

November 6, 2018

Consolidated Financial Results for the Nine Months Ended September 30, 2018 [Japanese GAAP]

Listed company name:	Toyo Tanso Co., Ltd.
Stock exchange listing:	Tokyo Stock Exchange, 1st Section
Stock code:	5310
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Representative:	Naotaka Kondo, Representative Director, Chairman & President, CEO
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Scheduled date for submission of quarterly report:	November 7, 2018
Scheduled date for dividend payment:	-
Supplementary materials for quarterly financial summaries:	No
Quarterly financial results briefing:	No

1. Consolidated financial results for the nine months ended September 30, 2018

(From January 1, 2018 to September 30, 2018)

(1) Operating results (cumulative total) (Millions of yen, rounded down)
 (Percentages indicate changes from the same period in the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		%		%		%		%
Nine months ended September 30, 2018	31,763	23.6	5,983	140.5	6,030	148.8	4,404	122.5
Nine months ended September 30, 2017	25,693	4.6	2,487	244.6	2,423	422.6	1,979	853.0

(Note): Comprehensive income:
 Nine months ended September 30, 2018 3,696 million yen; (83.7%)
 Nine months ended September 30, 2017 2,012 million yen; (-%)

	Profit attributable to owners of parent per share (basic)	Profit attributable to owners of parent per share (diluted)
	yen	yen
Nine months ended September 30, 2018	210.47	—
Nine months ended September 30, 2017	95.43	95.29

(2) Financial position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio
			%
As of September 30, 2018	75,156	64,212	84.4
As of December 31, 2017	74,223	60,986	81.0

(Reference): Shareholders' equity

September 30, 2018

63,434 million yen

December 31, 2017

60,140 million yen

2. Dividends

	Dividends per share (yen)				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total (Full year)
Year ended December 31, 2017	-	0.00	-	30.00	30.00
Year ending December 31, 2018 (Actual)	-	0.00	-		
Year ending December 31, 2018 (Forecast)				40.00	40.00

(Note) Revisions of projected dividends most recently announced: None

3. Consolidated results forecast for the fiscal year ending December 31, 2018

(From January 1, 2018 to December 31, 2018)

(Millions of yen, rounded down)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
		%		%		%		%	yen
Fiscal year ending December 31, 2018	41,000	16.3	7,300	96.8	7,300	96.2	5,400	78.8	257.91

(Note) Revisions of consolidated forecasts most recently announced: Yes

Please refer to "Notification of Revisions to Consolidated Earnings Forecasts" released on November 6, 2018, for details.

*** Others**

(1) Changes in significant subsidiaries during the period under review:

(Changes in specified subsidiaries accompanying changes in scope of consolidation): None

New subsidiaries: ____ (name of company(ies))

Excluded subsidiaries: ____ (name of company(ies))

(2) Adoption of specific accounting methods for the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to “Adoption of specific accounting methods for the preparation of quarterly consolidated financial statements” on page 8 of the Attached Documents.

(3) Changes in accounting policies and accounting estimates and restatements

1) Changes in accounting policies due to revisions of accounting standards, etc.: None

2) Changes in accounting policies other than 1): None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common stock)

1) Number of shares outstanding and issued at the end of period (including treasury stock)

As of September 30, 2018 20,992,588 shares

As of December 31, 2017 20,865,488 shares

2) Number of treasury stock at the end of period

As of September 30, 2018 18,669 shares

As of December 31, 2017 17,219 shares

3) Average number of shares during the period (quarterly cumulative total)

Nine months ended September 30, 2018 20,925,010 shares

Nine months ended September 30, 2017 20,745,389 shares

*** The quarterly financial results is not subject to quarterly review by a certified public accountant or an audit corporation.**

*** Disclaimer regarding appropriate use of forecasts and related points of note**

(We urge you to be cautious in relying on forward-looking statements.)

Forward-looking statements such as the earnings forecasts in this material are based on currently available information and certain assumptions deemed rational, and are not intended as a guarantee that these forecasts will be achieved. Accordingly, actual results may differ significantly from these forecasts due to various factors. For more information on the preconditions of the forecasts and on precautionary notes concerning the usage of these forecasts, please refer to “Explanation of Information Regarding Consolidated Earnings Forecasts and Other Projections” on page 3 of the Attached Documents.

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1. Qualitative Information Regarding Consolidated Results for the Nine Months under Review

(1) Explanation Regarding Business Results

During the first three quarters of the consolidated fiscal year under review, the US economy continued to recover on the back of an increase in personal consumption and capital spending, while Europe continued to experience a gradual recovery. Even as emerging economies continued to improve, there were concerns that the US-China trade disputes would slow the Chinese economy, which has been a global economic driver. Meanwhile, despite concerns about the economic impact of a series of natural disasters, the Japanese economy made a gradual recovery thanks to improvements in corporate earnings and employment conditions.

In the business environment surrounding the Group, demand for products for wafer manufacturing products increased on the back of a strong semiconductor market, and also in the transportation equipment market, demand was solid for EDM electrodes for cars and pantograph sliders for trains. In addition, in the energy-related market, although there were concerns that a shift in Chinese governmental policy would have an impact on solar cells, sales were solid overall.

In this environment, although competition with other companies remains harsh and conditions are still difficult, the Company is working to achieve its medium-term business plan by reinforcing production and sales of high value-added products, improving productivity, and promoting the development of new products and new businesses.

Inspections of the delivery of graphite materials for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM), ordered in 2008, were completed in the first quarter of the consolidated fiscal year under review. Sales totaling 3,208 million yen were recorded.

As a result, in the nine months of the consolidated fiscal year under review, net sales rose 23.6% year on year to 31,763 million yen. On the income side, operating income rose 140.5% to 5,983 million yen, ordinary income rose 148.8% to 6,030 million yen, and profit attributable to owners of parent stood at 4,404 million yen, up 122.5%.

The overall performance of each business segment was as follows. (Please refer to “3. Supplementary Information” for an overview of each product category.)

Japan

Products for semiconductor applications did well, carbon products for LED, metallurgical, and mechanical applications remained solid overall, and 2,651 million yen was recorded in sales for Chinese high-temperature reactor-pebble-bed modules (HTR-PM). As a result, a 28.6% increase in net sales to 17,097 million yen, and a 131.0% increase in operating income to 3,841 million yen.

United States

The Company endeavored to improve revenue, in addition to strong sales of products for electronic-related applications for semiconductor and LEDs and solid sales of products for metallurgical applications. This resulted in a 16.4% increase in net sales to 2,135 million yen and operating income was 456 million yen (compared to a 124 million yen operating loss in the same period of the previous fiscal year).

Europe

Strong sales of products for electronics-related applications and solid sales of metallurgical applications resulted in an 14.0% increase in net sales to 2,513 million yen. However, higher costs resulting from reinforced infrastructure resulted in a 179 million yen operating loss (compared to a 4 million yen operating loss in the same period of the previous fiscal year).

Asia

Although sales of carbon brush products were poor, sales were strong for solar cell applications in spite of their unclear outlook, as well as for metallurgical applications. Additionally, 557 million yen was recorded in sales for Chinese high-temperature reactor-pebble-bed modules (HTR-PM). As a result, net sales rose 19.8% to 10,015 million yen and operating income increased 148.9% to 1,951 million yen.

(2) Explanation Regarding Financial Position

Total assets as of September 30, 2018 increased by 933 million yen from the end of the previous consolidated fiscal year. This was primarily because, cash and deposits increased by 1,472 million yen and notes and accounts receivable - trade increased by 1,200 million yen, although inventory decreased by 1,193 million yen due to the posting of sales for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM) and property, plant and equipment declined 483 million yen due to the posting of depreciation.

Total liabilities decreased by 2,292 million yen from the end of the previous consolidated fiscal year. This was primarily because, interest-bearing liabilities decreased 597 million yen and other current liabilities decreased by 2,405 million yen due to a decrease in advances received as a result of recording sales for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM), although provision for bonuses increased 552 million yen.

Total net assets increased by 3,225 million yen from the end of the previous consolidated fiscal year. This was primarily because foreign currency translation adjustment decreased by 686 million yen and retained earnings increased by 3,778 million yen.

(3) Explanation of Information Regarding Consolidated Earnings Forecasts and Other Projections

In light of the results in the nine months of the consolidated fiscal year under review, the Company has revised the consolidated earnings forecasts for the fiscal year ending December 31, 2018, released on May 10, 2018.

For details, please refer to the press release entitled “Notification of Revisions to Consolidated Earnings Forecasts” released on November 6, 2018.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheets

(Millions of yen, rounded down)

	As of December 31, 2017	As of September 30, 2018
	Amount	Amount
Assets		
Current assets		
Cash and deposits	15,906	17,379
Notes and accounts receivable-trade	14,255	15,455
Merchandise and finished goods	5,423	5,897
Work in process	7,801	5,753
Raw materials and supplies	2,246	2,627
Other	1,340	1,347
Allowance for doubtful accounts	(273)	(232)
Total current assets	46,700	48,228
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,710	8,650
Machinery, equipment and vehicles, net	7,832	7,593
Land	5,850	5,838
Construction in progress	1,422	1,038
Other, net	827	1,036
Total property, plant and equipment	24,642	24,158
Intangible assets	885	765
Investments and other assets	1,995	2,004
Total non-current assets	27,523	26,927
Total assets	74,223	75,156

(Millions of yen, rounded down)

	As of December 31, 2017	As of September 30, 2018
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable–trade	2,113	2,092
Electronically recorded obligations–operating	1,105	1,250
Short-term loans payable	831	279
Accounts payable–other	1,594	1,634
Income taxes payable	926	1,021
Provision for bonuses	441	994
Provision for directors’ bonuses	22	—
Other	4,833	2,427
Total current liabilities	11,869	9,699
Non-current liabilities		
Long-term loans payable	362	317
Net defined benefit liability	141	139
Asset retirement obligations	267	265
Other	594	523
Total non-current liabilities	1,366	1,245
Total liabilities	13,236	10,944
Net assets		
Shareholders’ equity		
Capital stock	7,810	7,947
Capital surplus	9,652	9,789
Retained earnings	40,536	44,315
Treasury shares	(59)	(59)
Total shareholders’ equity	57,940	61,992
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	233	161
Foreign currency translation adjustment	1,965	1,278
Remeasurements of defined benefit plans	0	0
Total accumulated other comprehensive income	2,199	1,441
Subscription rights to shares	63	—
Non-controlling interests	783	778
Total net assets	60,986	64,212
Total liabilities and net assets	74,223	75,156

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

(Quarterly consolidated statement of income)

Nine months ended September 30, 2017 and 2018

	(Millions of yen, rounded down)	
	Nine months ended September 30, 2017 Amount	Nine months ended September 30, 2018 Amount
Net sales	25,693	31,763
Cost of sales	18,399	20,803
Gross profit	7,293	10,959
Selling, general and administrative expenses	4,806	4,976
Operating income	2,487	5,983
Non-operating income		
Interest income	43	39
Dividend income	16	9
Gain on currency options	20	—
Share of profit of entities accounted for using equity method	52	64
Contracted research income	—	91
Other	128	65
Total non-operating income	261	270
Non-operating expenses		
Interest expenses	19	9
Foreign exchange losses	90	84
Currency options loss	—	14
Loss on misappropriation of funds	182	—
Contracted research expenses	—	76
Other	33	38
Total non-operating expenses	325	223
Ordinary income	2,423	6,030
Extraordinary income		
Gain on sales of non-current assets	104	69
Gain on sales of investments in capital of subsidiaries and associates	87	—
Subsidy income	175	51
Gain on reversal of subscription rights to shares	0	13
Total extraordinary income	367	133
Extraordinary losses		
Loss on sales of non-current assets	0	2
Loss on retirement of non-current assets	115	50
Total extraordinary losses	115	52
Profit before income taxes	2,675	6,111
Income taxes	590	1,642
Profit	2,084	4,468
Profit attributable to non-controlling interests	104	64
Profit attributable to owners of parent	1,979	4,404

(Quarterly consolidated statement of comprehensive income)

Nine months ended September 30, 2017 and 2018

(Millions of yen, rounded down)		
	Nine months ended September 30, 2017 Amount	Nine months ended September 30, 2018 Amount
Profit	2,084	4,468
Other comprehensive income		
Valuation difference on available-for-sale securities	68	(72)
Foreign currency translation adjustment	(229)	(669)
Remeasurements of defined benefit plans, net of tax	80	1
Share of other comprehensive income of entities accounted for using equity method	7	(31)
Total other comprehensive income	(72)	(772)
Comprehensive income	2,012	3,696
Comprehensive income attributable to:		
Owners of parent	2,162	3,645
Non-controlling interests	(150)	51

(3) Notes on quarterly consolidated financial statements

(Notes regarding the premise of a going concern)

Not applicable.

(Notes if the amount of shareholders' equity has changed significantly)

Not applicable.

(Adoption of specific accounting methods for the preparation of quarterly consolidated financial statements)

Tax expense calculations

Tax expenses are calculated by multiplying profit before income taxes by an effective tax rate, which are reasonably estimated by applying tax effect accounting to estimated profit before income taxes for the consolidated fiscal year, including the third quarter of the consolidated fiscal year under review.

(Segment information)

I. Nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated quarterly income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	13,295	1,835	2,204	8,358	25,693	—	25,693
(2) Intersegment sales or transfers	4,606	48	20	89	4,765	(4,765)	—
Total	17,902	1,883	2,224	8,448	30,459	(4,765)	25,693
Segment profit (loss)	1,663	(124)	(4)	784	2,318	169	2,487

(Notes) 1. Adjusted segment profit (loss) mainly takes into account the elimination of intersegment transactions and unrealized income.

2. Segment profit (loss) has been adjusted to reflect the operating income recorded in the consolidated quarterly statement of income.

2. Regional information

(Millions of yen, rounded down)

	Japan	North America	Europe	Asia		Rest of world	Total
				Asia (including China)	China only		
Net sales	10,382	2,056	2,366	10,761	7,756	127	25,693
Composition (%)	40.4	8.0	9.2	41.9	30.2	0.5	100.0

(Notes) 1. Sales are based on the locations of our customers, and are categorized into the relevant country or region segment according to geographical proximity.

2. The major countries or regions included in each geographic segment (except Japan) are listed below.

(1) North America: United States

(2) Europe: France, Germany, Italy

(3) Asia: China, Taiwan, South Korea

II. Nine months ended September 30, 2018 (From January 1, 2018 to September 30, 2018)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated quarterly income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	17,097	2,135	2,513	10,015	31,763	—	31,763
(2) Intersegment sales or transfers	5,453	277	0	237	5,968	(5,968)	—
Total	22,551	2,413	2,513	10,253	37,731	(5,968)	31,763
Segment profit (loss)	3,841	456	(179)	1,951	6,069	(86)	5,983

- (Notes) 1. Adjusted segment profit (loss) mainly takes into account the elimination of intersegment transactions and unrealized income.
2. Segment profit (loss) has been adjusted to reflect the operating income recorded in the consolidated quarterly statement of income.

2. Regional information

(Millions of yen, rounded down)

	Japan	North America	Europe	Asia		Rest of world	Total
				Asia (including China)	China only		
Net sales	11,189	2,197	2,801	15,431	12,060	143	31,763
Composition (%)	35.2	6.9	8.8	48.6	38.0	0.5	100.0

- (Notes) 1. Sales are based on the locations of our customers, and are categorized into the relevant country or region segment according to geographical proximity.
2. The major countries or regions included in each geographic segment (except Japan) are listed below.
(1) North America: United States
(2) Europe: France, Germany, Italy
(3) Asia: China, Taiwan, South Korea

3. Supplementary Information

(1) Orders and sales by product category

i. Orders

(Millions of yen, rounded down)

	Year ended December 31, 2017						Year ending December 31, 2018			
Products	1Q	2Q	3Q	1Q-3Q	4Q	Fiscal year total	1Q	2Q	3Q	1Q-3Q
Special graphite products	3,306	3,599	4,300	11,206	4,565	15,772	4,636	4,261	3,777	12,676
Carbon products for general industries* ² (for mechanical applications)	1,320	504	417	2,242	912	3,154	911	848	970	2,730
Carbon products for general industries (for electrical applications)	1,235	1,353	1,352	3,940	1,405	5,345	1,276	1,308	1,141	3,725
Compound materials and other products	2,300	2,408	2,771	7,479	2,525	10,004	3,382	2,959	2,755	9,098
Total	8,161	7,865	8,841	24,868	9,408	34,277	10,208	9,377	8,645	28,231

(Notes) 1. These orders were denominated in foreign currency prior to the previous quarter; discrepancies resulting from fluctuations in foreign exchange rates during the quarter under review are included in the figure for orders placed in this quarter.

*2. Data for general carbon products (carbon for mechanical applications) includes orders that have not been officially confirmed.

ii. Outstanding orders

(Millions of yen, rounded down)

	Year ended December 31, 2017				Year ending December 31, 2018		
Products	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Special graphite products* ²	4,937	5,041	5,546	5,994	3,159	3,299	2,984
Carbon products for general industries* ³ (for mechanical applications)	1,209	918	551	584	648	622	729
Carbon products for general industries (for electrical applications)	876	902	911	975	981	977	894
Compound materials and other products	1,987	2,193	2,503	2,589	3,664	4,057	4,229
Total	9,011	9,056	9,513	10,144	8,453	8,957	8,836

(Notes) 1. These orders were denominated in foreign currency prior to the previous quarter; discrepancies resulting from fluctuations in foreign exchange rates during the quarter under review are included in the figure for outstanding orders placed in this quarter.

*2. Outstanding orders for special graphite products in the year ended December 31, 2017 include orders for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM).

*3. Data for general carbon products (carbon for mechanical applications) includes orders that have not been officially confirmed.

iii. Sales performance by product category

(Millions of yen, rounded down)

	Year ended December 31, 2017						Year ending December 31, 2018			
Products	1Q	2Q	3Q	1Q-3Q	4Q	Fiscal year total	1Q	2Q	3Q	1Q-3Q
Special graphite products	3,655	3,768	4,168	11,593	4,499	16,093	7,248	4,521	4,464	16,234
[Electronics applications]	1,301	1,327	1,538	4,167	1,884	6,052	1,392	1,775	1,587	4,754
[General industries applications]	1,996	2,083	2,246	6,327	2,177	8,505	2,232	2,306	2,394	6,932
[Others]	357	357	383	1,097	437	1,535	3,624	439	483	4,546
Carbon products for general industries (for mechanical applications)	791	822	815	2,430	909	3,339	873	894	883	2,651
Carbon products for general industries (for electrical applications)	1,293	1,321	1,348	3,963	1,348	5,311	1,292	1,293	1,214	3,801
Compound materials and other products	2,171	2,209	2,476	6,857	2,457	9,314	2,384	2,518	2,592	7,495
[3 major products]	1,897	1,943	2,193	6,033	2,145	8,179	2,083	2,256	2,206	6,547
[Other products]	274	266	283	823	311	1,134	300	262	385	948
Related goods	202	327	319	850	331	1,182	536	493	551	1,580
Total	8,115	8,449	9,128	25,693	9,546	35,240	12,335	9,720	9,707	31,763

(2) Overview

Special graphite products

In electronics applications, a consistent level of demand was maintained for solar cell applications despite concerns about the impact of a shift in Chinese governmental policy. Semiconductor applications also performed well. As a result, performance substantially surpassed that in the same period in the previous fiscal year.

In general industries applications, although demand for products for EDM electrodes fell short of levels in the same period in the previous fiscal year, demand for products for industrial furnaces was strong due to solid capital spending in the automotive industry.

In addition, with the recording of 3,208 million yen in sales for Chinese high-temperature reactor-pebble-bed modules (HTR-PM), special graphite products overall performed substantially better than in the same period in the previous fiscal year.

Carbon products for general industries

Sales of carbon products for mechanical applications surpassed the same period of the previous fiscal year with strong ongoing demand for mainstay products such as bearings, seal materials and pantograph sliders.

Carbon products for electrical applications fell short of their performance in the same period of the previous fiscal year because demand for electrical power tools and cleaner applications was weak.

Compound materials and other products

Sales of SiC (silicon carbide)-coated graphite products exceeded levels in the same period in the previous fiscal year due to an increase in demand for semiconductor applications and LED applications. C/C composite products exceeded their performance in the same period in the previous fiscal year, as demand for semiconductor applications was strong and demand for industrial furnace applications was steady, although demand for solar cell applications were weak. Sales of graphite sheet products were slightly up over the same period of the previous fiscal year due to solid demand for automotive applications.

Therefore, compound materials and other products overall performed better than in the same period of the previous fiscal year.