



FY 2016

Analyst Meeting Material

Results of the Year Ended December 31, 2016

February 16, 2017

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I . FY 2016 Financial Summary

Year Ended December 31, 2016

■ Business Environment

- Carbon Black: The crude oil price shows the sign to increase . Chinese manufacturers have restored their prices, and our foreign subsidiaries have improved their margins.
- Graphite Electrode: The global market continues falling, and the industry are to be restructured.
- Fine Carbon: The solar power industry, etc. are on the way to recover, but the supply-demand imbalance continues.

■ Operating trends

Sales: Down 15.5% year on year due to lower sales price in the key business segments (Carbon Black, Graphite Electrodes and Fine Carbon).

Operating income: Down 72.3% year on year due to the impact of measures to reduce inventories, 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)
Declining in sales, profit of Graphite Electrode	3,898 JPY in Millions (loss)
Closing one production line of Tokai Carbon (Tianjin) Co., Ltd.	2,166 JPY in Millions (loss)
Loss due to the disposal of the golf practice range in Aichi Prefecture	380 JPY in Millions (loss)
Special Severance Payment	314 JPY in Millions

Summary of Consolidated Results

- Decrease in Sales and Operating income due to the lower selling prices and one-off expenses item (allowance for doubtful accounts, research and development expenses)
- Net loss (attributable to owners of the parent company) was recorded mainly due to the special loss of approximately 11,000 JPY millions

(JPY in Millions)

	Jan-Dec 2015	Jan-Dec 2016	YoY Change	Change %
Net Sales	104,864	88,580	(16,284)	(15.5%)
Operating Income	4,088	1,131	(2,957)	(72.3%)
Ordinary Income	4,317	1,702	(2,614)	(60.6%)
Net Income/(Loss) Attributable to the Owners of the Parent Company	2,484	(7,929)	(10,414)	

Group companies

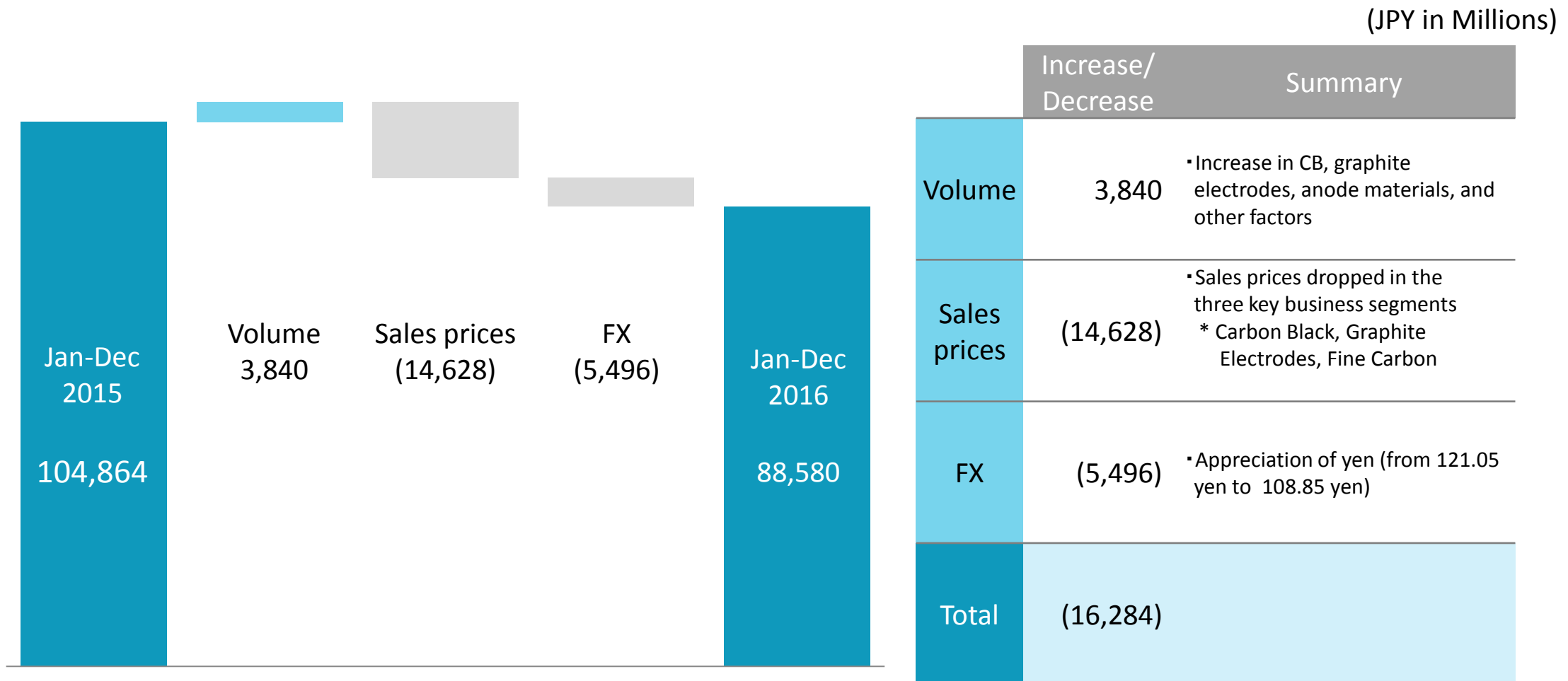
- Consolidated subsidiaries 24
- Affiliated accounted for by the equity method 5

Average exchange rate during the period:

- FY2015 \$1=¥121.05
- FY2016 \$1=¥108.85

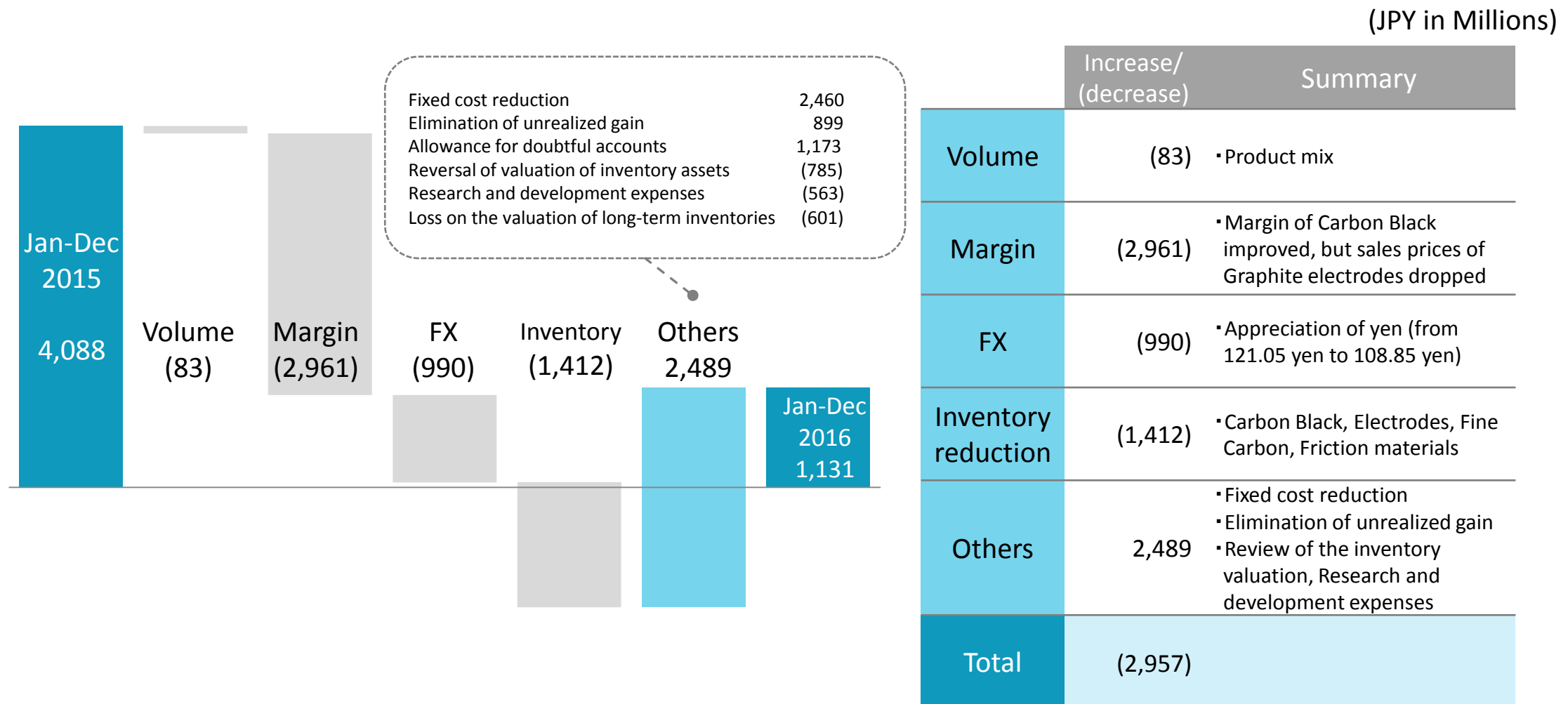
YoY Analysis: Net Sales

- Decline in the sales price of Carbon Black and Graphite Electrodes segments and FX appreciation of yen influenced the sales to drop



YoY Analysis: Operating Income

- Huge loss was mainly due to the falling price of graphite electrode
- Decrease in fixed cost (such as labor cost, amortization expenses), reversal of loss on valuation of inventory assets at the end of the period, and reversal of elimination of unrealized gain



Net sales and Operating Income by Segment

- Net sales: Selling prices of Carbon Black and graphite electrodes dropped.
- Operating income: Substantial decline in graphite electrode pricing, provision of allowance for doubtful accounts in the fine Carbon business and R&D expenses affected the lower income

(JPY in Millions)

		Net Sales			Operating Income		
		Jan-Dec 2015	Jan-Dec 2016	YoY Change	Jan-Dec 2015	Jan-Dec 2016	YoY Change
Carbon Black		46,224	37,764	(8,459)	1,171	4,755	3,583
Graphite Electrode		26,960	20,714	(6,245)	2,539	(1,290)	(3,830)
Fine Carbon		14,973	12,925	(2,047)	112	(1,825)	(1,937)
Industrial furnaces and related products		5,212	5,243	31	676	516	(160)
Others	Friction materials	8,235	7,606	(628)	—	—	—
	others	3,260	4,325	1,065	—	—	—
		11,495	11,932	436	681	522	(158)
Adjustments		-	-		(1,092)	(1,546)	(453)
Total		104,864	88,580	(16,284)	4,088	1,131	(2,957)

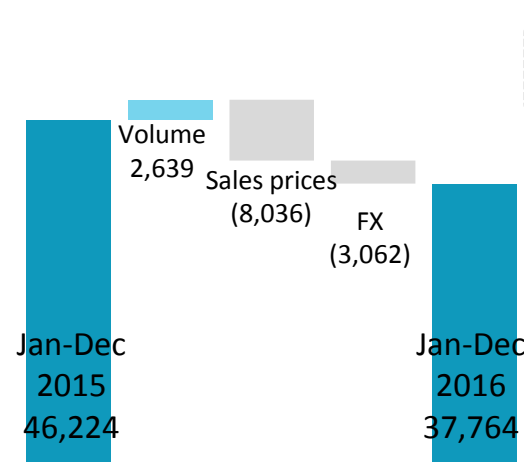
Carbon Black

- As the raw material prices declined, sales prices also dropped. Net sales decreased 18.3% year on year.
- Profit improvement at both Chinese and Thailand subsidiaries which drove the higher operating income
- Others: Due to the factors such as reversal of loss on valuation of inventory (approximately 1100 JPY in Millions) , the effect derived from the reduction in the labor as well as service costs and the reduction in depreciation cost (approximately 1000 JPY in Millions in total), the operating income increased

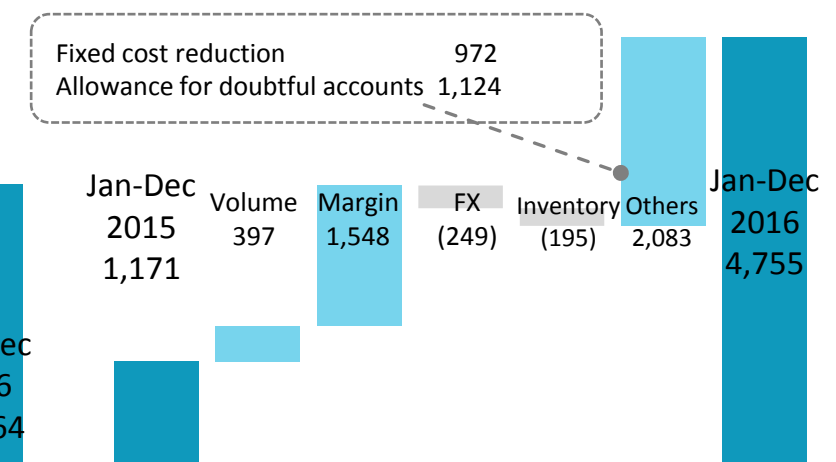
(JPY in Millions)

	Jan-Dec 2015	Jan-Dec 2016	YoY Change	Change %
Net sales	46,224	37,764	(8,459)	(18.3%)
Operating Income	1,171	4,755	3,583	305.9%
ROS	2.5%	12.6%	10.1	

Net Sales Variance



Operating Income Variance



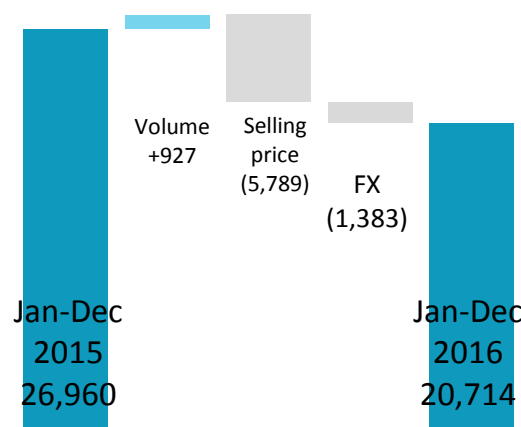
Graphite Electrodes

- Sales dropped by 23.2% (YoY) due to the significant price drop coming from the continued structural recession and the stronger Yen
- Decrease in operating income due to the lower market price, strong yen and inventory adjustment
- Others (profit increase): Reversal of elimination of unrealized gain to overseas subsidiaries, etc.

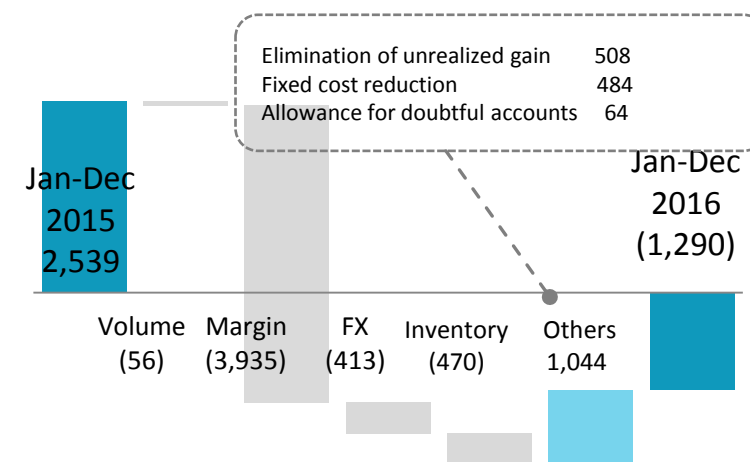
(JPY in Millions)

	Jan-Dec 2015	Jan-Dec 2016	YoY Change	Change %
Net Sales	26,960	20,714	(6,245)	(23.2%)
Operating Income	2,539	(1,290)	(3,830)	—%
ROS	9.4%	(6.2%)	(15.6)	

Net Sales Variance



Operating Income Variance



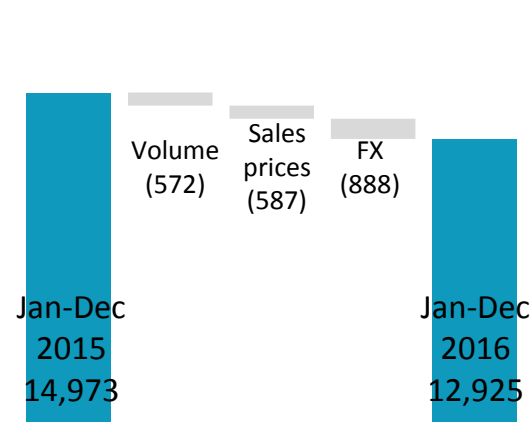
Fine Carbon

- 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 800 JPY in Millions)
- Others (profit negative)
 - Allowance for doubtful accounts and related cost to the US customer (approximately 800 JPY in Millions)
 - Loss on the valuation of long-term inventories (approximately 300 JPY in Millions)

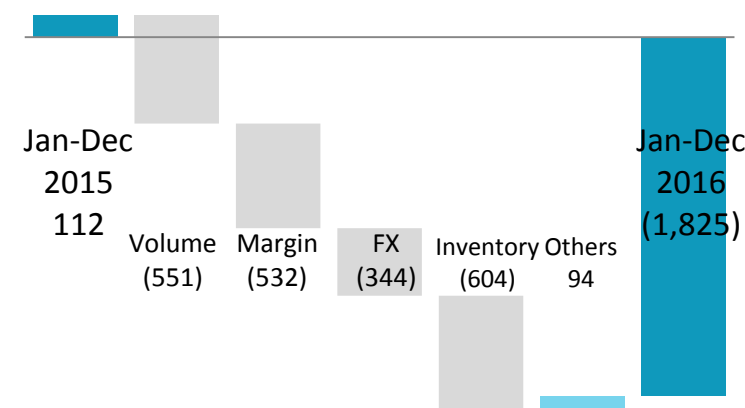
(JPY in Millions)

	Jan-Dec 2015	Jan-Dec 2016	YoY Change	Change %
Net sales	14,973	12,925	(2,047)	(13.7%)
Operating Income	112	(1,825)	(1,937)	—%
ROS	0.8%	(14.1%)	(14.9)	

Net Sales Variance



Operating Income Variance



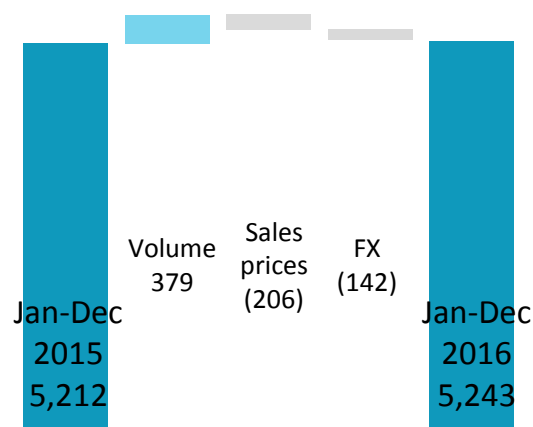
Industrial Furnaces and Related Products

- 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 product sales mix. This resulted in a decrease in the margins of the ceramic products.

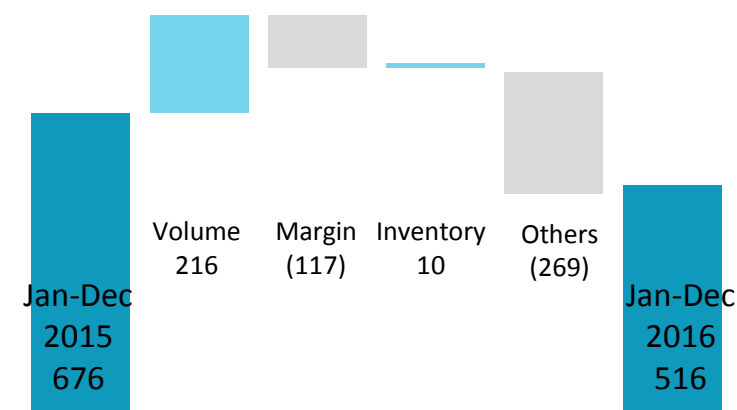
(JPY in Millions)

	Jan-Dec 2015	Jan-Dec 2016	YoY Change	Change %
Net sales	5,212	5,243	31	0.6%
Operating Income	676	516	(160)	(23.7%)
ROS	13.0%	9.8%	(3.2)	

Net Sales Variance



Operating Income Variance



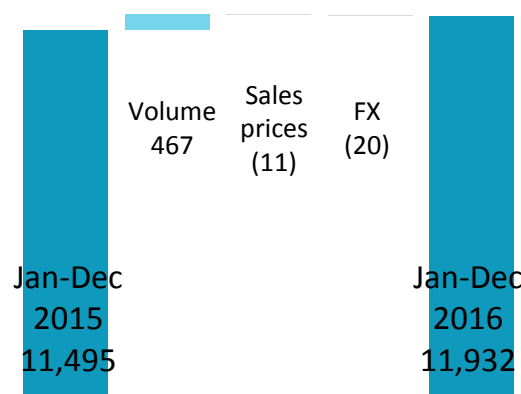
Others (Friction Materials, LiB, others)

- Sales of friction materials were 7.6% 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 36.3% higher than in the same period last year.

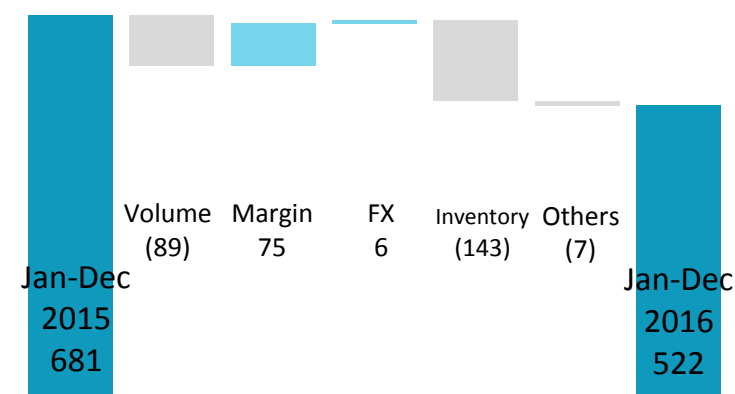
(JPY in Millions)

	Jan-Dec 2015	Jan-Dec 2016	YoY Change	Change %
Net sales	11,495	11,932	436	3.8%
Operating Income	681	522	(158)	(23.3%)
ROS	5.9%	4.4 %	(1.5)	

Net Sales Variance



Operating Income Variance



Cash flows

(JPY in Millions)

Major Cash Flow Items

	Jan-Dec 2015	Jan-Dec 2016	Summary
Cash flows from operating activities	20,613	17,505	- The inventory reduction 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.
Net income (loss) before income taxes for half quarter	6,726	(7,938)	
Depreciation and amortization	9,242	8,124	
Impairment loss	4,326	10,707	
Loss (gain) on sales of property, plant and equipment	(1,070)	(1,383)	
Increase (decrease) in allowance for doubtful accounts	(25)	429	
Increase (decrease) in trade receivables	6,300	2,179	
Increase (decrease) in inventories	5,698	12,611	
Income tax paid	(1,977)	(4,149)	
Cash flows from investing activities	3,189	(3,622)	
Purchase of tangible fixed assets	(5,909)	(5,168)	
Proceeds from sales of property, plant and equipment	1,699	1,610	
Cash flows from financing activities	(14,926)	(7,613)	
Net increase (decrease) in short-term borrowings	(11,452)	(4,156)	
Proceeds from long-term debt	4,000	-	
Repayment of long-term debt	(6,071)	(2,068)	
Cash and cash equivalents at end of the period	22,919	28,521	

Balance sheet

(JPY in Millions)

Major Balance sheet items

	December 31, 2015	December 31, 2016	Summary
Total fixed assets	184,074	158,824	
Current assets	87,968	77,645	
Cash and cash equivalents	16,045	16,528	
Notes and accounts receivable	26,897	24,220	Tangible fixed assets (down 13,506 JPY in Millions from the end of the previous fiscal year)
Merchandise and finished goods	13,828	7,516	▪ Capital expenditure: 6,013 JPY in Millions (up 711 JPY in Millions from the same period last year)
Work in process	12,182	7,886	▪ Depreciation and amortization: 8,124 JPY in Millions (down 1,118 JPY in Millions from the same period last year)
Raw materials and supplies	8,241	5,330	▪ Impairment loss: 10,707 JPY in Millions (up 6,380 JPY in Millions from the same period last year)
Fixed assets	96,106	81,178	
Tangible fixed assets	56,629	43,122	
Intangible fixed asset	11,324	10,534	
Investments and other assets	28,153	27,521	
Total liabilities	59,103	45,834	▪ Interest-bearing liabilities: 17,048 JPY in Millions (down 6,888 JPY in Millions from the end of the previous fiscal year)
Current liabilities	31,126	29,028	
Fixed liabilities	27,976	16,806	
Total net assets	124,971	112,989	
Shareholders' capital	108,910	99,693	▪ Capital-to-asset ratio: 69.9% (66.9% at the end of the previous fiscal year)
Other accumulated comprehensive income	14,004	11,296	
Non-controlling interests	2,055	1,998	
Total liabilities and net assets	184,074	158,824	



II . Earnings Forecast for FY 2017

Forecast of the consolidated earnings FY 2017

- Recovery of overall performance consists from several factors, as evaluation loss, allowance for doubtful receivables, R&D expenses recorded in the previous period, and the cost reduction of each operating business due to the executed structural reform plans.

(JPY in Millions)

	Result FY2016			Forecast FY2017			Increase/ Decrease	Change %
	First half	Second half	Full Year	First half	Second half	Full Year		
Net sales	44,872	43,708	88,580	43,000	46,000	89,000	420	0.5%
Operating Income	(80)	1,211	1,131	1,800	3,400	5,200	4,069	359.8%
Ordinary income	(235)	1,937	1,702	2,300	3,800	6,100	4,398	258.3%
Profit attributable to the Owners of the Parent Company	(5,900)	(2,029)	(7,929)	4,200	2,800	7,000	14,929	—
ROS	—	2.8%	1.3%	4.2%	7.4%	5.8%	—	—
ROIC	—	—	0.7%	—	—	4.2%	—	—
ROE	—	—	(6.8%)	—	—	6.4%	—	—

Group companies

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

Average exchange rate during the period

- 2015 \$1=¥108.85
- 2016 \$1=¥105.00

Forecast FY2017 by Segment

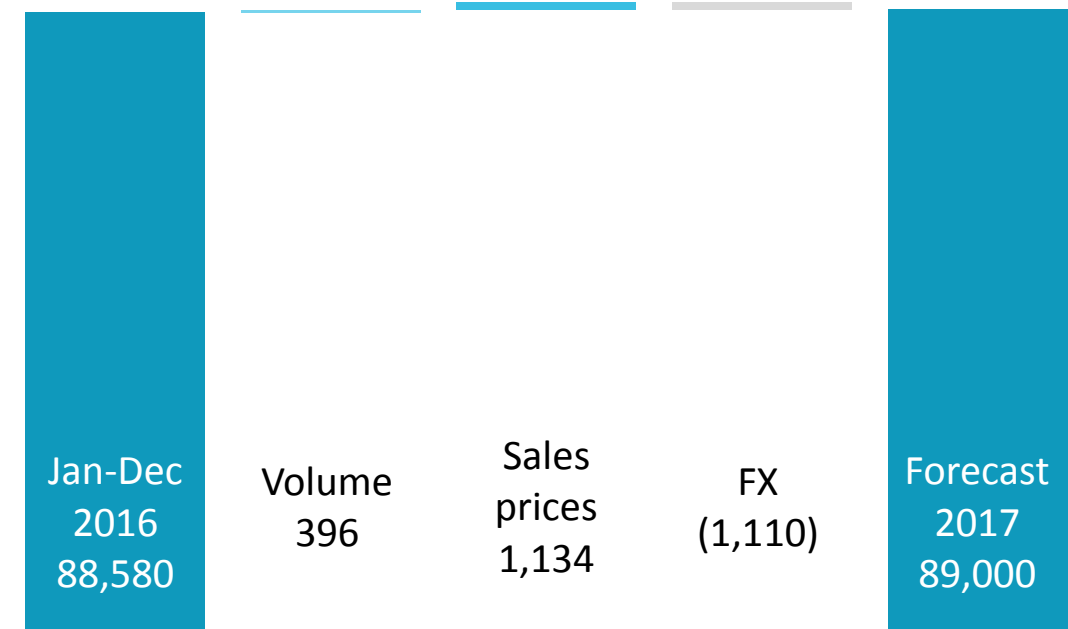
(JPY in Millions)

		Result FY2016			Forecast FY2017			Increase/ Decrease	Change %
		First half	Second half	Full Year	First half	Second half	Full Year		
Net sales		44,872	43,708	88,580	43,000	46,000	89,000	420	0.5%
Carbon Black		18,297	19,466	37,764	19,700	20,700	40,400	2,636	7.0%
Graphite electrode		10,833	9,880	20,714	8,300	8,500	16,800	(3,914)	(18.9%)
Fine Carbon		6,770	6,154	12,925	6,500	6,800	13,300	375	2.9%
Industrial furnaces and related products		2,956	2,287	5,243	2,800	3,500	6,300	1,057	20.1%
Others	Friction Materials	3,768	3,838	7,607	3,900	4,100	8,000	393	5.2%
	Others	2,246	2,079	4,325	1,800	2,400	4,200	(125)	(2.9%)
	Total	6,014	5,918	11,932	5,700	6,500	12,200	268	2.2%
Operating income		(80)	1,212	1,131	1,800	3,400	5,200	4,069	359.5%
Carbon Black		1,892	2,862	4,755	2,100	2,600	4,700	(55)	(1.2%)
Graphite electrode		(370)	(920)	(1,290)	(600)	(300)	(900)	390	30.3%
Fine Carbon		(1,254)	(570)	(1,825)	300	700	1,000	2,825	—
Industrial Furnaces and Related Products		381	135	516	400	500	900	384	74.3%
Others		297	224	522	200	500	700	178	34.0%
Adjustments		(1,027)	(519)	(1,546)	(600)	(600)	(1,200)	346	—

Net Sales Variance

- Same level as previous year

Net Sales Variance

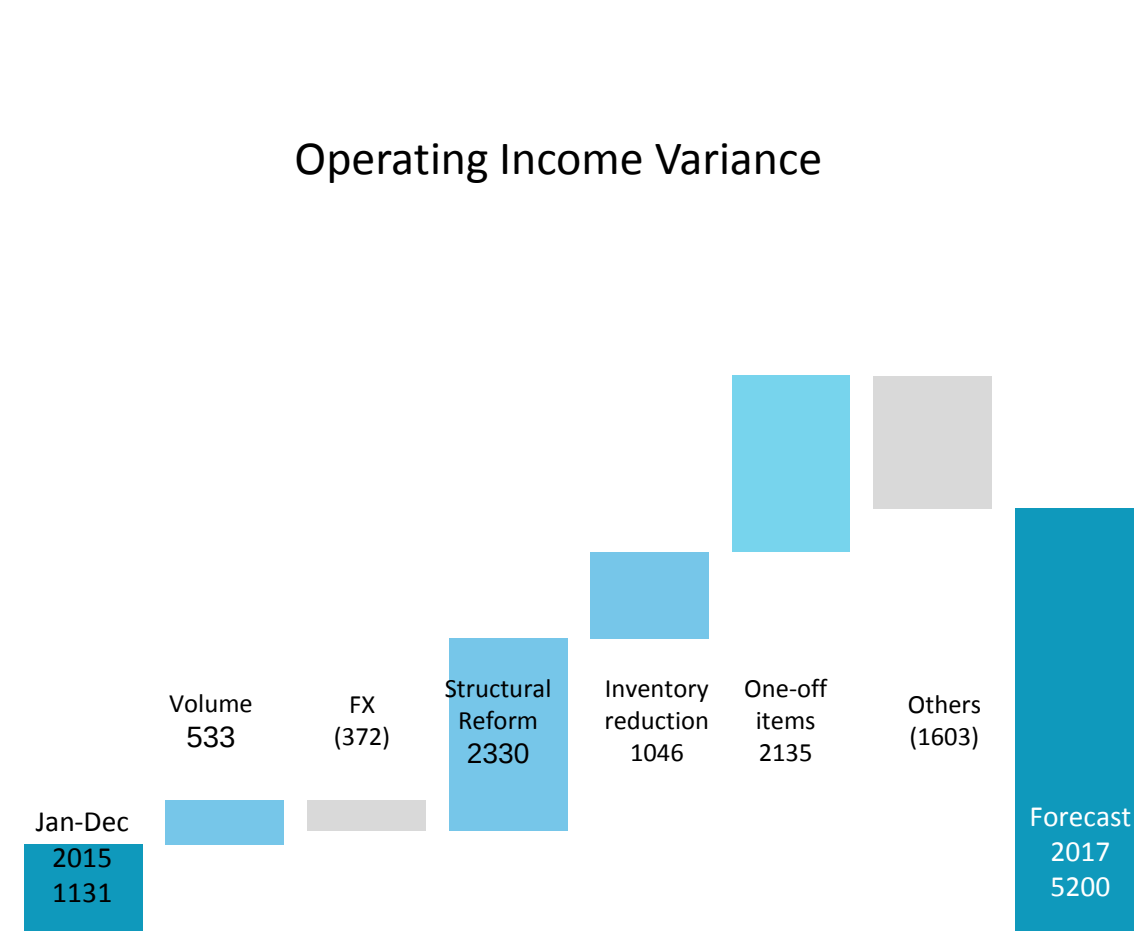


(JPY in Millions)

	Increase/ decrease	Summary
Volume	396	▪ Volume increases in Industrial furnaces, Carbon Black and Friction Materials
Sales prices	1,134	▪ Higher in Carbon Black ▪ Lower in Graphite electrode↓
FX	(1,110)	▪ USD 108.85 JPY → 105.00 JPY ▪ EUR 120.33 JPY → 110.00 JPY
Total	420	

Operating Income Variance

- Recovery of operating income mainly coming from the structural reforms, completion of inventory adjustments (recovery of operating rate) and elimination of one-off items



	Increase/ Decrease	Summary
Volume	533	Recovery of Industrial furnaces
Sales prices	(372)	•USD 108.85 JPY→105.00 JPY •EUR 120.33 JPY→110.00 JPY
Structural Reform	2,330	Restructuring of 3 core businesses
Inventory reduction	1,046	Cost fluctuation in accordance with the inventory adjustment (recorded in the previous period)
One-off items	2,135	Such as immovable stock disposal, allowance for doubtful receivables, and research and development expenses (recorded in the previous period)
Others	(1,603)	Such as fluctuation in unrealized gains elimination amount (recorded in the previous period), and asset evaluation at the end of the period
Total	4,069	

Reference Material



Quarterly Segment Results

(JPY in Millions)

		2015					2016				
		Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
Net sales		27,647	26,337	26,512	24,367	104,864	22,643	22,229	21,501	22,206	88,580
	Carbon Black	13,046	11,987	11,493	9,696	46,224	9,487	8,809	9,507	9,959	37,764
	Graphite Electrode	7,014	6,441	6,780	6,724	26,960	5,522	5,311	4,810	5,069	20,714
	Fine Carbon	3,658	3,886	3,994	3,434	14,973	3,435	3,335	3,038	3,116	12,925
	Industrial Furnaces Related Materials	1,278	1,225	1,310	1,397	5,212	1,240	1,715	1,084	1,202	5,243
	Friction materials	2,099	2,071	2,051	2,013	8,235	1,925	1,842	1,873	1,965	7,606
	Others	550	725	882	1,101	3,260	1,031	1,214	1,185	893	4,325
	Total	2,650	2,796	2,934	3,114	11,495	2,957	3,057	3,059	2,859	11,932
Operating Income		1,062	506	1,979	539	4088	557	-638	551	661	1,131
	Carbon Black	388	-212	1,008	-11	1,171	1,117	775	1,389	1,472	4,755
	Graphite Electrode	609	525	845	559	2,539	178	-548	-456	-463	-1,290
	Fine Carbon	-3	162	140	-187	112	-804	-450	-306	-264	-1,825
	Industrial Furnaces Related Materials	198	138	87	251	676	151	229	61	73	516
	Others	141	178	162	198	681	151	145	117	107	522
	Adjustments	-271	-285	-265	-269	-1,092	-236	-790	-254	-264	-1,546

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	Year ended December 31, 2016
Amount Capex investment	12,287	9,007	6,830	5,301	6,013
Depreciation and amortization	8,712	8,656	8,629	9,242	8,124
Research and development expenses	1,961	1,800	1,882	1,822	2,249
Total assets	166,668	183,427	210,439	184,074	158,824
Interest-bearing debt at the end of the fiscal year	20,827	25,762	38,290	23,936	17,048
Financial account balance	(427)	(190)	(139)	82	82
Number of employee	1,872	1,916	2,064	2,092	1,980
Exchange rate (JPY/USD)	79.82	97.65	105.85	121.05	108.85

Net sales of main subsidiaries

(JPY in Millions)

Subsidiaries	FY 2015	FY 2016	Amount of increase/decrease	Location/Business	Summary
TOKAI ERFT CARBON	9,886	8,161	(1,725)	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	11,986	10,104	(1,881)	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	5,439	3,477	(1,961)	China Carbon Black	▪ Increase of its sales figures ▪ Flat in the sales prices ▪ Down 400 JPY in Millions due to exchange loss
CANCARB LTD.	8,114	6,550	(1,567)	Canada Carbon Black	▪ Increase of its sales figures ▪ Flat in the sales prices ▪ Down 700 JPY in Millions due to exchange loss

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.

Nami Yajima, IR section

nyajima@tokaicarbon.co.jp

TEL 03-3746-5148