November 6, 2019

Q3 2019 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/
Representative: Hajime Nagasaka, President & Chief Executive Officer
Contact: Akihiko Sato, Business Director and General Manager, Accounting & Finance Department
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Schedule date of submission of quarterly report: November 14, 2019
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 2019 (January 1 to September 30, 2019)

(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 2019	198,624	27.8	49,422	(1.5)	48,987	(3.9)	31,048	(47.2)
At the end of Third Quarter of the year ending December 2018	155,385	107.0	50,160	562.6	50,982	479.6	58,814	591.3

Note: Comprehensive income: Nine months ended September 30, 2019 20,710 million yen (-64.1%)
Nine months ended September 30, 2018 57,652 million yen (391.6%)

	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 2019	145.66	–
At the end of Third Quarter of the year ending December 2018	275.92	–

Note: During the first quarter of the year ending 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 third 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 Third Quarter of the year ending December 2019	435,303	220,202	46.1
Year ending December 2018	329,868	207,833	56.7

For reference: Shareholders' capital: As of September 30, 2019 200,519 million yen
As of December 31, 2018 187,140 million yen

Notes: 1. During the first quarter of the year ending 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 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 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.

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, 2018	–	12.00	–	12.00	24.00
Year ending December 31, 2019	–	24.00	–		
Year ending December 31, 2019 (Forecast)				24.00	48.00

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

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
Full Year	262,600	13.5	58,000	(20.6)	57,300	(21.5)	36,100	(50.8)	169.36

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): No

(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: 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 (capital stock)

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

3Q of the year ending December 31 2019	224,943,104 shares	Year ending December 2018	224,943,104 shares

(b) Number of treasury shares at end of period

3Q of the year ending December 31 2019	11,790,454 shares	Year ending December 2018	11,789,466 shares

(c) Average number of shares during the period (quarterly cumulative period)

3Q of the year ending December 31 2019	213,153,169 shares	3Q of the year ending December 2018	213,155,367 shares

* 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 6, 2019 (Wed.). The materials for this explanatory meeting will be posted on the Company website on the day of the meeting.

○ Supplemental Materials

1. Qualitative information related to this quarter's settlement

(1) Explanation regarding business performance in quarterly results

During the first nine months of 2019 (January 1 to September 30, 2019), the global economy was shrouded in great uncertainty concerning such matters as a growing trade conflict between the U.S. and China, developments in the UK's withdrawal from the EU, a slowdown of the European economy, and the situation in the Middle East. Accordingly, future trends of the global economy require careful observation.

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%.

Looking at the operating results for the first nine months of 2019, net sales grew 27.8% year on year to 198,624 million yen. Operating income declined 1.5% year on year to 49,422 million yen. Ordinary income declined 3.9% year on year to 48,987 million yen. Net income attributable to owners of the parent company declined 47.2% year on year to 31,048 million yen, due to the absence of extraordinary income of 22,800 million yen posted in the same period of the previous year.

Results by business segment were as follows:

<u>Graphite Electrodes</u>

The supply shortage of graphite electrodes that had existed in the same period of the previous year was eased, due to accumulation of inventory by customers and a slowdown in the European economy. As a result, the sales volume of the Company declined year on year. In the meantime, sales prices increased year on year, due to factors including the global tightening of supply for the main raw materials.

As a result, net sales for the Graphite Electrodes business were up 5.5% year on year to 73,023 million yen, while operating income fell 4.7% year on year to 36,262 million yen.

<u>Carbon Black</u>

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, net sales and operating income increased year on year, reflecting an increase in sales volume year on year due to the contribution from the consolidation of Tokai Carbon CB Ltd., a new production base in the U.S.

As a result, net sales for the Carbon Black business increased by 64.0% year on year to 80,359 million yen, while operating income rose 4.0% year on year to 7,969 million yen.

<u>Fine Carbon</u>

Sales for general industry remained robust, and 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 by 32.7% to 23,246 million yen year on year, while operating income rose 114.5% year on year to 4,919 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 Division 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 first nine months of 2019 reflect the performance of the Smelting and Lining business for the two months of August and September. Consequently, net sales stood at 4,511 million yen and operating income or loss came to a loss of 1,244 million yen. Although Tokai COBEX HoldCo GmbH started to see a positive operating income, overall it posted an operating loss for the said two months due to amortization of goodwill, etc. of approx. 1,400 million yen and a transient acquisition cost, etc. arising from business combination of approx. 1,400 million yen.

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. Net sales of heating elements and other products rose slightly year on year, despite a decline in demand in China resulting from a slowdown in the Chinese economy, due to robust demand in the glass industries.

As a result, net sales for the Industrial Furnaces and Related Products business rose 2.7% year on year to 8,208 million yen, while operating income increased by 5.3% year on year to 2,155 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 17.7% year on year to 5,774 million yen.

Anode materials

The market for anode materials for secondary lithium-ion batteries is expanding due to such factors as stronger regulations on CO_2 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 due to sluggish growth in sales volume from the same period of the previous year.

As a result, net sales of anode materials fell by 24.9% year on year to 3,392 million yen.

Others

Net sales from real estate leasing and other businesses fell 5.0% year on year to 108 million yen.

The above factors resulted in net sales for Other Operations falling by 20.4% year on year to 9,275 million yen and operating income by 68.4% year on year to 282 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2018)	Third Quarter Consolidated accounting period of 2019 (September 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	46,797	44,075
Notes and accounts receivable	55,137	49,426
Merchandise and finished goods	17,106	21,781
Work in process	23,113	38,052
Raw materials and supplies	18,569	26,157
Other	3,999	6,580
Allowance for doubtful accounts	(504)	(503)
Total current assets	164,220	185,571
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	19,504	22,035
Machinery, equipment and vehicles, net	42,033	41,606
Furnaces, net	2,370	4,354
Land	7,341	7,167
Construction in progress	5,972	14,659
Other, net	3,092	5,660
Total tangible fixed assets	80,312	95,484
Intangible fixed assets		
Software	1,279	1,731
Goodwill	29,749	98,034
Customer-related assets	26,358	27,383
Other	4,417	6,335
Total intangible fixed assets	61,805	133,484
Investments and other assets		
Investment securities	17,204	17,289
Net defined benefit asset	1,995	1,936
Deferred tax assets	3,593	850
Other	786	737
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	23,529	20,764
Total fixed assets	165,648	249,732
Total assets	329,868	435,303

(Millions of yen)

	Previous Consolidated Fiscal Year (December 31, 2018)	Third Quarter Consolidated accounting period of 2019 (September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable	22,364	17,201
Electronically recorded obligations	3,637	3,933
Short-term loans payable	39,641	89,483
Commercial paper	–	30,000
Current portion of long-term loans payable	2,068	1,033
Income tax payable	11,208	3,716
Consumption taxes payable	607	–
Accrued expenses	2,932	2,814
Reserve for bonuses	1,276	1,986
Other	7,915	11,706
Total current liabilities	91,654	161,874
Long-term liabilities		
Bonds payable	–	10,000
Long-term loans payable	8,000	18,000
Deferred tax liabilities	14,309	15,037
Net defined benefit liability	5,081	5,564
Reserve for directors’ retirement benefits	86	83
Reserve for executive officers’ retirement benefits	57	63
Provision for environment and safety measures	577	296
Other	2,267	4,181
Total long-term liabilities	30,381	53,226
Total liabilities	122,035	215,101
Net assets		
Shareholder’s capital		
Capital stock	20,436	20,436
Capital surplus	17,333	17,333
Retained earnings	148,990	172,365
Treasury stock	(7,258)	(7,260)
Total shareholder’s capital	179,500	202,874
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	7,345	7,381
Foreign currency translation adjustments	(732)	(10,513)
Remeasurements of defined benefit plans	1,026	777
Total accumulated other comprehensive income	7,640	(2,354)
Non-controlling interests	20,692	19,682
Total net assets	207,833	220,202
Total liabilities and net assets	329,868	435,303

(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, 2018)	Third quarter consolidated cumulative period of 2019 (January 1 to September 30, 2019)
Net Sales	155,385	198,624
Cost of sales	87,797	121,714
Gross profit	67,587	76,909
Selling, general and administrative expenses	17,426	27,487
Operating Income	50,160	49,422
Non-operating income		
Interest income	104	226
Dividend income	357	370
Rent income	116	104
Equity in income of non-consolidated subsidiaries and affiliates	685	71
Foreign exchange gains	233	–
Other	499	447
Total non-operating income	1,997	1,220
Non-operating expenses		
Interest expenses	360	431
Foreign exchange losses	–	423
Other	815	800
Total non-operating expenses	1,175	1,655
Ordinary Income	50,982	48,987
Extraordinary income		
Gain on sales of non-current assets	67	59
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	22,944	135
Extraordinary loss		
Loss on retirement of non-current assets	13	443
Loss on sales of non-current assets	4	0
Total extraordinary loss	18	443
Quarterly Net income before income taxes	73,909	48,679
Income taxes - current	15,339	15,589
Income taxes - deferred	(657)	432
Total income taxes	14,681	16,022
Quarterly net income	59,227	32,656
Quarterly net income attributable to non-controlling interests	412	1,608
Quarterly net income attributable to owners of the parent company	58,814	31,048

(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, 2018)	Third quarter consolidated cumulative period of 2019 (January 1 to September 30, 2019)
Quarterly net income	59,227	32,656
Other comprehensive income		
Net unrealized gains/losses on other securities	(1,485)	31
Foreign currency translation adjustments	229	(11,731)
Remeasurements of defined benefit plans	(58)	(249)
Share of other comprehensive income of entities accounted for using equity method	(260)	1
Total other comprehensive income	(1,574)	(11,946)
Comprehensive income	57,652	20,710
(Of which)		
Quarterly Comprehensive income attributable to owners of the parent	56,453	21,053
Quarterly Comprehensive income attributable to non-controlling shareholders	1,199	(343)

(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. 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 (Corporate Accounting Standards No. 28, February 16, 2018), etc. since the beginning of the first quarter consolidated accounting period. Therefore, deferred tax assets are displayed under investments and other assets while deferred tax liabilities are displayed under long-term liabilities.

(Segment Information)

I First nine months of the previous fiscal year (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	7,660	2,293	2,048	50,064	894	50,959	(798)	50,160

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 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
4. Segment income is disclosed in an 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)(2).”

II First nine months of the fiscal year under review (January 1 to September 30, 2019)

1. 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	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net Sales										
External sales	73,023	80,359	23,246	4,511	8,208	189,349	9,275	198,624	–	198,624
Inter-segment sales or transfers	13	54	88	–	469	626	0	626	(626)	–
Total	73,036	80,413	23,335	4,511	8,678	189,975	9,275	199,250	(626)	198,624
Segment income (loss)	36,262	7,969	4,919	(1,244)	2,155	50,062	282	50,345	(922)	49,422

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 922-million-yen negative adjustment in segment income includes company-wide expenses of 930 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 (loss) is adjusted with the operating income reported in the Quarterly Consolidated Statements of Income.

2. Matters concerning changes in reportable segments
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 Division as a new reportable segment since the beginning of the first nine months of 2019. 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 Division.

The change in reportable segments had no impact on the segment information for the first nine months of the previous year.

3. Information on the assets for each reportable segment
   (Significant increase in assets resulting from acquisition of subsidiaries)
   The Company has acquired all shares of Tokai COBEX HoldCo GmbH and its three group companies and included them in the scope of consolidation since the beginning of the first nine months of 2019. As a result, segment assets of the Smelting and Lining Division increased by 109,937 million yen compared with the end of the previous consolidated fiscal year.
   The amount of the said segment assets is a provisionally calculated amount since the allocation of acquisition cost has not been completed as of the end of the first nine months of 2019.

4. Information on impairment loss of fixed assets or goodwill, etc. for each reportable segment
   (Significant change in the amount of goodwill)
   In the Smelting and Lining Division, all shares of Tokai COBEX HoldCo GmbH and its three group companies were acquired and included in the scope of consolidation.
   The amount of increase in goodwill resulting from the said event for the first nine months of 2019 was 75,337 million yen.
   The amount of goodwill is a provisionally calculated amount since the allocation of acquisition cost has not been completed as of the end of the first nine months of 2019

(Business combinations, etc.)

Finalization of Provisional Accounting Treatment Related to Business Combination

(1) 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 of the consolidated accounting period.

Accordingly, the comparative information included in the Quarterly Consolidated Statements of Income for the third 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.

As a result, due primarily to an increase in the cost of sales and depreciation, operating income, ordinary income, and quarterly net income before income taxes declined 1,678 million yen, respectively, in the Quarterly Consolidated Statements of Income for the first nine months for the previous fiscal year.

(2) 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 of the consolidated accounting period.

Accordingly, the comparative information included in the Quarterly Consolidated Statements of Income for the third 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.

As a result, due primarily to an increase in the cost of sales and a decrease in depreciation, operating income, ordinary income, and quarterly net income before income taxes declined 135 million yen, respectively, in the Quarterly Consolidated Statements of Income for the first nine months for the previous fiscal year.

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 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 Quarterly Consolidated Statements of Income for the first nine months of the fiscal year

As the deemed acquisition date is July 31, 2019, the performance from August 1 to September 30, 2019 is included in the Quarterly Consolidated Statements of Income for the first nine months.

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)
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

75,337 million yen (621,646 thousand euros)

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 10 years.