

Q1 2018 Consolidated Financial Results [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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Schedule date of submission of quarterly report: May 9, 2018
 Commencement of dividend payments: –
 Supplementary reference documents to support the quarterly financial statements: Yes
 Conference call presentation of the Q1 results: Yes

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the First Quarter FY 2018 (January 1 to March 31, 2018)

(1) Consolidated Operating Results (First three month period) (Percentage figures represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Quarterly Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
At the end of First Quarter of the year ending December 2018	41,595	72.6	12,787	617.8	12,761	533.4	9,267	477.5
At the end of First Quarter of the year ending December 2017	24,104	6.5	1,781	219.3	2,014	282.6	1,604	–

Note: Comprehensive income: Three months ended March 31, 2018 3,661 million yen (351.5%)
 Three months ended March 31, 2017 810 million yen, –%

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
At the end of First Quarter of the year ending December 2018	43.48	–
At the end of First Quarter of the year ending December 2017	7.53	–

(2) Consolidated Financial Position

	Total Assets	Net assets	Capital-to-asset ratio
	Millions of yen	Millions of yen	%
At the end of First Quarter of the year ending December 2018	187,870	128,811	68.2
Year ending December 2017	182,972	126,599	68.8

For reference: Shareholders' capital: As of March 31, 2018 128,069 million yen
 As of December 31, 2017 125,835 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
Year ending December 31, 2017	–	6.00	–	6.00	12.00
Year ending December 31, 2018	–				
Year ending December 31, 2018 (Forecast)		12.00	–	12.00	24.00

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

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	88,000	78.9	27,700	555.1	28,000	468.5	20,200	245.0	94.77
Full Year	194,000	82.6	63,700	454.5	64,800	389.1	46,800	296.1	219.56

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 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 (capital stock)

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

1Q of the year ending December 31 2018	224,943,104 shares	Year ending December 2017	224,943,104 shares
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(b) Number of treasury shares at end of period

1Q of the year ending December 31 2018	11,787,181 shares	Year ending December 2017	11,786,878 shares
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(c) Average number of shares during the period (quarterly cumulative period)

1Q of the year ending December 31 2018	213,156,054 shares	1Q of the year ending December 2017	213,159,916 shares
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* Quarter financial results are not included in the certified accountant or auditing firm fourth quarter review

* 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 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 8, 2018 (Tue). The materials for this explanatory meeting will be posted on the Company website on the day of the meeting.

○ Supplemental Materials

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1. Qualitative information related to this quarter's settlement

(1) Explanation regarding business performance in quarterly results

The environment facing the group in the first quarter consolidated cumulative period of 2018 (January 1 to March 31, 2018) appeared to take favorable turn in each business amid stronger environmental regulations and soaring raw material prices in China. Meanwhile, although business overall has been recovering somewhat, future trends bear careful watching due to great uncertainty concerning such matters as management of government policy in the U.S., the direction of the Chinese economy 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 are endeavoring to expand business domains and optimize our business portfolio by utilizing the success of "structural reforms" in FY2016 and "growth strategies" beginning in FY2017.

As a result, net sales increased 72.6% year on year for the first quarter consolidated cumulative period of 2018, reaching 41,595 million yen. Operating income showed year on year growth of 617.8% at 12,787 million yen. Ordinary Income showed year on year growth of 533.4% for 12,761 million yen. Net income attributable to owners of the parent company increased 477.5% year on year to 9,267 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 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 were up 230.6% year on year to 16,984 million yen, while operating income rose significantly year on year to 8,558 million yen.

Carbon Black

Production by end-users in the tire and automotive industries has been robust. Higher sales volume in Japan and abroad, along with price revisions accompanying a rise in crude oil prices, were among the factors that lifted sales and profits over the previous year.

As a result, net sales for the Carbon Black business increased by 25.8% year on year to 14,276 million yen, while operating income rose 90.4% year on year to 2,816 million yen.

Fine Carbon

The general industry market is robust. Growth also continues in the markets for solar cells and semiconductors. Globally, supply and demand for special lead materials is tight. Our special lead material production facilities remain operating at high capacity, while sales prices have risen as well.

As a result, net sales for the Fine Carbon business increased by 14.7% to 3,893 million yen year on year, while operating income rose considerably to 708 million yen.

Industrial Furnaces and Related Products

Net sales of industrial furnaces rose considerably year on year as capital expenditures continue to build up for major buyers in the IT-related sectors and energy-related industries. Although net sales of heating elements and other products fell for power infrastructure in China, robust demand in the electronic components industry led to a year-on-year increase. With regards to operating income, improved performance from industrial furnaces and Chinese subsidiaries contributed to a year-on-year increase.

As a result, net sales for the Industrial Furnaces and Related Products business rose 120.6% year on year to 2,663 million yen, while operating income increased by 224.1% year on year to 633 million yen.

Other Operations

Friction materials

Demand 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 rose 13.0% year on year to 2,296 million yen.

Anode materials

The market for anode materials for secondary lithium-ion batteries is expanding more due to such factors as stronger regulations on CO₂ emissions, the wider range of makers covered by zero-emission-vehicle regulations in the U.S., and China's introduction of a New Energy Vehicle policy.

As a result, net sales of Anode materials rose by 54.8% year on year to 1,439 million yen.

Other

Other net sales such as those from real estate leasing fell 27.8% year on year to 42 million yen.

The above factors resulted in net sales for Other Operations rising by 25.1% year on year to 3,778 million yen and operating income by 53.2% year on year to 320 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2017)	First Quarter Consolidated accounting period of 2018 (March 31, 2018)
Assets		
Current assets		
Cash and cash equivalents	22,152	24,993
Notes and accounts receivable	30,265	34,761
Merchandise and finished goods	9,257	10,419
Work in process	10,063	12,263
Raw materials and supplies	8,041	9,551
Deferred tax assets	1,312	1,677
Other	4,662	2,856
allowance for doubtful accounts	(514)	(481)
Total current assets	85,241	96,041
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	13,672	13,418
Machinery, equipment and vehicles, net	24,857	23,211
Furnaces, net	813	827
Land	5,914	5,880
Construction in progress	1,113	1,768
Other, net	2,075	1,995
Total tangible fixed assets	48,447	47,102
Intangible fixed assets		
Software	867	933
Goodwill	12,683	11,551
Customer-related assets	3,495	3,141
Other	699	622
Total intangible fixed assets	17,746	16,249
Investments and other assets		
Investment securities	28,121	25,137
Net defined benefit asset	2,531	2,513
Deferred tax assets	225	196
Other	722	685
allowance for doubtful accounts	(62)	(56)
Total investments and other assets	31,537	28,476
Total fixed assets	97,731	91,828
Total assets	182,972	187,870

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2017)	First Quarter Consolidated accounting period of 2018 (March 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable	11,463	13,063
Electronically recorded obligations	3,059	3,181
Short-term loans payable	12,006	11,605
Current portion of long-term loans payable	2,068	2,068
Income tax payable	1,550	3,401
Consumption taxes payable	203	–
Accrued expenses	2,056	1,874
Reserve for bonuses	438	982
Other	4,023	4,810
Total current liabilities	36,870	40,988
Long-term liabilities		
Long-term loans payable	2,068	2,068
Deferred tax liabilities	8,053	6,929
Net defined benefit liability	6,189	6,020
Reserve for directors' retirement benefits	83	77
Reserve for executive officers' retirement benefits	39	39
Provision for environment and safety measures	45	15
Other	3,021	2,919
Total long-term liabilities	19,501	18,070
Total liabilities	56,372	59,058
Net assets		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,473	17,333
Retained earnings	78,902	86,891
Treasury stock	(7,253)	(7,254)
Total shareholder's capital	109,558	117,406
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	11,345	9,438
Foreign currency translation adjustments	3,631	25
Remeasurements of defined benefit plans	1,299	1,199
Total accumulated other comprehensive income	16,276	10,663
Non-controlling interests	763	741
Total net assets	126,599	128,811
Total liabilities and net assets	182,972	187,870

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

(First Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous first quarter consolidated cumulative period (January 1 to March 31, 2017)	First quarter consolidated cumulative period of 2018 (January 1 to March 31, 2018)
Net Sales	24,104	41,595
Cost of sales	18,648	24,079
Gross profit	5,456	17,515
Selling, general and administrative expenses	3,674	4,728
Operating Income	1,781	12,787
Non-operating income		
Interest income	10	11
Dividend income	75	84
Rent income	32	42
Equity in income of non-consolidated subsidiaries and affiliates	194	386
Other	280	191
Total non-operating income	592	716
Non-operating expenses		
Interest expenses	93	99
Foreign exchange losses	171	514
Other	94	129
Total non-operating expenses	359	742
Ordinary Income	2,014	12,761
Extraordinary income		
Gain on sales of investment securities	58	–
Total extraordinary income	58	–
Quarterly Net income before income taxes	2,073	12,761
Income taxes - current	374	3,796
Income taxes - deferred	35	(318)
Total income taxes	409	3,477
Quarterly net income	1,663	9,284
Quarterly net income attributable to non-controlling interests	59	16
Quarterly net income attributable to owners of the parent company	1,604	9,267

(Quarterly Consolidated Comprehensive Income Statements of Operations)

(First Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous first quarter consolidated cumulative period (January 1 to March 31, 2017)	First quarter consolidated cumulative period of 2018 (January 1 to March 31, 2018)
Quarterly net income	1,663	9,284
Other comprehensive income		
Net unrealized gains/losses on other securities	29	(1,908)
Foreign currency translation adjustments	(744)	(2,967)
Remeasurements of defined benefit plans	(14)	(99)
Share of other comprehensive income of entities accounted for using equity method	(123)	(646)
Total other comprehensive income	(853)	(5,623)
Comprehensive income	810	3,661
(Of which)		
Quarterly Comprehensive income attributable to owners of the parent	754	3,653
Quarterly Comprehensive income attributable to non-controlling shareholders	56	7

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going-Concern Assumption)

N/A

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

N/A

(Segment Information)

I First three months of the previous fiscal year (January 1 to March 31, 2017)

Information on the amounts of net sales and income for each reportable segment

(Millions of yen)

	Reportable Segment					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the Quarterly consolidated Statements of Income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net Sales									
External sales	5,136	11,344	3,394	1,207	21,082	3,021	24,104	–	24,104
Inter-segment sales or transfers	2	18	33	47	102	–	102	(102)	–
Total	5,139	11,363	3,428	1,254	21,185	3,021	24,207	(102)	24,104
Segment income	144	1,479	47	195	1,867	209	2,076	(294)	1,781

- 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 294 million yen negative adjustment in segment income includes company-wide expenses of 277 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 is adjusted with the operating income reported in the Quarterly Consolidated Statements of Income.

II The first three months of the fiscal year under review (January 1 to March 31, 2018)

Information on the amounts of net sales and income for each reportable segment

(Millions of yen)

	Reportable Segment					Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the Quarterly consolidated Statements of Income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net Sales									
External sales	16,984	14,276	3,893	2,663	37,816	3,778	41,595	–	41,595
Inter-segment sales or transfers	5	14	31	63	115	–	115	(115)	–
Total	16,990	14,290	3,925	2,726	37,932	3,778	41,711	(115)	41,595
Segment income	8,558	2,816	708	633	12,717	320	13,037	(250)	12,787

- 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 250 million yen negative adjustment in segment income includes company-wide expenses of 245 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 is adjusted with the operating income reported in the Quarterly Consolidated Statements of Income.