

## Q3 2018 Consolidated Financial Results [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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Schedule date of submission of quarterly report: November 14, 2018  
 Commencement of dividend payments: -  
 Supplementary reference documents to support the quarterly financial statements: Yes  
 Explanatory meeting of the Q3 results: Yes (Conference call presentation for institutional investors and analysts)

(Rounded down to nearest million yen)

### 1. Consolidated Financial Results for the Third Quarter FY 2018 (January 1 to September 30, 2018)

(1) Consolidated Operating Results (First nine 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 Third Quarter of the year ending December 2018	155,385	107.0	51,975	586.5	52,797	500.3	59,433	598.6
At the end of Third Quarter of the year ending December 2017	75,067	13.1	7,570	-	8,795	-	8,507	-

Note: Comprehensive income: Nine months ended September 30, 2018 59,044 million yen (403.4%)  
 Nine months ended September 30, 2017 11,728 million yen (-%)

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
At the end of Third Quarter of the year ending December 2018	278.83	-
At the end of Third Quarter of the year ending December 2017	39.91	-

## (2) Consolidated Financial Position

	Total Assets	Net assets	Capital-to-asset ratio
	Millions of yen	Millions of yen	%
At the end of Third Quarter of the year ending December 2018	313,130	190,957	57.6
Year ending December 2017	184,730	127,130	68.4

For reference: Shareholders' capital: As of September 30, 2018 180,227 million yen  
 As of December 31, 2017 126,366 million yen

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

## 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

## 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	230,000	116.5	75,000	576.1	75,500	487.3	74,000	499.4	347.17

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): Yes

(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)

3Q 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

3Q of the year ending December 31 2018	11,788,919 shares	Year ending December 2017	11,786,878 shares
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(c) Average number of shares during the period (quarterly cumulative period)

3Q of the year ending December 31 2018	213,155,367 shares	3Q of the year ending December 2017	213,159,087 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 a conference call presentation for institutional investors and analysts on November 14, 2018 (Wed.). 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

During the consolidated first nine months of fiscal 2018 (January 1 to September 30, 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 U.K.'s negotiations on EU withdrawal 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 continuing 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 increased 107.0% year on year for the third quarter consolidated cumulative period of 2018, reaching 155,385 million yen. Operating income showed year on year growth of 586.5% at 51,975 million yen. Ordinary Income showed year on year growth of 500.3% for 52,797 million yen. Net income attributable to owners of the parent company increased 598.6% year on year to 59,433 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 were up 364.6% year on year to 69,239 million yen, while operating income rose significantly year on year to 38,062 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 production increase were among the factors that lifted sales and profits over the same period last 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 by 38.5% year on year to 48,987 million yen, while operating income rose 46.8% year on year to 7,795 million yen.

#### Fine Carbon

Production by end-users in the semiconductor and general industry markets is robust. Supply and demand for special lead material continues to be tight. Under such circumstances, customer inquiries about lead materials and CVD (chemical vapor deposition) products are increasing. 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 64.8% to 17,518 million yen year on year, while operating income rose 307.3% year on year to 3,972 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. Net sales of heating elements and other products increased year-on-year owing to the robust demand in the electronic components industry and glass industry. 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 83.0% year on year to 7,991 million yen, while operating income increased by 150.2% year on year to 2,048 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 rose 10.7% year on year to 7,018 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 CO<sub>2</sub> 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 37.6% year on year to 4,515 million yen.

#### *Other*

Other net sales such as those from real estate leasing fell 38.5% year on year to 114 million yen.

The above factors resulted in net sales for Other Operations rising by 18.8% year on year to 11,648 million yen and operating income by 42.9% year on year to 894 million yen.

## 2. Quarterly Consolidated Financial Statements and Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2017)	Third Quarter Consolidated accounting period of 2018 (September 30, 2018)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	22,152	44,921
Notes and accounts receivable	30,265	53,830
Merchandise and finished goods	9,429	15,310
Work in process	10,094	21,706
Raw materials and supplies	8,041	16,615
Deferred tax assets	1,312	2,289
Other	4,662	4,463
Allowance for doubtful accounts	(514)	(534)
Total current assets	85,444	158,603
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	14,839	27,136
Machinery, equipment and vehicles, net	26,398	30,509
Furnaces, net	813	2,435
Land	6,161	7,363
Construction in progress	1,113	5,640
Other, net	2,077	2,388
Total tangible fixed assets	51,405	75,473
Intangible fixed assets		
Software	867	1,086
Goodwill	9,510	48,244
Customer-related assets	4,569	4,236
Other	1,395	1,308
Total intangible fixed assets	16,343	54,876
Investments and other assets		
Investment securities	28,121	20,801
Net defined benefit asset	2,531	2,483
Deferred tax assets	225	202
Other	722	741
Allowance for doubtful accounts	(62)	(51)
Total investments and other assets	31,537	24,177
Total fixed assets	99,286	154,527
<b>Total assets</b>	<b>184,730</b>	<b>313,130</b>

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2017)	Third Quarter Consolidated accounting period of 2018 (September 30, 2018)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	11,463	20,268
Electronically recorded obligations	3,059	3,254
Short-term loans payable	12,006	43,047
Current portion of long-term loans payable	2,068	2,068
Income tax payable	1,550	11,031
Consumption taxes payable	203	—
Accrued expenses	2,056	3,171
Reserve for bonuses	438	1,798
Other	4,023	7,934
Total current liabilities	36,870	92,575
Long-term liabilities		
Long-term loans payable	2,068	9,033
Deferred tax liabilities	9,281	11,590
Net defined benefit liability	6,189	5,481
Reserve for directors' retirement benefits	83	83
Reserve for executive officers' retirement benefits	39	50
Provision for environment and safety measures	45	216
Other	3,021	3,139
Total long-term liabilities	20,728	29,597
Total liabilities	57,599	122,173
<b>Net assets</b>		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,473	17,333
Retained earnings	79,433	135,030
Treasury stock	(7,253)	(7,257)
Total shareholder's capital	110,089	165,542
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	11,345	9,863
Foreign currency translation adjustments	3,631	3,580
Remeasurements of defined benefit plans	1,299	1,241
Total accumulated other comprehensive income	16,277	14,685
Non-controlling interests	763	10,729
Total net assets	127,130	190,957
<b>Total liabilities and net assets</b>	184,730	313,130



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

(Quarterly Consolidated Statements of Income)

(Third Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous third quarter consolidated cumulative period (January 1 to September 30, 2017)	Third quarter consolidated cumulative period of 2018 (January 1 to September 30, 2018)
Net Sales	75,067	155,385
Cost of sales	55,969	86,352
Gross profit	19,097	69,032
Selling, general and administrative expenses	11,527	17,056
Operating Income	7,570	51,975
Non-operating income		
Interest income	27	104
Dividend income	317	357
Rent income	109	116
Equity in income of non-consolidated subsidiaries and affiliates	953	685
Foreign exchange gains	—	233
Other	619	499
Total non-operating income	2,028	1,997
Non-operating expenses		
Interest expenses	252	360
Foreign exchange losses	86	—
Other	464	815
Total non-operating expenses	803	1,175
Ordinary Income	8,795	52,797
Extraordinary income		
Gain on step acquisitions	—	22,843
Gain on sales of non-current assets	2,555	67
Gain on liquidation of subsidiaries and associates	522	33
Gain on sales of investment securities	58	—
Total extraordinary income	3,136	22,944
Extraordinary loss		
Loss on retirement of non-current assets	—	13
Loss on sales of non-current assets	—	4
Loss on sales of shares of subsidiaries and associates	373	—
Loss on sales of investments in capital of subsidiaries and associates	96	—
Total extraordinary loss	470	18
Quarterly Net income before income taxes	11,462	75,723
Income taxes - current	2,149	15,339
Income taxes - deferred	608	(221)
Total income taxes	2,758	15,117
Quarterly net income	8,703	60,605
Quarterly net income attributable to non-controlling interests	195	1,171
Quarterly net income attributable to owners of the parent company	8,507	59,433

(Quarterly Consolidated Comprehensive Income Statements of Operations)

(Third Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous third quarter consolidated cumulative period (January 1 to September 30, 2017)	Third quarter consolidated cumulative period of 2018 (January 1 to September 30, 2018)
Quarterly net income	8,703	60,605
Other comprehensive income		
Net unrealized gains/losses on other securities	1,400	(1,485)
Foreign currency translation adjustments	1,741	242
Remeasurements of defined benefit plans	(42)	(58)
Share of other comprehensive income of entities accounted for using equity method	(74)	(260)
Total other comprehensive income	3,024	(1,561)
Comprehensive income	11,728	59,044
(Of which)		
Quarterly Comprehensive income attributable to owners of the parent	11,505	57,842
Quarterly Comprehensive income attributable to non-controlling shareholders	222	1,202

(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 nine months of the previous fiscal year (January 1 to September 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	14,904	35,362	10,627	4,365	65,260	9,807	75,067	—	75,067
Inter-segment sales or transfers	10	44	107	191	354	—	354	(354)	—
Total	14,915	35,407	10,735	4,557	65,615	9,807	75,422	(354)	75,067
Segment income	644	5,309	975	818	7,748	625	8,374	(803)	7,570

- 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 803 million yen negative adjustment in segment income includes company-wide expenses of 793 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 nine months of the fiscal year under review (January 1 to September 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	69,239	48,987	17,518	7,991	143,736	11,648	155,385	—	155,385
Inter-segment sales or transfers	5	69	66	278	421	0	421	(421)	—
Total	69,245	49,057	17,585	8,269	144,158	11,648	155,806	(421)	155,385
Segment income	38,062	7,795	3,972	2,048	51,879	894	52,773	(798)	51,975

- 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 798 million yen negative adjustment in segment income includes company-wide expenses of 744 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.

(Business combinations, etc.)

#### Business combination through 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. Summary of business combination

##### (1) Name and business of acquired company

Name: Sid Richardson Carbon, Ltd.

Business: Manufacturing, selling and R&D for furnace black

##### (2) Reasons for the 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 the business combination

Acquisition of ownership interest with cash as consideration

##### (5) Name of the company after the combination

The company's name was changed to Tokai Carbon CB Ltd. on August 31, 2018.

##### (6) Percentage of ownership interest acquired

100%

##### (7) Main reason for the decision to acquire the company

TOKAI CARBON US HOLDINGS INC., a consolidated subsidiary of the Company, acquired a 100% ownership interest in Sid Richardson Carbon, Ltd. with cash as consideration.

#### 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 September 30, 2018 are included.

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

Acquisition consideration	Cash	34,428 million yen	(310,000 thousand dollars)
Acquisition cost		34,428 million yen	(310,000 thousand dollars)

(Note) The acquisition price is subject to adjustment to reflect changes in working capital, etc. based on the agreement.

4. Details and amount of principal acquisition-related expenses

Compensation, fees and others for advisors, etc. 798 million yen

5. Amount of gain on goodwill, reasons for recognition, and amortization method and period

(1) Amount of gain on goodwill

9,852 million yen (88,715 thousand dollars)

The amount above is provisional as allocation of the acquisition cost has not been completed as of the end of the third 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 12 years.

#### 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 HOLDINGS LLC executed on November 7, 2017, and finalized said accounting during the third quarter of the fiscal year under review. During the third quarter of 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 quarterly consolidated financial statements for the consolidated first nine months ended September 30, 2018 has been 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.