

## Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 [Japanese GAAP]

Company name: Tokai Carbon Co., Ltd. Listed on: Tokyo Stock Exchange  
 Stock code: 5301 URL: <https://www.tokaicarbon.co.jp/>  
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Scheduled date for the Annual Shareholders' Meeting: March 27, 2020  
 Scheduled date for submission of the Annual Securities Report: March 27, 2020  
 Date for commencement of dividend payments: March 30, 2020  
 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, 2019 (January 1 to December 31, 2019)

## (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, 2019	262,028	13.3	54,344	(25.6)	52,986	(27.4)	31,994	(56.4)
Fiscal year ended December 31, 2018	231,302	117.7	73,065	558.6	72,991	467.8	73,393	494.5

Note: Comprehensive income: Fiscal year ended December 31, 2019: 33,484 million yen, (-48.8%)  
 Fiscal year ended December 31, 2018: 65,354 million yen, (271.0%)

	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, 2019	150.10	—	16.0	13.4	20.7
Fiscal year ended December 31, 2018	344.32	—	46.8	28.4	31.6

For reference: Share of profit (loss) of entities accounted for using equity method: As of December 31, 2019: 123 million yen  
 As of December 31, 2018: 698 million yen

Note: During the fiscal year ended December 31, 2019, the Company finalized the provisional accounting treatment related to the business combination with TOKAI CARBON Korea Co., Ltd. and Tokai Carbon CB Ltd. Figures for the fiscal year ended December 31, 2018 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, 2019	462,872	232,975	45.8	993.84
Fiscal year ended December 31, 2018	329,868	207,833	56.7	877.96

For reference: Shareholders' capital: As of December 31, 2019: 211,838 million yen  
 As of December 31, 2018: 187,140 million yen

- Notes: 1. During the fiscal year ended December 31, 2019, the Company finalized the provisional accounting treatment related to the business combination with TOKAI CARBON Korea Co., Ltd. and Tokai Carbon CB Ltd. Figures for the fiscal year ended December 31, 2018 have been adjusted to reflect the finalized provisional accounting treatment.
2. During the fiscal year ended December 31, 2019, the Company applied the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (Corporate Accounting Standards No. 28, February 16, 2018). Therefore, figures for the fiscal year ended December 31, 2018 reflect figures after retrospective application.

### (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, 2019	41,664	(99,159)	64,568	46,443
Fiscal year ended December 31, 2018	44,109	(53,849)	29,677	41,124

## 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, 2018	–	12.00	–	12.00	24.00	5,115	7.0	3.3
Fiscal year ended December 31, 2019	–	24.00	–	24.00	48.00	10,231	32.0	5.1
Fiscal year ending December 31, 2020 (Forecast)	–	24.00	–	24.00	48.00		61.6	

Note: Breakdown of dividend per share at the end of 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: 10.00 yen 100th anniversary commemorative dividend: 2.00 yen

## 3. Consolidated Earnings Forecast for Fiscal Year Ending December 31, 2020 (January 1 to December 31, 2020)

(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	120,100	(13.7)	10,500	(74.0)	10,300	(74.6)	5,600	(78.5)	26.27
Full year	251,200	(4.1)	28,200	(48.1)	27,800	(47.5)	16,600	(48.1)	77.88

\* 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): None

(2) Changes in accounting policy and changes and restatements of accounting estimates:

(a) Changes in accounting policy accompanying the revision of accounting standards: Yes

(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, 2019	224,943,104 shares	December 31, 2018	224,943,104 shares
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(b) Number of treasury shares at end of period

December 31, 2019	11,790,987 shares	December 31, 2018	11,789,466 shares
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(c) Average number of shares during the period

December 31, 2019	213,152,980 shares	December 31, 2018	213,154,998 shares
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(Reference) Overview of Non-Consolidated Financial Results

Non-Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 (January 1 to December 31, 2019)

(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, 2019	84,543	(3.7)	22,325	(20.1)	34,687	17.0	26,511	23.4
Fiscal year ended December 31, 2018	87,807	69.7	27,936	542.8	29,652	333.8	21,487	161.2

	Net Income per Share	Net Income per Share Fully Diluted
	Yen	Yen
Fiscal year ended December 31, 2019	124.38	—
Fiscal year ended December 31, 2018	100.81	—

(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, 2019	304,689	126,699	41.6	594.41
Fiscal year ended December 31, 2018	200,726	107,167	53.4	502.77

For reference: Shareholders' capital: As of December 31, 2019: 126,699 million yen  
As of December 31, 2018: 107,167 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 5 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 Monday, February 17, 2020. 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 Results for the Consolidated Fiscal Year Ended December 31, 2019

During the consolidated fiscal year under review (January 1 to December 31, 2019), the global economy faced a growing uncertainty about the outlook concerning such matters as growing trade conflict between the U.S. and China, developments in the UK's withdrawal from the EU, and a slowdown of the European economy. The Japanese economy was firm in general despite the weakness in external demand.

Under such circumstances, the Tokai Carbon Group formulated the medium-term management plan for the three years extending from 2019 through 2021. Guided by the three basic policies of (1) Strengthening the revenue base, (2) Expanding opportunities for growth, and (3) Building a consolidated governance structure, we have aimed to achieve numerical targets for fiscal 2021: 380,000 million yen in net sales, 113,000 million yen in operating income, and ROS of 30%. Despite efforts to realize T-2021 measures, such as pursuing growth opportunities utilizing M & A, changes in graphite electrode market conditions due to the slowdown in the global economy have forced severe management, especially from the second quarter onward. As a result, net sales for the fiscal year under review grew 13.3% year on year to 262,028 million yen. Operating income decreased 25.6% year on year to 54,344 million yen. Ordinary income decreased 27.4% year on year to 52,986 million yen. Net income attributable to owners of the parent company fell 56.4% year on year to 31,994 million yen.

Results by business segment were as follows:

#### Graphite Electrodes

Sales prices increased year on year, due to factors including the global tightening of supply for the main raw materials. In the meantime, the purchase volume of graphite electrodes declined year on year, due to factors such as inventories of graphite electrodes accumulating at customers in the previous year against the backdrop of tightening of supplies and the impact of trade conflict between the U.S. and China.

As a result, net sales for the Graphite Electrodes business decreased 10.5% year on year to 91,317 million yen, and operating income fell 29.7% year on year to 39,388 million yen.

#### Carbon Black

Regarding sales to end-users in the tire industry, sales volume in Asia declined year on year, due to the impact of the U.S.-China trade conflict. However, sales volume increased year on year due to the contribution from the consolidation of Tokai Carbon CB Ltd., a new production base in the U.S., from September 2018.

As a result, net sales for the Carbon Black business increased 32.3% year on year to 101,751 million yen, and operating income fell 18.4% year on year to 8,512 million yen.

#### Fine Carbon

Sales for the semiconductor industry, solar power industry, and general industry remained robust. In addition, Tokai Carbon Korea Co., Ltd. in South Korea became a consolidated subsidiary in June 2018, contributing to growth in net sales and operating income.

As a result, net sales for the Fine Carbon business rose 19.5% year on year to 30,369 million yen, and operating income rose 64.4% year on year to 6,107 million yen.

#### Smelting and Lining

Following the conversion of Tokai COBEX HoldCo GmbH (the former COBEX HoldCo GmbH), a German carbon and graphite products manufacturer, and its group companies into consolidated subsidiaries on July 26, 2019, the Company established the Smelting and Lining as a new business segment. The Division is mainly engaged in R&D, manufacturing, and sales of cathodes for smelting aluminum, furnace linings, carbon electrodes, and other products.

The operating results for the consolidated fiscal year under review reflect the performance of the Smelting and Line business for the five months from August to December, as well as a transient acquisition cost, etc. arising from business combination of approx. 3,600 million yen.

As a result, net sales for the Smelting and Lining business stood at 14,662 million yen and operating income or loss came to a loss of 1,600 million yen. Operating income of Tokai COBEX HoldCo GmbH for the said five-month period amounted to 5,623 million yen. At the same time, the Company recorded amortization related to a valuation difference arising from the allocation of acquisition cost of 4,200 million yen, amortization of goodwill of 1,600 million yen, and acquisition-related expenses of 1,400 million yen, as expenses in segment accounting. Of these, an increase in inventory amortization of 2,200 million yen included in a valuation difference and acquisition-related expenses of 1,400 million yen are a one-off item incurred in the consolidated fiscal year and are not expected to arise in the next consolidated fiscal year and thereafter.

### Industrial Furnaces and Related Products

Net sales of industrial furnaces increased year on year due to the continued building up of capital expenditures for major buyers in the IT-related sectors and energy-related industries. Net sales of heating elements and other products declined year on year, resulting from a fall in demand in the electronic components industry and China, mainly due to the effects of trade conflict between the U.S. and China.

As a result, net sales for the Industrial Furnaces and Related Products business increased 11.2% year on year to 12,641 million yen, and operating income rose 6.1% year on year to 3,227 million yen.

### Other Operations

#### *Friction materials*

Net sales declined year on year due primarily to the exit from the four-wheel automotive business implemented as part of business restructuring. With regard to other markets, demand in the markets for industrial robots and construction machinery centering on mining machinery declined.

As a result, net sales of friction materials fell 21.1% year on year to 7,480 million yen.

#### *Anode materials*

The market for anode materials for secondary lithium-ion batteries is expanding due to such factors as stronger regulations on CO2 emissions, the wider range of makers covered by the Zero Emission Vehicle Regulation in the U.S., and China's introduction of a New Energy Vehicle policy. However, net sales declined year on year due to sluggish growth in sales volume.

As a result, net sales of Anode materials fell 37.9% year on year to 3,661 million yen.

#### *Others*

Net sales from real estate leasing and other businesses decreased 3.8% year on year to 144 million yen.

The above factors resulted in net sales for Other Operations of 11,286 million yen, a decrease of 27.3% year on year. Operating income or loss came to a loss of 21 million yen (operating income of 1,068 million yen for the same period of the previous year).

(2) Financial Position at the End of the Consolidated Fiscal Year Ended December 31, 2019

(Assets, Liabilities and Net Assets)

(a) Assets

Total assets at the end of the consolidated fiscal year under review came to 462,872 million yen, an increase of 133,003 million yen from the end of the previous consolidated fiscal year.

Current assets amounted to 196,446 million yen, an increase of 32,226 million yen from the end of the previous consolidated fiscal year, mainly due to increases in cash and cash equivalents, inventories. Fixed assets amounted to 266,425 million yen, an increase of 100,777 million yen from the end of the previous consolidated fiscal year, mainly due to increases in investment securities, goodwill, and tangible fixed assets.

(b) Liabilities

Total liabilities at the end of the consolidated fiscal year under review came to 229,896 million yen, an increase of 107,860 million yen from the end of the previous consolidated fiscal year.

Current liabilities amounted to 117,541 million yen, an increase of 25,886 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in commercial paper. Long-term liabilities amounted to 112,355 million yen, an increase of 81,974 million yen from the end of the previous consolidated fiscal year, mainly due to increases in bonds payable, long-term loans payable, and deferred tax liabilities.

(c) Net assets

Total net assets at the end of the consolidated fiscal year under review came to 232,975 million yen, an increase of 25,142 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 10.9 points year on year to 45.8%.

(3) Cash Flows

At the end of the consolidated fiscal year under review, the Group's cash and cash equivalents totaled 46,443 million yen, an increase of 5,318 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 41,664 million yen, a decrease of 2,445 million yen from the previous consolidated fiscal year. This was mainly due to a decrease in net income before income taxes, although there was an increase in proceeds resulting from a decrease in notes and accounts receivable-trade.

(b) Cash flows from investing activities

Investing activities used net cash of 99,159 million yen, an increase of 45,310 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 64,568 million yen, an increase of 34,890 million yen from the previous consolidated fiscal year. This was mainly due to proceeds from issuance of commercial paper and bonds.



(4) Future outlook

As for the outlook for the world economy is expected to remain on a moderate recovery path. However, given uncertainties such as the developments of U.S.-China trade negotiations, political climate surrounding the U.S. presidential election, reverberations of the U.K.'s withdrawal from the EU, the situation in the Middle East, and spread of the new coronavirus infection, the visibility is getting more unclear. In this operating environment, the Group forecasts consolidated financial results for the fiscal year ending December 31, 2020 as follows: net sales of 251,200 million yen (down 4.1% year on year), operating income of 28,200 million yen (down 48.1% year on year), ordinary income of 27,800 million yen (down 47.5% year on year), and net income attributable to owners of the parent company of 16,600 million yen (down 48.1% year on year).

Also, the exchange rate assumption for the above forecasts is 104 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, 2018)	End of the Current Consolidated Fiscal Year (As of December 31, 2019)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	46,797	52,695
Notes and accounts receivable	55,137	50,648
Merchandise and finished goods	17,106	20,227
Work in process	23,113	35,116
Raw materials and supplies	18,569	31,036
Other	3,999	6,971
Allowance for doubtful accounts	(504)	(248)
Total current assets	164,220	196,446
<b>Fixed assets</b>		
<b>Tangible fixed assets</b>		
Buildings and structures, net	19,504	23,092
Machinery, equipment and vehicles, net	42,033	42,139
Furnaces, net	2,370	4,700
Land	7,341	7,315
Construction in progress	5,972	17,792
Other, net	3,092	6,302
Total tangible fixed assets	80,312	101,343
<b>Intangible fixed assets</b>		
Software	1,279	1,728
Goodwill	29,749	64,543
Customer-related assets	26,358	67,494
Other	4,417	8,200
Total intangible fixed assets	61,805	141,966
<b>Investments and other assets</b>		
Investment securities	17,204	18,842
Net defined benefit asset	1,995	2,633
Deferred tax assets	3,593	997
Other	786	693
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	23,529	23,115
Total fixed assets	165,648	266,425
Total assets	329,868	462,872

(Millions of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2018)	End of the Current Consolidated Fiscal Year (As of December 31, 2019)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	22,364	24,857
Electronically recorded obligations	3,637	4,078
Short-term loans payable	39,641	37,530
Commercial paper	–	30,000
Current portion of long-term loans payable	2,068	833
Income tax payable	11,208	3,658
Consumption taxes payable	607	359
Accrued expenses	2,932	2,813
Reserve for bonuses	1,276	1,550
Other	7,915	11,859
Total current liabilities	91,654	117,541
Long-term liabilities		
Bonds payable	–	35,000
Long-term loans payable	8,000	44,666
Deferred tax liabilities	14,309	21,431
Net defined benefit liability	5,081	6,246
Reserve for directors' retirement benefits	86	86
Reserve for executive officers' retirement benefits	57	66
Provision for environment and safety measures	577	296
Other	2,267	4,561
Total long-term liabilities	30,381	112,355
Total liabilities	122,035	229,896
<b>Net assets</b>		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,333	17,333
Retained earnings	148,990	173,310
Treasury stock	(7,258)	(7,260)
Total shareholder's capital	179,500	203,819
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	7,345	8,415
Deferred gains or losses on hedges	–	34
Foreign currency translation adjustments	(732)	(1,671)
Remeasurements of defined benefit plans	1,026	1,239
Total accumulated other comprehensive income	7,640	8,019
Non-controlling interests	20,692	21,137
Total net assets	207,833	232,975
Total liabilities and net assets	329,868	462,872

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

(Consolidated Statements of Income)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2018)	Current Consolidated Fiscal Year (January 1 to December 31, 2019)
Net sales	231,302	262,028
Cost of sales	131,923	169,188
Gross profit	99,378	92,840
Selling, general and administrative expenses		
Selling expenses	7,746	10,418
General and administrative expenses	18,565	28,076
Total selling, general and administrative expenses	26,312	38,495
Operating income	73,065	54,344
Non-operating income		
Interest income	175	289
Dividend income	538	558
Royalty income	404	354
Rent income	153	133
Equity in income of non-consolidated subsidiaries and affiliates	698	123
Other	237	283
Total non-operating income	2,209	1,741
Non-operating expenses		
Interest expenses	614	595
Foreign exchange losses	83	344
Provision of the reserve for environment and safety measures	700	141
Other non-operating expenses	883	2,017
Total non-operating expenses	2,283	3,099
Ordinary income	72,991	52,986
Extraordinary income		
Gain on sales of non-current assets	73	56
Gain on termination of retirement benefit plan	-	53
Gain on liquidation of subsidiaries and associates	33	23
Gain on step acquisitions	22,843	-
Total extraordinary income	22,949	133
Extraordinary loss		
Impairment loss	-	1,314
Loss on retirement of non-current assets	100	576
Loss on sales of non-current assets	29	3
Total extraordinary loss	129	1,894
Net income before income taxes	95,811	51,226
Income taxes - current	22,815	20,456
Income taxes - deferred	(1,271)	(3,280)
Total income taxes	21,543	17,175
Net income	74,268	34,050
Net income attributable to non-controlling interests	874	2,056
Net income attributable to owners of the parent company	73,393	31,994

## (Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2018)	Current Consolidated Fiscal Year (January 1 to December 31, 2019)
Net income	74,268	34,050
Other comprehensive income		
Net unrealized gains/losses on other securities	(4,003)	1,066
Deferred gains or losses on hedges	-	34
Foreign currency translation adjustments	(4,359)	(1,899)
Remeasurements of defined benefit plans	(272)	213
Share of other comprehensive income of entities accounted for using equity method	(277)	19
Total other comprehensive income	(8,913)	(565)
Comprehensive income	65,354	33,484
(Of which)		
Comprehensive income attributable to owners of the parent	63,440	32,373
Comprehensive income attributable to non-controlling shareholders	1,913	1,111

## (3) Consolidated Statements of Changes in Equity

Previous Consolidated Fiscal Year (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			73,393		73,393
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)	69,556	(5)	69,411
Balance at the end of the period	20,436	17,333	148,990	(7,258)	179,500

	Other Accumulated Comprehensive Income				Non-controlling Interests	Total Net Assets
	Net Unrealized Gains/Losses on Other Securities	Foreign Currency Translation Adjustments	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						73,393
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)	(4,363)	(272)	(8,636)	19,928	11,291
Total of changes of items during the period	(4,000)	(4,363)	(272)	(8,636)	19,928	80,702
Balance at the end of the period	7,345	(732)	1,026	7,640	20,692	207,833

## Consolidated Fiscal Year under Review (January 1 to December 31, 2019)

(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	17,333	148,990	(7,258)	179,500
Changes of items during the period					
Dividends of surplus			(7,673)		(7,673)
Net income attributable to owners of the parent company			31,994		31,994
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		0		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders					-
Net changes of items other than shareholders' equity					
Total of changes of items during the period	-	0	24,320	(1)	24,318
Balance at the end of the period	20,436	17,333	173,310	(7,260)	203,819

	Other Accumulated Comprehensive Income					Non-controlling Interests	Total Net Assets
	Net Unrealized Gains/Losses on Other Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total Other Accumulated Comprehensive Income		
Opening balance of the period	7,345	-	(732)	1,026	7,640	20,692	207,833
Changes of items during the period							
Dividends of surplus							(7,673)
Net income attributable to owners of the parent company							31,994
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Change in treasury shares of parent arising from transactions with non-controlling shareholders							-
Net changes of items other than shareholders' equity	1,070	34	(939)	213	378	444	823
Total of changes of items during the period	1,070	34	(939)	213	378	444	25,142
Balance at the end of the period	8,415	34	(1,671)	1,239	8,019	21,137	232,975



## (4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2018)	Current Consolidated Fiscal Year (January 1 to December 31, 2019)
<b>Cash flows from operating activities</b>		
Net income before income taxes	95,811	51,226
Depreciation	10,390	18,503
Impairment loss	–	1,314
Loss (gain) on step acquisitions	(22,843)	–
Loss (gain) on liquidation of subsidiaries and associates	(33)	(23)
Loss (gain) on retirement / sales of tangible fixed assets	56	522
Amortization of goodwill	1,918	4,205
Gain on termination of retirement benefit plans	–	(53)
Increase (decrease) in allowance for doubtful accounts	(64)	(480)
Increase (decrease) in reserve for bonuses	808	0
Increase (decrease) in net defined benefit liability	(1,339)	2,514
Decrease (increase) in net defined benefit asset	535	(637)
Increase (decrease) in provision for environment and safety measures	532	(281)
Interest and dividend income	(714)	(847)
Interest expenses	614	536
Foreign exchange losses (gains)	55	108
Share of (profit) loss of entities accounted for using equity method	(698)	(123)
Decrease (increase) in notes and accounts receivable - trade	(15,370)	8,623
Decrease (increase) in inventories	(23,182)	(19,778)
Increase (decrease) in notes and accounts payable - trade	9,508	730
Increase (decrease) in accrued expenses	(500)	(88)
Increase (decrease) in accounts payable - other	(92)	(61)
Decrease (increase) in advance payments	77	1,732
Increase (decrease) in accrued consumption taxes	218	(419)
Other	1,990	65
Subtotal	57,679	67,346
Interest and dividend income received	1,011	891
Interest expenses paid	(585)	(552)
Income taxes paid	(13,995)	(25,961)
<b>Cash flows from operating activities</b>	<b>44,109</b>	<b>41,723</b>
<b>Cash flows from investing activities</b>		
Payments into time deposits	(5,000)	(6,243)
Proceeds from withdrawal of time deposits	4,000	5,399
Purchase of tangible fixed assets	(8,491)	(23,984)
Proceeds from sales of tangible fixed assets	71	150
Purchase of intangible fixed assets	(627)	(649)
Purchase of shares of subsidiaries resulting in a change in the scope of consolidation	(5,648)	(73,643)
Purchase of interest in subsidiaries resulting in a change in the scope of consolidation	(37,278)	–
Payment of contingent consideration on acquisition of subsidiaries	(862)	–
Other	(11)	(187)
<b>Cash flows from investing activities</b>	<b>(53,849)</b>	<b>(99,159)</b>

(Millions of yen)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2018)	Current Consolidated Fiscal Year (January 1 to December 31, 2019)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable	27,804	(1,975)
Increase (decrease) in commercial papers	–	30,000
Proceeds from long-term loans payable	8,000	37,500
Repayments of long-term loans payable	(2,068)	(27,302)
Proceeds from issuance of bonds	–	35,000
Repayments of finance lease obligations	(28)	(371)
Cash dividends paid	(3,836)	(7,673)
Dividends paid to non-controlling interests	(19)	(666)
Purchase of shares of subsidiaries that do not result in a change in the scope of consolidation	(167)	–
Other	(4)	(57)
Cash flows from financing activities	29,677	64,509
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>(959)</b>	<b>(1,754)</b>
Net increase (decrease) in cash and cash equivalents	18,979	5,318
Cash and cash equivalents at beginning of the period	22,145	41,124
Cash and cash equivalents at end of the period	41,124	46,443

(5) Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

N/A

(Changes in Accounting Policy)

(Application of IFRS 16 Leases)

The Company has applied International Financial Reporting Standards (IFRS) 16 Leases to some of its foreign subsidiaries since the beginning of the consolidated fiscal year under review. As a general rule, assets and liabilities of all leases are recorded in the consolidated balance sheets as the accounting treatment for lessees. The Company has adopted a method to recognize the cumulative impact of applying the said accounting standards accepted as a transitional measure for application of the said accounting standards on the date of initial application. The impact of the application of the said accounting standards on the consolidated financial statements is minor.

(Business Combination)

Business combination through acquisition

Tokai Carbon entered into an agreement on June 17, 2019 regarding the acquisition of 100% of the shares of COBEX HoldCo GmbH, held by Sofian MidCo S.à r.l., to convert them into subsidiaries. Based on this agreement, Tokai Carbon completed acquiring said shares on July 26, 2019, and converted COBEX HoldCo GmbH and its three group companies into consolidated subsidiaries.

1. Summary of business combination

(1) Name and business of acquired company

Name: COBEX HoldCo GmbH

Business: Manufacturing, selling and R&D of cathodes for smelting aluminum, furnace linings, carbon electrodes, and other products

(2) Reasons for the business combination

Our T-2021 3-Year Mid-Term Management Plan announced in February 2019 lays out a plan to seriously consider strategic investments leading to the expansion of our business field and improvement of profitability. COBEX has a leading share in each of the world markets of cathodes for smelting aluminum, furnace linings used for linings of blast furnaces, which is one of the major pieces of equipment in integrated steel mills, and carbon electrodes for smelting silicon metal. COBEX has strengths in production of high-performance, high-value added graphitized cathodes and furnace linings in addition to the cost competitiveness with its two Polish manufacturing plants, which help them establish a highly profitable business platform based on long-standing relationships with loyal customers.

The transaction will enable Tokai Carbon to enter into the world market as a leading player in each of the aforementioned three businesses, including business related to aluminum, which is forecasted to achieve higher growth than steel. Incorporating COBEX into Tokai Carbon as a seventh business (Smelting and Lining business) will certainly contribute to diversification of our business portfolio and enhancement of our business in Europe (securing production facilities in Eastern Europe), as well as the expansion of our business scale and the improvement/stabilization of our profitability, which will lead to enhanced corporate value for us.

(3) Date of business combination

July 26, 2019

(4) Legal form of the business combination

Acquisition of shares in exchange for cash

(5) Name of the company after the combination

Tokai COBEX HoldCo GmbH

(6) Percentage of voting rights acquired

100%

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

The Company has acquired 100% of the voting rights of COBEX HoldCo GmbH through an acquisition of shares in exchange for cash.

2. Period of the acquired company's business results included in the consolidated financial statements

As the deemed acquisition date is July 31, 2019, the performance from August 1 to December 31, 2019 is included in the consolidated financial statements for the fiscal year under review.

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

Consideration for acquisition	Cash	75,797 million yen (624,076 thousand euro)
<hr/>		
Acquisition cost		75,797 million yen (624,076 thousand euro)

4. Details and amount of principal acquisition-related expenses

Compensation, fees and others for advisors, etc.: 1,411 million yen

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

(1) Amount of gain on goodwill

39,496 million yen (325,901 thousand euro)

During the third quarter of the consolidated accounting period, the Company applied provisional accounting treatment in calculating the amount of goodwill. However, the allocation of acquisition cost has been completed as of the end of the consolidated fiscal year under review, and therefore the amount of goodwill has been finalized.

(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 10 years.

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

Current assets	22,281 million yen	(183,859 thousand euro)
Fixed assets	59,907 million yen	(494,326 thousand euro)
<hr/>		
Total assets	82,189 million yen	(678,186 thousand euro)
<hr/>		
Current liabilities	8,697 million yen	(71,763 thousand euro)
Long-term liabilities	37,356 million yen	(308,247 thousand euro)
<hr/>		
Total liabilities	46,053 million yen	(380,011 thousand euro)

7. 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 and its calculation method

Net sales	21,530 million yen
Operating income	3,355 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.

#### Finalization of Provisional Accounting Treatment Related to Business Combination

- (1) During the previous consolidated fiscal year, Tokai Carbon applied provisional accounting treatment for the business combination with Tokai Carbon Korea Co., Ltd. executed on May 28, 2018, and finalized said accounting during the consolidated fiscal year under review.

Accordingly, the consolidated financial statements for the previous fiscal year were revised to reflect a significant change to the initial allocation of the acquisition cost. As a result of allocation to tangible fixed assets of 1,502 million yen, customer-related assets under intangible fixed assets of 21,327 million yen, technology-related assets under intangible fixed assets of 1,528 million yen, order backlog under intangible fixed assets of 370 million yen, inventories of 985 million yen, deferred tax liabilities of 6,222 million yen, and non-controlling interests of 10,836 million yen, the amount of provisionally calculated goodwill of 28,980 million yen decreased by 8,653 million yen to 20,326 million yen.

As a result, due primarily to an increase in the cost of sales and a decrease in amortization of goodwill, operating income, ordinary income, and net income before income taxes declined 2,020 million yen, respectively, in the consolidated statements of income for the previous fiscal year.

- (2) During the previous consolidated fiscal year, Tokai Carbon applied provisional accounting treatment for the business combination with Tokai Carbon CB Ltd. executed on August 31, 2018, and finalized said accounting during the consolidated fiscal year under review.

Accordingly, the consolidated financial statements for the previous fiscal year were revised to reflect a significant change to the initial allocation of the acquisition cost. As a result of allocation to tangible fixed assets of 3,430 million yen, customer-related assets under intangible fixed assets of 2,640 million yen, technology-related assets under intangible fixed assets of 1,781 million yen, and inventories of 115 million yen, the amount of provisionally calculated goodwill of 10,045 million yen decreased by 7,967 million yen to 2,078 million yen.

As a result, due primarily to an increase in the cost of sales and a decrease in amortization of goodwill, operating income, ordinary income, and net income before income taxes declined 198 million yen, respectively, in the consolidated statements of income for the previous fiscal year.

(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 five reportable segments are the Graphite Electrodes business, Carbon Black business, Fine Carbon business, Smelting and Lining business, and Industrial Furnaces and Related Products business.

The Company acquired all shares of Tokai COBEX HoldCo GmbH and its group companies, Tokai COBEX GmbH, Tokai COBEX Polska sp. z.o.o., and Tokai COBEX (Shanghai) Ltd., on July 26, 2019 and included them in the scope of consolidation. Accordingly, the Company has established the Smelting and Lining as a new reportable segment since the beginning of the consolidated fiscal year under review. As a result, the transient acquisition cost and such like arising from the said business combination, which were previously included in adjustments, have been reported under the Smelting and Lining.

The change in reportable segments had no impact on the segment information for the previous consolidated fiscal year.

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	Specialty graphite products, solid SiC, SiC coated graphite
Smelting and Lining	Cathodes for smelting aluminum, furnace linings, carbon electrodes, and other products
Industrial Furnaces and Related Products	Industrial electric furnaces, silicon carbide heating elements

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 consolidated fiscal year.

During the consolidated fiscal year under review, the Company applied the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (Corporate Accounting Standards No. 28, February 16, 2018). Therefore, figures after retrospective application are stated for segment income in the previous consolidated 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, 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	10,431	3,715	3,043	73,231	1,068	74,299	(1,233)	73,065
Segment assets	88,359	111,857	82,751	19,214	302,183	13,690	315,873	13,995	329,868
Other items									
Depreciation	1,911	4,302	2,952	207	9,373	684	10,058	331	10,390
Investment in equity-method affiliates	–	–	696	–	696	–	696	–	696
Increase in tangible and intangible fixed assets	4,132	3,112	2,416	289	9,951	1,044	10,995	798	11,794

Notes: 1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.

2. The adjustment amounts are as follows.

(1) 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.

(2) The adjustment of segment assets, which is 13,995 million yen, includes 25,008 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 798 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, 2019 (January 1 to December 31, 2019)

(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	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	91,317	101,751	30,369	14,662	12,641	250,741	11,286	262,028	–	262,028
Inter-segment sales or transfers	40	69	114	–	604	828	0	828	(828)	–
Total	91,358	101,820	30,483	14,662	13,245	251,570	11,287	262,857	(828)	262,028
Segment income or loss	39,388	8,512	6,107	(1,600)	3,227	55,635	(21)	55,614	(1,270)	54,344
Segment assets	100,899	107,186	80,183	126,286	22,187	436,743	10,282	447,026	15,846	462,872
Other items										
Depreciation	2,310	6,658	3,637	4,539	199	17,344	734	18,079	424	18,503
Impairment loss	–	–	–	–	–	–	1,206	1,206	107	1,314
Investment in equity-method affiliates	–	–	791	–	–	791	–	791	–	791
Increase in tangible and intangible fixed assets	7,890	7,026	4,371	3,271	338	22,898	311	23,209	1,131	24,341

- Notes:
1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
  2. The adjustment amounts are as follows.
    - (1) The 1,270-million-yen negative adjustment in segment income includes company-wide expenses of 1,252 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 15,846 million yen, includes 22,634 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 impairment loss, which is 107 million yen, is the amount of impairment loss of the corporate-wide assets that is not allocated to each reportable segment.
    - (4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is 1,131 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.

(Related Information)

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

Information on each region

Net sales

(Millions of yen)

USA	Japan	Asia	Europe	Other regions	Total
62,502	68,600	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.

Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)

Information on each region

Net sales

(Millions of yen)

USA	Japan	Asia	Europe	Other regions	Total
86,614	66,867	60,639	31,851	16,055	262,028

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

[Information on impairment loss of fixed assets for each reportable segment]

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

N/A

Fiscal year ended December 31, 2019 (January 1 to December 31, 2019)

Descriptions are omitted since similar information is disclosed in the Segment Information.

(Per Share Information)

	Previous Consolidated Fiscal Year (January 1 to December 31, 2018)	Current Consolidated Fiscal Year (January 1 to December 31, 2019)
Net assets per share	877.96 yen	993.84 yen
Net income per share	344.32 yen	150.10 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, 2018)	Current Consolidated Fiscal Year (January 1 to December 31, 2019)
Net income attributable to owners of the parent company (millions of yen)	73,393	31,994
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)	73,393	31,994
Average number of common shares during the period (thousands of shares)	213,154	213,152

3. Tokai Carbon finalized provisional accounting treatment for the business combination with Tokai Carbon Korea Co., Ltd. and Tokai Carbon CB Ltd. in the consolidated fiscal year under review. Therefore, net assets per share and net income per share for the previous consolidated 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