

Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 [Japanese GAAP]

Company name: Tokai Carbon Co., Ltd. Listed on: Tokyo Stock Exchange
 Stock code: 5301 URL: <https://www.tokaicarbon.co.jp/en/>
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Scheduled date for the Annual Shareholders' Meeting: March 28, 2019
 Scheduled date for submission of the Annual Securities Report: March 28, 2019
 Date for commencement of dividend payments: March 29, 2019
 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, 2018 (January 1 to December 31, 2018)

(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, 2018	231,302	117.7	75,284	578.6	75,210	485.0	73,998	499.4
Fiscal year ended December 31, 2017	106,252	19.9	11,093	880.3	12,855	655.1	12,346	—

Note: Comprehensive income: Fiscal year ended December 31, 2018: 66,989 million yen, 280.3%
 Fiscal year ended December 31, 2017: 17,616 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, 2018	347.16	—	47.1	30.0	32.5
Fiscal year ended December 31, 2017	57.92	—	10.4	7.5	10.4

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

As of December 31, 2018: 698 million yen

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

Note: During the year ended December 31, 2018, the Company finalized the provisional accounting treatment related to the business combination with TOKAI CARBON GE HOLDING LLC. Figures for the year ended December 31, 2017 have been adjusted to reflect the finalized provisional accounting treatment.

(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, 2018	317,084	198,900	59.2	880.77
Fiscal year ended December 31, 2017	184,730	127,130	68.4	592.83

For reference: Shareholders' capital: As of December 31, 2018: 187,740 million yen
 As of December 31, 2017: 126,366 million yen

Note: During the year ended December 31, 2018, the Company finalized the provisional accounting treatment related to the business combination with TOKAI CARBON GE HOLDING LLC. Figures for the year ended December 31, 2017 have been adjusted to reflect the finalized provisional accounting treatment.

(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, 2018	44,109	(53,849)	29,677	41,124
Fiscal year ended December 31, 2017	10,543	(14,039)	(4,534)	22,145

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, 2017	–	6.00	–	6.00	12.00	2,557	20.7	2.2
Fiscal year ended December 31, 2018	–	12.00	–	12.00	24.00	5,115	6.9	3.3
Fiscal year ending December 31, 2019 (Forecast)	–	24.00	–	24.00	48.00		15.5	

Note: Breakdown of dividend per share the first six months of fiscal year ended December 31, 2018

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

Breakdown of dividend per share at year-end of fiscal year ended December 31, 2018

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

3. Consolidated Earnings Forecast for Fiscal Year Ending December 31, 2019 (January 1 to December 31, 2019)

(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	155,800	69.9	48,500	66.2	48,900	63.2	32,800	△25.8	153.88
Full year	322,700	39.5	98,700	31.1	99,000	31.6	66,100	△10.7	310.10

* 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: 2 companies (Tokai Carbon CB Ltd., TCCB US Ltd.)
 Excluded from consolidation: __ company (name of company)
 (Note) For details, refer to “3. (5) Notes to Consolidated Financial Statements (Business Combination)” on page 13 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, 2018	224,943,104 shares	December 31, 2017	224,943,104 shares
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- (b) Number of treasury shares at end of period

December 31, 2018	11,789,466 shares	December 31, 2017	11,786,878 shares
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- (c) Average number of shares during the period

December 31, 2018	213,154,998 shares	December 31, 2017	213,158,516 shares
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(Reference) Overview of Non-Consolidated Financial Results

Non-Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (January 1, 2018 to December 31, 2018)

(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, 2018	87,807	69.7	27,936	542.8	29,652	333.8	21,487	161.2
Fiscal year ended December 31, 2017	51,751	12.2	4,346	–	6,836	–	8,225	–

	Net Income per Share	Net Income per Share Fully Diluted
	Yen	Yen
Fiscal year ended December 31, 2018	100.81	–
Fiscal year ended December 31, 2017	38.59	–

(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, 2018	201,469	107,167	53.2	502.77
Fiscal year ended December 31, 2017	134,865	93,469	69.3	438.50

For reference: Shareholders' capital: As of December 31, 2018: 107,167 million yen
 As of December 31, 2017: 93,469 million yen

* The financial results are not subject to audit by certified public accountants or audit firms.

* 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 Carbon has scheduled a briefing on financial results for analysts and institutional investors on Thursday, February 14, 2019. 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

During the consolidated fiscal year under review (January 1 to December 31, 2018), the global economy continued its steady growth overall. Meanwhile, future trends require careful watching due to great uncertainty concerning such matters as macroeconomic policy management in the U.S., trade friction between the U.S. and China, the development of the UK's withdrawal from the EU and the situation on the Korean Peninsula.

Amid these conditions, in this year, which is the final year of our three-year Mid-Term Management Plan T-2018, we have continued our efforts to expand business domains and optimize our business portfolio as part of the measures set out in the growth strategies we have been pursuing since FY2017.

As a result, net sales for the fiscal year under review grew 117.7% year on year to 231,302 million yen. Operating income increased significantly to 75,284 million yen. Ordinary income increased significantly to 75,210 million yen. Net income attributable to owners of the parent company rose 499.4% year on year to 73,998 million yen.

Results by business segment were as follows:

Graphite Electrodes

Global supplies of graphite electrodes remain tight and we continued operating at full capacity. In addition, because the new North American business unit added last November, coupled with global market for graphite electrodes growth, contributed to consolidated performance, both net sales and operating income increased considerably year on year.

As a result, net sales for the Graphite Electrodes business increased 332.3 % year on year to 102,075 million yen, and operating income rose significantly year on year to 56,040 million yen.

Carbon Black

Robust production by end-users in the tire and automotive industries, price revisions due to changes in crude oil prices, and a production increase were among the factors that lifted sales and profits over the previous year. In addition, the conversion of Tokai Carbon CB Ltd., the Group's production base in the U.S., into a subsidiary from September 2018 has contributed to the Group's consolidated earnings.

As a result, net sales for the Carbon Black business increased 60.8 % year on year to 76,926 million yen, and operating income rose 54.8% year on year to 10,629 million yen.

Fine Carbon

Production in the general industry market has been robust, causing supply and demand for special lead materials to remain tight. Customer inquiries about CVD (chemical vapor deposition) products increased, helping the Company to maintain a high level of operation in its production facilities. In addition, Tokai Carbon Korea Co., Ltd. became a consolidated subsidiary in June 2018, contributing to growth in the Group's consolidated earnings.

As a result, net sales for the Fine Carbon business rose 75.8% year on year to 25,403 million yen, and operating income rose 229.9 % year on year to 5,735 million yen.

Industrial Furnaces and Related Products

Capital expenditures for industrial furnaces for major buyers in the IT-related sectors and energy-related industries continued to build up backed by strong demand. For heating elements and other products, demand in the electronic components and glass industries remained robust.

As a result, net sales for the Industrial Furnaces and Related Products business increased 66.7 % year on year to 11,371 million yen, and operating income rose 126.7 % year on year to 3,043 million yen.

Other Operations

Friction materials

Demand by end-users for agricultural machinery was weak but remained robust for construction machinery such as mining machinery and hydraulic shovels, as well as machine tools, including industrial robots.

As a result, net sales of friction materials grew 9.3% year on year to 9,480 million yen.

Anode materials

Due to Introduction of the CO2 emission regulations in Europe, Zero-Emission-Vehicle regulations in United States, and New-Energy-Vehicle in China, the market of anode materials for secondary lithium-ion batteries has expanded.

As a result, net sales of Anode materials grew 27.0% year on year to 5,894 million yen.

Others

Net sales from real estate leasing and other businesses decreased 34.6 % year on year to 150 million yen.

The above factors resulted in net sales for Other Operations of 15,525 million yen, an increase of 14.6% year on year. Operating income increased 24.5% year on year to 1,068 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 317,084 million yen, an increase of 132,353 million yen from the end of the previous consolidated fiscal year.

Current assets amounted to 166,546 million yen, an increase of 81,102 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in cash and cash equivalents, notes and accounts receivables. Fixed assets amounted to 150,537 million yen, an increase of 51,251 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in goodwill and tangible fixed assets, although there was a decrease in investment securities.

(b) Liabilities

Total liabilities at the end of the consolidated fiscal year under review came to 118,183 million yen, an increase of 60,583 million yen from the end of the previous consolidated fiscal year.

Current liabilities amounted to 91,654 million yen, an increase of 54,783 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in income tax payable and short-term loans payable. Long-term liabilities amounted to 26,528 million yen, an increase of 5,799 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in long-term loans payable and deferred tax liabilities, although there was a decrease in net defined benefit liability.

(c) Net assets

Total net assets at the end of the consolidated fiscal year under review came to 198,900 million yen, an increase of 71,770 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 9.2 points year on year to 59.2%.

(3) Cash Flows

At the end of the consolidated fiscal year under review, the Group's cash and cash equivalents totaled 41,124 million yen, an increase of 18,979 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 44,109 million yen, an increase of 33,566 million yen from the previous consolidated fiscal year. This was mainly due to an increase in net income before income taxes, although there was a decrease in cash as a result mainly of an increase in gain on step acquisitions and inventories.

(b) Cash flows from investing activities

Investing activities used net cash of 53,849 million yen, an increase of 39,809 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 provided net cash of 29,677 million yen, compared to net cash of 4,534 million yen used in the previous 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, 2019 as follows: net sales of 322,700 million yen (YoY 39.5% increase), operating income of 98,700 million yen (YoY 31.1% increase), ordinary income of 99,000 million yen (YoY 31.6% increase), and net income attributable to owners of the parent company of 66,100 million yen (YoY 10.7% decrease).

Furthermore, the Group forecasts that the balance of cash and cash equivalents at the end of the consolidated fiscal year ending December 31, 2019 will be approximately 68,000 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, 2017)	End of the Current Consolidated Fiscal Year (As of December 31, 2018)
Assets		
Current assets		
Cash and cash equivalents	22,152	46,797
Notes and accounts receivable	30,265	55,137
Merchandise and finished goods	9,429	17,106
Work in process	10,094	23,113
Raw materials and supplies	8,041	18,569
Deferred tax assets	1,312	2,325
Other	4,662	3,999
Allowance for doubtful accounts	(514)	(504)
Total current assets	85,444	166,546
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	14,839	19,078
Machinery, equipment and vehicles, net	26,398	38,018
Furnaces, net	813	2,370
Land	6,161	7,343
Construction in progress	1,113	5,972
Other, net	2,077	2,920
Total tangible fixed assets	51,405	75,703
Intangible fixed assets		
Software	867	1,279
Goodwill	9,510	45,507
Customer-related assets	4,569	3,934
Other	1,395	1,287
Total intangible fixed assets	16,343	52,009
Investments and other assets		
Investment securities	28,121	17,204
Net defined benefit asset	2,531	1,995
Deferred tax assets	225	2,888
Other	722	786
Allowance for doubtful accounts	(62)	(50)
Total investments and other assets	31,537	22,824
Total fixed assets	99,286	150,537
Total assets	184,730	317,084

(Millions of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2017)	End of the Current Consolidated Fiscal Year (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable	11,463	22,364
Electronically recorded obligations	3,059	3,637
Short-term loans payable	12,006	39,641
Current portion of long-term loans payable	2,068	2,068
Income tax payable	1,550	11,208
Consumption taxes payable	203	607
Accrued expenses	2,056	2,932
Reserve for bonuses	438	1,276
Other	4,023	7,915
Total current liabilities	36,870	91,654
Long-term liabilities		
Long-term loans payable	2,068	8,000
Deferred tax liabilities	9,281	10,456
Net defined benefit liability	6,189	5,081
Reserve for directors' retirement benefits	83	86
Reserve for executive officers' retirement benefits	39	57
Provision for environment and safety measures	45	577
Other	3,021	2,267
Total long-term liabilities	20,728	26,528
Total liabilities	57,599	118,183
Net assets		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,473	17,333
Retained earnings	79,433	149,594
Treasury stock	(7,253)	(7,258)
Total shareholder's capital	110,089	180,105
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	11,345	7,345
Foreign currency translation adjustments	3,631	(737)
Remeasurements of defined benefit plans	1,299	1,026
Total accumulated other comprehensive income	16,277	7,634
Non-controlling interests	763	11,160
Total net assets	127,130	198,900
Total liabilities and net assets	184,730	317,084

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2017)	Current Consolidated Fiscal Year (January 1 to December 31, 2018)
Net sales	106,252	231,302
Cost of sales	78,800	130,053
Gross profit	27,451	101,249
Selling, general and administrative expenses		
Selling expenses	4,542	7,746
General and administrative expenses	11,815	18,218
Total selling, general and administrative expenses	16,358	25,964
Operating income	11,093	75,284
Non-operating income		
Interest income	44	175
Dividend income	468	538
Royalty income	327	404
Rent income	138	153
Equity in income of non-consolidated subsidiaries and affiliates	1,325	698
Other	545	237
Total non-operating income	2,849	2,209
Non-operating expenses		
Interest expenses	334	614
Compensation expenses	121	—
Foreign exchange losses	68	83
Provision of the reserve for environment and safety measures	—	700
Other non-operating expenses	562	883
Total non-operating expenses	1,087	2,283
Ordinary income	12,855	75,210
Extraordinary income		
Gain on step acquisitions	—	22,843
Gain on sale of fixed assets	2,567	73
Gain on liquidation of subsidiaries and affiliates	522	33
Gain on sales of investment securities	58	—
Total extraordinary income	3,148	22,949
Extraordinary losses		
Loss on retirement of non-current assets	—	100
Loss on sales of non-current assets	—	29
Loss on sales of shares of subsidiaries and associates	373	—
Loss on sale of equity invested in affiliates	96	—
Total extraordinary losses	470	129
Net income before income taxes	15,533	98,030
Income taxes - current	2,740	22,815
Income taxes - deferred	189	(683)
Total income taxes	2,930	22,132
Net income	12,603	75,897
Net income attributable to non-controlling interests	257	1,899
Net income attributable to owners of the parent company	12,346	73,998

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2017)	Current Consolidated Fiscal Year (January 1 to December 31, 2018)
Net income	12,603	75,897
Other comprehensive income		
Net unrealized gains/losses on other securities	2,149	(4,003)
Foreign currency translation adjustment	2,022	(4,354)
Remeasurements of defined benefit plans	550	(272)
Share of other comprehensive income of entities accounted for using equity method	289	(277)
Total other comprehensive income	5,012	(8,908)
Comprehensive income	17,616	66,989
(Of which)		
Comprehensive income attributable to owners of the parent	17,326	65,356
Comprehensive income attributable to non-controlling shareholders	289	1,633

(3) Consolidated Statements of Changes in Equity

Previous Consolidated Fiscal Year (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			12,346		12,346
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)			(29)
Net changes of items other than shareholders' equity					
Total of changes of items during the period	–	(29)	10,427	(3)	10,395
Balance at the end of the period	20,436	17,473	79,433	(7,253)	110,089

	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						12,346
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)	14,141
Balance at the end of the period	11,345	3,631	1,299	16,277	763	127,130

Consolidated Fiscal Year under Review (January 1 to December 31, 2018)

(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	17,473	79,433	(7,253)	110,089
Changes of items during the period					
Dividends of surplus			(3,836)		(3,836)
Net income attributable to owners of the parent company			73,998		73,998
Purchase of treasury shares				(5)	(5)
Disposal of treasury shares		0		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(140)			(140)
Net changes of items other than shareholders' equity					
Total of changes of items during the period	–	(140)	70,161	(5)	70,016
Balance at the end of the period	20,436	17,333	149,594	(7,258)	180,105

	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	11,345	3,631	1,299	16,277	763	127,130
Changes of items during the period						
Dividends of surplus						(3,836)
Net income attributable to owners of the parent company						73,998
Purchase of treasury shares						(5)
Disposal of treasury shares						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						(140)
Net changes of items other than shareholders' equity	(4,000)	(4,369)	(272)	(8,642)	10,396	1,754
Total of changes of items during the period	(4,000)	(4,369)	(272)	(8,642)	10,396	71,770
Balance at the end of the period	7,345	(737)	1,026	7,634	11,160	198,900

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2017)	Current Consolidated Fiscal Year (January 1 to December 31, 2018)
Cash flows from operating activities		
Net income before income taxes	15,533	98,030
Depreciation	6,647	8,372
Loss (gain) on sales of investment securities	(58)	—
Loss (gain) on step acquisitions	—	(22,843)
Loss (gain) on liquidation of subsidiaries and associates	(522)	(33)
Loss (gain) on sales of equity invested in affiliates	96	—
Loss (gain) on sales of shares of subsidiaries and associates	373	—
Loss (gain) on retirement / sales of tangible fixed assets	(2,567)	(43)
Amortization of goodwill	460	2,555
Increase (decrease) in allowance for doubtful accounts	(39)	(64)
Increase (decrease) in reserve for bonuses	114	808
Increase (decrease) in net defined benefit liability	(500)	(1,339)
Decrease (increase) in net defined benefit asset	(608)	535
Increase (decrease) in provision for environment and safety measures	(428)	532
Interest and dividend income	(513)	(714)
Interest expenses	334	614
Foreign exchange losses (gains)	20	55
Share of (profit) loss of entities accounted for using equity method	(1,325)	(698)
Decrease (increase) in notes and accounts receivable - trade	(4,586)	(15,370)
Decrease (increase) in inventories	(2,848)	(24,462)
Increase (decrease) in notes and accounts payable - trade	3,212	9,508
Increase (decrease) in accrued expenses	237	(500)
Increase (decrease) in accounts payable - other	71	(92)
Decrease (increase) in advance payments	(744)	77
Increase (decrease) in accrued consumption taxes	(162)	218
Other	195	2,534
Subtotal	12,395	57,679
Interest and dividend income received	724	1,011
Interest expenses paid	(324)	(585)
Income taxes paid	(2,252)	(13,995)
Cash flows from operating activities	10,542	44,109
Cash flows from investing activities		
Payments into time deposits	(0)	(5,000)
Proceeds from withdrawal of time deposits	—	4,000
Purchase of tangible fixed assets	(4,336)	(8,491)
Proceeds from sales of tangible fixed assets	2,704	71
Purchase of intangible fixed assets	(360)	(627)
Proceeds from sales of investment securities	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)	(5,648)
Purchase of equity of subsidiaries resulting in a change in the scope of consolidation	—	(37,278)
Payment of contingent consideration on subsidiary acquisition	—	(862)
Other	19	(11)
Cash flows from investing activities	(14,039)	(53,849)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2017)	Current Consolidated Fiscal Year (January 1 to December 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	9,019	27,804
Proceeds from long-term loans payable	—	8,000
Repayments of long-term loans payable	(10,042)	(2,068)
Cash dividends paid	(1,918)	(3,836)
Dividends paid to non-controlling interests	(54)	(19)
Purchase of shares of subsidiaries that do not result in a change in the scope of consolidation	(1,499)	(167)
Other	(38)	(33)
Cash flows from financing activities	(4,534)	29,677
Effect of exchange rate change on cash and cash equivalents	1,654	(959)
Net increase (decrease) in cash and cash equivalents	(6,376)	18,979
Cash and cash equivalents at beginning of the period	28,521	22,145
Cash and cash equivalents at end of the period	22,145	41,124

(5) Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

N/A

(Business Combination)

Business combination by acquisition

At its Board of Directors' meeting held on May 14, 2018, the Company resolved to acquire 1,050,750 shares (9.0% of the total number of shares issued) of Tokai Carbon Korea Co., Ltd., an equity-method affiliate of the Company, from KC Co., Ltd., the second-largest shareholder of Tokai Carbon Korea Co., Ltd. next to the Company. The Company completed the acquisition of shares as of May 28, 2018 as described in the following and made Tokai Carbon Korea Co., Ltd. a consolidated subsidiary.

The ratio of voting rights held by the Company is 44.4% after the acquisition; however, the Company treats Tokai Carbon Korea Co., Ltd. as a consolidated subsidiary in accordance with the effective control standards.

1. Overview of business combination

(1) Name of acquired company and business line

Name of acquired company:	Tokai Carbon Korea Co., Ltd.
Business line:	Manufacturing and sale of carbon graphite products and CVD-SiC coated products

(2) Main reason for business combination

The Company has been making efforts to shift its axis to growth strategies in accordance with Phase 2 of the three-year Mid-Term Management Plan T-2018 that was newly released in February 2017, and this acquisition is part of the strategic investment.

With regard to the Fine Carbon business, one of the main businesses of the Company, an important task is to further solidify the revenue foundation and improve corporate value as a fundamental business following the Graphite Electrodes business and Carbon Black business. The purpose of the business combination is to expand the business foundation of the semiconductor segment with high growth potential and lead this to strengthening the competitiveness of the Fine Carbon business by acquiring Tokai Carbon Korea Co., Ltd. as a consolidated subsidiary. Backed by its advanced technological capabilities such as processing and high-purity treatment technologies, Tokai Carbon Korea Co., Ltd. possesses a solid customer foundation including leading semiconductor equipment manufacturers and semiconductor manufacturers. It has been growing into a niche top company, boasting a high market share in the segment of one of its main products Solid-SiC Focus Rings for etching machines used in semiconductor manufacturing.

(3) Date of business combination

May 28, 2018

(4) Legal form of business combination

Acquisition of shares in exchange for cash

(5) Name of acquired company after combination

The company name is unchanged.

(6) Ratio of acquired voting rights

Percentage held before combination:	35.4%
Additional percentage obtained on the date of combination:	9.0%
Percentage after combination:	44.4%

(7) Major basis for determining the acquiring company

The Company resolved to acquire the company to acquire 44.4% of the voting rights of Tokai Carbon Korea Co., Ltd. through an acquisition of shares for cash, and it is obvious that the Company controls the decision-making body of the acquired company.

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

The performance from the date of business combination to December 31, 2018 is included in the consolidated financial statements.

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

Market price of the shares held before the business combination as of the date of business combination	28,187 million yen	(KRW 276,081 million)
Cash paid for acquisition of additional shares	7,836 million yen	(KRW 77,043 million)
Acquisition cost	36,024 million yen	(KRW 353,124 million)

4. Details and amount of major costs related to acquisition

Remuneration, commissions and other fees to advisors, etc.: 106 million yen

5. Acquisition cost of the acquired company and the difference between the acquisition cost and total acquisition cost of each transaction

Gain on step acquisitions 22,843 million yen

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

(1) Amount of goodwill

28,980 million yen (KRW 284,005 million)

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 12-year period on a straight-line basis

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

Current assets	11,706million yen	(KRW 114,658 million)
Fixed assets	6,776 million yen	(KRW 66,366 million)
Total assets	18,482 million yen	(KRW 181,025 million)
Current liabilities	2,513 million yen	(KRW 24,620 million)
Fixed liabilities	74 million yen	(KRW 730 million)
Total liabilities	2,588 million yen	(KRW 25,350 million)

8. 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.

9. 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	6,999 million yen
Operating income	1,288 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.

Business combination by acquisition

Tokai Carbon entered into an agreement on June 26, 2018 regarding the acquisition of 100% of the interests of Sid Richardson Carbon, Ltd. and its affiliate companies SRCG, Ltd. and New SRCG Genpar, LLC, held by SRCG Holdco, L.P., SRCE, L.P. and their affiliate company SRCG Genpar, L.P., to convert them into subsidiaries. Based on this agreement, Tokai Carbon completed acquiring said interests on August 31, 2018 through TOKAI CARBON US HOLDINGS INC., its consolidated subsidiary, and converted Sid Richardson Carbon, Ltd. and its two affiliate companies into consolidated subsidiaries.

1. Overview of business combination

(1) Name of acquired company and business line

Name of acquired company: Sid Richardson Carbon, Ltd.
Business line: Manufacturing, selling and R&D for furnace black

(2) Main reason for business combination

Under Phase 2 of the three-year mid-term management plan (T-2018) released in February 2017, Tokai Carbon is now shifting its focus to the growth strategy. By utilizing a strategic investment budget of approx. 50 billion yen, set for M&As and other purposes in accordance with the growth strategy, Tokai Carbon acquired shares in SGL's U.S. subsidiary operating the graphite electrode business in November 2017 and converted Tokai Carbon Korea Co., Ltd. into a consolidated subsidiary in May 2018, and the acquisition of Sid Richardson Carbon and its affiliate companies are part of such strategic investment.

Carbon black is a cornerstone of Tokai Carbon's business and one that we intend to grow from a mid- to long-term viewpoint. The acquisition of Sid Richardson Carbon will support Tokai Carbon's expansion into the North American market, the second-largest market after China. The acquisition will also permit Tokai Carbon to build a global supply network for tire and rubber product manufacturers while broadening its worldwide customer base to include European and North American customers as well.

Further, the acquisition is aimed at contributing significantly to Tokai Carbon's ongoing efforts to establish itself as a global player in the carbon black business, in order to expand the scale and profitability of businesses and enhance corporate value.

(3) Date of business combination

August 31, 2018

(4) Legal form of business combination

Acquisition of equity in exchange for cash

(5) Name of acquired company after combination

The company name was changed to Tokai Carbon CB Ltd. from August 31, 2018.

(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 Sid Richardson Carbon, Ltd. in exchange for cash.

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

The performance from the date of business combination to December 31, 2018 is included in the consolidated financial statements.

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

Consideration for acquisition	Cash	37,282 million yen	(US\$ 335,220 thousand)
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Acquisition cost	37,282 million yen	(US\$ 335,220 thousand)
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4. Details and amount of major costs related to acquisition

Remuneration, commissions and other fees to advisors, etc.: 799 million yen

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

(1) Amount of goodwill

10,045 million yen (US\$ 89,979 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 12-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	13,364 million yen	(US\$ 120,339 thousand)
Fixed assets	16,184 million yen	(US\$ 145,728 thousand)
Total assets	29,549 million yen	(US\$ 266,068 thousand)
Current liabilities	2,313 million yen	(US\$ 20,827 thousand)
Total liabilities	2,313 million yen	(US\$ 20,827 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

Estimated amount of the effect is not stated due to difficulties in making rational calculations.

Finalization of Provisional Accounting Treatment Related to Business Combination

During the previous fiscal year, Tokai Carbon applied provisional accounting treatment for the business combination with TOKAI CARBON GE HOLDING LLC executed on November 7, 2017, and finalized said accounting during the fiscal year under review. During the fiscal year under review, the acquisition price of the acquired company increased by 1,202 million yen due to adjustment of consideration paid.

Accordingly, the comparative information included in the consolidated financial statements for the consolidated fiscal year under review revised to reflect a significant change to the initial allocation of the acquisition cost. As a result of allocation to tangible fixed assets of 2,988 million yen, customer-related assets under intangible fixed assets of 1,083 million yen, technology-related assets under intangible fixed assets of 703 million yen, inventories of 609 million yen, and deferred tax liabilities of 2,154 million yen, the amount of provisionally calculated goodwill of 7,405 million yen decreased by 2,028 million yen to 5,377 million yen.

(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 Graphite Electrodes business, Carbon Black 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
Graphite Electrodes	Artificial graphite electrodes for electric arc furnaces
Carbon Black	Carbon black (for rubber products, black pigments, and conductive materials)
Fine Carbon	Fine carbon (specialty graphite products), carbon brush, 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.

In line with changes stated in "Finalization of Provisional Accounting Treatment Related to Business Combination" in the "Business Combination" section, the applicable changes are reflected in segment information for the previous fiscal year.

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, 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)
	Graphite Electrodes	Carbon Black	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net sales									
External sales	23,610	47,828	14,447	6,823	92,709	13,542	106,252	–	106,252
Inter-segment sales or transfers	14	57	158	283	513	–	513	(513)	–
Total	23,624	47,886	14,605	7,106	93,223	13,542	106,765	(513)	106,252
Segment income	1,354	6,868	1,738	1,342	11,304	858	12,162	(1,069)	11,093
Segment assets	50,910	62,522	24,280	8,577	146,291	12,249	158,540	26,189	184,730
Other items									
Depreciation	1,176	3,302	958	179	5,616	665	6,281	365	6,647
Investment in equity-method affiliates	–	–	5,911	–	5,911	–	5,911	–	5,911
Increase in tangible and intangible fixed assets	679	2,224	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.

Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)

(Millions of yen)

	Reportable Segments					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net sales									
External sales	102,075	76,926	25,403	11,371	215,776	15,525	231,302	–	231,302
Inter-segment sales or transfers	5	85	99	913	1,103	0	1,103	(1,103)	–
Total	102,081	77,011	25,502	12,285	216,880	15,525	232,406	(1,103)	231,302
Segment income	56,040	10,629	5,735	3,043	75,449	1,068	76,517	(1,233)	75,284
Segment assets	88,763	112,067	68,524	19,284	288,639	13,714	302,354	14,730	317,084
Other items									
Depreciation	1,666	3,996	1,485	207	7,356	684	8,040	331	8,372
Investment in equity-method affiliates	–	–	29,916	–	29,916	–	29,916	–	29,916
Increase in tangible and intangible fixed assets	4,132	3,112	2,416	289	9,951	1,044	10,995	798	11,794

- Notes:
- 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.
 - The adjustment amounts are as follows.
 - The 1,233-million-yen negative adjustment in segment income includes company-wide expenses of 1,061 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.
 - The adjustment of segment assets, which is 14,730 million yen, includes 25,743 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.
 - The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is 798 million yen, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.
 - Segment income is adjusted with the operating income reported in the consolidated financial statements.

(Related Information)

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

Information on each region

Net sales

(Millions of yen)

Japan	USA	Asia	Europe	Other regions	Total
49,623	10,612	30,320	12,310	3,385	106,252

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

Fiscal year ended December 31, 2018 (January 1 to December 31, 2018)

Information on each region

Net sales

(Millions of yen)

Japan	USA	Asia	Europe	Other regions	Total
68,600	62,502	54,590	37,406	8,202	231,302

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, 2017)	Current Consolidated Fiscal Year (January 1 to December 31, 2018)
Net assets per share	592.83 yen	880.77 yen
Net income per share	57.92 yen	347.16 yen

- Notes: 1. Net income per share - fully diluted is not listed, as there were no potential common shares at the end of the fiscal year.
2. The basis of calculation of net income per share is as follows.

	Previous Consolidated Fiscal Year (January 1 to December 31, 2017)	Current Consolidated Fiscal Year (January 1 to December 31, 2018)
Net income attributable to owners of the parent company (millions of yen)	12,346	73,998
Amount not attributable to common shareholders (millions of yen)	–	–
Net income available to common shares attributable to owners of the parent company (millions of yen)	12,346	73,998
Average number of common shares during the period (thousands of shares)	213,158	213,154

3. Tokai Carbon finalized provisional accounting treatment for the business combination with TOKAI CARBON GE HOLDING LLC in the fiscal year under review. Therefore, net assets per share and net income per share for the previous fiscal year are the amounts after reflecting the significant revision of the initial allocation amount of the acquisition cost due to finalization of provisional accounting treatment.

(Subsequent Material Events)

N/A