



Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending December 31, 2019
[Japanese GAAP]

May 9, 2019

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 Stock code: 5301 URL <https://www.tokaicarbon.co.jp/>
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 Scheduled date for submission of quarterly report: May 15, 2019 Date for commencement of dividend payments: -
 Supplementary notes to quarterly financial statements : Yes
 Briefing on quarterly financial statements : Yes (Conference call for analysts and institutional investors)

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the First Quarter Fiscal Year Ending December 31, 2019 (January 1 to March 31, 2019)

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

	Net Sales		Operating Income		Ordinary Income		Quarterly Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
At the end of first quarter of the year ending December 2019	68,838	65.5	21,226	68.3	21,186	68.4	13,236	44.6
At the end of first quarter of the year ended December 2018	41,595	72.6	12,610	607.9	12,584	524.6	9,153	470.4

Note: Comprehensive income At the end of first quarter of the year ending December 2019 13,783 Millions of yen (291.8%) December 2018 At the end of first quarter of the year ended December 2018 3,517 Millions of yen (333.8%)

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
At the end of first quarter of the year ending December 2019	62.10	-
At the end of first quarter of the year ended December 2018	42.94	-

Note: During the third quarter of the consolidated fiscal year ended December 2018, the Company finalized the provisional accounting treatment related to the business combination with TOKAI CARBON GE HOLDING LLC. Figures for the first quarter of the 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
	Millions of yen	Millions of yen	%
At the end of first quarter of the year ending December 2019	336,286	219,056	58.9
Fiscal year ended December 31, 2018	329,868	207,833	56.7

For Shareholders' capital: At the end of first quarter of the year ending December 2019 197,993 Millions of yen Fiscal year ended December 31, 2018 187,140 Millions of yen

Notes: 1. During the first quarter of the consolidated fiscal year ending December 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 first quarter of the consolidated fiscal year ending December 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.

2. Dividends

	Annual Dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
Fiscal year ended December 31, 2018	Yen -	Yen 12.00	Yen -	Yen 12.00	Yen 24.00
Fiscal year ending December 31, 2019	-				
Fiscal year ending December 31, 2019 (Forecast)		24.00	-	24.00	48.00

Note: Amendment to most recently disclosed dividend forecast : None

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

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	144,600	57.7	42,700	49.8	42,700	45.8	27,800	-36.8	130.42
Full year	287,900	24.5	75,400	3.2	75,400	3.3	49,300	-32.8	231.29

Note: Amendment to most recently disclosed earnings forecast : Yes

* Notes:

(1) Changes in significant subsidiaries during the three months under review (that accompanied changes in the scope of consolidation) : None

(2) Application of accounting principles peculiar to the preparation of quarterly consolidated financial statements : None

(3) 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

(4) Number of shares issued (common stock)

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

1Q of the year ending December 31, 2019	224,943,104 shares	Fiscal year ended December 31, 2018	224,943,104 shares
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(b) Number of treasury shares at the end of period

1Q of the year ending December 31, 2019	11,789,606 shares	Fiscal year ended December 31, 2018	11,789,466 shares
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(c) Average number of shares during the period (three months under review)

1Q of the year ending December 31, 2019	213,153,563 shares	1Q of the year ended December 31, 2018	213,156,054 shares
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* Quarterly financial results are not subject to quarterly review 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.

(How to obtain supplemental materials to the quarterly financial statements)

Tokai Carbon has scheduled a briefing on financial results in the form of a telephone meeting for analysts and institutional investors on Thursday, May 9, 2019.

The materials for this briefing will be posted on the corporate website on that day.

○ Supplemental Materials

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1. Qualitative information related to this quarter's settlement

(1) Explanation regarding business performance

During the first quarter of the consolidated period of 2019 (January 1 to March 31, 2019), the global economy continued its steady growth overall. Meanwhile, future trends require careful watching due to great uncertainty concerning such matters as trends of the Chinese economy, the development of the UK's withdrawal from the EU, macroeconomic policy management in the U.S., and the situation on the Korean Peninsula.

Under such circumstances, the Tokai Carbon Group has 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 aim to achieve numerical targets for fiscal 2021: ¥380 billion in net sales, ¥113 billion in operating income, and ROS of 30%.

As a result, net sales for the first quarter of the consolidated period of 2019 grew 65.5% year on year to 68,838 million yen. Operating income showed a year-on-year growth of 68.3% at 21,226 million yen. Ordinary income showed a year-on-year growth of 68.4% for 21,186 million yen. Net income attributable to owners of the parent company rose 44.6% year on year to 13,236 million yen.

Business performance by segment was as follows:

Graphite Electrodes

Global supplies of graphite electrodes and key raw materials remained tight, contributing to a year-on-year increase in both net sales and operating income.

As a result, net sales for the Graphite Electrodes business increased 62.2% year on year to 27,540 million yen, while operating income rose 84.0% year on year to 15,423 million yen.

Carbon Black

Robust production by end-users in the tire and automotive industries, sales increase in Japan and abroad, and changes in prices following an increase in crude oil prices were among the factors that lifted sales and profits over the same period last year. In addition, Tokai Carbon CB Ltd. in the United States became a consolidated subsidiary in September 2018, contributing to growth in net sales and operating income.

As a result, net sales for the Carbon Black business increased 91.3% year on year to 27,308 million yen, while operating income rose 21.6% year on year to 3,424 million yen.

Fine Carbon

Sales in the general industry and semiconductor markets remained robust. While supply and demand for lead materials started to regain calmness, those for semiconductors remained tight. Our lead material production facilities remained operating at high capacity. 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 increased 113.1% year on year to 8,296 million yen, while operating income rose 168.9% year on year to 1,905 million yen.

Industrial Furnaces and Related Products

Net sales of industrial furnaces for the first quarter under review declined year on year, despite the building up of capital expenditures for major buyers in the IT-related sectors, since deliveries for energy-related industries are concentrated in/after the third quarter. Meanwhile, net sales of heating elements and other products rose year on year, due to robust demand in the electronic components and glass industries.

As a result, net sales for the Industrial Furnaces and Related Products business were down 16.9% year on year to 2,212 million yen, while operating income was down 7.4% year on year to 586 million yen.

Other Operations

Friction materials

Both sales and operating income declined due primarily to the exit from the four-wheel automotive business conducted as part of business restructuring. With regard to other markets, while demand for the mining machinery market declined for construction machinery, which for infrastructure development remained robust. In addition, demand for agricultural machinery turned upward due to the recovery of the North American market.

As a result, net sales of friction materials dropped 11.6% year on year to 2,030 million yen.

Anode materials

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

As a result, net sales of anode materials dropped 1.8% year on year to 1,413 million yen.

Others

Net sales from real estate leasing and other businesses decreased 13.6% year on year to 36 million yen.

As a result, net sales for Other Operations were down 7.9% year on year to 3,480 million yen, while operating income was down 48.2% year on year to 166 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Consolidated Fiscal Year (As of December 31, 2018)	First Quarter Consolidated Accounting Period of 2019 (March 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	46,797	43,195
Notes and accounts receivable	55,137	55,615
Merchandise and finished goods	17,106	20,274
Work in process	23,113	27,523
Raw materials and supplies	18,569	19,965
Others	3,999	3,032
Allowance for doubtful accounts	-504	-494
Total current assets	164,220	169,113
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	19,504	19,567
Machinery, equipment and vehicles, net	42,033	41,484
Furnaces, net	2,370	2,267
Land	7,341	7,287
Construction in progress	5,972	7,770
Other, net	3,092	4,159
Total tangible fixed assets	80,312	82,535
Intangible fixed assets		
Software	1,279	1,459
Goodwill	29,749	28,876
Customer-related assets	26,358	25,618
Others	4,417	4,325
Total intangible fixed assets	61,805	60,279
Investments and other assets		
Investment securities	17,204	17,884
Net defined benefit asset	1,995	1,976
Deferred tax assets	3,593	3,775
Others	786	772
Allowance for doubtful accounts	-50	-50
Total investments and other assets	23,529	24,358
Total fixed assets	165,648	167,173
Total assets	329,868	336,286

(Millions of yen)

	Previous Consolidated Fiscal Year (As of December 31, 2018)	First Quarter Consolidated Accounting Period of 2019 (March 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable	22,364	19,858
Electronically recorded obligations	3,637	3,887
Short-term loans payable	39,641	39,216
Current portion of long-term loans payable	2,068	2,068
Income tax payable	11,208	6,374
Consumption taxes payable	607	-
Accrued expenses	2,932	2,630
Reserve for bonuses	1,276	1,695
Others	7,915	9,201
Total current liabilities	91,654	84,932
Long-term liabilities		
Long-term loans payable	8,000	8,000
Deferred tax liabilities	14,309	15,592
Net defined benefit liability	5,081	5,083
Reserve for directors' retirement benefits	86	76
Reserve for executive officers' retirement benefits	57	59
Provision for environment and safety measures	577	529
Others	2,267	2,956
Total long-term liabilities	30,381	32,298
Total liabilities	122,035	117,230
Net assets		
Shareholder's capital		
Capital stock	20,436	20,436
Capital surplus	17,333	17,333
Retained earnings	148,990	159,669
Treasury stock	-7,258	-7,259
Total shareholder's capital	179,500	190,179
Other Accumulated Comprehensive Income		
Net Unrealized Gains/Losses on Other Securities	7,345	7,819
Foreign Currency Translation Adjustment	-732	-899
Remeasurements of defined benefit plans	1,026	894
Total accumulated other comprehensive income	7,640	7,813
Non-controlling Interests	20,692	21,062
Total net assets	207,833	219,056
Total liabilities and net assets	329,868	336,286

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(First Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous First Quarter Consolidated Cumulative Period (January 1 to March 31, 2018)	First Quarter Consolidated Cumulative Period of 2019 (January 1 to March 31, 2019)
Net Sales	41,595	68,838
Cost of sales	24,321	39,389
Gross profit	17,273	29,448
Selling, general and administrative expenses	4,663	8,222
Operating Income	12,610	21,226
Non-operating income		
Interest income	11	82
Dividend income	84	84
Rent income	42	38
Equity in income of non-consolidated subsidiaries and affiliates	386	15
Foreign exchange gains	-	85
Others	191	77
Total non-operating income	716	383
Non-operating expenses		
Interest expenses	99	204
Foreign exchange losses	514	-
Others	129	218
Total non-operating expenses	742	423
Ordinary Income	12,584	21,186
Extraordinary income		
Gain on termination of retirement benefit plans	-	71
Gain on sale of fixed assets	-	35
Total extraordinary income	-	106
Extraordinary losses		
Loss on retirement of non-current assets	-	218
Loss on sales of non-current assets	-	0
Total extraordinary losses	-	218
Quarterly net income before income taxes	12,584	21,074
Income taxes - current	3,796	5,901
Income taxes - deferred	-381	1,298
Total income taxes	3,414	7,200
Quarterly net income	9,170	13,874
Quarterly net income attributable to non-controlling interests	16	637
Quarterly net income attributable to owners of the parent company	9,153	13,236

(Quarterly Consolidated Statements of Comprehensive Income)

(First Quarter Consolidated Cumulative Period)

(Millions of yen)

	Previous First Quarter Consolidated Cumulative Period (January 1 to March 31, 2018)	First Quarter Consolidated Cumulative Period of 2019 (January 1 to March 31, 2019)
Quarterly net income	9,170	13,874
Other comprehensive income		
Net Unrealized Gains/Losses on Other Securities	-1,908	473
Foreign Currency Translation Adjustment	-2,997	-423
Remeasurements of defined benefit plans	-99	-132
Share of other comprehensive income of entities accounted for using equity method	-646	-9
Total other comprehensive income	-5,652	-90
Quarterly comprehensive income	3,517	13,783
(Of which)		
Quarterly comprehensive income attributable to owners of the parent	3,510	13,410
Quarterly comprehensive income attributable to non- controlling shareholders	7	373

(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)

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 first quarter of the consolidated accounting period of 2019. As a general rule, assets and liabilities of all leases are recorded in the quarterly 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 quarterly consolidated financial statements is minor.

(Additional Information)

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

The Company has applied Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (Corporate Accounting Standards No. 28, February 16, 2018) since the beginning of the first quarter consolidated accounting period of 2019. Therefore, deferred tax assets are displayed under investments and other assets while deferred tax liabilities are displayed under long-term liabilities.

(Segment Information)

I. Previous First Quarter Consolidated Cumulative Period (January 1 to March 31, 2018)

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

(Millions of yen)

	Reportable Segments					Others Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the Quarterly Consolidated Statements of Income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Industrial Furnaces and Related Products	Subtotal				
Net Sales									
External sales	16,984	14,276	3,893	2,663	37,816	3,778	41,595	-	41,595
Inter-segment sales or transfers	5	14	31	63	115	-	115	-115	-
Subtotal	16,990	14,290	3,925	2,726	37,932	3,778	41,711	-115	41,595
Segment income	8,381	2,816	708	633	12,540	320	12,860	-250	12,610

- 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 250-million-yen negative adjustment in segment income includes company-wide expenses of 245 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.
3. Segment income is adjusted with the operating income reported in the quarterly consolidated statements of income.
4. Segment income is disclosed in the amount that reflects significant changes to the initial allocation of the acquisition cost due to the finalization of provisional accounting treatment stated in "Notes (Business Combination) (1)."

II. First Quarter Consolidated Cumulative Period of 2019 (January 1 to March 31, 2019)

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

(Millions of yen)

	Reportable Segments					Others 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	27,540	27,308	8,296	2,212	65,357	3,480	68,838	-	68,838
Inter-segment sales or transfers	-	14	18	131	164	0	164	-164	-
Subtotal	27,540	27,323	8,314	2,343	65,521	3,480	69,002	-164	68,838
Segment income	15,423	3,424	1,905	586	21,339	166	21,506	-279	21,226

- 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 279-million-yen negative adjustment in segment income includes company-wide expenses of 317 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 Combination)

Finalization of Provisional Accounting Treatment Related to Business Combination

- (1) During the previous first quarter, Tokai Carbon applied provisional accounting treatment for the business combination with TOKAI CARBON GE HOLDING LLC executed on November 7, 2017, and finalized said accounting during the previous third quarter.

Accordingly, the comparative information included in the quarterly consolidated financial statements for the first quarter under review reflects significant changes to the initial allocation of the acquisition cost.

Due primarily to an increase in the cost of sales and a decline in amortization of goodwill, operating income, ordinary income, and quarterly net income before income taxes declined 177 million yen, respectively, in the Quarterly Consolidated Statements of Income for the previous first quarter.

- (2) During the previous 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 first quarter under review.

Accordingly, the comparative information included in the Quarterly Consolidated Statements of Income for the first quarter under review was 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.

- (3) During the previous 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 first quarter under review.

Accordingly, the comparative information included in the Quarterly Consolidated Statements of Income for the first quarter under review was 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.