

FY2018 Analyst Meeting Material

February 14, 2019



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I

FY2018

Financial Summary

Business Environment

- Graphite Electrodes: Global crude steel production increased by roughly 5% YoY and EAF (electric arc furnace) steel production recovered rapidly.
- Carbon Black: The impact of environmental regulations in China on raw materials and production caused a sense of tight supply for structural reasons. Order inquiries from tire manufacturers remained at a high level, mainly in the North American and Asian markets.
- Fine Carbon: Demand for graphite materials increased for general industrial purposes in addition to demand from the strong semiconductor market.

Operating Trends

- Net sales: Increased 117.7% YoY
Sales prices improved for graphite electrodes, carbon black, and fine carbon.
Three M&A projects contributed to consolidated net sales.
- Operating income: Increased 578.6% YoY
The sale price for graphite electrodes increased and other businesses also saw firm demand overall.
Three M&A projects contributed to consolidated profit.
- Extraordinary income: An extraordinary gain of ¥22.8 billion was recorded on the step acquisition to make Tokai Carbon Korea Co., Ltd. a consolidated subsidiary.

* The provisional accounting treatment of the TOKAI CARBON GE HOLDING LLC business combination was finalized. This resulted in the retroactive adjustment of 2017 figures.

- Net sales: ¥231.3 billion, Operating income: ¥75.2 billion, ROS: 32.5%

	(Millions of yen)			
	Jan-Dec 2017	Jan-Dec 2018	YoY Change	% Change
Net sales	106,252	231,302	125,050	117.7%
Operating income	11,093	75,284	64,190	578.6%
Ordinary Income	12,855	75,210	62,354	485.0%
Net Income Attributable to Owners of the Parent Company	12,346	73,998	61,651	499.4%

Group companies (As of December 31, 2018)

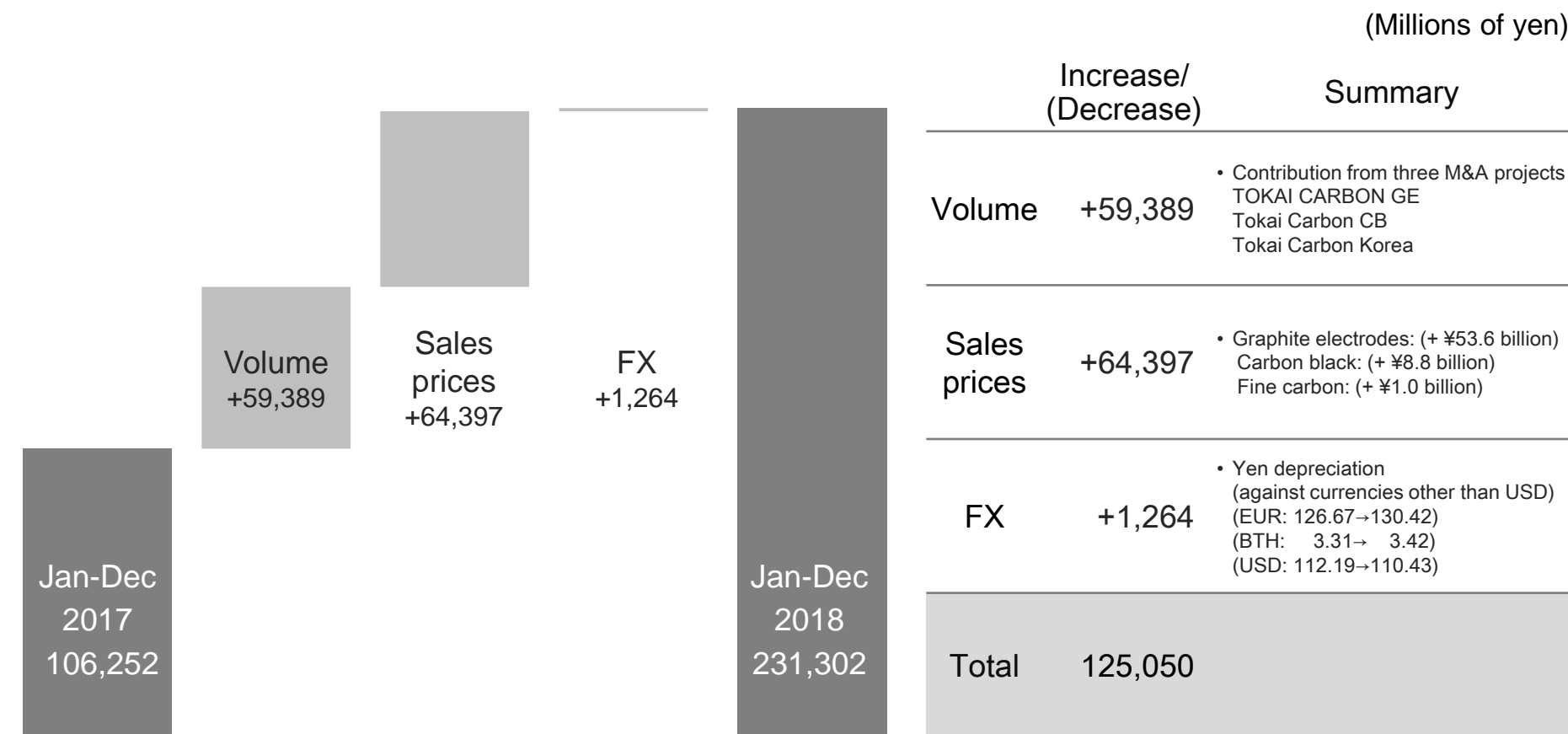
- Consolidated subsidiaries: 30
- Equity method affiliates: 2

Average exchange rates:

- 2017 \$1 = ¥112.19
- 2018 \$1 = ¥110.43

* The provisional accounting treatment of the TOKAI CARBON GE HOLDING LLC business combination was finalized. This resulted in the retroactive adjustment of 2017 figures.

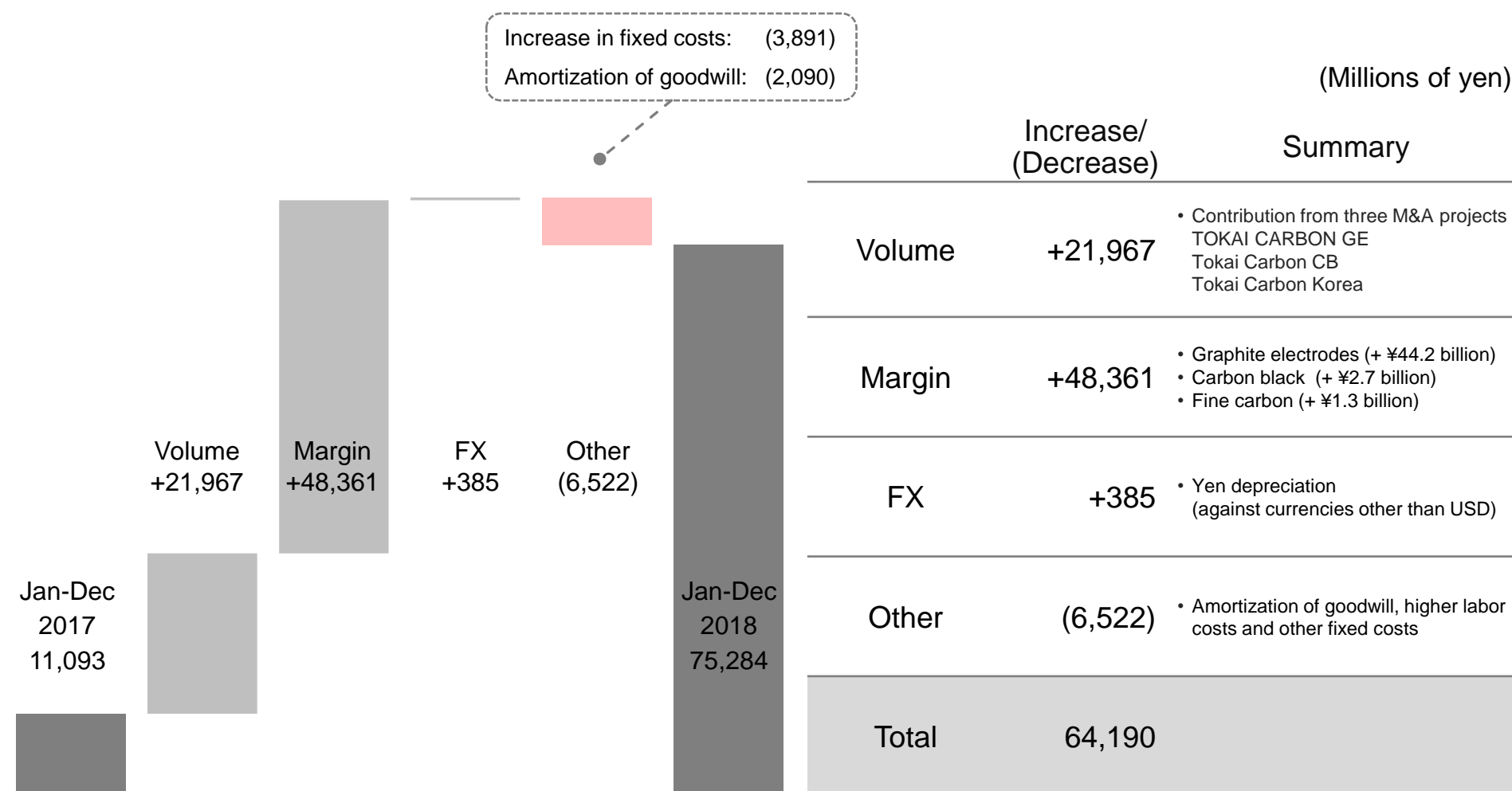
- Graphite electrode and Carbon black operations saw volume growth from the acquisition of the North American location.
- An increase in sales prices for graphite electrodes and carbon black led to YoY growth in net sales.



YoY Analysis: Operating Income

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- Operating income grew 578.6% YoY due to the acquisition of the new location and an increase in sales prices for graphite electrodes, fine carbon and carbon black.



Net Sales and Operating Income by Segment

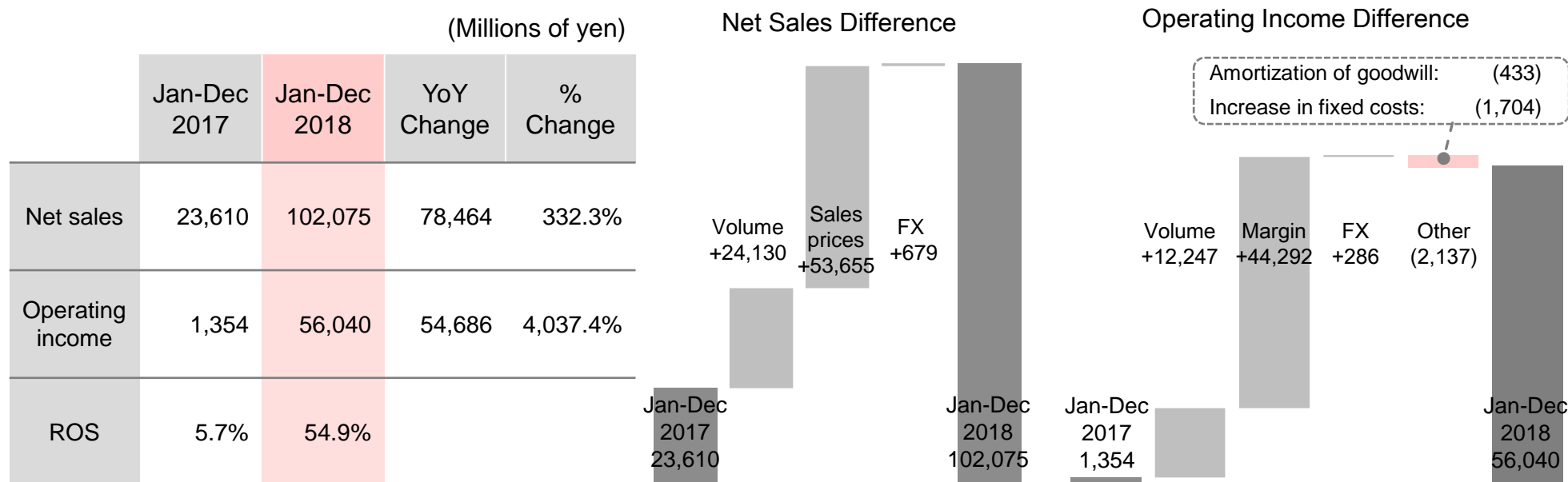
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- Graphite electrodes business expanded.
- Other businesses also saw strong performance overall.

(Millions of yen)

		Net sales			Operating income		
		Jan-Dec 2017	Jan-Dec 2018	YoY Change	Jan-Dec 2017	Jan-Dec 2018	YoY Change
Graphite Electrodes		23,610	102,075	78,464	1,354	56,040	54,686
Carbon Black		47,828	76,926	29,097	6,868	10,629	3,760
Fine Carbon		14,447	25,403	10,955	1,738	5,735	3,996
Industrial Furnaces and Related Products		6,823	11,371	4,548	1,342	3,043	1,700
Other Operations	Friction materials	8,671	9,480	809	—	—	—
	Anode materials	4,640	5,894	1,253	—	—	—
	Others	230	150	(79)	—	—	—
		13,542	15,525	1,983	858	1,068	210
Inter-segment eliminations		—	—	—	(1,069)	(1,233)	(164)
Total		106,252	231,302	125,050	11,093	75,284	64,190

- Tight supply in graphite electrodes continued as global EAF steel production rebounded, China shifted to EAF steel production, and the supply of key raw materials remained tight.
- The increase in volume from the addition of the North American location and an increase in sales prices contributed to growth in sales.
- Operating income rose significantly YoY due to higher sales prices in 2018 contracts.



- The business environment remained favorable.

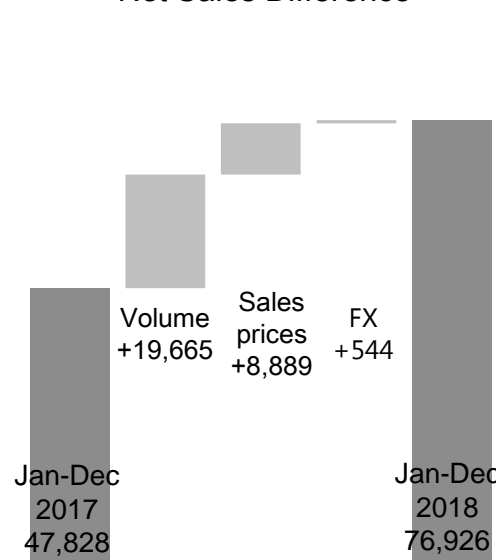
Carbon black supply was tight worldwide as Chinese carbon black manufacturers retreated and order inquiries from tire manufacturers increased.

- Net sales increased by 60.8% YoY due to growth in sales volume from the acquisition of the new location and an increase in sales prices in connection with higher feedstock oil prices.
- Operating income rose 54.8% YoY due to higher sales prices and improved production efficiency.

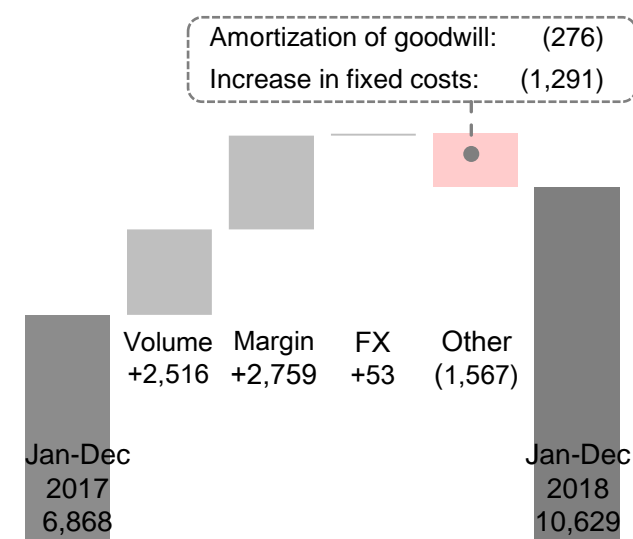
(Millions of yen)

	Jan-Dec 2017	Jan-Dec 2018	YoY Change	% Change
Net sales	47,828	76,926	29,097	60.8%
Operating income	6,868	10,629	3,760	54.8%
ROS	14.4%	13.8%		

Net Sales Difference



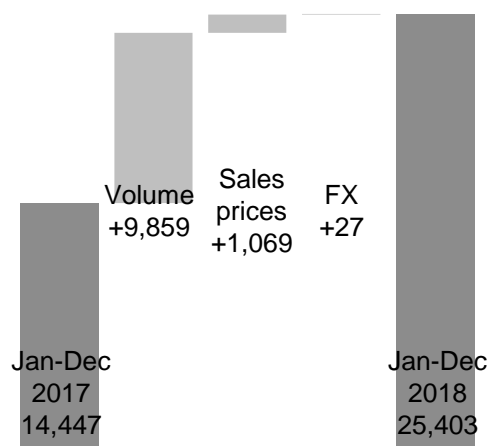
Operating Income Difference



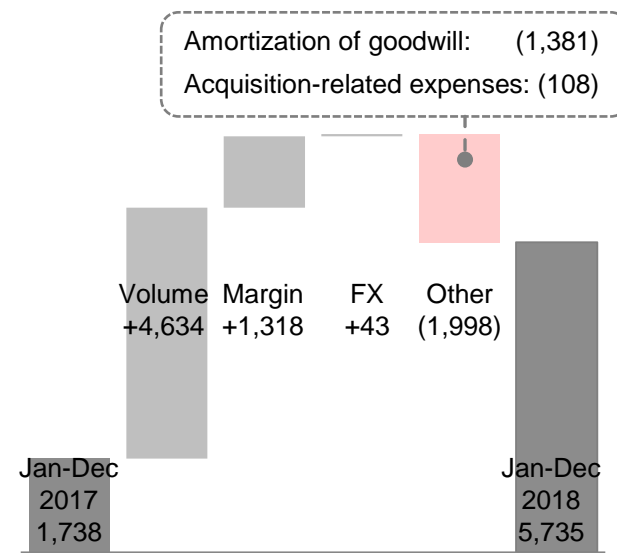
- Demand from the semiconductor industry, a target industry, and for general industrial purposes was firm.
- An increase in sales prices contributed substantially to growth in sales and profit.
- Tokai Carbon Korea became a consolidated subsidiary (in June 2018) and contributed at the consolidated level.

	(Millions of yen)			
	Jan-Dec 2017	Jan-Dec 2018	YoY Change	% Change
Net sales	14,447	25,403	10,955	75.8%
Operating income	1,738	5,735	3,996	229.9%
ROS	12.0%	22.6%		

Operating Income Difference



Operating Income Difference

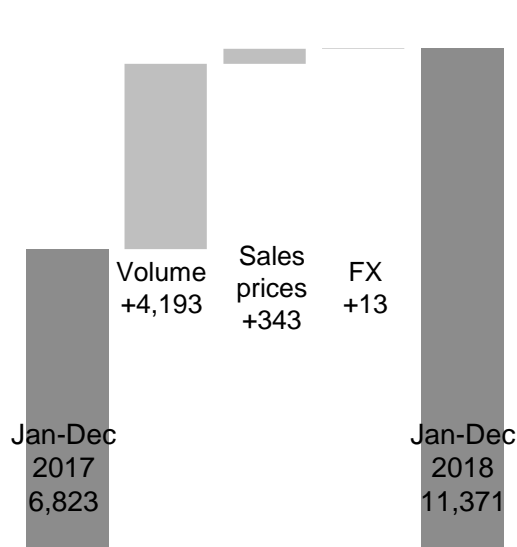


- Industrial furnace sales to the automotive MLCC (multi-layer ceramic capacitors) and secondary lithium-ion battery markets were strong.
- Operating income increased YoY due to higher gross profit earned from volume growth in industrial furnace sales, and despite the lower margins caused by the mix of products shipped.

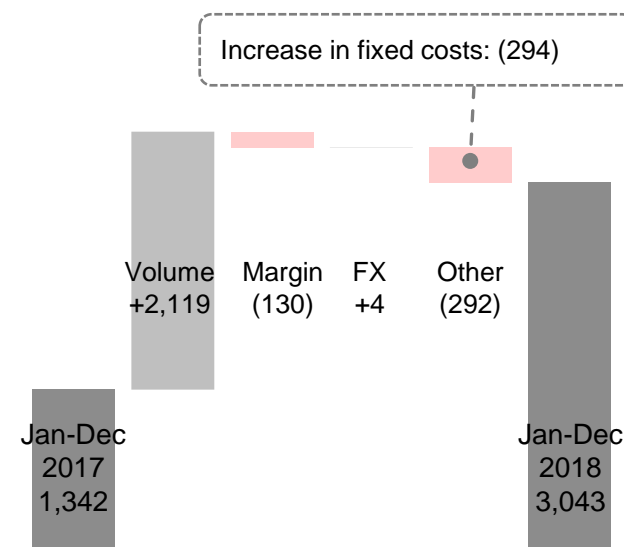
(Millions of yen)

	Jan-Dec 2017	Jan-Dec 2018	YoY Change	% Change
Net sales	6,823	11,371	4,548	66.7%
Operating income	1,342	3,043	1,700	126.7%
ROS	19.7%	26.8%		

Net Sales Difference



Operating Income Difference



Others

(Friction Materials, LiB Anode Materials, Real Estate)

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■ Friction materials:

Growth in demand for use in construction and industrial machinery boosted net sales by 9.3% YoY.

(Net sales: ¥9,480 million)

■ Anode materials:

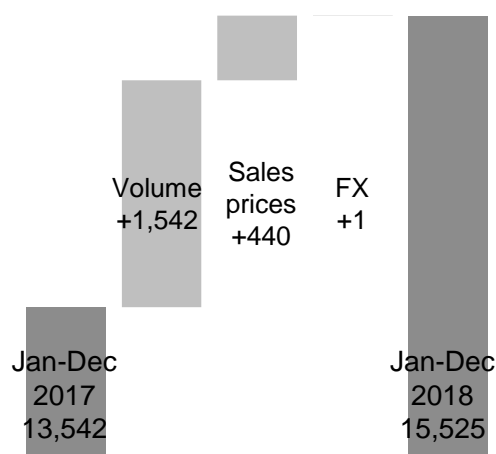
Growth in sales volume for automotive applications contributed to a rise in net sales of 27.0% YoY

(Net sales: ¥5,894 million)

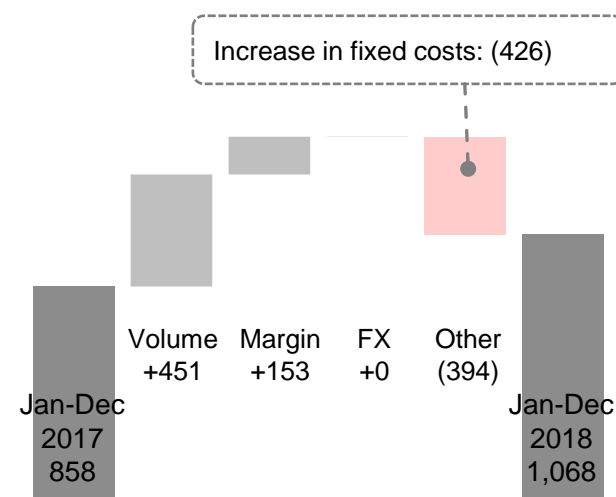
(Millions of yen)

	Jan-Dec 2017	Jan-Dec 2018	YoY Change	% Change
Net sales	13,542	15,525	1,983	14.6%
Operating income	858	1,068	210	24.5%
ROS	6.3%	6.9%		

Net Sales Difference



Operating Income Difference



Major Cash Flow Items

(Millions of yen)

	Jan-Dec 2017	Jan-Dec 2018	Summary
Cash flows from operating activities	10,542	44,109	
Net income (loss) before income taxes	15,533	98,030	
Depreciation and amortization	6,647	8,372	
Loss (gain) on step acquisition	—	(22,843)	
Loss (gain) on sale of property, plant and equipment	(2,567)	(43)	
Decrease (increase) in trade receivables	(4,586)	(15,370)	
Decrease (increase) in inventories	(3,456)	(24,462)	
Increase (decrease) in accounts payable-trade	3,212	9,508	
Income tax paid	(2,252)	(13,995)	
Cash flows from investing activities	(14,039)	(53,849)	
Purchase of property, plant and equipment	(4,336)	(8,491)	
Proceeds from sale of property, plant and equipment	2,704	71	
Expenditure for acquisition of subsidiary	(12,964)	(43,789)	
Cash flows from financing activities	(4,534)	29,677	
Net increase (decrease) in short-term loans payable	9,019	27,804	
Net increase (decrease) in long-term loans payable	(10,042)	5,931	
Payment of dividends	(1,918)	(3,836)	
Cash and cash equivalents at end of period	22,145	41,124	

Free cash flow was negative in 2017 and 2018 due to strategic investments.

Trend in Free Cash Flow (Millions of yen)

		T-2018 Phase 1 Structural reforms	T-2018 Phase 2 Growth strategies	
	2015	2016	2017	2018
Cash flow from operating activities	20,613	17,505	10,542	44,109
Cash flow from investing activities	3,189	(3,622)	(14,039)	(53,849)
Free cash flow	23,802	13,883	(3,496)	(9,740)
* Operating income	4,088	1,131	11,093	75,284

Strategic Investments (Source of Future Value)

2017	2018		
Graphite electrodes North American plant	Fine carbon Korean plant	Carbon black North American plant	Will contribute to operating cash flow from 2019 onward
¥14.6 billion	¥7.8 billion	¥37.3 billion	

(Millions of yen)

Major Balance Sheet Items

	December 31, 2017	December 31, 2018	Summary
Total assets	184,730	317,084	
Current assets	85,444	166,546	
Cash and cash equivalents	22,152	46,797	
Notes and accounts receivable	30,265	55,137	
Inventory	27,564	58,789	
Fixed assets	99,286	150,537	
Tangible fixed assets	51,405	75,703	
Intangible fixed assets	16,343	52,009	
Investments and other assets	31,537	22,824	
Total liabilities	57,599	118,183	
Current liabilities	36,870	91,654	
Long-term liabilities	20,728	26,528	
Total net assets	127,130	198,900	
Shareholder's capital	110,089	180,105	
Other accumulated comprehensive income	16,277	7,634	
Non-controlling interests	763	11,160	
Total liabilities and net assets	184,730	317,084	

- Tangible fixed assets (+¥24,298 million from the end of the previous period)
- Intangible fixed assets (+¥35,666 million from the end of the previous period)
- Capital expenditures:
¥11,794 million (+¥7,511 million from the end of the previous period)
- Depreciation and amortization:
¥8,372 million (+¥1,725 million from the end of the previous period)
- Amortization of goodwill:
¥2,555 million (+¥2,094 million from the end of the previous period)

- Interest-bearing debt of ¥49,710 million
(+¥33,566 million from the end of the previous period)

- Capital-to-asset ratio: 59.2% (End of previous period: 68.4%)

II

FY2019

Earnings Forecast

Consolidated Earnings Forecast for FY 2019

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- Net sales: ¥322.7 billion, Operating income: ¥98.7 billion
- Tokai Carbon Korea (became a subsidiary in June 2018) and Tokai Carbon CB (became a subsidiary in September 2018) will make a full-year contribution from 2019.

(Millions of yen)

	FY 2018 Results			FY 2019 Forecast			YoY Change	% Change
	1H	2H	Full Year	1H	2H	Full Year		
Net sales	91,688	139,614	231,302	155,800	166,900	322,700	+91,398	+39.5%
Operating income	29,017	46,266	75,284	48,500	50,200	98,700	+23,416	+31.1%
Ordinary Income	29,795	45,414	75,210	48,900	50,100	99,000	+23,790	+31.6%
Net Income Attributable to Owners of the Parent Company	44,125	29,872	73,998	32,800	33,300	66,100	(7,898)	(10.7%)
ROS	31.6%	33.1%	32.5%	31.1%	30.1%	30.6%	—	—
ROIC	—	—	31.8%	—	—	31.2%	—	—
ROE	—	—	47.1%	—	—	28.7%	—	—

Group companies

- Consolidated subsidiaries: 40
- Equity method affiliates: 2

Average exchange rates:

- 2018 \$ 1 = ¥110.43
- 2019 \$ 1 = ¥105.00

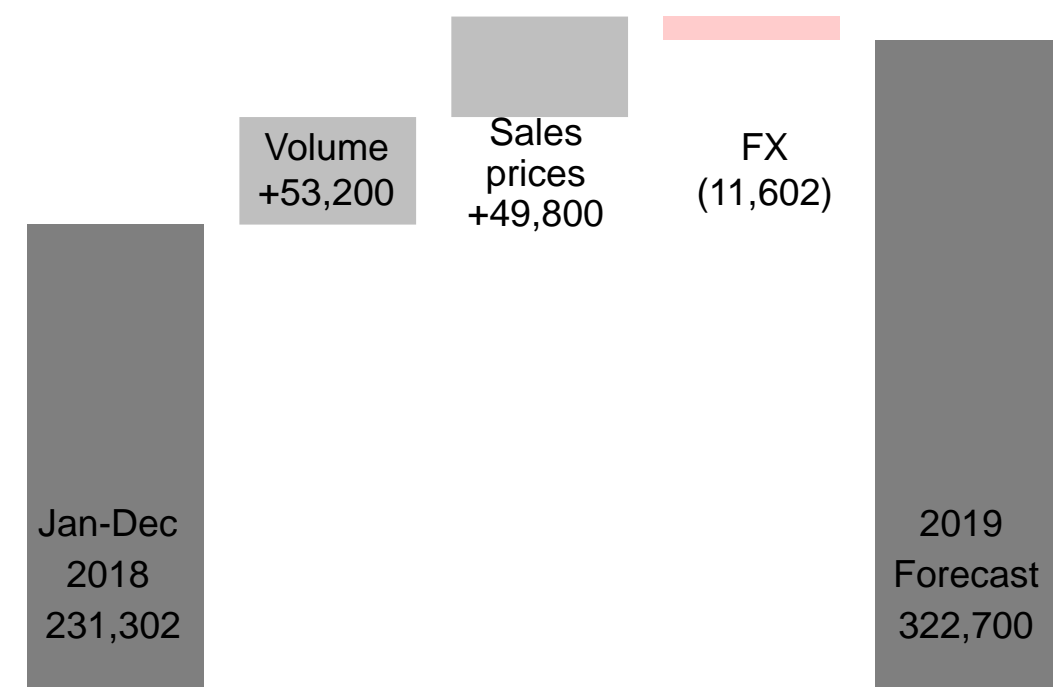
Net Sales and Operating Income Forecast by Segment 19

(Millions of yen)

		FY2018 Results			FY2019 Forecast			Change	% Change
		1H	2H	Full Year	1H	2H	Full Year		
Net sales		91,688	139,614	231,302	155,800	166,900	322,700	+91,398	+39.5%
Graphite Electrodes		40,105	61,970	102,075	68,100	73,700	141,800	+39,725	+38.9%
Carbon Black		29,193	47,732	76,926	57,700	57,600	115,300	+38,374	+49.9%
Fine Carbon		9,327	16,075	25,403	16,400	18,200	34,600	+9,197	+36.2%
Industrial Furnaces and Related Products		5,348	6,023	11,371	5,700	8,300	14,000	+2,629	+23.1%
Other Operations	Friction materials	4,682	4,798	9,480	4,600	4,500	9,100	(380)	(4.0%)
	Anode materials	2,952	2,941	5,894	3,200	4,500	7,700	+1,806	+30.6%
	Others	78	72	150	100	100	200	+50	+33.3%
	Total Others	7,713	7,812	15,525	7,900	9,100	17,000	+1,475	+9.5%
Operating income		29,017	46,266	75,284	48,500	50,200	98,700	+23,416	+31.1%
Graphite Electrodes		20,693	35,347	56,040	36,000	36,700	72,700	+16,660	+29.7%
Carbon Black		5,199	5,430	10,629	7,500	7,100	14,600	+3,971	+37.4%
Fine Carbon		1,739	3,996	5,735	4,000	4,700	8,700	+2,965	+51.7%
Industrial Furnaces and Related Products		1,324	1,718	3,043	1,500	2,100	3,600	+557	+18.3%
Other Operations		582	486	1,068	600	700	1,300	+232	+21.7%
Inter-segment eliminations		(520)	(712)	(1,233)	(1,100)	(1,100)	(2,200)	(967)	+78.4%

- Tokai Carbon Korea (TCK, became a subsidiary in June 2018) and Tokai Carbon CB (TCCB, became a subsidiary in September 2018) will make a full-year contribution from 2019.

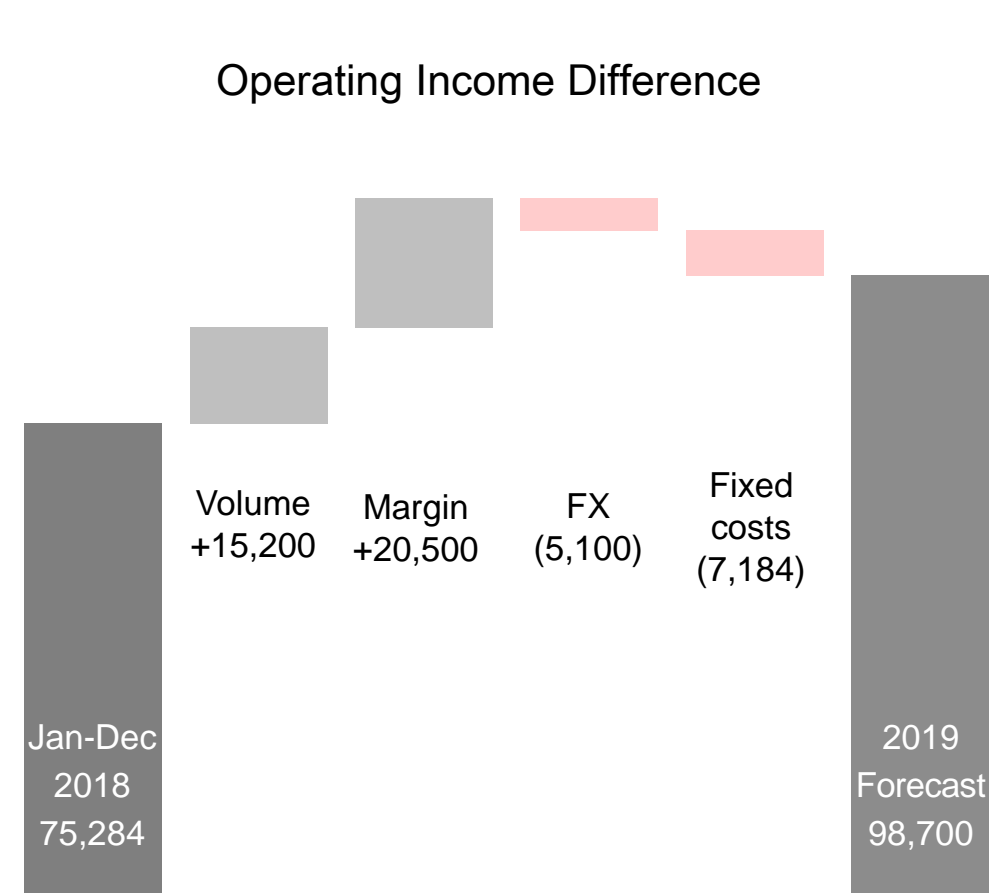
Net Sales Difference



(Millions of yen)

	Increase/ (Decrease)	Summary
Volume	+53,200	• TCK and TCCB became subsidiaries
Sales prices	+49,800	• Increase in sales prices of graphite electrodes and carbon black
FX	(11,602)	• Assumes YoY yen appreciation \$1 = ¥110.43→¥105.00 EUR1 = ¥130.42→¥120.00
Total	91,398	

- New operation site (USA, Korea) and the improved margin of Graphite Electrodes contributed to a operating income growth of 31.1%.



(Millions of yen)		
	Increase/ (Decrease)	Summary
Volume	+15,200	• TCK and TCCB became subsidiaries
Margin	+20,500	• Improvement in graphite electrode margin
FX	(5,100)	• Assumes YoY yen appreciation \$1 = ¥110.43→¥105.00 EUR1 = ¥130.42→¥120.00
Fixed costs	(7,184)	• Amortization of goodwill
Total	23,416	

Reference Material

Net Sales of Main Subsidiaries

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(Millions of yen)

Subsidiary	2017	2018	YoY Change	Location/Business	Summary
TOKAI ERFTCARBON	9,614	38,056	+28,441	Germany Graphite Electrodes	• Increase in sales prices
TOKAI CARBON GE	2,180	39,429	+37,249	U.S. Graphite Electrodes	• Contributing to consolidated results from November 2017
THAI TOKAI CARBON PRODUCT	14,275	19,730	+5,455	Thailand Carbon Black	• Increase in sales prices
Tokai Carbon Tianjin	4,272	5,599	+1,326	China Carbon Black	• Increase in sales prices
Tokai Carbon CB	-	15,750	+15,750	U.S. Carbon Black	• Contributing to consolidated results from September 2018
Cancarb	7,535	7,861	+325	Canada Carbon Black	• Growth in sales volume
Tokai Carbon Korea	-	10,154	+10,154	Korea Fine Carbon	• Contributing to consolidated results from June 2018

(Millions of yen)

	2015	2016	2017	2018	2019 (Forecast)
Net Sales	104,864	88,580	106,252	231,302	322,700
Operating Income	4,088	1,131	11,093	75,284	98,700
Net Income Attributable to Owners of the Parent Company	2,484	(7,929)	12,346	73,998	66,100
ROS (%)	3.9%	1.3%	10.4%	32.5%	30.6%
ROE (%)	2.0%	(6.8%)	10.4%	47.1%	28.7%
ROIC (%)	2.1%	0.7%	7.7%	31.8%	31.2%
Depreciation and Amortization	9,242	8,124	6,647	8,372	12,000
Capital Investment	5,301	6,013	4,282	11,794	32,000
Research and Development Expenses	1,822	2,249	1,482	1,883	—
Number of Employees	2,092	1,980	2,142	2,944	—
Exchange Rate (JPY/USD)	121.05	108.85	112.19	110.43	105.0

Quarterly Segment Results

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(Millions of yen)

		2017					2018				
		Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year
Net Sales		24,104	25,080	25,882	31,184	106,252	41,595	50,092	63,697	75,917	231,302
Graphite Electrodes		5,136	4,520	5,246	8,706	23,610	16,984	23,121	29,134	32,835	102,075
Carbon Black		11,344	12,160	11,858	12,465	47,828	14,276	14,916	19,794	27,938	76,926
Fine Carbon		3,394	3,450	3,781	3,820	14,447	3,893	5,434	8,191	7,884	25,403
Industrial Furnaces and Related Products		1,207	1,615	1,543	2,457	6,823	2,663	2,685	2,642	3,380	11,371
Other Operations	Friction materials	2,033	2,113	2,192	2,332	8,671	2,296	2,385	2,336	2,462	9,480
	Anode materials	930	1,152	1,199	1,358	4,640	1,439	1,512	1,563	1,379	5,894
	Others	58	66	61	43	230	42	36	36	36	150
	Total Others	3,021	3,333	3,452	3,734	13,542	3,778	3,934	3,935	3,877	15,525
Operating Income		1,781	2,446	3,342	3,522	11,093	12,610	16,407	22,957	23,308	75,284
Graphite Electrodes		144	(119)	619	710	1,354	8,381	12,311	17,369	17,978	56,040
Carbon Black		1,479	1,917	1,912	1,559	6,868	2,816	2,382	2,597	2,833	10,629
Fine Carbon		47	343	584	763	1,738	708	1,030	2,233	1,763	5,735
Industrial Furnaces and Related Products		195	317	305	524	1,342	633	691	723	995	3,043
Other Operations		209	242	174	232	858	320	261	312	174	1,068
Inter-segment eliminations		(294)	(253)	(255)	(265)	(1,069)	(250)	(271)	(277)	(435)	(1,233)

- 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 quantitative goals, reference values, investment amounts, and other numerical goals in this document only express the medium-term strategy and vision of the company; they are not performance forecasts. The company is not obligated to update such information.
- Please see the disclosures in the Consolidated Financial Results for the official earnings forecast, based on the rules of Tokyo Stock Exchange, Inc.

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Building a Future of Technology and Trust

TOKAI CARBON