

Q2 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: August 8, 2018
 Commencement of dividend payments: September 3, 2018
 Supplementary reference documents to support the quarterly financial statements: Yes
 Explanatory meeting of the Q2 results: Yes (for institutional investors and analysts)

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the Second Quarter FY 2018 (January 1 to June 30, 2018)

(1) Consolidated Operating Results (First six 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 Second Quarter of the year ending December 2018	91,688	86.4	29,177	590.1	29,955	508.2	44,207	655.1
At the end of Second Quarter of the year ending December 2017	49,184	9.6	4,228	-	4,924	-	5,854	-

Note: Comprehensive income: Six months ended June 30, 2018 37,832 million yen (418.3%)
 Six months ended June 30, 2017 7,299 million yen, -%

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
At the end of Second Quarter of the year ending December 2018	207.39	-
At the end of Second Quarter of the year ending December 2017	27.47	-

(2) Consolidated Financial Position

	Total Assets	Net assets	Capital-to-asset ratio
	Millions of yen	Millions of yen	%
At the end of Second Quarter of the year ending December 2018	242,750	171,914	66.9
Year ending December 2017	182,972	126,599	68.8

For reference: Shareholders' capital: As of June 30, 2018 162,323 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	–	12.00			
Year ending December 31, 2018 (Forecast)			–	12.00	24.00

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

Breakdown of dividend per share at the end of the first six months of fiscal year ending 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 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
Full Year	214,000	101.4	74,000	544.2	74,500	462.3	74,000	526.3	347.17

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

* 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)

2Q 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

2Q of the year ending December 31 2018	11,788,042 shares	Year ending December 2017	11,786,878 shares
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(c) Average number of shares during the period (quarterly cumulative period)

2Q of the year ending December 31 2018	213,155,798 shares	2Q of the year ending December 2017	213,159,519 shares
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* Quarterly financial results are not included in the certified accountant or auditing firm's 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 for institutional investors and analysts on August 10, 2018 (Fri). 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 second quarter consolidated cumulative period of 2018 (January 1 to June 30, 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. and China, 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 86.4% year on year for the second quarter consolidated cumulative period of 2018, reaching 91,688 million yen. Operating income showed year on year growth of 590.1% at 29,177 million yen. Ordinary Income showed year on year growth of 508.2% for 29,955 million yen. Net income attributable to owners of the parent company increased 655.1% year on year to 44,207 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 plant 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 315.3% year on year to 40,105 million yen, while operating income rose significantly year on year to 20,853 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 and higher operating rate 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 24.2% year on year to 29,193 million yen, while operating income rose 53.0% year on year to 5,199 million yen.

Fine Carbon

Production by end-users in the semiconductor, solar cells and general industry markets is robust. Supply and demand for special lead material continues to be tight. Under such circumstances, our special lead material production facilities remain operating at high capacity, while sales prices have risen as well. In addition, Tokai Carbon Korea Co., Ltd. became a consolidated subsidiary in June, contributing to growth in sales and operating income.

As a result, net sales for the Fine Carbon business increased by 36.3% to 9,327 million yen year on year, while operating income rose 345.4% year on year to 1,739 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 and glass 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 89.5% year on year to 5,348 million yen, while operating income increased by 158.3% year on year to 1,324 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 12.9% year on year to 4,682 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 in Europe, 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 41.8% year on year to 2,952 million yen.

Other

Other net sales such as those from real estate leasing fell 37.3% year on year to 78 million yen.

The above factors resulted in net sales for Other Operations rising by 21.4% year on year to 7,713 million yen and operating income by 29.0% year on year to 582 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2017)	Second Quarter Consolidated accounting period of 2018 (June 30, 2018)
Assets		
Current assets		
Cash and cash equivalents	22,152	37,024
Notes and accounts receivable	30,265	40,376
Merchandise and finished goods	9,257	10,078
Work in process	10,063	17,015
Raw materials and supplies	8,041	12,097
Deferred tax assets	1,312	1,661
Other	4,662	3,794
Allowance for doubtful accounts	(514)	(511)
Total current assets	85,241	121,535
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	13,672	15,330
Machinery, equipment and vehicles, net	24,857	24,490
Furnaces, net	813	2,438
Land	5,914	6,643
Construction in progress	1,113	2,606
Other, net	2,075	2,177
Total tangible fixed assets	48,447	53,687
Intangible fixed assets		
Software	867	940
Goodwill	12,683	39,494
Customer-related assets	3,495	3,119
Other	699	640
Total intangible fixed assets	17,746	44,195
Investments and other assets		
Investment securities	28,121	19,930
Net defined benefit asset	2,531	2,495
Deferred tax assets	225	197
Other	722	760
Allowance for doubtful accounts	(62)	(51)
Total investments and other assets	31,537	23,332
Total fixed assets	97,731	121,215
Total assets	182,972	242,750

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2017)	Second Quarter Consolidated accounting period of 2018 (June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable	11,463	15,800
Electronically recorded obligations	3,059	3,128
Short-term loans payable	12,006	14,897
Current portion of long-term loans payable	2,068	2,068
Income tax payable	1,550	7,632
Consumption taxes payable	203	–
Accrued expenses	2,056	2,489
Reserve for bonuses	438	691
Other	4,023	6,734
Total current liabilities	36,870	53,443
Long-term liabilities		
Long-term loans payable	2,068	1,034
Deferred tax liabilities	8,053	7,085
Net defined benefit liability	6,189	6,097
Reserve for directors' retirement benefits	83	80
Reserve for executive officers' retirement benefits	39	44
Provision for environment and safety measures	45	167
Other	3,021	2,883
Total long-term liabilities	19,501	17,392
Total liabilities	56,372	70,836
Net assets		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,473	17,333
Retained earnings	78,902	121,830
Treasury stock	(7,253)	(7,256)
Total shareholder's capital	109,558	152,344
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	11,345	9,270
Foreign currency translation adjustments	3,631	(519)
Remeasurements of defined benefit plans	1,299	1,227
Total accumulated other comprehensive income	16,276	9,978
Non-controlling interests	763	9,591
Total net assets	126,599	171,914
Total liabilities and net assets	182,972	242,750

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

(Quarterly Consolidated Statements of Income)

(Second Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous second quarter consolidated cumulative period (January 1 to June 30, 2017)	Second quarter consolidated cumulative period of 2018 (January 1 to June 30, 2018)
Net Sales	49,184	91,688
Cost of sales	37,551	52,313
Gross profit	11,633	39,374
Selling, general and administrative expenses	7,405	10,196
Operating Income	4,228	29,177
Non-operating income		
Interest income	16	37
Dividend income	245	276
Rent income	72	79
Equity in income of non-consolidated subsidiaries and affiliates	544	673
Other	470	369
Total non-operating income	1,349	1,436
Non-operating expenses		
Interest expenses	175	204
Foreign exchange losses	162	79
Other	315	374
Total non-operating expenses	652	658
Ordinary Income	4,924	29,955
Extraordinary income		
Gain on step acquisitions	–	22,843
Gain on sales of non-current assets	2,476	65
Gain on liquidation of subsidiaries and associates	408	33
Gain on sales of investment securities	58	–
Total extraordinary income	2,943	22,941
Extraordinary loss		
Loss on liquidation of subsidiaries and associates	–	4
Loss on retirement of non-current assets	–	0
Loss on sales of shares of subsidiaries and associates	96	–
Total extraordinary loss	96	5
Quarterly Net income before income taxes	7,772	52,892
Income taxes - current	1,089	8,499
Income taxes - deferred	689	(171)
Total income taxes	1,779	8,327
Quarterly net income	5,993	44,564
Quarterly net income attributable to non-controlling interests	138	357
Quarterly net income attributable to owners of the parent company	5,854	44,207

(Quarterly Consolidated Comprehensive Income Statements of Operations)

(Second Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous second quarter consolidated cumulative period (January 1 to June 30, 2017)	Second quarter consolidated cumulative period of 2018 (January 1 to June 30, 2018)
Quarterly net income	5,993	44,564
Other comprehensive income		
Net unrealized gains/losses on other securities	1,029	(2,077)
Foreign currency translation adjustments	267	(4,170)
Remeasurements of defined benefit plans	(28)	(71)
Share of other comprehensive income of entities accounted for using equity method	38	(271)
Total other comprehensive income	1,306	(6,591)
Comprehensive income	7,299	37,973
(Of which)		
Quarterly Comprehensive income attributable to owners of the parent	7,153	37,908
Quarterly Comprehensive income attributable to non-controlling shareholders	145	64

(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 six months of the previous fiscal year (January 1 to June 30, 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	9,657	23,504	6,845	2,822	42,830	6,354	49,184	–	49,184
Inter-segment sales or transfers	8	32	76	96	213	–	213	(213)	–
Total	9,666	23,536	6,921	2,918	43,043	6,354	49,398	(213)	49,184
Segment income	25	3,397	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 is adjusted with the operating income reported in the Quarterly Consolidated Statements of Income.

II First six months of the fiscal year under review (January 1 to June 30, 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	40,105	29,193	9,327	5,348	83,974	7,713	91,688	–	91,688
Inter-segment sales or transfers	5	50	58	176	291	–	291	(291)	–
Total	40,111	29,243	9,386	5,525	84,266	7,713	91,979	(291)	91,688
Segment income	20,853	5,199	1,739	1,324	29,117	582	29,699	(521)	29,177

- 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 521 million yen negative adjustment in segment income includes company-wide expenses of 504 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.

(Additional information)

Business combination through acquisition

Tokai Carbon Co., Ltd. has entered into an agreement to acquire 100% of the interests of the US carbon black manufacturer Sid Richardson Carbon, Ltd. and its affiliate companies (SRCG, Ltd. and New SRCG Genpar, LLC). The transaction was approved by the Tokai Carbon Board of Directors and Tokai Carbon entered into a definitive agreement on June 26, 2018.

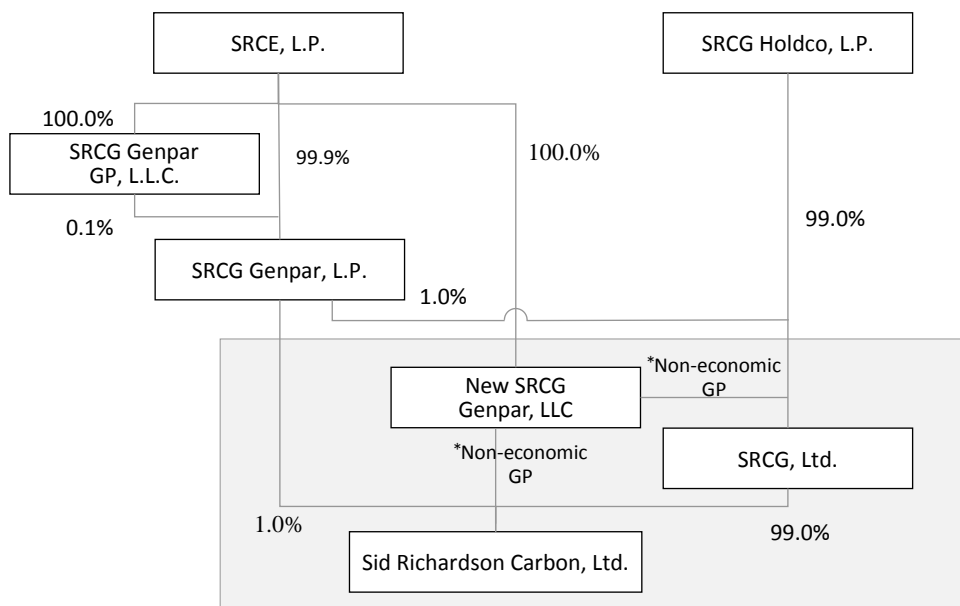
1. Background to this Acquisition

Under the three-year mid-term management plan (T-2018), Tokai Carbon is now shifting its focus from the business restructuring strategy (Phase 1 of T-2018) to the growth strategy (Phase 2 of T-2018) as disclosed in February, 2017.

Carbon black is a cornerstone of Tokai Carbon's business and one that we intend to grow over the mid- to long-term. Tokai Carbon produces furnace black, which is made from petroleum and coal tar base oil, at its plants in Japan, Thailand, and China. Tokai Carbon has established a position as one of the leading Asian companies in this market segment. In 2014, Tokai Carbon moved into the thermal black segment through its acquisition of Cancarb in Canada. Thermal black, which is made primarily from natural gas, is significantly strengthening Tokai Carbon's profitability. Since leading Japanese customers have increased their presence in the North American market, Tokai Carbon realized that going forward one of our key challenges would be to grow our furnace black business in North America to meet burgeoning customer demand.

The acquisition of Sid Richardson Carbon will contribute to Tokai Carbon's ongoing efforts to establish itself as a global player in the carbon black business. The acquisition will enable Tokai Carbon to expand its business, improve its profitability, and increase its corporate value.

<Scope of acquisition>



The gray area is the scope of acquisition

*Non-economic GP is a person or entity that serves as a general partner for purposes of satisfying the State Partnership Law (including responsibility for general partner liabilities), but does not receive proportionate amount of the profits or losses of the partnership. Non-economic GP does not own any partnership interest of the partnership.

2. Overview of Sellers

① Overview of SRCE, L.P. (as of April 30, 2018)

(1) Name of Company	SRCE, L.P.
(2) Location	201 MAIN STREET, SUITE 3000, FORT WORTH, TX, USA
(3) Representative	SRCE GP, L.L.C.
(4) Business Description	Oil, gas and other mineral ownership, exploration and development
(5) Major Shareholders and Ownership Ratio	Fannin Partners, L.P. (99.9%) SRCE GP, L.L.C. (0.1%)

② Overview of SRCG Holdco, L.P. (as of April 30, 2018)

(1) Name of Company	SRCG Holdco, L.P.
(2) Location	201 MAIN STREET, SUITE 3000, FORT WORTH, TX, USA
(3) Representative	SRCE GP, L.L.C.
(4) Business Description	Serving as the 99.0% limited partner of SRCG, Ltd.
(5) Major Shareholders and Ownership Ratio	SRCG Holdco Investors, L.P. (100.0%) SRCE GP, L.L.C. (0.0%)

③ Overview of SRCG Genpar, L.P. (as of April 30, 2018)

(1) Name of Company	SRCG Genpar, L.P.
(2) Location	201 MAIN STREET, SUITE 3000, FORT WORTH, TX, USA
(3) Representative	SRCG Genpar GP, L.L.C.
(4) Business Description	Serving as the 1.0% limited partner of each of Sid Richardson Carbon, Ltd. and SRCG, Ltd.
(5) Major Shareholders and Ownership Ratio	SRCE, L.P. (99.9%) SRCG Genpar GP, L.L.C. (0.1%)

3. Overview of the acquired companies

① Overview of Sid Richardson Carbon, Ltd. (as of April 30, 2018)

(1) Name of Company	Sid Richardson Carbon, Ltd.		
(2) Location	201 MAIN STREET, SUITE 3000, FORT WORTH, TX, USA		
(3) Representative	New SRCG Genpar, LLC		
(4) Business Description	Manufacturing, selling and R&D for furnace black		
(5) Capital Contributed* ¹ * ²	USD 128.3 million		
(6) Business Results and Financial Position for the past three years * ² (USD million)			
Accounting Period	FY2015	FY2016	FY2017
Net Assets	110.5	96.2	114.8
Total Assets	176.7	181.9	201.2
Net Sales	340.7	254.3	311.9
Operating Profit	35.3	18.6	21.3
Net Income	32.2	15.7	18.6

② Overview of SRCG, Ltd. (as of April 30, 2018)

(1) Name of Company	SRCG, Ltd.		
(2) Location	201 MAIN STREET, SUITE 3000, FORT WORTH, TX, USA		
(3) Representative	New SRCG Genpar, LLC		
(4) Business Description	Serving as the 99.0% limited partner of Sid Richardson Carbon, Ltd.		
(5) Capital Contributed* ¹ * ²	USD 129.0 million		
(6) Business Results and Financial Position for the past three years * ² (USD million)			
Accounting Period	FY2015	FY2016	FY2017
Net Assets	111.3	97.2	115.6

Total Assets	111.3	97.2	115.6
Net Sales	31.9	15.6	18.4
Operating Profit	31.9	15.6	18.4
Net Income	31.9	15.6	18.4

③ Overview of New SRCG Genpar, LLC (as of June 1, 2018)

(1) Name of Company	New SRCG Genpar, LLC
(2) Location	201 MAIN STREET, SUITE 3000, FORT WORTH, TX, USA
(3) Name and Title of Representative	William R. Jones, President
(4) Business Description	Serving as the sole general partner of each of Sid Richardson Carbon, Ltd. and SRCG, Ltd.
(5) Capital Contributed* ¹ * ²	USD 0

*¹ The financial figures in “*Capital Contributed*” represent total equity capital as of either April 30, 2018 or June 1, 2018, as applicable.

*² The financial figures in “*Capital Contributed*” and “*Business Results and Financial Position for the past three years*” are based on U.S. federal income tax accounting principles. SRCG, Ltd. does not prepare audited financial statements. New SRCG Genpar, LLC was established in May, 2018 and thus does not have information related to business results and financial position for the past three years.

4. Schedule for the interest transfer

Early September, 2018 (Planned)

5. Acquisition Price and Ownership ratio before and after the Transaction*

(1) Acquisition Price	JPY 34.1 billion
(2) Ownership percentage before the Transaction	0.0%
(3) Ownership percentage after the Transaction	100.0%

* Ownership percentage of all three acquired companies will increase from 0.0% to 100.0%. Acquisition price is calculated at the exchange rate of USD 1=JPY 110. Total acquisition price of the Transaction is subject to customary price adjustments at closing and may change accordingly.

6. Finance

Loan from financial institution (Planned)

7. Capital investment to fulfill environmental regulation

On December 22, 2017, SRC reached a settlement with the EPA (Environmental Protection Agency), DOJ (Department of Justice), State of Louisiana and State of Texas to pay civil penalties and install new pollution control technologies in order to fulfill environmental regulations regarding reduction of emissions of harmful air pollutants. The impact of this settlement was reflected in the acquisition price.

Settlement Conditions	Amount	Period
Civil penalties	USD999 thousand	July 3, 2018 (Planned)
Environmental mitigation	Over USD490 thousand	2018-2021 (Planned)
Capital investment	Approximately USD100 million	2018-2023 (Planned)

(Business combinations, etc.)

Business combination through acquisition

At its Board of Directors' meeting held on May 14, 2018, the Company resolved the acquisition of 1,050,750 shares (9.0% of 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 in the following and made Tokai Carbon Korea Co., Ltd. a consolidated subsidiary.

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. Summary of business combination

(1) Name and business of acquired company

Name: Tokai Carbon Korea Co., Ltd.

Business: Manufacturing and sale of carbon graphite products and CVD-SiC coated products

(2) Reasons for the business combination

The Company has been making efforts shifting its axis to the 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 Fine Carbon business, one of the main businesses of the Company, it is an important task to further solidify the revenue foundation and improve corporate value as a fundamental business following Graphite Electrodes business and Carbon Black business. The purpose of the business combination is to expand the business foundation of the semiconductor segment with a high growth potential and lead to strengthen competitiveness of the Fine Carbon business by acquiring Tokai Carbon Korea Co., Ltd. as a consolidated subsidiary. Backed by its high 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 the business combination

Acquisition of shares for cash

(5) Name of the company after the combination

The Company's name is unchanged.

(6) Percentage of voting rights acquired

Percentage held before combination: 35.4%

Additional percentage obtained on the date of combination: 9.0%

Percentage after combination: 44.4%

(7) Main reason for the decision to acquire the 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 the acquired company's business results included in the Quarterly Consolidated Statements of Income for the first half of the fiscal year

Business results from the date of the business combination to June 30, 2018 are included.

3. Details of the acquisition cost of the acquired company and considerations by category

Market price of the shares held before the business combination as of the date of business combination	28,187 million yen
Cash paid for acquisition of additional shares	7,836 million yen
<hr/> Acquisition cost	<hr/> 36,024 million yen

4. Details and amount of principal acquisition-related expenses

Compensation, fees and others for advisors, etc. 100 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. Amount of gain on goodwill, reasons for recognition, and amortization method and period

- (1) Amount of gain on goodwill

28,980 million yen

The amount above is provisional as allocation of the acquisition cost has not been completed as of the end of the second quarter of the fiscal year under review.

- (2) Reasons for recognition

Additional income-generating power expected to derive from business development in the future

- (3) Amortization method and period

Equally amortized over 14 years.

(Material subsequent events)

Large amount of borrowing funds

At its Board of Directors' meeting held on August 7, 2018, the Company resolved the borrowing funds as below.

1. Reason for fund borrowing

Tokai Carbon Co., Ltd. has entered into an agreement to acquire 100% of the interests of the US carbon black manufacturer Sid Richardson Carbon, Ltd. and its affiliate companies (SRCG, Ltd. and New SRCG Genpar, LLC). The transaction was approved by the Tokai Carbon Board of Directors and Tokai Carbon entered into a definitive agreement on June 26, 2018. The borrowing is to finance this acquisition funds.

2. Bank

MUFG Bank, Ltd.

3. Scheduled amount

Total 37.7 billion JPY (165,500 thousand USD, 20,075 million JPY)

*based on \$1=¥100

4. Interest rate
Base interest rate plus spread
5. Execution date
Late August 2018 (Planned)
6. Term
One year
7. Type of loan
Term loan
8. Repayment method
Lump sum repayment on due date (advance payment of loan allowed)