



Q3 2016

Analyst Meeting Material

Results of the First Nine Months of the Fiscal Year Ending December 31, 2016

November 2, 2016

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The background of the slide features a series of overlapping, semi-transparent blue hexagons. Within these hexagons, there are images of a bright blue sky filled with white, fluffy clouds. A bright, glowing light source, resembling the sun, is positioned in the center-right area, casting a strong glow and creating a lens flare effect across the scene.

I . Q3 2016 Financial Summary

Topics in the First Nine Months of FY2016

■ Business environment

- Carbon Black: The crude oil price hits the bottom, Chinese manufacturers have restored their prices, and our foreign subsidiaries have improved their margins.
- Graphite Electrode: The global market continues falling, and Showa Denko announced to purchase SGL
- Fine Carbon: The solar power industry, etc. are on the way to recover, but the supply-demand imbalance continues.

■ Operating trends

- Net sales: Down 17.5% year on year due to lower sales price in the key business segments (Carbon Black, Graphite Electrodes, and Fine Carbon).
- Operating Income: Down 86.7% year on year due to the impact of measures to reduce inventories, temporary provision of allowance for doubtful accounts, and recording of research and , development expenses, etc. on top of falls in sales prices.

Losses from special item:

Reducing the capacity of producing fine carbon	4,228 JPY in Millions (loss)
Closing one production line of Tokai Carbon (Tianjin) Co., Ltd.	2,183 JPY in Millions (loss)
Loss due to the disposal of the golf practice range in Aichi prefecture	380 JPY in Millions (loss)
Closing one production line of Ishinomaki Plant	20 JPY in Millions (loss)

■ Revision of the earnings Forecast (on November 2, 2016)

- The previously forecasted (on July 25) operating income is upwardly revised by 500 JPY in Millions.
- This is derived from an early improvement in the business performance of the foreign subsidiaries.

Summary of Consolidated Results

- As the selling prices dropped, the temporary expenses (provision of allowance for doubtful accounts, research and development expenses) were recorded. This resulted in decrease in income and gain.
- Extraordinary loss of about 6,800 JPY in Millions, which had been derived from the structural reform measure, was recorded. This resulted in the quarterly net loss attributable to the owners of the parent company.

	(JPY in Millions)			
	Jan –Sept 2015	Jan – Sept 2016	YoY Change	Change %
Net Sales	80,497	66,373	(14,123)	(17.5%)
Operating Income	3,548	470	(3,078)	(86.7%)
Ordinary Income	3,625	522	(3,103)	(85.6%)
Quarterly Net Income/(Loss) Attributable to the Owners of the Parent Company	1,433	(5,377)	(6,810)	

Group companies

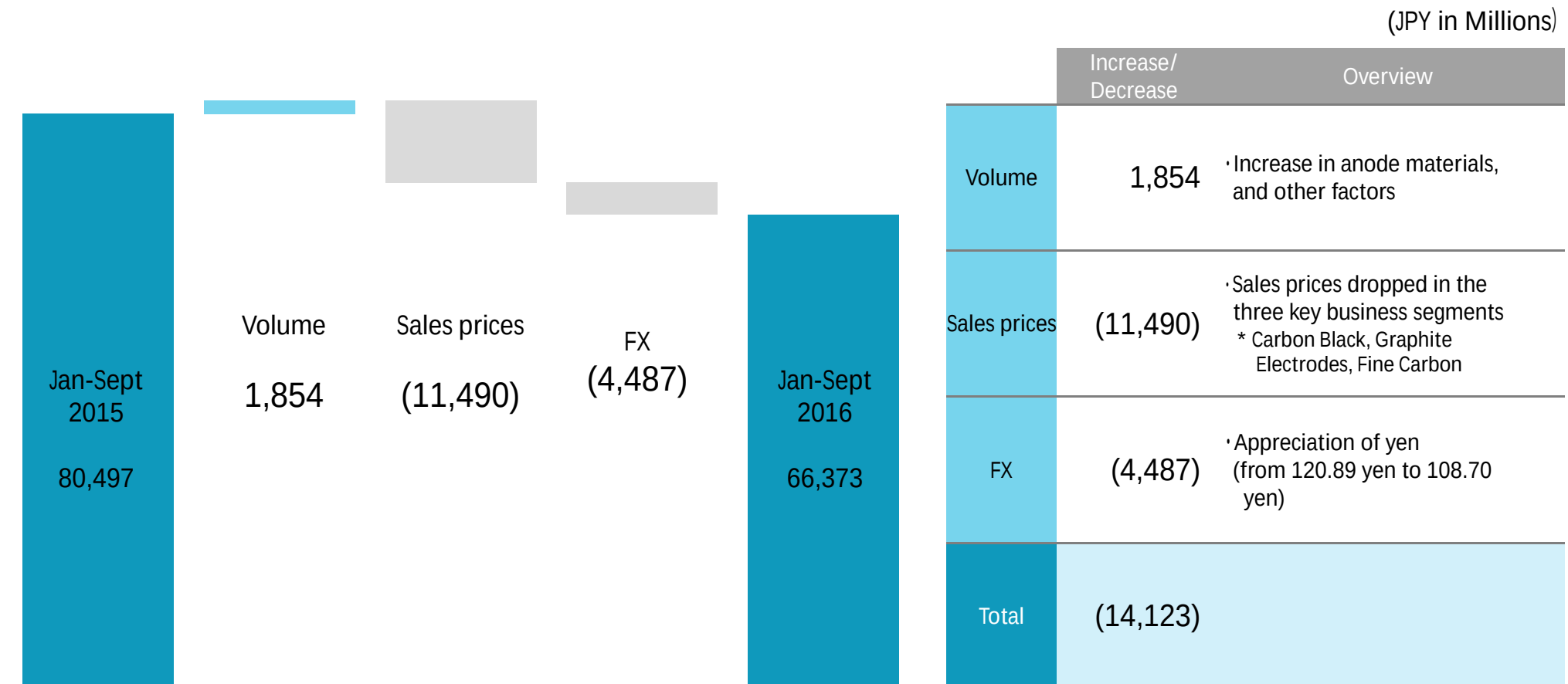
- Consolidated subsidiaries: 24
- Affiliated accounted for by the equity method: 5

Average exchange rate during the period:

- Q3 2015 \$1=¥120.89
- Q3 2016 \$1=¥108.70

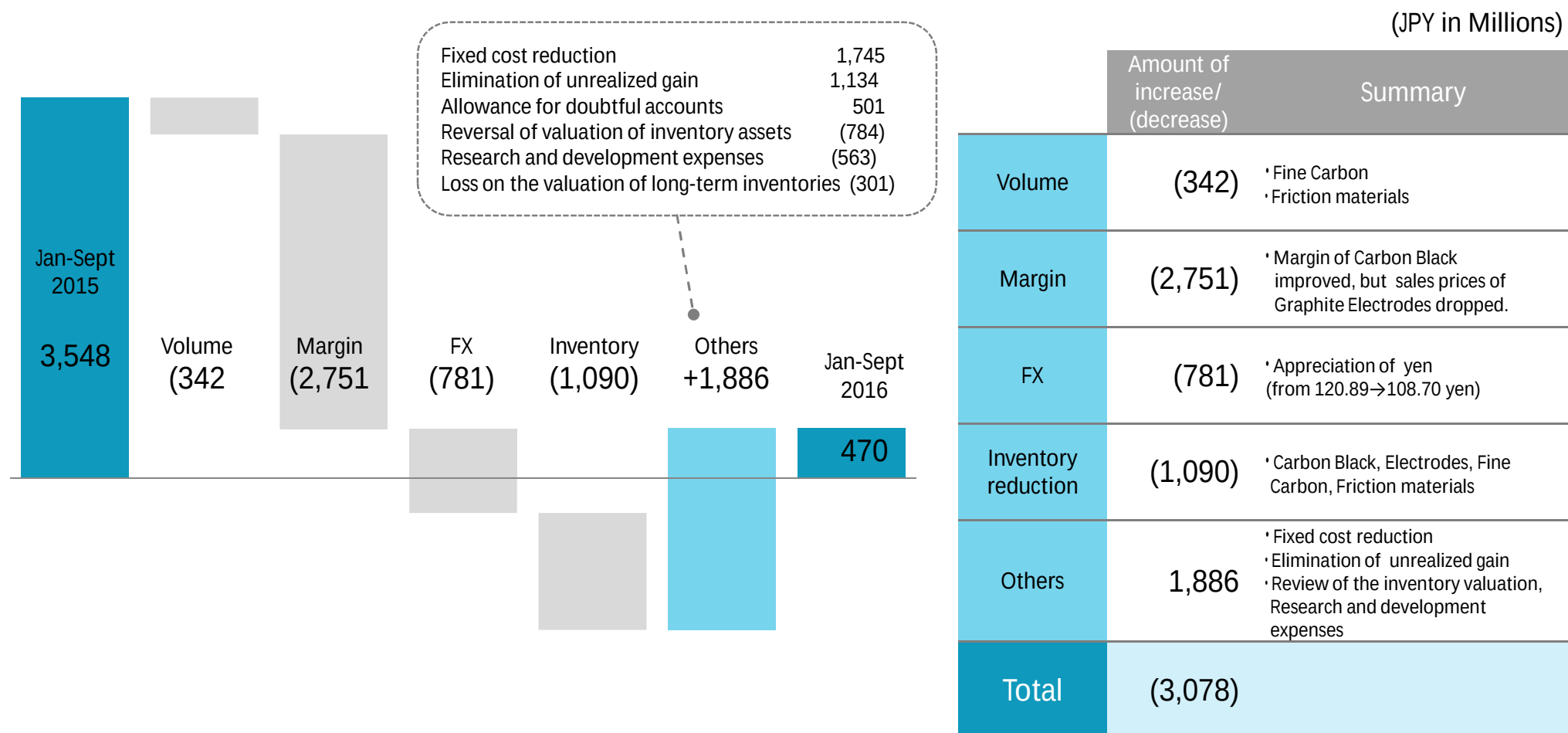
YoY Analysis: Net Sales

- Declines in the sales price of Carbon Black and Graphite Electrodes segments influenced the sales to drop



Analyzing the increase (decrease) of the operating income

- The falling electrode market resulted in a huge impact.
- Fixed costs (the labor cost, the service cost, etc.) were reduced, and unrealized profits were eliminated or returned .



Net sales and Operating Income by Segment

- Net sales: Sales prices of Carbon Black and graphite electrodes dropped.
- Operating income: Substantial decline of electrode market. Provision of allowance for doubtful accounts in the Fine Carbon business. Recording of research and development expenses.

(JPY in Millions)

		Net Sales			Operating Income		
		Jan–Sept 2015	Jan-Sept 2016	YoY Change	Jan–Sept 2015	Jan-Sept 2016	YoY Change
Carbon Black		36,527	27,805	(8,721)	1,183	3,282	2,099
Graphite Electrode		20,235	15,644	(4,590)	1,980	(827)	(2,807)
Fine Carbon		11,539	9,809	(1,729)	300	(1,561)	(1,861)
Industrial furnaces and related products		3,815	4,041	226	425	443	18
Others	Friction materials	6,222	5,641	(580)	-	-	-
	others	2,158	3,431	1,273	-	-	-
		8,380	9,073	692	482	414	(68)
Adjustments		-	-	-	(823)	(1,281)	(458)
Total		80,497	66,373	(14,123)	3,548	470	(3,078)

Carbon Black

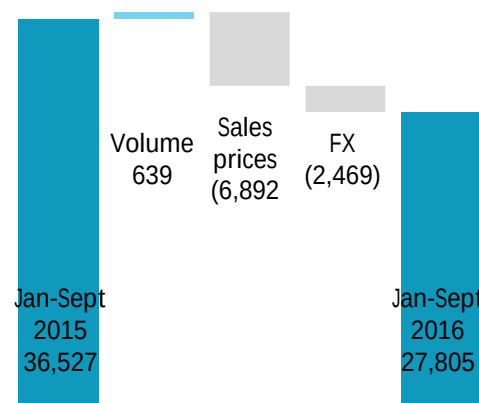


- As the raw material prices declined, sales prices also dropped. Net sales decreased 23.9% year on year.
- Profit margins of Chinese and Thailand subsidiaries drastically improved (China: Minimizing fixed costs, Thailand: Reducing raw material prices), substantially increasing the operating income.
- Others: Due to the factors such as reversal of loss on valuation of inventory (approximately 900 JPY in Millions) and the effect derived from the reduction in the labor as well as service costs (approximately 600 JPY in Millions), the operating income increased from the same period last year.

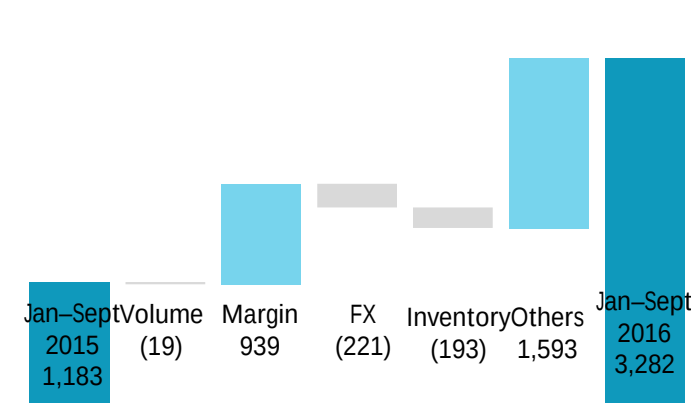
(JPY in Millions)

	Jan - Sept 2015	Jan to Sept 2016	YoY Change	Change %
Net sales	36,527	27,805	(8,721)	(23.9%)
Operating Income	1,183	3,282	2,099	177.4%
ROS	3.2%	11.8%	+8.6	

Change Analysis:
Net Sales



Change Analysis:
Operating Income



Graphite Electrodes

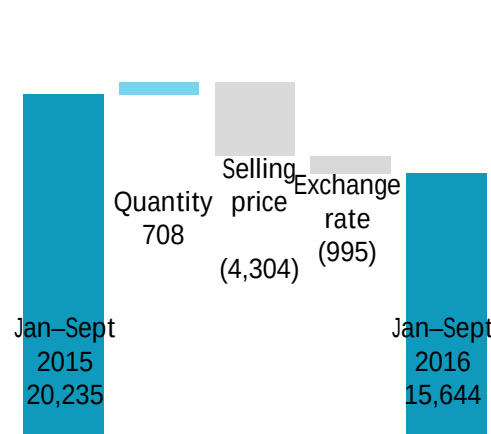


- Due to the continuation of structural recession on a global scale, sales prices substantially dropped. This resulted in decrease in income and gain.
- Others (profit increase): Reversal of elimination of unrealized gain (overseas subsidiaries), and other factors

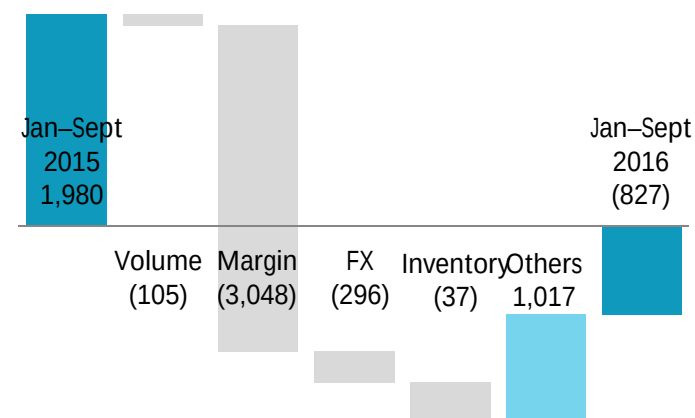
(JPY in Millions)

	Jan–Sept 2015	Jan–Sept 2016	YoY Change	Change %
Net Sales	20,235	15,644	(4,590)	(22.7%)
Operating Income	1,980	(827)	(2,807)	—%
ROS	9.8%	(5.3%)	(15.1)	

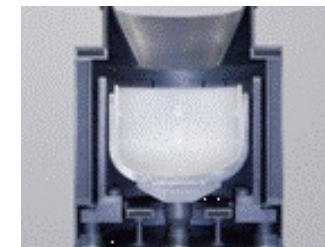
Change Analysis:
Net Sales



Change Analysis:
Operating Income



Fine Carbon

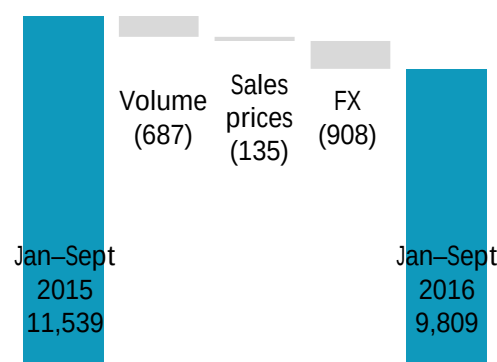


- Due to the continuation of the imbalance between the supply and demand of isotropic graphite materials, both the volume and prices dropped from the same period last year, resulting in decrease in income and gain.
- Others (profit positive):
 - Reversal of elimination of unrealized gain (approximately 300 JPY in Millions)
 - Fixed cost reduction (approximately 400 JPY in Millions)
- Others (profit negative):
 - Provision of allowance for doubtful accounts and etc. due to anxiety about collecting debt from U.S. customer (approximately 800 JPY in Millions)
 - Loss on the valuation of long-term inventories (approximately 200 JPY in Millions)

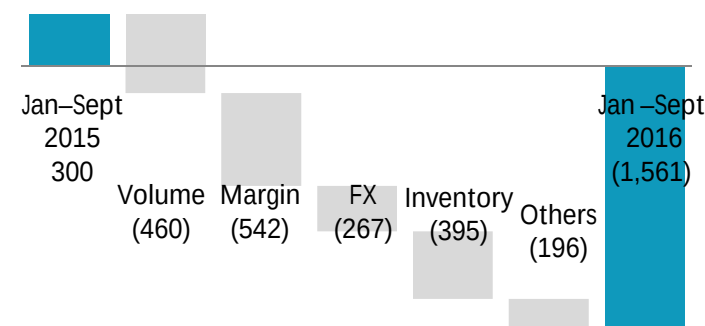
(JPY in Millions)

	Jan–Sept 2015	Jan–Sept 2016	YoY Change	Change %
Net sales	11,539	9,809	(1,729)	(15.0%)
Operating Income	300	(1,561)	(1,861)	—%
ROS	2.6%	(15.9%)	(18.5)	

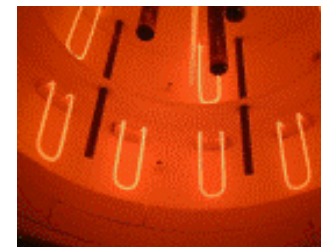
Change Analysis:
Net Sales



Change Analysis:
Operating Income



Industrial Furnaces and Related Products (Tokai Konetsu Kogyo Co., Ltd.)

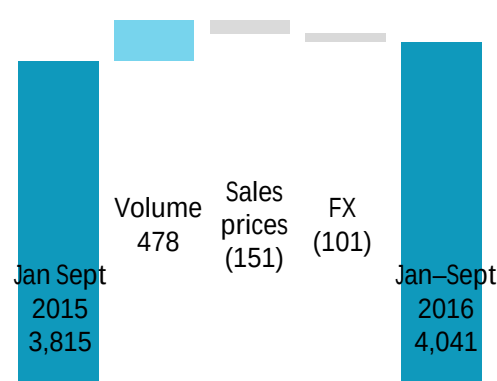


- Net sales of industrial furnaces to the IT-related industries, which are the main client, increased. Furthermore, demand for capital investment from the energy-related industry contributed to the sales increase. These resulted in the increase of both sales and profits from the same period last year, showing the continuation of favorable sales.
- Demands for the heating elements from the Chinese flat-glass industry were sluggish, which changed the types of ceramic products sold. This resulted in a decrease in the margins of the ceramic products.

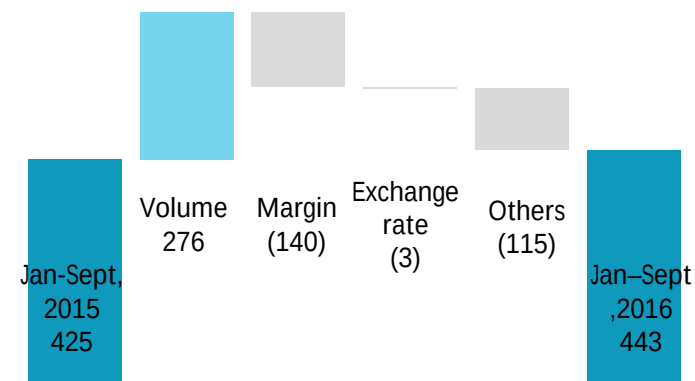
(JPY in Millions)

	Jan–Sept 2015	Jan–Sept 2016	YoY Change	Change %
Net sales	3,815	4,041	226	5.9%
Operating Income	425	443	18	4.3%
ROS	11.1%	11.0%	(0.2)	

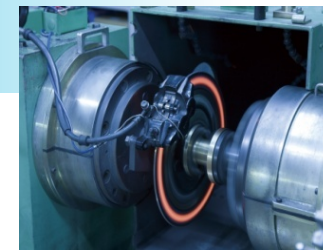
Change Analysis:
Net Sales



Change Analysis:
Operating Income



Others (Friction Materials, LiB, others)

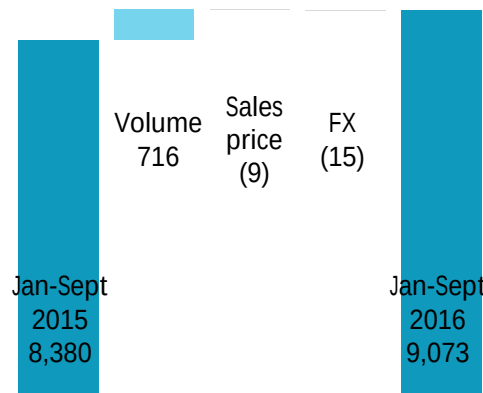


- Sales of friction materials were 9.3% lower year on year. This is due to a decrease in the production of the friction materials for our major customers such as construction machinery manufacturers and farm machinery manufacturers.
- Sales figures of the LiB anode materials have been increasing. Sales of LiB anode materials were 66.1% higher than in the same period last year.

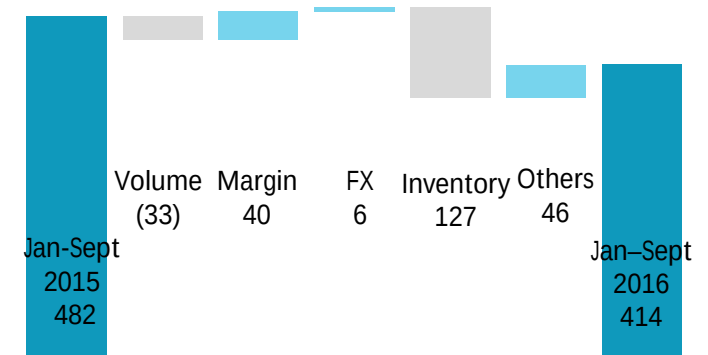
(JPY in Millions)

	Jan-Sept 2015	Jan-Sept 2016	YoY Change	Change %
Net sales	8,380	9,073	692	8.3%
Operating income	482	414	(68)	(14.2%)
ROS	5.8%	4.6 %	(1.2)	

Change Analysis:
Net Sales



Analyzing the increase (decrease)
of the operating income



Cash flows

(JPY in Millions)

Major Cash Flow Items

	Jan – Sept 2015	Jan - Sept 2016	Highlights
Cash flows from operating activities	14,859	14,328	
Net income (loss) before income taxes for half quarter	3,178	(4,938)	
Depreciation and amortization	6,878	5,890	
Impairment loss	366	6,812	
Loss (gain) on sales of property, plant and equipment	(4)	(1,384)	
Increase (decrease) in allowance for doubtful accounts	39	422	
Increase (decrease) in trade receivables	5,320	3,590	
Increase (decrease) in inventories	3,728	10,731	
Income tax paid法	(1,780)	(3,954)	
Cash flows from investing activities	(4,688)	(3,121)	
Purchase of tangible fixed assets	(4,921)	(4,642)	
Proceeds from sales of property, plant and equipment	358	1,595	
Cash flows from financing activities	(6,777)	(4,960)	
Net increase (decrease) in short-term borrowings	(6,358)	(2,555)	
Proceeds from long-term debt	4,000	—	
Repayment of long-term debt	(3,037)	(1,034)	
Cash and cash equivalents at end of the period	17,644	27,565	

- The inventory compression target, 8 JPY in Billions, was achieved.
- Payment of taxes such as corporate taxes increased due to the last year's gain on sale of land and to the last year's proceeds from sale of investment securities.

Balance sheet

Major Balance sheet items

(JPY in Millions)

	December 31, 2015	September 30, 2016	Summary
Total fixed assets	184,074	154,031	
Current assets	87,968	74,635	
Cash and cash equivalents	16,045	20,572	
Notes and accounts receivable	26,897	22,007	• Tangible fixed assets (down 10,647 JPY in Millions from the end of the previous fiscal year)
Merchandise and finished goods	13,828	8,003	• Capital expenditure: 4,378 JPY in Millions (up 206 JPY in Millions from the same period last year)
Work in process	12,182	8,516	
Raw materials and supplies	8,241	5,388	• Depreciation and amortization: 5,890 JPY in Millions (down 987 JPY in Millions from the same period last year)
Fixed assets	96,106	79,395	
Tangible fixed assets	56,629	45,981	• Impairment loss: 6,812 JPY in Millions (up 6,446 JPY in Millions from the same period last year)
Intangible fixed asset	11,324	9,549	
Investments and other assets	28,153	23,864	
Total liabilities	59,103	44,780	
Current liabilities	31,126	25,429	• Interest-bearing liabilities: 19,132 JPY in Millions (down 4,803 JPY in Millions from the end of the previous fiscal year)
Fixed liabilities	27,976	19,350	
Total net assets	124,971	109,250	
Shareholders' capital	108,910	102,250	Capital-to-asset ratio: 69.8%
Other accumulated comprehensive income	14,004	5,201	(66.8% at the end of the previous fiscal year)
Non-controlling interests	2,055	1,798	
Total liabilities and net assets	184,074	154,031	

The background of the slide features a bright blue sky filled with soft, white clouds. Overlaid on this is a large, faint hexagonal pattern that resembles a honeycomb or a molecular structure. A bright, glowing light source is positioned at the center of one of the hexagons, creating a lens flare effect that radiates across the sky.

II . Earnings Forecast for the FY2016

Changes in the forecast of the consolidated earnings

- Net sales are the same as the figures of the previous earnings forecast (on July 25)
- The upward revision of the operating income is derived mainly from the performance improvement of foreign subsidiaries in the carbon black business as well as the graphite electrode business and from the return of the inventory valuation loss.

(JPY in Millions)

	Previous forecast FY2016 (disclosed on July 25)			Revised forecast FY2016 (disclosed on November 2)			Increase/ Decrease	Change %
	First half	Second half	Full Year	First half	Second half	Full Year		
Net sales	44,872	42,128	87,000	44,872	42,128	87,000	—	—
Operating Income	(80)	280	200	(80)	780	700	500	250.0%
Ordinary income	(235)	435	200	(235)	1,235	1,000	800	400.0%
Profit attributable to the Owners of the Parent Company	(5,900)	200	(5,700)	(5,900)	800	(5,100)	600	—
ROS	—	0.7%	0.2%	—	1.9%	0.8%	—	—
ROIC	—	—	0.1%	—	—	0.5%	—	—
ROE	—	—	—	—	—	—	—	—

Group companies

- Consolidated subsidiaries : 24
- Affiliated accounted for by the equity method: 5

Average exchange rate during the period

- 2015 \$1=¥120.89
- 2016 \$1=¥108.70 (latter half ¥105)

Forecast for Net Sales and Operating Income by segment

(JPY in Millions)

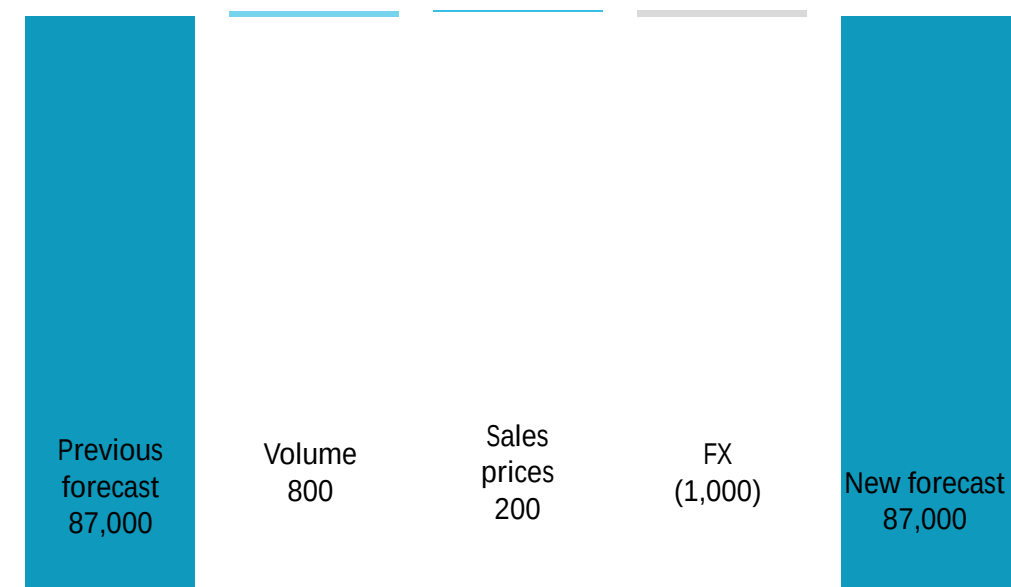
		Previous forecast FY2016 (disclosed on July 25)			Revised forecast FY2016 (disclosed on November 2)			Increase/ Decrease	Change %
		First half	Second half	Full Year	First half	Second half	Full Year		
Net sales		44,872	42,128	87,000	44,872	42,128	87,000	—	—
	Carbon Black	18,297	17,503	35,800	18,297	19,003	37,300	+1,500	+4.2%
	Graphite electrode	10,833	9,067	19,900	10,833	9,067	19,900	—	—
	Fine Carbon	6,770	6,630	13,400	6,770	5,930	12,700	(700)	(5.2%)
	Industrial furnaces and related products	2,956	2,744	5,700	2,956	2,144	5,100	(600)	(10.5%)
	Friction Materials	3,768	3,832	7,600	3,768	3,832	7,600	—	—
	Others	2,246	2,354	4,600	2,246	2,154	4,400	(200)	(4.3%)
	Total	6,014	6,186	12,200	6,014	5,986	12,000	(200)	(1.6%)
Operating income		(80)	280	200	(80)	780	700	500	250.0%
	Carbon Black	1,892	2,108	4,000	1,892	2,508	4,400	400	10.0%
	Graphite Electrode	(370)	(1,530)	(1,900)	(370)	(930)	(1,300)	600	—
	Fine Carbon	(1,254)	(546)	(1,800)	(1,254)	(646)	(1,900)	(100)	—
	Industrial Furnaces and Related Products	381	319	700	381	119	500	(200)	(28.6%)
	Others	297	403	700	297	303	600	(100)	(14.3%)
	Adjustments	(1,027)	(473)	(1,500)	(1,027)	(573)	(1,600)	(100)	—

Changes from the Previous Forecast (Net Sales)

- Although there are variations due to volume, sales prices, and FX, the total net sales are the same as the previously forecasted total net sales (disclosed on July 25).

(JPY in Millions)

Change Analysis: Net Sales



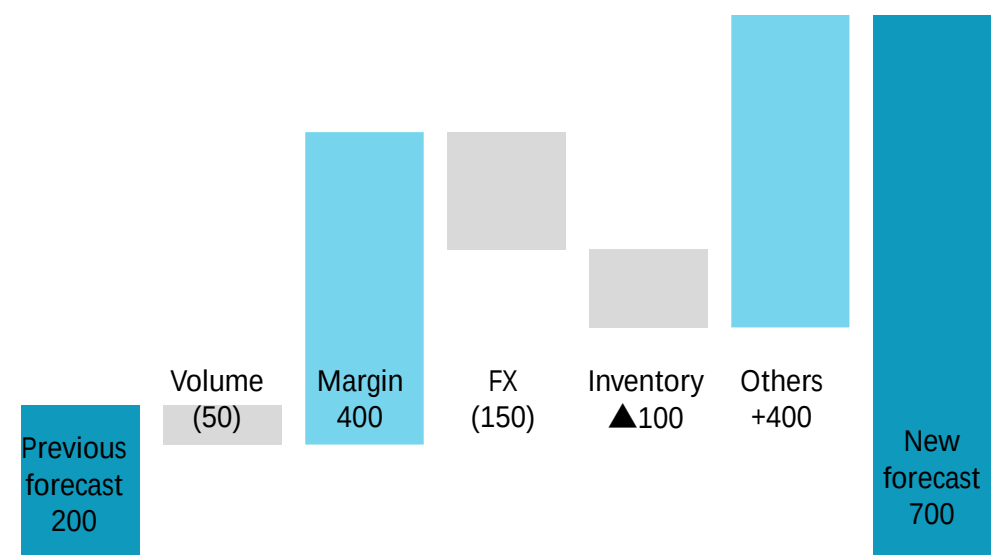
	Increase/decrease	Highlights
Volume	800	· Volume increases in Carbon Black and Graphite Electrodes
Sales prices	200	· Carbon Black
FX	(1,000)	· USD 109 JPY→106 JPY · EUR 122 JPY→118 JPY
Total	0	

Changes from the Previous Forecast (Income)

- Upward revision due to factors such as (1) the improvement of the margins of the carbon black as well as graphite electrodes, (2) fixed cost reduction, and (3) the return of the loss on the valuation of long-term inventories

(JPY in Millions)

Change Analysis: Operating Income



	Increase/ Decrease	Highlights
Volume	(50)	Increase: CB, Graphite Electrode Decrease: FC, Industrial furnaces
Margin	400	CB, Graphite Electrode
FX	(150)	· USD sensitivity: 50 JPY in Millions/year
Inventory	(100)	Burden of the fixed costs caused by production adjustment
Others	400	· Fixed cost reduction +250 · Return of the inventory appraised loss, etc. +150
Total	500	



III. Progress of the Mid-Term Management PlanT-2018

Progress of the Medium-Term Management Plan, T-20

Summary

All the originally planned structural reform action plans are carried out and in progress.

	Item	Measures	Description
Business Restructuring	(1) Optimizing Carbon Black production platform	Closing one production line of Tokai Carbon (Tianjin) Co., Ltd.	• 40% capacity reduction • Labor reduction • Focus on high-end productions
		Closing one production line of Ishinomaki Plant	• 20% capacity reduction
	(2) Restructuring Fine Carbon business	Reducing the production capacity of the isotropic graphite	• 45% capacity reduction
		Reducing the product lineup	• Narrow down production to ISO, Extruded and brushe products
	(3) Optimizing Human Resources	Soliciting voluntary retirements	• Cutting about 100 jobs
	(4) Industrial consolidation of Graphite Electrode	(Showa Denko announced to purchase SGL Graphite Electrode segment)	
	(5) Minimizing Assets	Reducing inventories	• Reduced 9 JPY in Billions
		Compressing the fixed assets	• Transferring the unutilized assets • Closing Golf practice range
Inner Mind-set Change	(1) Revitalizing Human Resources	Transferring employees among divisions Recruiting external staff	
	(2) Restoring “Technological Strength” as Tokai	Establishing Technology Management Division	
	(3) Strengthen the Corporate structure	Strengthening the functions of the board meetings and decision making process	

Reference Material



Quarterly Segment Results

f = Forecast (JPY in Millions)

		2015					2016				
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4f	Full year
Net sales		27647	26,337	26,512	24,367	104,864	22,643	22,229	21,501	20,627	87,000
	Carbon Black	13,046	11,987	11,493	9,696	46,224	9,487	8,809	9,507	9,495	37,300
	Graphite Electrode	7,014	6,441	6,780	6,724	26,960	5,522	5,311	4,810	4,256	19,900
	Fine Carbon	3,658	3,886	3,994	3,434	14,973	3,435	3,335	3,038	2,891	12,700
	Industrial Furnaces Related Materials	1,278	1,225	1,310	1,397	5,212	1,240	1,715	1,084	1,059	5,100
	Friction materials	2,099	2,071	2,051	2,013	8,235	1,925	1,842	1,873	1,959	7,600
Others	Others	550	725	882	1,101	3,260	1,031	1,214	1,185	969	4,400
	Total	2,650	2,796	2,934	3,114	11,495	2,957	3,057	3,059	2,927	12,000
Operating Income		1,062	506	1,979	539	4088	557	-638	551	230	700
	Carbon Black	388	-212	1,008	-11	1,171	1,117	775	1,389	1,118	4,400
	Graphite Electrode	609	525	845	559	2,539	178	-548	-456	-473	-1,300
	Fine Carbon	-3	162	140	-187	112	-804	-450	-306	-339	-1,900
	Industrial Furnaces	198	138	87	251	676	151	229	61	57	500
	Others	141	178	162	198	681	151	145	117	186	600
	Adjustments	-271	-285	-265	-269	-1,092	-236	-790	-254	-319	-1,600

Net sales of main subsidiaries

(JPY in Millions)

Subsidiaries	January to September, 2015	January to September, 2016	Amount of increase/decrease	Location/Business	Summary
TOKAI ERFT CARBON	7,586	6,190	(1,395)	Germany Graphite Electrode	• Increase of its sales figures • Decrease in the sales prices • Down 700 JPY in Millions due to exchange loss
THAI TOKAI CARBON PRODUCT	9,612	7,402	(2,210)	Thailand Carbon Black	• Increase of its sales figures • Decrease in the sales prices • Down 1200 JPY in Millions due to exchange loss
Tokai Carbon Tianjin	4,279	2,556	(1,723)	China Carbon Black	• Increase of its sales figures • Flat in the sales prices • Down 400 JPY in Millions due to exchange loss
CANCARB	6,479	4,912	(1,567)	Canada Carbon Black	• Increase of its sales figures • Flat in the sales prices • Down 700 JPY in Millions due to exchange loss

Reference Result (Consolidated)

(JPY in Millions)

	Year ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2015	January to September, 2016
Amount of capital investment	12,287	9,007	6,830	5,301	4,378
Depreciation and amortization	8,712	8,656	8,629	9,242	5,890
Research and development expenses	1,961	1,800	1,882	1,822	1,833
Total assets	166,668	183,427	210,439	184,074	154,031
Interest-bearing debt at the end of the fiscal year	20,827	25,762	38,290	23,936	19,132
Financial account balance	(427)	(190)	(139)	82	23
Employee number	1,872	1,916	2,064	2,092	2,031
Exchange rate (JPY/USD)	79.82	97.65	105.85	121.05	108.70

Considerations regarding the future prospects

The descriptions of the future that are contained in this document and that include the earnings forecasts are based on the information which is available as of the date of the publication of this document and on the assumptions as of the date of the publication of this document which are related to the uncertain factors that may affect our future business performance.

Due to various factors, the actual business performance may greatly be different from that described in this document. The factors affecting the actual business performance include, but are not limited to, economic conditions, material prices, product demand trends, product market conditions, and exchange rates.

For IR, please contact below.
Tateno, General Affairs Department ytateno@tokaicarbon.co.jp TEL 03-3746-5239