

First Quarter, FY 2018 Analyst Meeting Material

First Quarter Results for the Year ending December 31, 2018

May 8, 2018



Tokai Carbon Co., Ltd.

Table of Contents

I	First Quarter, FY 2018 Financial Summary	P3
II	Earnings Forecast for FY 2018	P16
III	Mid to Long-term Strategy	P22

I

First Quarter, FY 2018

Financial Summary

Business Environment

- Graphite Electrodes: Production of electric furnace steel remained strong.
The tight supply of graphite electrodes as well as its raw material worsened.
- Carbon Black: The environmental regulations in China caused a sense of tight supply in the market, from the standpoint of raw materials and production.
Order inquiries from tire manufacturers remained at a high level.
- Fine Carbon: Demand for graphite materials grew, even for general industry use, in addition to strong demand from the solar cell and semiconductor markets.
Market conditions improved, primarily in Asia.

Operating Trends

- Sales: Sales rose 72.6% YoY due to an increase in sales prices for graphite electrodes and carbon black, among other factors.
The new graphite electrode production plant in North America contributed ¥4,536 million to sales.
- Operating income: Operating income rose 617.8% YoY. Growth in graphite electrodes contributed substantially to this and other businesses also performed well.

Revision of Earnings Forecast for Fiscal Year 2018 (as of May 8)

The previous forecasts (February 13) for net sales and operating income were revised upward.

- Net sales rose 17.4 billion yen YoY and operating income increased by 11.0 billion yen YoY.
- ROS (Return on Sales) increased from 7% to 31%.
- The graphite electrodes business drove the growth in FY 2017.

	(Millions of yen)			
	Jan-Mar 2017	Jan-Mar 2018	YoY Change	% Change
Net Sales	24,104	41,595	17,491	72.6%
Operating Income	1,781	12,787	11,005	617.8%
Ordinary Income	2,014	12,761	10,746	533.4%
Net Income Attributable to Owners of the Parent Company	1,604	9,267	7,662	477.5%

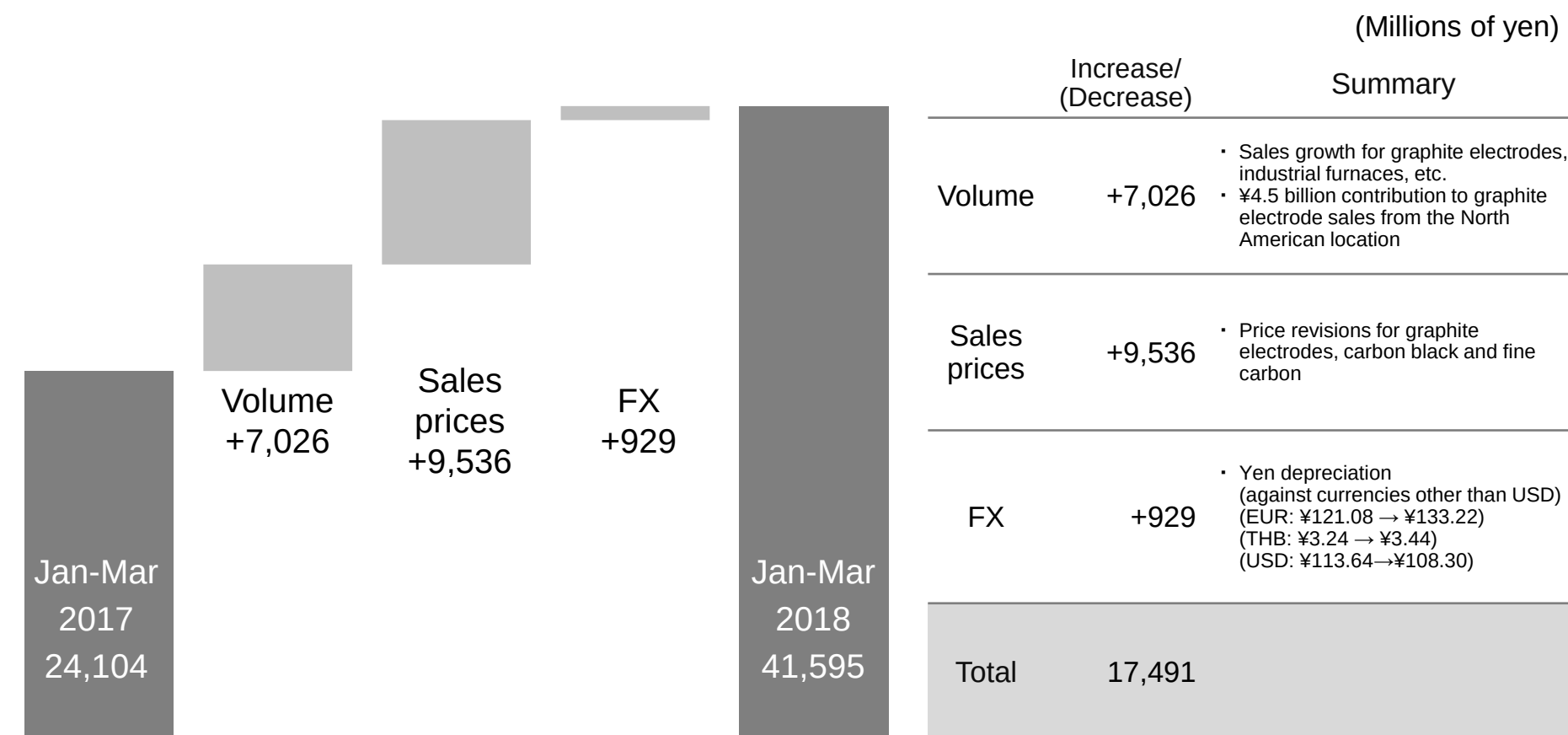
Group companies (As of March 31, 2018)

- Consolidated subsidiaries: 27 (No change)
- Equity method affiliates: 3 (No change)

Average exchange rate for the first quarter:

- 2017 \$1=¥113.64
- 2018 \$1= ¥108.30

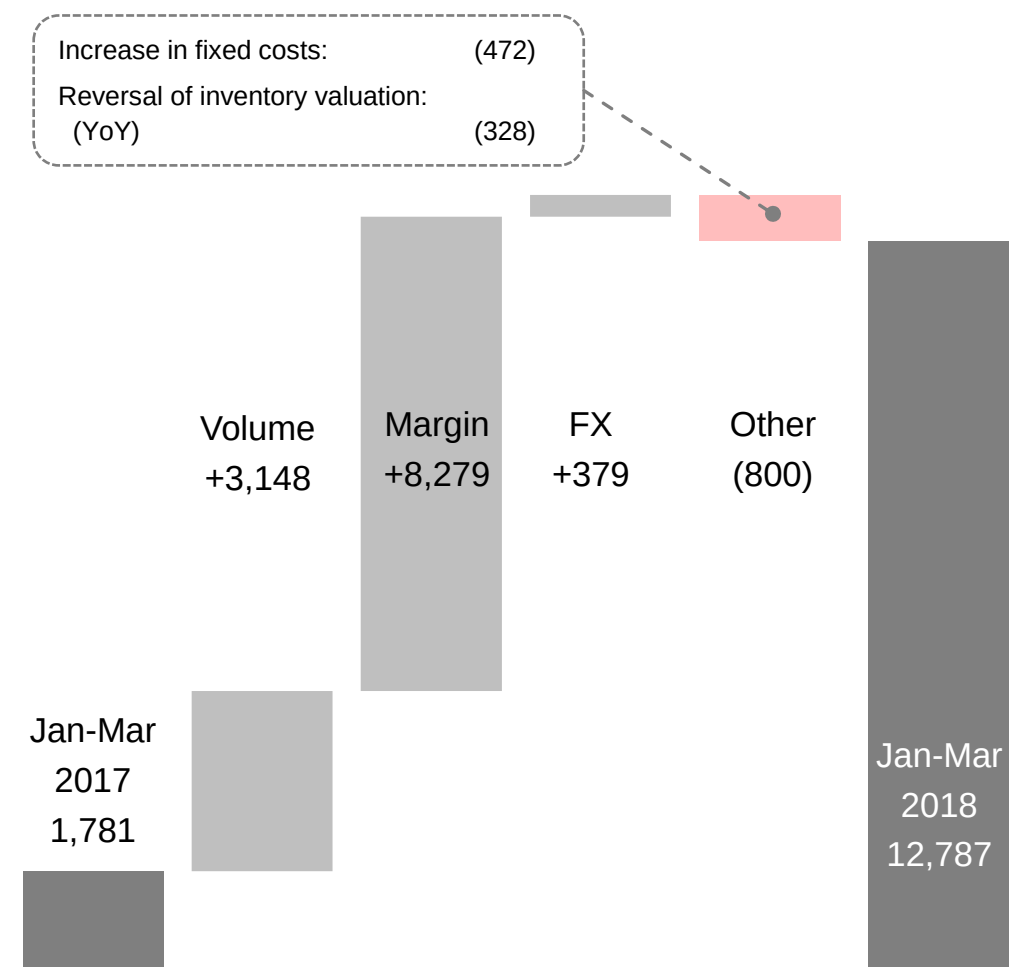
- The majority of the volume growth came from the acquisition of the North American graphite electrode plant. An increase in industrial furnace sales was also a contributing factor.
- The majority of the increase in sales prices was from graphite electrodes. Price revisions for carbon black also contributed to the increase.



YoY Analysis: Operating Income

7

- Graphite electrodes were the major reason for the increase in profit margin. The price revision for carbon black also contributed to the increase.
- Growth in volume sales due to the consolidation of the North American subsidiary also contributed to the increase in profit margin.



(Millions of yen)		
	Increase/ (Decrease)	Summary
Volume	+3,148	Graphite electrodes, industrial furnaces, etc.
Margin	+8,279	- Positive effect from price increases on graphite electrodes, carbon black, and fine carbon - Cost reduction
FX	+379	Yen depreciation (for currencies other than USD) (USD: ¥113.64→¥108.30) (EUR: ¥121.08→¥133.22)
Other	(800)	Amortization of goodwill for North American subsidiary, and an increase in labor costs and other fixed costs
Total	11,005	

Net Sales and Operating Income by Segment

8

- Growth of the graphite electrodes business had a major impact.
- Other businesses saw strong performance overall.

(Millions of yen)

		Net Sales			Operating Income		
		Jan-Mar 2017	Jan-Mar 2018	YoY Change	Jan-Mar 2017	Jan-Mar 2018	YoY Change
Graphite Electrodes		5,136	16,984	11,847	144	8,558	8,413
Carbon Black		11,344	14,276	2,931	1,479	2,816	1,336
Fine Carbon		3,394	3,893	498	47	708	661
Industrial Furnaces and Related Products		1,207	2,663	1,456	195	633	437
Other Operations	Friction materials	2,033	2,296	263	-	-	-
	Anode materials	930	1,439	509	-	-	-
	Others	58	42	(16)	-	-	-
		3,021	3,778	757	209	320	111
Inter-segment eliminations		-	-	-	(294)	(250)	44
Total		24,104	41,595	17,491	1,781	12,787	11,005

- Net sales increased by 230.6% YoY.

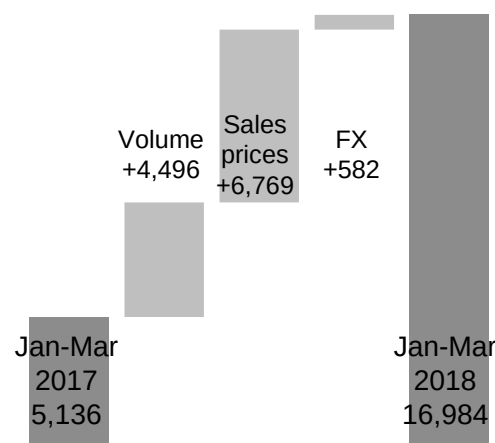
The increase in volume from the North American plant contributed 4,536 million yen to sales.

- Operating income saw strong YoY growth.

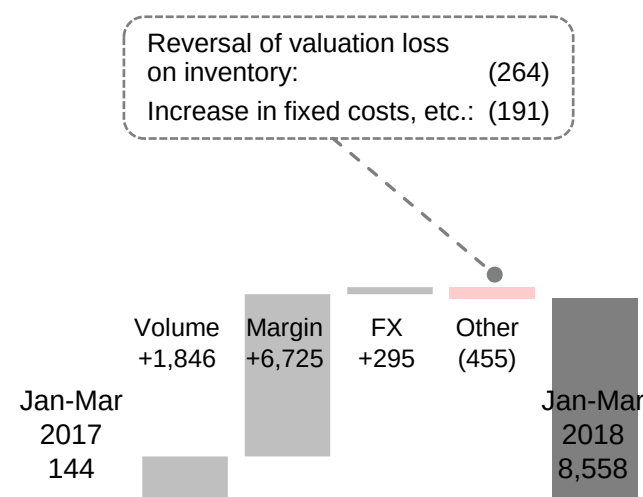
Market prices improved from the prices contracted during 2018 due to the rebound in global production of Electric Arc Furnace (EAF) steel, the shift to EAF in China, and tight supply of the raw materials used in graphite electrodes. Volume growth at the North American subsidiary also contributed to profit growth.

	(Millions of yen)			
	Jan-Mar 2017	Jan-Mar 2018	YoY Change	% Change
Net Sales	5,136	16,984	11,847	230.6%
Operating Income	144	8,558	8,413	5,813.5%
ROS	2.8%	50.4%		

Net Sales Variance



Operating Income Variance



■ Favorable business environment

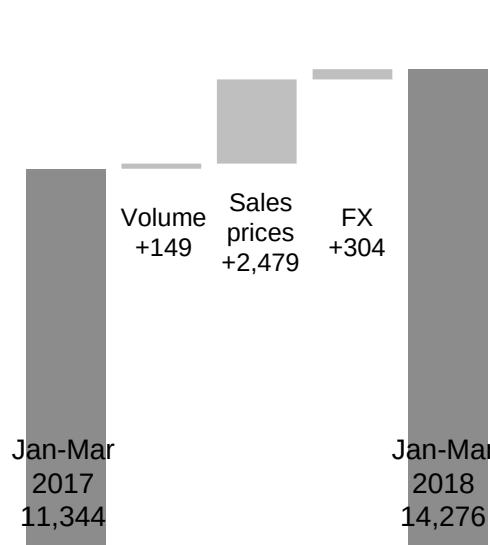
Carbon black supply was tight worldwide, Chinese carbon black manufacturers receded, and order inquiries from tire manufacturers increased substantially.

- Net sales increased by 25.8% YoY due to an increase in sales prices along with the increase in the price of crude oil.
- Operating income rose 90.4% YoY due to a combination of, improvement in production efficiency by resolving bottlenecks, a rebound in overseas market conditions, and the full production.

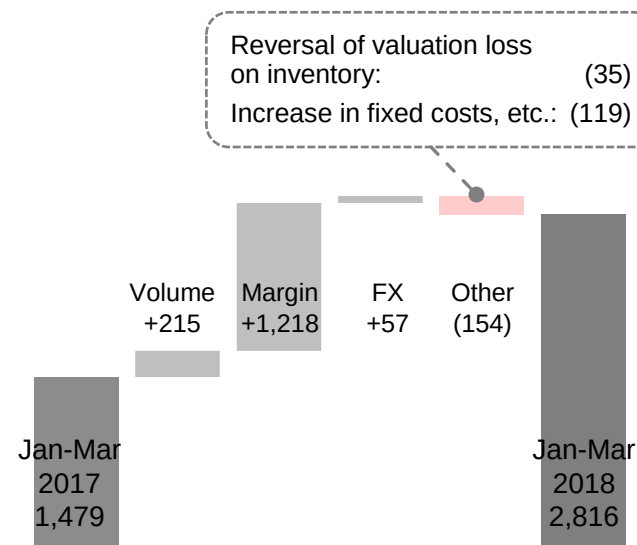
(Millions of yen)

	Jan-Mar 2017	Jan-Mar 2018	YoY Change	% Change
Net Sales	11,344	14,276	2,931	25.8%
Operating Income	1,479	2,816	1,336	90.4%
ROS	13.0%	19.7%		

Net Sales Variance



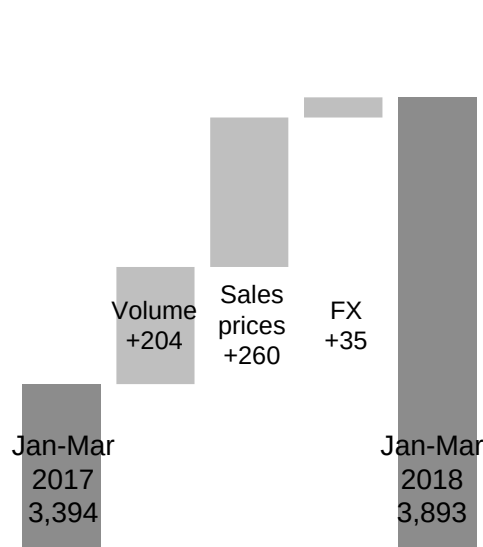
Operating Income Variance



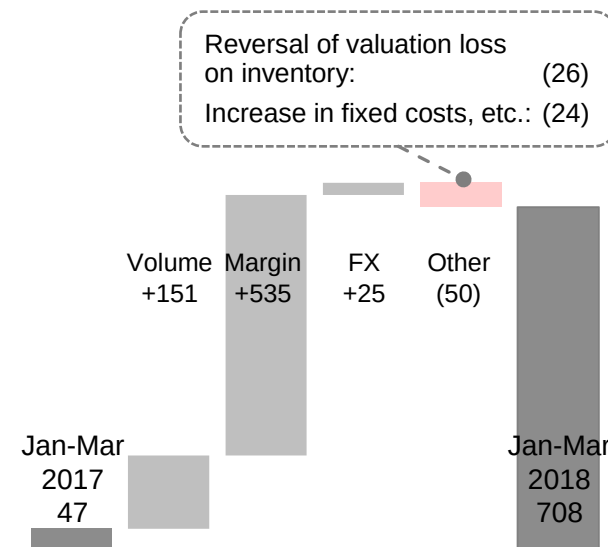
- Demand in the solar cell and semiconductor markets was strong as well as for general industrial use. Price revisions also contributed to a 14.7% YoY increase in net sales.
- The substantial growth in operating income resulted from the beneficial effect from increases in sales prices and also from continued work on the structural reforms implemented in FY 2016 (reduction in fixed costs).

	Jan-Mar 2017	Jan-Mar 2018	YoY Change	% Change
Net Sales	3,394	3,893	498	14.7%
Operating Income	47	708	661	1,395.2%
ROS	1.4%	18.2%		

Net Sales Variance



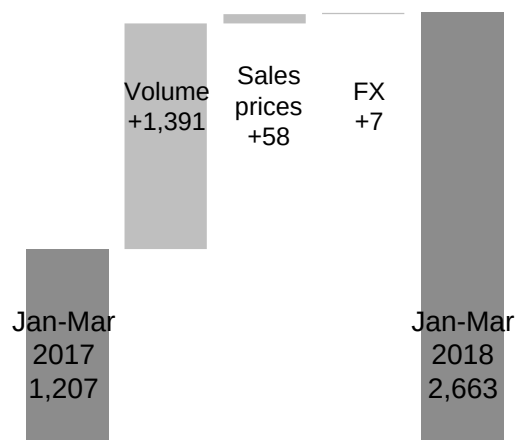
Operating Income Variance



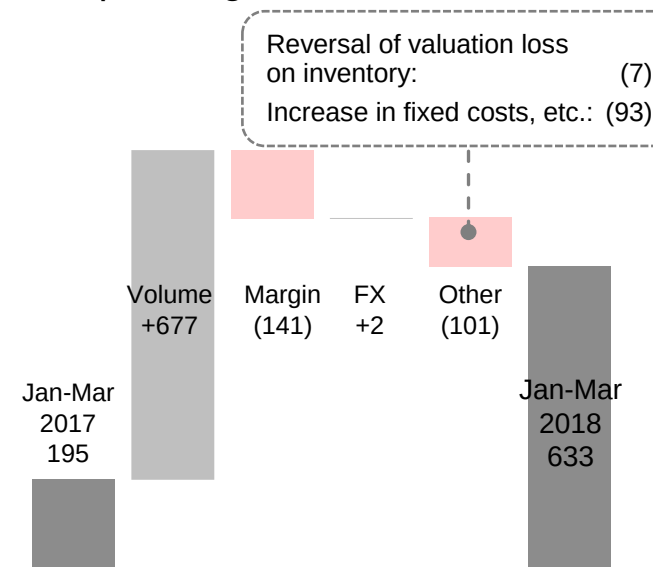
- Growth in sales of industrial furnaces for automotive MLCC (Multi-layer Ceramic Capacitors) and LiB (secondary lithium-ion batteries) contributed to net sales growth of 120.6% YoY.
- The large increase in operating income reflected the growth in sales, despite a slight deterioration in the profit margin due to a change in product mix.

	Jan-Mar 2017	Jan-Mar 2018	YoY Change	% Change
Net Sales	1,207	2,663	1,456	120.6%
Operating Income	195	633	437	224.1%
ROS	16.2%	23.8%		

Net Sales Variance

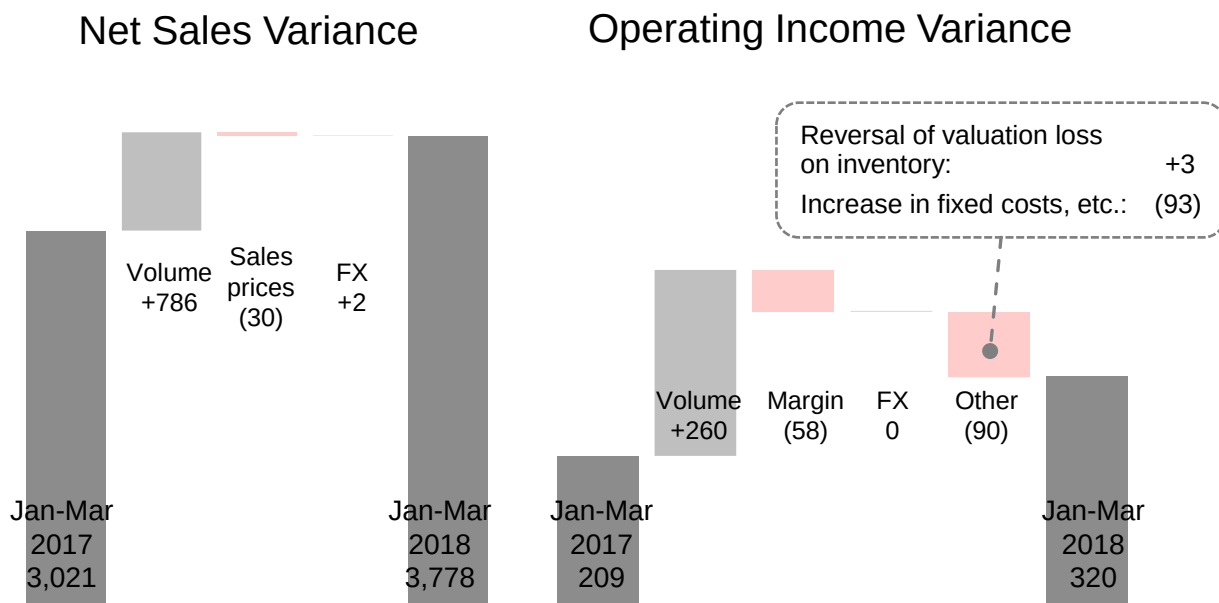


Operating Income Variance



- Friction materials benefitted from strong demand for use in construction machinery, machine tools, and industrial robots, boosting sales by 13% YoY.
- Volume growth in sales of anode materials also contributed to sales growth of 54.8% YoY.
- The growth in sales of friction materials and anode materials resulted in growth in operating income despite negative factors such as an increase in fixed costs.

	(Millions of yen)			
	Jan-Mar 2017	Jan-Mar 2018	YoY Change	% Change
Net Sales	3,021	3,778	757	25.1%
Operating Income	209	320	111	53.2%
ROS	6.9%	8.5%		



(Millions of yen)

Major Cash Flow Items

	Jan-Mar 2017	Jan-Mar 2018	Summary
Cash flows from operating activities	2,551	6,633	
Net income (loss) before income taxes for the quarter	2,073	12,761	
Depreciation and amortization	1,642	1,708	
Impairment loss	0	-	
Loss (gain) on sale of property, plant and equipment	1	-	
Decrease (increase) in trade receivables	830	(4,981)	
Decrease (increase) in inventories	(837)	(5,395)	
Increase (decrease) in accounts payable-trade	523	2,022	
Income tax paid	(1,257)	(1,626)	
Cash flows from investing activities	(937)	(1,308)	
Purchase of property, plant and equipment	(885)	(1,257)	
Proceeds from sale of property, plant and equipment	2	-	
Expenditure for acquisition of TCGE	-	-	
Cash flows from financing activities	(7,449)	(1,790)	
Net increase (decrease) in short-term loans payable	540	(333)	
Repayment of long-term loans payable	(6,255)	-	
Payment of dividends	(639)	(1,278)	
Cash and cash equivalents at end of period	22,413	24,985	

(Millions of yen)

Major Balance Sheet Items

	December 31, 2017	March 31, 2018	Summary
Total assets	182,972	187,870	
Current assets	85,241	96,041	
Cash and cash equivalents	22,152	24,993	
Notes and accounts receivable	30,265	34,761	• Tangible fixed assets (decrease of ¥1,345 million from the end of the previous period)
Merchandise and finished goods	9,257	10,419	• Intangible fixed assets (decrease of ¥1,496 million from the end of the previous period)
Work in process	10,063	12,263	Capital expenditures: ¥1,578 million (increase of ¥192 million from the end of the previous period)
Raw materials and supplies	8,041	9,551	Depreciation and amortization: ¥1,708 million (increase of ¥65 million from the end of the previous period)
Fixed assets	97,731	91,828	Amortization of goodwill: ¥274 million (increase of ¥177 million from the end of the previous period)
Tangible fixed assets	48,447	47,102	
Intangible fixed assets	17,746	16,249	
Investments and other assets	31,537	28,476	
Total liabilities	56,372	58,058	
Current liabilities	36,870	40,988	• Interest-bearing debt of ¥15,743 million (decrease of ¥401 million from the end of the previous period)
Long-term liabilities	19,501	18,070	
Total net assets	126,599	128,811	
Shareholder's capital	109,558	117,406	• Capital-to-asset ratio: 68.2% (End of previous period: 68.8%)
Other accumulated comprehensive income	16,276	10,663	
Non-controlling interests	763	741	
Total liabilities and net assets	182,972	187,870	

II

FY 2018

Earnings Forecast

Revision of Consolidated Earnings Forecast for FY 2018 (announced May 8)

17

- Net Sales: ¥194.0 billion
- Operating Income: ¥63.7 billion
- Growth in the graphite electrode market will continue and other businesses will also perform well.

(Millions of yen)

	Previous Forecast (February 13)			New Forecast for FY 2018			Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net Sales	79,200	94,800	174,000	88,000	106,000	194,000	+20,000	+11.5%
Operating Income	16,700	26,300	43,000	27,700	36,000	63,700	+20,700	+48.1%
Ordinary Income	17,000	27,000	44,000	28,000	36,800	64,800	+20,800	+47.3%
Net Income Attributable to Owners of the Parent Company	12,000	18,000	30,000	20,200	26,600	46,800	+16,800	+56.0%
ROS	21.1%	27.7%	24.7%	31.5%	34.0%	32.8%	-	-
ROIC	-	-	25.5%	-	-	36.8%	-	-
ROE	-	-	23.6%	-	-	34.7%	-	-

Group companies

- Consolidated subsidiaries: 27
- Equity method affiliates: 3

Average exchange rates:

- 2017 \$1=¥112.19
- 2018 \$1=¥105.00 (2Q onward)

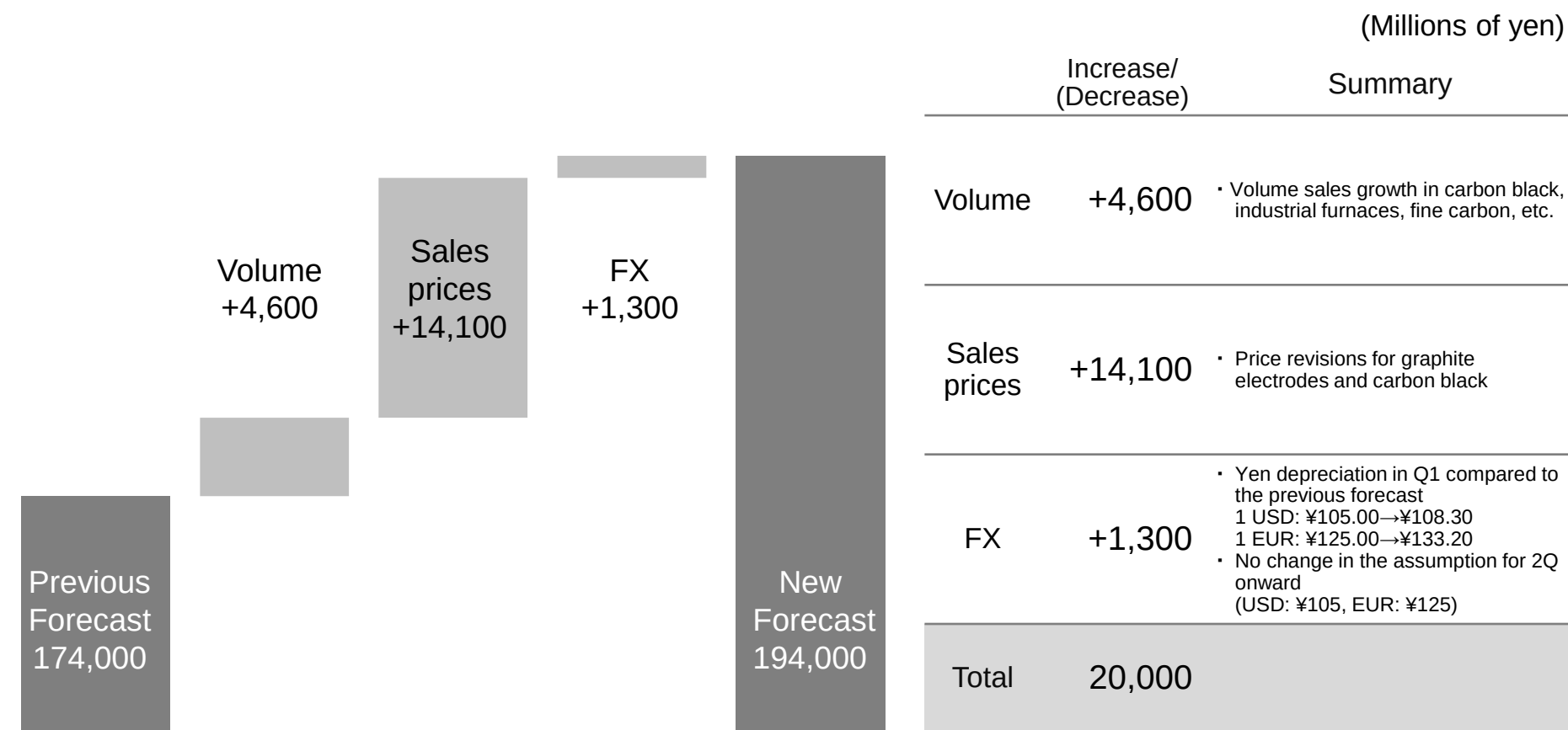
Net Sales and Operating Income Forecast by Segment

18

(Millions of yen)

		Previous Forecast (February 13)			New Forecast for FY 2018			Change	% Change
		1H	2H	Full Year	1H	2H	Full Year		
Net Sales		79,200	94,800	174,000	88,000	106,000	194,000	+20,000	+11.5%
Graphite Electrodes		35,300	50,700	86,000	38,500	54,600	93,100	+7,100	+8.3%
Carbon Black		24,600	25,100	49,700	28,900	29,600	58,500	+8,800	+17.7%
Fine Carbon		7,000	7,100	14,100	7,500	8,000	15,500	+1,400	+9.9%
Industrial Furnaces and Related Products		4,800	3,900	8,700	5,300	5,900	11,200	+2,500	+28.7%
Other Operations	Friction materials	4,700	4,800	9,500	4,700	4,900	9,600	+100	+1.1%
	Anode materials	2,700	3,100	5,800	3,000	2,900	5,900	+100	+1.7%
	Others	100	100	200	100	100	200	-	-
	Total Others	7,500	8,000	15,500	7,800	7,900	15,700	+200	+1.3%
Operating Income		16,700	26,300	43,000	27,700	36,000	63,700	+20,700	+48.1%
Graphite Electrodes		11,400	21,000	32,400	20,000	28,600	48,600	+16,200	+50.0%
Carbon Black		3,450	3,550	7,000	5,150	4,750	9,900	+2,900	+41.4%
Fine Carbon		1,050	1,050	2,100	1,300	1,300	2,600	+500	+23.8%
Industrial Furnaces and Related Products		850	650	1,500	1,150	1,250	2,400	+900	+60.0%
Other Operations		500	600	1,100	600	600	1,200	+100	+9.1%
Inter-segment eliminations		(550)	(550)	(1,100)	(500)	(500)	(1,000)	+100	-

- Sales volume growth will be seen for carbon black, industrial furnaces, fine carbon and others.
- Supply will be tighter than expected for graphite electrodes (impacting sales prices).



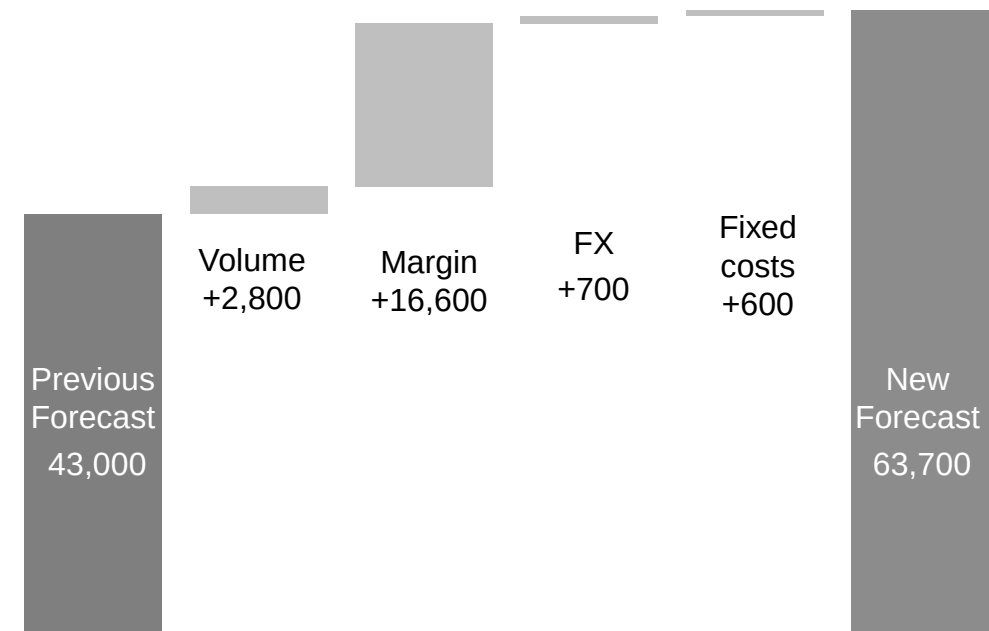
Analysis of Variance from Previous Forecast: Operating Income

20

- Tighter than expected supply for graphite electrodes will increase market prices.
- Improvement in production efficiency for graphite electrodes and carbon black will be reflected in operating income.

(Millions of yen)

Operating Income Variance



	Increase/ (Decrease)	Summary
Volume	+2,800	Industrial furnaces, carbon black
Margin	+17,200	Increase in sales price of graphite electrodes, and lower costs achieved through improvements to production efficiency, among other factors
FX	+700	- Yen depreciation in Q1 compared to the previous forecast 1 USD: ¥105.00→¥108.30 1 EUR: ¥125.00→¥133.20 - No change in assumptions for 2Q onward (USD: ¥105, EUR: ¥125)
Fixed costs	+600	
Total	20,700	

- The capacity of high-grade needle coke production will restrict graphite electrode supply.
- Graphite electrode supply is expected to remain tight due to structural factors consisting from an increased demand for use as an LiB anode material and an in EAF steel production.

Supply of high-grade needle coke



Growing demand

As for LiB anode material

- Rapid growth in demand for coke used as a material for production of LiB anodes. This is backed by the accelerating growth of secondary lithium-ion batteries used in electric vehicles.
- Demand in 2017 was around 100,000 tons, and expected to grow over 300,000 tons in 2020.

As for high quality Graphite Electrode

- Global rebound and growth in EAF steel production
- Shifting to EAF in China, due to stricter environmental regulations
- Higher scrap usage ratio in Chinese EAF will require high-grade electrodes that can withstand high-capacity operation

* The official production capacity for high-grade needle coke is 970,000 tons, but actual results run around 800,000 tons depending on the type of product manufactured and the output volume of the raw material source (as coal tar pitch or oil).

* Needle coke is an important material that determines the major quality of graphite electrodes. Approximately one ton of needle coke is used to produce one ton of electrodes.

III

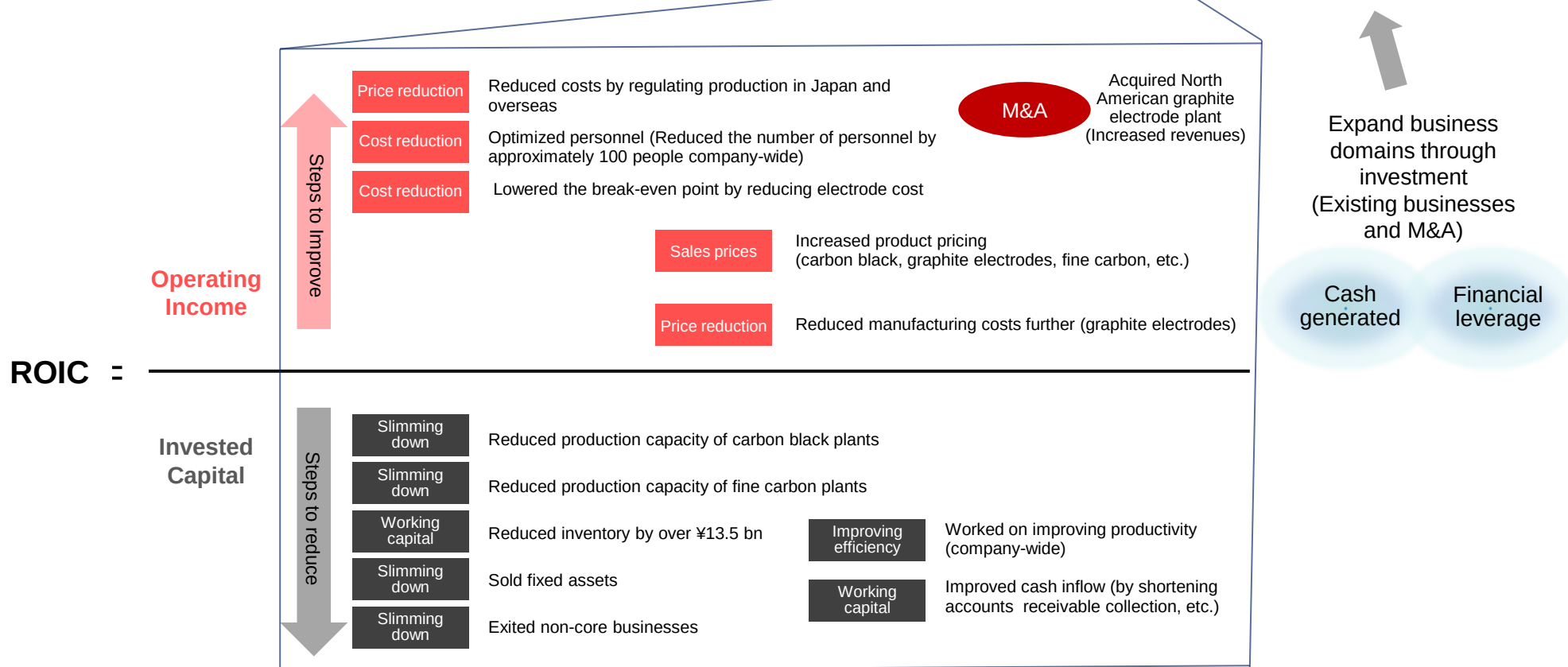
2018 and beyond

Mid to Long-term Strategy

Shrink: During the Mid-Term Management Plan, structural reforms were undertaken which led to constitutional change by improving ROIC.

Grow: In 2018 and beyond, we will focus on expanding our business domains with the cash generated from our core business and through financial leverage.

	2012	2013	2014	2015	2016	2017	2018 and Beyond
ROIC	3.1%	0.4%	1.8%	2.1%	0.7%	8.0%	Over 36%
ROE	1.8%	1.0%	2.0%	1.9%	(6.8%)	10.0%	Over 34%



Expand business domains

- Invest in existing businesses and expand via M&A and other means (Target of over ¥200 billion in net sales)
- Commercialize the next-generation products under development and introduce them to the market

< Expand to growth markets >

- Strategic investment in automotive and electronics-related areas
- Respond to growth in demand for thermal processing for semiconductor-related applications for the electric vehicle, AI, and IoT industries.

Stabilize profitability

- Build a business model that is resilient to changes in the economic environment (Introduce formulaic measures, etc.)
- Improve the soundness of the business portfolio (achieve a balance among the three main businesses)

Sustainable
growth in
corporate
value

Optimize production locations in Japan & overseas

- Strengthen the tripolar structure for electrodes (in the U.S., Europe, and Japan)
- Implement efficient governance and optimize production for the multipolar location structure

Reference Material

Quarterly Segment Results

26

(F) = Forecast (Millions of yen)

		2017					2018F			
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2 (F)	H2 (F)	Full Year (F)
Net Sales		24,104	25,080	25,882	31,184	106,252	41,595	46,405	106,000	194,000
	Graphite Electrodes	5,136	4,520	5,246	8,706	23,610	16,984	21,516	54,600	93,100
	Carbon Black	11,344	12,160	11,858	12,465	47,828	14,276	14,624	29,600	58,500
	Fine Carbon	3,394	3,450	3,781	3,820	14,447	3,893	3,607	8,000	15,500
	Industrial Furnaces and Related Products	1,207	1,615	1,543	2,457	6,823	2,663	2,637	5,900	11,200
Other Operations	Friction materials	2,033	2,113	2,192	2,332	8,671	2,296	2,404	4,900	9,600
	Anode materials	930	1,152	1,199	1,358	4,640	1,439	1,561	2,900	5,900
	Others	58	66	61	43	230	42	58	100	200
	Total Others	3,021	3,333	3,452	3,734	13,542	3,778	4,022	7,900	15,700
Operating Income		1,781	2,446	3,342	3,916	11,486	12,787	14,913	36,000	63,700
	Graphite Electrodes	144	(119)	619	1,103	1,748	8,558	11,442	28,600	48,600
	Carbon Black	1,479	1,917	1,912	1,559	6,868	2,816	2,334	4,750	9,900
	Fine Carbon	47	343	584	763	1,738	708	592	1,300	2,600
	Industrial Furnaces and Related Products	195	317	305	524	1,342	633	517	1,250	2,400
	Other Operations	209	242	174	232	858	320	280	600	1,200
	Inter-segment eliminations	(294)	(253)	(255)	(265)	(1,069)	(250)	(250)	(500)	(1,000)

(Millions of yen)

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017	2018 January-March
Capital Investment	6,830	5,301	6,013	4,282	1,578
Depreciation and Amortization	8,629	9,242	8,124	6,605	1,708
Research and Development Expenses	1,882	1,822	2,249	1,482	344
Total Assets	210,439	184,074	158,824	182,972	187,870
Interest-bearing Debt at Fiscal Year-end	38,290	23,936	17,048	16,144	15,743
Financial Account Balance	(139)	82	82	178	(2)
Number of Employees	2,064	2,092	1,980	2,142	2,140
Exchange Rate (JPY/USD)	105.85	121.05	108.85	112.19	108.30

Net Sales of Main Subsidiaries

28

(Millions of yen)

Subsidiary	Jan-Mar 2017	Jan-Mar 2018	YoY Change	Location/ Business	Summary
TOKAI ERFT CARBON	2,183	7,684	+5,501	Germany Graphite Electrodes	• Increase in sales prices • FX (Increase of ¥700 million)
TOKAI CARBON GE	-	5,840	+5,840	U.S. Graphite Electrodes	• New acquisition • Sales of TCES was transferred to the company by ¥130 million (+¥4,536 million w/o this factor)
THAI TOKAI CARBON PRODUCT	3,436	4,572	+1,136	Thailand Carbon Black	• Increase in sales prices • FX (Increase of ¥300 million)
Tokai Carbon Tianjin	969	1,472	+503	China Carbon Black	• Increase in sales prices
CANCARB	1,874	1,914	+40	Canada Carbon Black	• Growth in sales volume

		(Millions of yen)			
	T-2018 Target (For reference)	2015	2016	2017	2018 (Forecast)
Net Sales	110,000	104,864	88,580	106,252	194,000
Operating Income	9,000	4,088	1,131	11,486	63,700
Net Income Attributable to Owners of the Parent Company	-	2,484	(7,929)	11,816	46,800
ROS	8% or higher	3.9%	1.3%	10.8%	32.8%
ROE	-	2.0%	(6.8%)	10.0%	34.7%
ROIC	6% or higher	2.1%	0.7%	8.0%	36.8%
Depreciation and Amortization	-	9,242	8,124	6,605	7,400
Capital Investment	-	5,301	6,013	4,282	8,700
Inventory	-	34,253	20,734	27,362	39,500
Tangible and Intangible Fixed Assets	-	67,953	53,657	66,194	63,500

The earnings forecasts and other forward-looking statements in this document are based on information obtainable at the time this document was published and assumptions as of the date of publication concerning elements of uncertainty that could affect future earnings.

Actual results may differ substantially, depending on various future factors. Factors that affect business performance include, but are not limited to, economic conditions, trends in product demand and market prices, and fluctuation in exchange rates. The company is not obligated to update the information contained therein.

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Building a Future of Technology and Trust

TOKAI CARBON