

Consolidated Financial Results for the Fiscal Year Ended December 31, 2020 [Japanese GAAP]

February 9, 2021

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 30, 2021
 Scheduled date for submission of the Annual Securities Report : March 30, 2021
 Date for commencement of dividend payments : March 31, 2021
 Supplementary notes to financial statements : Yes
 Briefing on financial statements : Yes (Conference call for analysts and institutional investors)

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2020 (January 1 to December 31, 2020)

(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, 2020	201,542	(23.1)	7,858	(85.5)	6,262	(88.2)	1,019	(96.8)
Fiscal year ended December 31, 2019	262,028	13.3	54,344	(25.6)	52,986	(27.4)	31,994	(56.4)

Note: Comprehensive income: Fiscal year ended December 31, 2020: 743 million yen (-97.8%)
 Fiscal year ended December 31, 2019: 33,484 million yen (-48.8%)

	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, 2020	4.78	-	0.5	1.4	3.9
Fiscal year ended December 31, 2019	150.10	-	16.0	13.4	20.7

For reference: Share of profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2020: 124 million yen
 Fiscal year ended December 31, 2019: 123 million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Capital-to-Asset Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2020	459,709	224,815	43.8	944.16
As of December 31, 2019	462,872	232,975	45.8	993.84

For reference: Shareholders' capital: As of December 31, 2020: 201,267 million yen
 As of December 31, 2019: 211,838 million yen

(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, 2020	55,022	(44,301)	927	57,727
Fiscal year ended December 31, 2019	41,664	(99,159)	64,568	46,443

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	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2019	-	24.00	-	24.00	48.00	10,231	32.0	5.1
Fiscal year ended December 31, 2020	-	15.00	-	15.00	30.00	6,395	627.0	3.1
Fiscal year ending December 31, 2021 (Forecast)	-	15.00	-	15.00	30.00		71.9	

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2021 (January 1 to December 31, 2021)

(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	103,800	10.7	4,600	(20.9)	4,100	(20.6)	200	(90.7)	0.94
Full year	227,900	13.1	18,100	130.3	16,900	169.9	8,900	772.6	41.75

* Notes:

- (1) Changes in significant subsidiaries during the period
(changes in specific subsidiaries accompanying changes in the scope of consolidation) : Yes
Newly added: Tokai Carbon Savoie SAS (trade name was changed to Tokai COBEX Savoie SAS on January 29, 2021);
Excluded: None
- (2) Changes in accounting policy and changes and restatements of accounting estimates
(a) Changes in accounting policy accompanying the revision of accounting standards : None
(b) Changes in accounting policy other than those listed in (a) : None
(c) Changes in accounting estimates : None
(d) Restatements : None

(3) Number of shares issued (common stock)

(a) Number of shares issued at the end of the period (including treasury stock)	As of December 31, 2020	224,943,104 shares	As of December 31, 2019	224,943,104 shares
(b) Number of treasury stock at the end of the period	As of December 31, 2020	11,771,256 shares	As of December 31, 2019	11,790,987 shares
(c) Average number of shares during the period	Fiscal year ended December 31, 2020	213,166,048 shares	Fiscal year ended December 31, 2019	213,152,980 shares

(Reference) Overview of Non-Consolidated Financial Results

Non-Consolidated Financial Results for the Fiscal Year Ended December 31, 2020 (January 1 to December 31, 2020)

(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, 2020	48,915	(42.1)	507	(97.7)	4,758	(86.3)	4,349	(83.6)
Fiscal year ended December 31, 2019	84,543	(3.7)	22,325	(20.1)	34,687	17.0	26,511	23.4

	Net Income per Share	Net Income per Share Fully Diluted
	Yen	Yen
Fiscal year ended December 31, 2020	20.40	-
Fiscal year ended December 31, 2019	124.38	-

(2) Financial Position

	Total Assets	Net Assets	Capital-to-Asset Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2020	305,707	121,271	39.7	568.89
As of December 31, 2019	304,689	126,699	41.6	594.41

For reference: Shareholders' capital: As of December 31, 2020: 121,271 million yen
As of December 31, 2019: 126,699 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 in the form of a telephone meeting for analysts and institutional investors on Wednesday, February 10, 2021. 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, 2020

During the consolidated fiscal year under review (January 1 to December 31, 2020), the global economy saw a substantial decline due to the spread of the novel coronavirus (COVID-19), mainly in the second quarter of the year. Countries, including China, which succeeded in suppressing COVID-19 and resumed its economic activities earlier than other countries, are continuously struggling to maintain and expand social and economic activities amid efforts to prevent the spread of COVID-19. Meanwhile, vaccination programs have started one after another since December. However, as COVID-19 was spreading again in many countries and regions, including Japan, toward the end of the last year, it is difficult to foresee the end of the COVID-19 pandemic and a full recovery of the global economy.

The Tokai Carbon Group has conducted business activities in accordance with the basic policies of the medium-term management plan “T-2022” ((1) strengthening the revenue base, (2) expanding opportunities for growth, and (3) building a consolidated governance structure) announced in February last year. It has invested in strategic areas, including the acquisition of Carbone Savoie International SAS (current Tokai Carbon Savoie International SAS), a French carbon and graphite products manufacturer. Earnings declined primarily because demand in our main businesses of Graphite Electrodes and Carbon Black from respective end-users in the steel and tire industries temporarily decreased substantially under the above management environment. This occurred although the Group tried to reduce inventories, improve productivity and reduce expenses among others, in addition to building the ESG management base, a task it had engaged in since 2019.

As a result, net sales for the fiscal year under review fell 23.1% year on year to 201,542 million yen. Operating income declined 85.5% year on year to 7,858 million yen. Ordinary income declined 88.2% year on year to 6,262 million yen. Net income attributable to owners of the parent company declined 96.8% year on year to 1,019 million yen.

Results by business segment were as follows:

Graphite Electrodes

Steel production in 2020 was almost at the same level as in the previous year, primarily due to a substantial recovery in China which took economic stimulus measures, despite the decline in the first half of the year as a result of the spread of COVID-19 among others. On the other hand, our sales volume of graphite electrode also declined year on year due to the adjustment of graphite electrode inventory by customers. Moreover, operating income also declined year on year due to the recording of 3,666 million yen as an evaluation loss (a decrease in the book value) of inventories in the fourth quarter with the deterioration of the graphite electrode market.

As a result, net sales for the Graphite Electrodes business decreased 58.5% year on year to 37,879 million yen, while operating loss was 5,766 million yen (operating income of 39,388 in the previous year).

Carbon Black

Production activities of end-users in the tire and automobile parts industries substantially stagnated in the first half of the year, due to the spread of COVID-19. Our sales volume declined year on year, despite the general recovery trend from the second half of the year. Moreover, due mainly to declines in sales prices and higher cost rates associated with production adjustments, operating income decreased year on year.

As a result, net sales for the Carbon Black business were down 30.5% year on year to 70,754 million yen, while operating income fell 62.5% year on year to 3,192 million yen.

Fine Carbon

Shipments remained strong for the semiconductor industry and solar power industry, but dropped for general industry due to production corrections by customers associated with the spread of COVID-19. On the other hand, shipments of solid SiC (silicon carbide) products, which are high value-added products, increased amid globally strong demand.

As a result, net sales for the Fine Carbon business rose 4.6% year on year to 31,775 million yen, while operating income increased by 8.8% year on year to 6,647 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. In addition, the Company converted Tokai Carbon Savoie International SAS (the former Carbone Savoie International SAS), a French carbon and graphite products manufacturer, and its group companies into consolidated subsidiaries on July 17, 2020, and added them to this segment. This segment mainly deals with cathodes for smelting aluminum, furnace linings, and carbon electrodes.

The aluminum market saw sluggish prices as it was affected by the global economic slowdown. But shipments of the main product, aluminum smelting cathodes, increased in the second half of the year due to a rise in the aluminum market prices as a result of a recovery in the Chinese economy and in automobile production. Shipments of furnace linings, which are used for linings of blast furnaces, remained solid due to strong demand for replacing them in China.

As a result, net sales for the Smelting and Lining business were 36,421 million yen, while operating income was 1,161 million yen after deducting 9,696 million yen for amortization related to a valuation difference arising from the allocation of acquisition cost, amortization of goodwill, and others.

Industrial Furnaces and Related Products

Net sales of industrial furnaces increased year on year due to the steady building up of capital expenditures for major buyers in the IT-related sectors industries. Net sales of heating elements and other products decreased year on year, resulting from falling demand for products for the electronic components industry and the Chinese glass industry, due to the global economic slowdown associated with the spread of COVID-19.

As a result, net sales for the Industrial Furnaces and Related Products business rose 9.8% year on year to 13,873 million yen, while operating income increased by 16.6% year on year to 3,765 million yen.

Other Operations

Friction materials

In addition to a decrease in sales due to the exit from the four-wheel automotive business, the spread of COVID-19 affected the markets for construction machinery, agricultural machinery and two-wheeled vehicles. On the other hand, sales in China, mainly for construction machinery, increased as the Chinese government succeeded in suppressing COVID-19 and economic stimulus measures.

As a result, net sales of friction materials fell by 13.0% year on year to 6,510 million yen.

Anode materials

Sales volume increased year on year as demand for environmental vehicles increased mainly in Europe, although competition was intensified with rising new players entering the anode materials market.

As a result, net sales of anode materials increased by 14.3% year on year to 4,186 million yen.

Others

Net sales from real estate leasing and other businesses fell 2.6% year on year to 141 million yen.

As a result, net sales for Other Operations decreased by 4.0% year on year to 10,837 million yen, while operating income was 298 million yen (operating loss of 21 million yen in the previous year).

(2) Financial Position at the End of the Consolidated Fiscal Year Ended December 31, 2020

(Assets, Liabilities and Net Assets)

(a) Assets

Total assets at the end of the consolidated fiscal year under review came to 459,709 million yen, a decrease of 3,162 million yen from the end of the previous consolidated fiscal year.

Current assets amounted to 177,678 million yen, a decrease of 18,768 million yen from the end of the previous consolidated fiscal year, mainly due to decreases in inventories and accounts receivable. Fixed assets amounted to 282,031 million yen, an increase of 15,605 million yen from the end of the previous consolidated fiscal year, mainly due to increases in tangible fixed assets, despite decreases in goodwill and investment securities among others.

(b) Liabilities

Total liabilities at the end of the consolidated fiscal year under review came to 234,894 million yen, an increase of 4,997 million yen from the end of the previous consolidated fiscal year.

Current liabilities amounted to 92,656 million yen, a decrease of 24,884 million yen from the end of the previous consolidated fiscal year, mainly due to a decrease in short-term loans payable. Long-term liabilities amounted to 142,237 million yen, an increase of 29,882 million yen from the end of the previous consolidated fiscal year, mainly due to increases in bonds payable and long-term loans payable.

(c) Net assets

Total net assets at the end of the consolidated fiscal year under review came to 224,815 million yen, a decrease of 8,160 million yen from the end of the previous consolidated fiscal year, mainly due to a decrease in retained earnings.

As a result, the Group's equity ratio decreased 2.0 percentage points year on year to 43.8%.

(3) Cash Flows

At the end of the consolidated fiscal year under review, the Group's cash and cash equivalents totaled 57,727 million yen, an increase of 11,284 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 55,022 million yen, an increase of 13,358 million yen from the previous consolidated fiscal year. This was mainly due to an increase in proceeds resulting from a decrease in inventories, although there was a decrease in proceeds primarily resulting from lower net income before income taxes.

(b) Cash flows from investing activities

Investing activities used net cash of 44,301 million yen, a decrease of 54,858 million yen from the previous consolidated fiscal year. This was mainly due to a decrease in 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 927 million yen, a decrease of 63,641 million yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease in short-term loans payable.

(4) Future Outlook

The medium-term management plan of the Company has adopted the so-called rolling plan to review its content every year since T-2021 disclosed in February 2018. Therefore, T-2023 would conventionally have been disclosed at the time of announcing financial results for the fiscal year ended December 31, 2020. However, T-2023 will be disclosed in May 2021 to assess the impact of the COVID-19 pandemic which is not showing any sign of ending at the moment.

For the rolling plan, the Company will need to fully consider not only the effect of the COVID-19 pandemic but also the inauguration of President Biden and the trend of de-carbonization suddenly accelerated by Prime Minister Suga's declaration to go carbon neutral by 2050. Both of them are themes with high potential to substantially change the framework of global economy and society in the future.

As the pioneer in the carbon industry with "Carbon" in the company name as its calling over 100 years, Tokai Carbon will re-examine its missions and long-term visions in T-2023 from the perspectives as to what path it should take looking 30 years ahead and how it can contribute to society by grasping growth opportunities and creating customers in the changing society. In addition, having been building an ESG management base aiming to further improve corporate value, we consider T-2023 will be a start for new challenges of incorporating ESG in management strategies of the Company.

Specifically, we will engage in selection and concentration of businesses again by formulating a management strategy of the Company taking also into account the perspectives of decarbonization and coexistence with COVID-19 as well as restructuring the business portfolio. Moreover, a substantial issue is also to improve the profitability of main businesses including the Graphite Electrode, Carbon Black and Smelting and Lining businesses as well as return them to a growth path. We will also continue strengthening the consolidated governance structure, which is very important for Tokai Carbon with its overseas sales ratio of over 70%.

In this operating environment, the Group forecasts consolidated financial results for the consolidated fiscal year ending December 31, 2021 as follows: net sales of 227,900 million yen (up 13.1% year on year), operating income of 18,100 million yen (up 130.3% year on year), ordinary income of 16,900 million yen (up 169.9% year on year), and net income attributable to owners of the parent company of 8,900 million yen (up 772.6% year on year).

Also, the exchange rate assumption for the above forecasts is 102 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)

	Previous fiscal year (As of December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	52,695	67,174
Notes and accounts receivable	50,648	41,438
Merchandise and finished goods	20,227	14,890
Work in process	35,116	30,638
Raw materials and supplies	31,036	18,269
Other	6,971	5,490
Allowance for doubtful accounts	(248)	(224)
Total current assets	196,446	177,678
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	23,092	25,150
Machinery, equipment and vehicles, net	42,139	51,515
Furnaces, net	4,700	8,354
Land	7,315	7,604
Construction in progress	17,792	24,672
Other, net	6,302	7,709
Total tangible fixed assets	101,343	125,007
Intangible fixed assets		
Software	1,728	2,015
Goodwill	64,543	60,316
Customer-related assets	67,494	62,438
Other	8,200	8,579
Total intangible fixed assets	141,966	133,349
Investments and other assets		
Investment securities	18,842	17,492
Net defined benefit asset	2,633	2,729
Deferred tax assets	997	2,611
Other	693	890
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	23,115	23,674
Total fixed assets	266,425	282,031
Total assets	462,872	459,709

(Millions of yen)

	Previous fiscal year (As of December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable	24,857	15,500
Electronically recorded obligations	4,078	3,147
Short-term loans payable	37,530	3,065
Commercial paper	30,000	40,000
Current portion of long-term loans payable	833	8,813
Income tax payable	3,658	3,094
Consumption taxes payable	359	289
Accrued expenses	2,813	2,880
Reserve for bonuses	1,550	1,754
Other	11,859	14,108
Total current liabilities	117,541	92,656
Long-term liabilities		
Bonds payable	35,000	55,000
Long-term loans payable	44,666	51,764
Deferred tax liabilities	21,431	21,409
Net defined benefit liability	6,246	7,544
Reserve for directors' retirement benefits	86	82
Reserve for executive officers' retirement benefits	66	73
Provision for environment and safety measures	296	431
Other	4,561	5,932
Total long-term liabilities	112,355	142,237
Total liabilities	229,896	234,894
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	17,333	17,338
Retained earnings	173,310	166,017
Treasury stock	(7,260)	(7,248)
Total Shareholders' equity	203,819	196,543
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	8,415	7,436
Deferred gains or losses on hedges	34	(70)
Foreign currency translation adjustments	(1,671)	(3,529)
Remeasurements of defined benefit plans	1,239	887
Total accumulated other comprehensive income	8,019	4,723
Non-controlling interests	21,137	23,548
Total net assets	232,975	224,815
Total liabilities and net assets	462,872	459,709

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2019)	Fiscal year under review (January 1 to December 31, 2020)
Net sales	262,028	201,542
Cost of sales	169,188	151,987
Gross profit	92,840	49,555
Selling, general and administrative expenses		
Selling expenses	10,418	9,852
General and administrative expenses	28,076	31,843
Total selling, general and administrative expenses	38,495	41,696
Operating income	54,344	7,858
Non-operating income		
Interest income	289	214
Dividend income	558	514
Equity in income of non-consolidated subsidiaries and affiliates	123	124
Other	770	782
Total non-operating income	1,741	1,636
Non-operating expenses		
Interest expenses	536	952
Foreign exchange losses	344	282
Other	2,218	1,997
Total non-operating expenses	3,099	3,232
Ordinary income	52,986	6,262
Extraordinary income		
Insurance claim income	-	1,067
Gain on sales of fixed assets	56	769
Gain on termination of retirement benefit plan	53	-
Gain on liquidation of subsidiaries and associates	23	-
Total extraordinary income	133	1,836
Extraordinary loss		
Loss on disaster	-	1,337
Impairment loss	1,314	643
Loss on sales of fixed assets	3	1
Loss on retirement of fixed assets	576	-
Total extraordinary loss	1,894	1,983
Net income before income taxes	51,226	6,116
Income taxes - current	20,456	6,136
Income taxes - deferred	(3,280)	(3,852)
Total income taxes	17,175	2,283
Net income	34,050	3,833
Net income attributable to non-controlling interests	2,056	2,813
Net income attributable to owners of the parent company	31,994	1,019

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2019)	Fiscal year under review (January 1 to December 31, 2020)
Net income	34,050	3,833
Other comprehensive income		
Net unrealized gains/losses on other securities	1,066	(982)
Deferred gains or losses on hedges	34	(105)
Foreign currency translation adjustments	(1,899)	(1,655)
Remeasurements of defined benefit plans	213	(352)
Share of other comprehensive income of entities accounted for using equity method	19	5
Total other comprehensive income	(565)	(3,089)
Comprehensive income:	33,484	743
(Of which)		
Comprehensive income attributable to owners of the parent	32,373	(2,275)
Comprehensive income attributable to non-controlling shareholders	1,111	3,019

(3) Consolidated Statements of Changes in Equity

Previous fiscal year (January 1 to December 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
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
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 accumulated other 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
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

Fiscal year under review (January 1 to December 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Opening balance of the period	20,436	17,333	173,310	(7,260)	203,819
Changes of items during the period					
Dividends of surplus			(8,313)		(8,313)
Net income attributable to owners of the parent company			1,019		1,019
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		5		13	19
Net changes of items other than shareholders' equity					
Total of changes of items during the period	-	5	(7,293)	12	(7,275)
Balance at the end of the period	20,436	17,338	166,017	(7,248)	196,543

	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 accumulated other comprehensive income		
Opening balance of the period	8,415	34	(1,671)	1,239	8,019	21,137	232,975
Changes of items during the period							
Dividends of surplus							(8,313)
Net income attributable to owners of the parent company							1,019
Purchase of treasury shares							(1)
Disposal of treasury shares							19
Net changes of items other than shareholders' equity	(979)	(105)	(1,858)	(352)	(3,295)	2,411	(884)
Total of changes of items during the period	(979)	(105)	(1,858)	(352)	(3,295)	2,411	(8,160)
Balance at the end of the period	7,436	(70)	(3,529)	887	4,723	23,548	224,815

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2019)	Fiscal year under review (January 1 to December 31, 2020)
Cash flows from operating activities		
Net income before income taxes	51,226	6,116
Depreciation	18,503	20,890
Impairment loss	1,314	643
Loss (gain) on liquidation of subsidiaries and associates	(23)	-
Loss (gain) on retirement / sales of tangible fixed assets	522	(767)
Amortization of goodwill	4,205	6,512
Gain on termination of retirement benefit plan	(53)	-
Increase (decrease) in allowance for doubtful accounts	(480)	(28)
Increase (decrease) in reserve for bonuses	0	270
Increase (decrease) in net defined benefit liability	2,514	168
Decrease (increase) in net defined benefit asset	(637)	(96)
Increase (decrease) in provision for environment and safety measures	(281)	(200)
Interest and dividend income	(847)	(728)
Interest expenses	536	952
Foreign exchange losses (gains)	108	36
Share of (profit) loss of entities accounted for using equity method	(123)	(124)
Insurance claim income	-	(1,067)
Loss on disaster	-	1,337
Decrease (increase) in notes and accounts receivable - trade	8,623	10,463
Decrease (increase) in inventories	(19,778)	26,145
Decrease (increase) in short-term guarantee deposits	-	3,084
Increase (decrease) in notes and accounts payable - trade	730	(9,430)
Increase (decrease) in accrued expenses	(88)	(246)
Increase (decrease) in accounts payable - other	(61)	97
Decrease (increase) in advance payments	1,732	(9)
Increase (decrease) in accrued consumption taxes	(419)	(1,639)
Other	65	134
Subtotal	67,287	62,514
Interest and dividend income received	891	798
Interest expenses paid	(552)	(1,015)
Proceeds from insurance income	-	1,067
Payments associated with disaster loss	-	(244)
Income taxes paid	(25,961)	(8,098)
Cash flows from operating activities	41,664	55,022
Cash flows from investing activities		
Payments into time deposits	(6,243)	(8,992)
Proceeds from withdrawal of time deposits	5,399	5,986
Purchase of tangible fixed assets	(23,984)	(26,839)
Proceeds from sales of tangible fixed assets	150	1,165
Purchase of intangible fixed assets	(649)	(391)
Purchase of shares of subsidiaries resulting in a change in the scope of consolidation	(73,643)	(15,229)
Other	(187)	0
Cash flows from investing activities	(99,159)	(44,301)

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2019)	Fiscal year under review (January 1 to December 31, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,975)	(33,167)
Increase (decrease) in commercial papers	30,000	10,000
Proceeds from long-term loans payable	37,500	15,015
Repayments of long-term loans payable	(27,302)	(1,415)
Proceeds from issuance of bonds	35,000	20,000
Repayments of finance lease obligations	(371)	(600)
Cash dividends paid	(7,673)	(8,313)
Dividends paid to non-controlling interests	(666)	(608)
Other	57	17
Cash flows from financing activities	64,568	927
Effect of exchange rate change on cash and cash equivalents	(1,754)	(364)
Net increase (decrease) in cash and cash equivalents	5,318	11,284
Cash and cash equivalents at beginning of the period	41,124	46,443
Cash and cash equivalents at end of the period	46,443	57,727

(5) Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

N/A

(Additional Information)

We still cannot predict when the spread of COVID-19 will end, the medium-term impact of which on the Company's businesses and earnings remains unforeseeable in specific terms. Under these circumstances, the International Monetary Fund (IMF) forecasts that the world economy will grow 5.5% in 2021 and 4.2% in 2022. On the other hand, it forecasts variances in the strength of economic recovery among countries, depending on the effectiveness of access to medical intervention and policy support, impacts of international spillover effects, and structural characteristics at the time of crisis.

Tokai Carbon has made accounting estimates for impairment loss of fixed assets and recoverability of deferred tax assets among others assuming that the decelerated world economy resulting from the spread of COVID-19 will completely recover only in or after FY2022 while starting to recover moderately from FY2021.

The results based on the actual figures in the future may differ from these assumptions and estimates.

(Business Combination)

Business combination through acquisition

In accordance with the agreement entered into on July 17, 2020 that allows the Company and its subsidiary, Tokai COBEX GmbH, to jointly acquire all the shares of Carbone Savoie International SAS (“CSI”) held by Alandia Industries and to make CSI a subsidiary of the Company, the Company completed the share acquisition on the same date (July 17, 2020), as follows. CSI and its subsidiary are currently the Company’s consolidated subsidiaries.

1. Outline of business combinations

(1) Name and business description of acquired company

Name of acquired company: Carbone Savoie International SAS

Business description: Production, sales and R&D of cathodes for smelting aluminum, specialty graphite products and carbon/graphite powder

(2) Main reasons for completing the business combination

Our 3-year medium-term management plan “T-2022,” announced in February 2020, lays out the growth policy by utilizing strategic investment in existing and complementary businesses.

Carbone Savoie SAS (“CS”) under CSI is based in France and has a history and tradition of more than 120 years. The company offers high-performance, high-quality graphitized cathodes and specialty graphite materials backed by its advanced technology and good customer relations based on trust and achievements. CS’s core cathodes business for aluminum smelting is expected to achieve stable growth as the aluminum market, the end market of cathode business, is likely to continue growing steadily due to factors such as the continuous demand for light-weight materials in the transportation equipment sectors including those for automobiles and airplanes, the growing demand for aluminum amid the ongoing urbanization, the increase in utilization of aluminum for beverage containers and the substitute demand instead of copper in the electronics sector. In the business of specialty graphite materials, CS mainly deals in materials for heat exchangers and high temperature applications, and this market is also expected to continue to see solid growth of demand.

Through the acquisition, we aim to grow our Smelting and Lining business and Fine Carbon business, improve profitability, and diversify our portfolio. We believe that this will lead to further increase in our corporate value.

(3) Date of business combination

July 17, 2020

(4) Legal form of business combination

Share acquisition in cash

(5) Name of company after the business combination

Tokai Carbon Savoie International SAS

(6) Ratio of voting rights acquired

100%

(7) Main grounds for determining the acquiring company

The Company is the acquiring company because it acquired 100% of the voting rights of CSI by jointly acquiring them with its consolidated subsidiary, Tokai COBEX GmbH, through the share acquisition in cash.

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

The deemed acquisition date is July 31, 2020, and therefore, the performance for the period from August 1 to December 31, 2020 was included.

3. Breakdown of the cost of acquiring the acquired company and consideration paid by type		
Consideration for acquisition	Cash	20,279 million yen (166,000 thousand euros)
<hr/>		
Acquisition cost		20,279 million yen (166,000 thousand euros)

4. Contents and amounts of main acquisition-related expenses

Remuneration, fees, etc. for advisers and others: 618 million yen

5. Amount of goodwill posted, how goodwill arose, and amortization method and period

(1) Amount of goodwill posted

1,429 million yen (11,702 thousand euros)

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) How goodwill arose

Goodwill arose as expected excess earning power obtainable mainly through future business development.

(3) Amortization method and period

Straight-line amortization over a period of 17 years

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

Current assets	13,469 million yen	(110,277 thousand euros)
Fixed assets	11,706 million yen	(95,848 thousand euros)
<hr/>		
Total assets	25,176 million yen	(206,126 thousand euros)
<hr/>		
Current liabilities	3,243 million yen	(26,558 thousand euros)
Long-term liabilities	3,086 million yen	(25,270 thousand euros)
<hr/>		
Total liabilities	6,330 million yen	(51,828 thousand euros)

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 under review and its calculation method

Net sales	9,797 million yen
Operating income	964 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.

(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 major products of each reportable segment are as follows:

Reportable Segment	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.

3. Information on the amounts of net sales, operating income or loss, assets, and other account items for each reportable segment

Previous fiscal year (January 1 to December 31, 2019)

(Millions of yen)

	Reportable Segment						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)	-
Subtotal	91,358	101,820	30,483	14,662	13,245	251,570	11,287	262,857	(828)	262,028
Segment income (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 (loss) 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 (loss) is adjusted with the operating income reported in the consolidated financial statements.

Fiscal year under review (January 1 to December 31, 2020)

(Millions of yen)

	Reportable Segment						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	37,879	70,754	31,775	36,421	13,873	190,704	10,837	201,542	-	201,542
Inter-segment sales or transfers	147	56	171	7	571	954	3	957	(957)	-
Subtotal	38,026	70,811	31,946	36,428	14,445	191,659	10,841	202,500	(957)	201,542
Segment income (loss)	(5,766)	3,192	6,647	1,161	3,765	8,999	298	9,297	(1,439)	7,858
Segment assets	79,929	100,699	81,030	147,503	23,854	433,017	10,412	443,430	16,279	459,709
Other items										
Depreciation	3,015	6,454	3,649	6,396	232	19,748	534	20,282	607	20,890
Impairment loss	-	-	-	-	-	-	-	-	643	643
Investment in equity-method affiliates	-	-	835	-	-	835	-	835	-	835
Increase in tangible and intangible fixed assets	9,021	9,001	3,721	5,594	632	27,971	362	28,334	539	28,873

- 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 1,439-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 1,403 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 16,279 million yen, includes 24,014 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 643 million yen, is the amount of impairment loss of the land and others that is classified as idle assets in the corporate-wide assets and not allocated to each reportable segment.
 - (4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is 539 million yen, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.
 3. Segment income (loss) is adjusted with the operating income reported in the consolidated financial statements.

(Related Information)

Previous fiscal year (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.

Fiscal year under review (January 1 to December 31, 2020)

Information on each region

Net sales

(Millions of yen)

USA	Japan	Asia	Europe	Other regions	Total
53,398	49,585	53,737	23,484	21,336	201,542

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]

Previous fiscal year (January 1 to December 31, 2019)

N/A

Fiscal year under review (January 1 to December 31, 2020)

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

(Per Share Information)

	Previous fiscal year (January 1 to December 31, 2019)	Fiscal year under review (January 1 to December 31, 2020)
Net assets per share	993.84 yen	944.16 yen
Net Income per Share	150.10 yen	4.78 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 fiscal year (January 1 to December 31, 2019)	Fiscal year under review (January 1 to December 31, 2020)
Net income attributable to owners of the parent company (millions of yen)	31,994	1,019
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)	31,994	1,019
Average number of common shares during the period (thousands of shares)	213,152	213,166

(Subsequent Material Events)

N/A