (compared to an ordinary loss of 235 million yen during the same period last year), and net income attributable to owners of the parent company was 5,854 million yen (compared to a loss of 5,900 million yen during the same period last year).

Results by business segment were as follows:

<u>Carbon Black</u>

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

As a result, net sales for the Carbon Black business increased 28.5% year-on-year to 23,504 million yen, and operating income rose 79.5% year-on-year to 3,397 million yen.

<u>Graphite Electrodes</u>

The Graphite Electrodes business saw a decline in net sales. This was caused by a decline in sales prices due a structural imbalance between supply and demand. Volume sales remained firm despite this, and the benefits from reducing costs led to year-on-year growth in profit.

As a result, net sales for the Graphite Electrodes business declined 10.9% year-on-year to 9,657 million yen, and operating income was 25 million yen (compared to an operating loss of 370 million yen during the same period last year).

<u>Fine Carbon</u>

Although the supply capacity of graphite materials for fine carbon continue to exceed demand, demand is strong in the market for general industrial use, and the solar cell and semiconductor markets are also rebounding. Signs that market prices have bottomed out are emerging. The results from the reduction in production and inventory and other types of rationalization implemented last year as one part of the structural reform are also steadily emerging.

As a result, net sales for the Fine Carbon business rose 1.1% year-on-year to 6,845 million yen, and operating income was 390 million yen (compared to an operating loss of 1,254 million yen during the same period last year).

Industrial Furnaces and Related Products

Sales of industrial furnaces to energy-related industries fell, despite firm demand from the electronic components industry for heating elements and other products. Operating income increased over the same period last year, boosted by special demand for industrial furnaces and improvement in the profitability of Chinese subsidiaries selling heating elements, among other factors/

As a result, net sales for the Industrial Furnaces and Related Products business declined 4.5% year-on-year to 2,822 million yen, and operating income rose 34.5% year-on-year to 512 million yen.

Other Operations

Friction materials

Net sales for friction materials grew, boosted by the rebound in the hydraulic shovels for the construction market in China and the increase in production of mining machinery. Friction materials for agricultural machinery grew, supported by increased production of tractors for North America and demand for use in machine tools as demand for automation expanded in China. As a result, net sales of friction materials grew 10.1% year-on-year to 4,146 million yen.

Anode materials

Net sales of anode materials for secondary lithium-ion batteries declined 3.6% year-on-year to 2,082 million yen. This resulted from a decline in volume sales as customers cut back production.

Others

Net sales from real estate leasing and other businesses increased 44.6% year-on-year to 125 million yen.

The above factors resulted in net sales for Other Operations of 6,354 million yen, an increase of 5.7% year-on-year. Operating income increased 51.9% year-on-year to 451 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2016)	End of the First Six Months of the Current Consolidated Fiscal Year (As of June 30, 2017)
Assets		
Current assets		
Cash and cash equivalents	16,528	21,330
Notes and accounts receivable	24,220	25,307
Securities	12,000	4,500
Merchandise and finished goods	7,516	6,956
Work in process	7,886	8,184
Raw materials and supplies	5,330	7,527
Deferred tax assets	1,677	1,360
Other	3,066	2,751
Allowance for doubtful accounts	(580)	(530)
Total current assets	77,645	77,386
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	12,965	12,545
Machinery, equipment and vehicles, net	20,496	19,489
Furnaces, net	744	779
Land	5,747	5,722
Construction in progress	1,214	1,693
Other, net	1,953	2,023
Total tangible fixed assets	43,122	42,254
Intangible fixed assets		
Software	559	518
Goodwill	5,604	5,397
Customer-related assets	3,612	3,478
Other	758	702
Total intangible fixed assets	10,534	10,097
Investments and other assets		
Investment securities	24,377	26,124
Net defined benefit asset	1,923	1,891
Deferred tax assets	564	365
Other	702	850
Allowance for doubtful accounts	(46)	(67)
Total investments and other assets	27,521	29,165
Total fixed assets	81,178	81,516
Total assets	158,824	158,903

(Millions of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2016)	End of the First Six Months of the Current Consolidated Fiscal Year (As of June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable	7,471	8,338
Electronically recorded obligations	2,120	2,400
Short-term loans payable	2,894	3,193
Current portion of long-term loans payable	10,016	3,716
Income tax payable	841	540
Consumption taxes payable	356	–
Accrued expenses	1,235	1,325
Reserve for bonuses	194	271
Other	3,897	3,991
Total current liabilities	29,028	23,778
Long-term liabilities		
Long-term loans payable	4,137	3,104
Deferred tax liabilities	6,037	6,611
Net defined benefit liability	3,840	3,950
Reserve for directors’ retirement benefits	92	78
Reserve for executive officers’ retirement benefits	42	30
Provision for environment and safety measures	473	484
Other	2,182	2,304
Total long-term liabilities	16,806	16,563
Total liabilities	45,834	40,341
Net assets		
Shareholder’s capital		
Capital stock	20,436	20,436
Capital surplus	17,502	17,458
Retained earnings	69,005	74,220
Treasury stock	(7,250)	(7,251)
Total shareholder’s capital	99,693	104,863
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	9,191	10,220
Foreign currency translation adjustments	1,356	1,654
Remeasurements of defined benefit plans	748	720
Total accumulated other comprehensive income	11,296	12,595
Non-controlling interests	1,998	1,103
Total net assets	112,989	118,561
Total liabilities and net assets	158,824	158,903

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly Consolidated Statements of Income)

(For the First Six Months of the Consolidated Fiscal Period)

(Millions of yen)

	First Six Months of the Previous Consolidated Fiscal Year (January 1 to June 30, 2016)	First Six Months of the Current Consolidated Fiscal Year (January 1 to June 30, 2017)
Net sales	44,872	49,184
Cost of sales	36,762	37,551
Gross profit	8,110	11,633
Selling, general and administrative expenses	8,191	7,405
Operating income (loss)	(80)	4,228
Non-operating income		
Interest income	29	16
Dividend income	246	245
Rent income	152	72
Equity in income of non-consolidated subsidiaries and affiliates	435	544
Other	234	470
Total non-operating income	1,098	1,349
Non-operating expenses		
Interest expenses	234	175
Foreign exchange losses	724	162
Other non-operating expenses	294	315
Total non-operating expenses	1,253	652
Ordinary income (loss)	(235)	4,924
Extraordinary income		
Gain on sale of fixed assets	1,380	2,476
Gain on liquidation of subsidiaries and affiliates	–	408
Gain on sales of investment securities	–	58
Total extraordinary income	1,380	2,943
Extraordinary losses		
Loss on sale of equity invested in affiliates	–	96
Impairment loss	6,487	–
Total extraordinary losses	6,487	96
Net income (loss) before income taxes	(5,342)	7,772
Income taxes - current	1,024	1,089
Income taxes - deferred	(462)	689
Total income taxes	562	1,779
Net income (loss)	(5,905)	5,993
Net income (loss) attributable to non-controlling interests	(5)	138
Net income (loss) attributable to owners of the parent company	(5,900)	5,854

(Quarterly Consolidated Statements of Comprehensive Income)

(For the First Six Months of the Consolidated Fiscal Period)

(Millions of yen)

	First Six Months of the Previous Consolidated Fiscal Period (January 1 to June 30, 2016)	First Six Months of the Current Consolidated Fiscal Period (January 1 to June 30, 2017)
Net income (loss)	(5,905)	5,993
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,998)	1,029
Deferred gains or losses on hedges	0	–
Foreign currency translation adjustment	(4,934)	267
Remeasurements of defined benefit plans	(16)	(28)
Share of other comprehensive income of entities accounted for using equity method	(847)	38
Total other comprehensive income	(9,796)	1,306
Comprehensive income	(15,701)	7,299
(Of which)		
Comprehensive income attributable to owners of the parent	(15,469)	7,153
Comprehensive income attributable to non-controlling shareholders	(232)	145

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going-Concern Assumption)

N/A

(Notes on Significant Changes in Shareholders' Capital)

N/A

(Segment Information)

I For the First Six Months of the Previous Consolidated Fiscal Year (January 1 to June 30, 2016)

1. Information on Net Sales and Income (Loss) for Each Reportable Segment

(Millions of yen)

	Reportable Segment					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amounts Recorded in the Consolidated Statements of Income for the First Six Months (Note 3)
	Carbon Black	Graphite Electrodes	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net sales									
External sales	18,297	10,833	6,770	2,956	38,858	6,014	44,872	–	44,872
Inter-segment sales or transfers	40	0	50	114	205	–	205	(205)	–
Total	18,338	10,833	6,821	3,070	39,063	6,014	45,077	(205)	44,872
Segment income (loss)	1,892	(370)	(1,254)	381	649	297	946	(1,027)	(80)

Notes:
1. 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 1,027 million yen negative adjustment in segment income (loss) includes company-wide expenses of 1,030 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.
3. Segment income (loss) has been reconciled with the operating loss in the Consolidated Statements of Income for the First Six Months.

2. Notes on Changes in Reportable Segments

(Change in Method of Segmentation for Business Segments)

The categorization of the business segments was reviewed when the three-year Mid-Term Management Plan T-2018, which began in 2016, was formulated and the policy on business management was revised. The existing reportable segment, Carbon and Ceramics business segment, was split into the Graphite Electrodes and Fine Carbon business segments from the first quarter of the consolidated fiscal year.

(Change in the Method for Calculating Business Segment Profit or Loss)

The method for allocations part of the general and administrative expenses for the company has been changed from the first quarter of the consolidated fiscal year to provide a more appropriate valuation of the operating results of each segment.

3. Impairment Losses on Fixed Assets, Goodwill, etc. by Reportable Segment

(Material Impairment Losses on Fixed Assets)

Impairment losses on idle assets in the Carbon Black business segment that the company cannot expect to use in the future have been recognized because the amount recoverable has fallen below the book value. These assets consist of carbon black manufacturing equipment for which profitability had declined and production equipment on a production line that was shut down. The impairment losses recognized during the first six months of the current consolidated fiscal year totaled 2,259 million yen.

Impairment losses on idle assets in the Fine Carbon business segment that the company cannot expect to use in the future have been recognized because the amount recoverable has fallen below the book value. These assets consist of fine carbon manufacturing equipment and obsolete equipment that was scrapped or idled as a result of steps taken to streamline operations. The impairment losses recognized during the first six months of the consolidated fiscal year totaled 4,228 million yen.

II. First Six Months of the Current Consolidated Fiscal Period (January 1 to June 30, 2017)

Net Sales and Profit for Each Reportable Segment

(Millions of yen)

	Reportable Segments					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amounts Recorded in the Consolidated Statements of Income for the First Six Months (Note 3)
	Carbon Black	Graphite Electrodes	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net sales									
External sales	23,504	9,657	6,845	2,822	42,830	6,354	49,184	–	49,184
Inter-segment sales or transfers	32	8	76	96	213	–	213	(213)	–
Total	23,536	9,666	6,921	2,918	43,043	6,354	49,398	(213)	49,184
Segment income (loss)	3,397	25	390	512	4,325	451	4,777	(548)	4,228

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 548 million yen negative adjustment in segment income includes company-wide expenses of 521 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.
3. Segment income has been reconciled with the operating income in the Consolidated Statements of Income for the First Six Months.