

February 14, 2017

Consolidated Financial Results for the Fiscal Year Ended December 31, 2016 [Japanese GAAP]

Listed company name:	Toyo Tanso Co., Ltd.
Stock exchange listing:	Tokyo Stock Exchange, 1st Section
Stock code:	5310
Location of headquarters:	Osaka, Japan
Website:	http://www.toyotanso.co.jp
Representative:	Takashi Konishi, President
Contact:	Toshimi Boki, General Manager, Finance and Accounting Department
TEL:	81-6-6472-5811 (from overseas)
Scheduled date for ordinary general meeting of shareholders:	March 30, 2017
Scheduled date for dividend payment:	March 31, 2017
Scheduled date for submission of securities report:	March 31, 2017
Supplementary materials for financial summaries:	Yes
Financial results briefing:	Yes (for securities analysts and institutional investors)

1. Consolidated financial results for the fiscal year ended December 31, 2016

(From January 1, 2016 to December 31, 2016)

(1) Operating results

(Millions of yen, rounded down)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Yen	%	Yen	%	Yen	%	Yen	%
Fiscal year ended December 31, 2016	32,464	(8.7)	652	(17.4)	759	(17.3)	284	(29.4)
Fiscal year ended December 31, 2015	35,558	4.4	790	(30.7)	917	(38.9)	402	(69.7)

Note:	Comprehensive income:	
	Fiscal year ended December 31, 2016	(1,055) million yen (-%)
	Fiscal year ended December 31, 2015	(563) million yen (-%)

	Profit attributable to owners of parent per share (basic)	Profit attributable to owners of parent per share (diluted)	Return on Equity	Ordinary income/total assets	Operating income/net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2016	13.71	-	0.5	1.1	2.0
Fiscal year ended December 31, 2015	19.40	19.38	0.7	1.2	2.2

Reference:	Equity in earnings of affiliates	
	December 31, 2016	98 million yen
	December 31, 2015	- million yen

(2) Financial position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	yen
As of December 31, 2016	69,797	58,182	81.4	2,741.06
As of December 31, 2015	72,990	59,487	79.6	2,803.69
Reference: Shareholders' equity				
December 31, 2016		56,831 million yen		
December 31, 2015		58,130 million yen		

(3) Cash flows

(Millions of yen, rounded down)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended December 31, 2016	5,120	(4,127)	(1,270)	6,424
Fiscal year ended December 31, 2015	6,797	(5,235)	(3,167)	7,147

2. Dividends

(Millions of yen, rounded down)

	Dividends per share (yen)				Total (Full year)	Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter -end	Second quarter -end	Third quarter -end	Year -end				
	yen	yen	yen	yen				
Year ended December 31, 2015	-	0.00	-	25.00	25.00	518	128.9	0.9
Year ended December 31, 2016	-	0.00	-	25.00	25.00	518	182.4	0.9
Year ending December 31, 2017 (Forecast)	-	0.00	-	25.00	25.00		34.6	

3. Consolidated results forecast for the fiscal year ending December 31, 2017

(From January 1, 2017 to December 31, 2017)

(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
Six months ending June 30, 2017	15,000	(11.5)	600	16.9	650	152.1	750	210.4	36.17
Fiscal year ending December 31, 2017	31,000	(4.5)	1,500	129.8	1,600	110.8	1,500	427.8	72.35

*** 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) Changes in accounting policies and accounting estimates and restatements

1) Changes in accounting policies due to revisions of accounting standards, etc.: Yes

2) Changes in accounting policies other than 1): Yes

3) Changes in accounting estimates: None

4) Restatements: None

(Note) For details, please refer to “5. Consolidated financial statements, (5) Notes to the consolidated financial statements, (Changes to accounting policies)” on page 23 of the Attached Documents.

(3) Number of shares outstanding (common stock)

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

As of December 31, 2016 20,750,688 shares

As of December 31, 2015 20,750,688 shares

2) Number of treasury shares at the end of period

As of December 31, 2016 17,169 shares

As of December 31, 2015 17,169 shares

3) Average number of shares during the period

Fiscal year ended December 31, 2016 20,733,519 shares

Fiscal year ended December 31, 2015 20,733,590 shares

Reference: SUMMARY OF NON-CONSOLIDATED FINANCIAL STATEMENTS

Non-consolidated financial results for the fiscal year ended December 31, 2016

(From January 1, 2016 to December 31, 2016)

(1) Operating results

(Millions of yen, rounded down)
(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
		%		%		%		%
Fiscal year ended December 31, 2016	22,903	(4.9)	36	(91.4)	283	(80.7)	182	(69.5)
Fiscal year ended December 31, 2015	24,090	4.8	423	27.9	1,467	(13.6)	596	(67.3)

	Net income per share	Diluted net income per share
	yen	yen
Fiscal year ended December 31, 2016	8.79	-
Fiscal year ended December 31, 2015	28.78	28.75

(2) Financial position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	yen
As of December 31, 2016	53,509	43,950	81.9	2,114.95
As of December 31, 2015	55,115	44,280	80.2	2,130.77

Reference: Shareholders' equity

December 31, 2016 43,850 million yen

December 31, 2015 44,178 million yen

*** Implementation status of auditing procedures**

This financial results report is not subject to the auditing procedures stipulated by the Financial Instruments and Exchange Act. The auditing procedures of the consolidated financial statements were not completed at the time of the release of this report.

*** 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 “1. Analysis of Business Results and Financial Position, (1) Analysis of Business Results” on page 2 of the Attached Documents.

(How to acquire supplementary materials for financial summaries and information disclosed at our financial results briefing)

We are scheduled to hold a financial results briefing for securities analysts and institutional investors on February 21, 2017. The materials distributed at the briefing are scheduled to be disclosed on TDnet and our website on that same day.

*** Change in unit of presentation**

Previously, figures in the Company’s consolidated financial statements and other items were listed in thousand-yen units. However, beginning in the fiscal year under review, figures will be shown in million-yen units. For purposes of comparison, figures for the previous consolidated fiscal year and the previous fiscal year will be shown in million-yen units.

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1. Analysis of Business Results and Financial Position

(1) Analysis of Business Results

(i) Business Results for the Fiscal Year Ended December 31, 2016

In the consolidated fiscal year under review, the US economy continued to expand gradually, but the outlook for Europe remained uncertain due to the UK's decision to leave the EU, and the economic slowdown in emerging markets such as China, which had been the driver of global growth, became more pronounced. The Japanese economy is expected to recover gradually as the employment and income environment continues to improve, in part due to the effect of economic policies.

The business environment surrounding the Group remains harsh as a result of heightened competition with other companies. In this environment, conditions in the solar cell market remained uncertain as a result of the impact of fluctuations in the supply/demand balance and falling prices. In addition, demand in the semiconductor market was unchanged, and demand in the LED market and general industries market was low.

The Group attempted to counter this increasingly harsh competitive environment by carrying out measures to reform its business structure with the aim of shifting to a business structure that can ensure steady profits and building a foundation for future growth and expansion.

As a result, in the consolidated fiscal year under review, net sales fell 8.7% year on year to 32,464 million yen. On the income side, despite improvements in marginal profit and reductions in fixed costs, operating income fell 17.4% to 652 million yen due to decreases attributable to the strong yen and the posting of a provision of allowance for doubtful accounts. Ordinary income fell 17.3% to 759 million yen. Moreover, profit attributable to owners of parent fell 29.4% to 284 million yen because, although subsidy income for the Takuma Division and a subsidiary in China was posted, the Company reversed deferred tax assets and posted impairment losses on some manufacturing facilities related to the porous carbon business and sales offices that are due to close.

The overall performance of each business segment was as follows. (Please refer to "6. Others" for an overview of each product category.)

Japan

Although sales of metallurgical and semiconductor applications remained solid, products for LED applications were weak, and sales of carbon products for mechanical applications were also poor. As a result, net sales in Japan fell 7.0% year on year to 17,096 million yen and operating income decreased 59.1% to 347 million yen.

United States

Sales of metallurgical and electronics-related products were disappointing. As a result, net sales fell 27.1% to 2,487 million yen. On the income side, we posted an operating loss of 517 million yen (compared to a 403-million yen operating loss in the previous fiscal year) due to the posting of 147 million yen of provision of allowance for doubtful accounts and other factors.

Europe

Although electronics-related products for solar cell applications were firm, sales of metallurgical applications and small carbon brushes were weak. As a result, net sales in Europe fell 9.9% to 2,919 million yen and operating income increased 106.1% to 26 million yen.

Asia

Metallurgical applications and carbon products for electrical applications were weak, but sales for solar cell applications increased due to strong demand spurred by facility upgrades in the first half of the fiscal year under review. As a result, net sales in Asia fell 5.3% to 9,960 million yen and operating income increased 43.0% to 584 million yen.

(ii) Outlook for the Fiscal Year Ending December 31, 2017

The US economy is expected to expand at a faster pace, although there is uncertainty about the policy direction. However, we expect the recovery in the European economies to slow, and growth rates are expected to decline in China as well. We expect the Japanese economy to continue to recover gradually, but the situation is

difficult to predict due to uncertainty over the course of U.S. policy and concerns over the downturn in the Chinese economy.

In this business environment, the recovery in demand for mainstay products such as special graphite products would be limited, while the competitive environment would continue to be harsh. We expect these trends to continue in the near term. Given these conditions, the Group will focus on improving the marginal profit ratio through business structure reforms and reducing fixed costs in order to transition to a business structure that can steadily generate income without being affected by the business environment, as well as build a foundation for further growth and development in the future.

Our earnings forecasts have been made on the assumption of exchange rates of 105 yen/US\$, 115 yen/EUR and 15 yen/CNY. In view of the above factors, we expect net sales of 31,000 million yen, 1,500 million yen in operating income, 1,600 million yen in ordinary income, and 1,500 million yen in profit attributable to owners of parent in the fiscal year ending December 31, 2017. The final delivery date for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM) has not been finalized, and thus this amount is not included in the earnings forecast.

(2) Analysis of Financial Position

(i) Assets, Liabilities, and Net Assets

Total assets as of the end of the consolidated fiscal year under review decreased by 3,193 million yen from the end of the previous consolidated fiscal year. This was primarily because notes and accounts receivable–trade decreased by 963 million yen, inventories decreased by 876 million yen and property, plant and equipment fell by 1,594 million yen as a result of depreciation posted, although cash and deposits increased by 615 million yen.

Total liabilities decreased by 1,887 million yen from the end of the previous consolidated fiscal year. This was primarily because notes and accounts payable–trade decreased 477 million yen, interest-bearing liabilities fell 703 million yen, accounts payable–other dropped 334 million yen, and income taxes payable declined 307 million yen.

Total net assets decreased by 1,305 million yen from the end of the previous consolidated fiscal year. This was primarily because foreign currency translation adjustments decreased by 1,279 million yen.

(ii) Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) as of December 31, 2016, decreased by 722 million yen from the end of the previous consolidated fiscal year to 6,424 million yen on a consolidated basis.

(Cash Flows from Operating Activities)

Funds acquired by operating activities totaled 5,120 million yen, a 24.7% decrease year on year. This was primarily because funds increased due to profit before income taxes of 1,108 million yen (a 4.5% year-on-year drop), depreciation of 3,414 million yen (a 7.1% decrease), impairment loss of 455 million yen (a 56.7% increase), a decline in notes and accounts receivable–trade of 328 million yen (a 25.2% increase), and a decrease in inventories of 960 million yen (a 2.3% increase), offsetting a decrease in funds due to a decline in notes and accounts payable–trade of 349 million yen (compared to a 1,145 million yen increase in the previous fiscal year) and income taxes paid of 743 million yen (a 18.3% decrease year on year).

(Cash Flows from Investing Activities)

Funds used in investment activities totaled 4,127 million yen, a 21.2% decrease year on year. This was primarily due to a decrease in funds from payments into time deposits of 6,580 million yen (a 19.1% increase year on year) and purchase of property, plants and equipment of 2,740 million yen (a 4.7% increase), which offset an increase in funds from proceeds from withdrawals of time deposits of 5,249 million yen (a 59.8% increase).

(Cash Flows from Financing Activities)

Funds used in financing activities amounted to 1,270 million yen, a 59.9% decrease year on year. This was primarily due to a decrease in funds, including 740 million yen in repayments of long-term loans payable (a

34.8% decrease) and 519 million yen in cash dividends paid (a 14.9% increase).

(3) Basic Policy for Profit Allocation and Dividends for the Fiscal Year Ended December 31, 2016 and the Fiscal Year Ending December 31, 2017

(i) Basic Policy

Our basic policy for profit allocation is to make strategic investments in order to strengthen our competitiveness and enhance our value over the long term and return profits to shareholders in a continuous and stable fashion with due consideration of business results for the fiscal year, funding needs for the future expansion of our business operations, and consolidation of our business foundation. We intend to use internal reserves for capital expenditures for production facilities, development of new products, and investment in research and development.

(ii) Dividends for the Fiscal Year Ended December 31, 2016

Based on the aforementioned policy and our business results in the fiscal year under review, we plan to pay a dividend of 25 yen per share for the fiscal year ended December 31, 2016.

(iii) Dividends for the Fiscal Year Ending December 31, 2017

While we expect the business environment to remain harsh, in the interest of consistently returning profits to shareholders, we plan to pay a dividend of 25 yen per share for the fiscal year ending December 31, 2017.

2. Composition of Corporate Group

The Toyo Tanso Group consists of Toyo Tanso Co., Ltd., 11 consolidated subsidiaries, including two domestic and nine foreign companies, seven foreign non-consolidated subsidiaries, and one overseas affiliated company accounted for using the equity method. The main businesses of the Toyo Tanso Group are the manufacture, processing, and sale of carbon products for high-function applications using isotropic graphite materials (Note). Carbon products from the Toyo Tanso Group are used in a broad array of areas, and we need to manufacture a range of products in small quantities since the specifications our customers require range over a broad spectrum.

The Toyo Tanso Group succeeded in pioneering the high-volume production of isotropic graphite materials in 1974 ahead of competitors in Japan and overseas. This was followed by achievements in growth in size, and the Group has been expanding the applications of these products. We efficiently manufacture carbon materials centering on these isotropic graphite materials by concentrating production on our bases in Japan. We have constructed a system to directly sell these products to local customers by supplying them to processing and sales bases located in Japan and other countries in North America, Europe, and Asia. We have established a stable product supply system with a short delivery time through this integrated production and sales system. This system ranges from materials to products. We develop products by promptly absorbing customer needs in a cooperative relationship with customers based on our direct sales system.

The Toyo Tanso Group also conducts basic and applied studies based on customer needs and the analysis data of carbon products that we have been accumulating for many years as a carbon-specialized producer. As a result, the applications of our products have been expanding into a wide spectrum of areas from industrial and commercial applications such as industrial machinery, automobiles, and consumer electronics to cutting-edge areas such as atomic power, aerospace, medical, and energy.

Note: Isotropic graphite materials

Carbon materials are categorized into graphite materials that are manufactured through high-temperature processing and other carbon materials. Of graphite materials, isotropic graphite materials are characterized by the fact that their properties are the same in all three-dimensional directions.

To manufacture isotropic graphite materials, it is necessary to apply equal pressure from all directions in the molding process, and we have established a production method using a hydrostatic molding method (a molding method that applies pressure under water) ahead of competitors in Japan and overseas.

The main characteristics of graphite materials are as follows:

- (i) High thermal conductivity (*) and electronic conductivity
- (ii) High resistance to heat and chemicals
- (iii) Light and workable
- (iv) Resistance to friction and attrition

In addition to the above, isotropic graphite materials have the following characteristics:

- (i) Traits such as thermal expansion (*) are the same in all directions
- (ii) High strength with an ultra-fine particle structure and very small material dispersion

Materials, applications, items, examples, and characteristics of each product are as follows.

Materials/Applications/Items			Product examples
Special graphite products	Electronics applications	For the manufacture of single-crystal silicon	Crucibles and heaters for single-crystal growing furnaces
		For the manufacture of compound semiconductors	Susceptors for MOCVD systems, boats for LPE systems
		For the manufacture of solar cells	Crucibles and heaters for single-crystal and polycrystal silicon manufacturing furnaces, carriers for anti-reflective coating films
	General industries applications		Continuous casting dies, EDM electrodes, heaters for various industrial furnaces, structural materials
	Others	For the manufacture of advanced processing equipment	Electrodes for ion implantation equipment, glass sealing jigs
For atomic power, aerospace and medical		Cores for high-temperature gas reactors, wall materials for nuclear fusion reactors, rocket parts, parts for CT scans	
Carbon products for general industries	Carbon products for mechanical applications	General industries applications	Bearings and seals for pumps and compressors
		For transportation	Pantograph sliders, automotive parts
	Carbon products for electrical applications	For small motors	Carbon brushes for vacuum cleaners and electric power tools
		For large motors	Large brushes, carbon brushes for wind-power generators
Compound materials and other products			Susceptors for Si-Epi equipment, wall materials for nuclear fusion reactors, automotive gaskets, susceptors for MOCVD systems, materials for the manufacture of solar cells

(1) Special graphite products

For special graphite products, isotropic graphite materials are mainly used.

(i) Electronics applications

(a) For the manufacture of single-crystal silicon

Silicon wafers that are manufactured by slicing single-crystal silicon are basic materials that help drive the development of the electronics industry as a semiconductor substrate such as a high-integrated memory device. Major consumable parts inside a furnace such as crucibles (*) and heaters that are used in single-crystal silicon growing furnaces rely on isotropic graphite products, since these parts require high purity and high thermal resistance.

With the diameter of single-crystal silicon increasing, a manufacturing process using 300-mm wafers has become the mainstream of the manufacturing process. The Company has the capacity to produce the world's largest isotropic graphite materials and to meet demand from customers in Japan and overseas by using its processing and high-purity production facilities.

(b) For the manufacture of compound semiconductors

Compound semiconductors (*), which are used as light-emitting devices, telecommunications devices, power devices, etc., are also used as high-efficiency light-emitting devices for digital consumer electronics such as mobile phones, DVDs and LCDs, automotive head lamps, and fluorescent tubes, taking advantage of their features, such as a long life and electric power-saving.

In Japan and overseas, major consumable parts such as heating elements and susceptors for MOCVD systems (*), which are used in the manufacturing process of these compound semiconductors, rely on the isotropic graphite products of the Company, as these parts require high purity and high processing accuracy.

(c) For the manufacture of solar cells

Solar cells are representative of clean energy technology. Their applications are expected to expand on a global scale, given the legislation of subsidies for the purchase and installation of residential power generation systems in countries around the world, and other such national policies.

Major consumable parts in heaters and crucibles utilized in the manufacturing process of single-crystal and polycrystal silicon, the core materials of solar cell elements, as well as carriers for PE-CVD equipment and others used in the manufacturing process of anti-reflective coating films, use our isotropic graphite products. They are used because such components require high thermal resistance and high durability.

(ii) General industries applications

Isotropic graphite materials have high thermal and chemical resistance and electrical conductivity even among graphite materials. Taking advantage of these features, the materials are used for applications such as metal melting crucibles, continuous casting dies (*), EDM electrodes (*) for manufacturing dies, the sintering of ceramics and powder metallurgical materials, the annealing of automotive parts and other high-temperature heating elements for industrial furnaces, and construction materials inside a furnace.

The Toyo Tanso Group supplies products for these diverse industry applications in Japan and in other countries such as China, Southeast Asia, and South America, where further economic growth is expected.

(iii) Others

(a) For advanced process equipment

A range of isotropic graphite materials are applied for the manufacture of electrodes for ion implantation equipment, and are used for microfabrication in the manufacturing process of semiconductors and liquid crystals, diodes, crystal oscillators, and other advanced process equipment. Since the above equipment requires features such as high thermal resistance, thermal conductivity, purity, strength, and processing accuracy, the Company's products are widely used by large equipment makers and other customers.

(b) For atomic power, aerospace, and medical

Atomic power applications such as cores for high-temperature gas reactors and wall materials for nuclear fusion reactors require high credibility and quality. The Company's products are used for these atomic power applications, as high resistance to radiation and plasma is required, in addition to high thermal resistance and other features of graphite. Our products are also used for aerospace applications such as rocket parts and medical applications, including CT scans.

(2) Carbon products for general industries applications

Carbon materials that are manufactured by a conventional molding method are primarily used for carbon products for general industries applications. Isotropic graphite materials are also used for some applications.

(i) Carbon products for mechanical applications

(a) For general industries

Taking advantage of such features as abrasion resistance, thermal and chemical resistance, and their self-lubricating characteristics (*), we sell a variety of products including sliding parts such as bearings for pumps and compressors, as well as seals for gaseous and liquid bodies such as piston rings (*) and mechanical seals (*), to machinery manufacturers in Japan and overseas. The Company operates overseas with strong cost competitiveness by improving the homogeneity of materials and optimizing the material size.

(b) For transportation

We sell pantograph sliders (*) with high self-lubricating characteristics, electrical conductivity, and abrasion resistance to railroad companies by impregnating copper into carbon with high pressure. Pantograph sliders made by the Company have reduced the abrasion of overhead wires and achieved lower noise compared with conventional metal sliders.

(ii) Carbon products for electrical applications

(a) For small motors

We sell carbon brushes for small motors for commercial uses, such as vacuum cleaners and power tools, to consumer electronics, tool makers, and other customers. The Company's products are characterized by long life, high durability, and a rectifying property against high-speed rotation. We will quickly respond to the need for local production and local consumption primarily by promptly establishing production and sales subsidiaries in China. This will enable us to respond to the needs of local customers.

(b) For large motors

Our products are used by steel and paper manufacturing companies as carbon brushes for large motors for industrial applications, taking advantage of their high self-lubricating characteristics, electrical conductivity, and workability. A carbon brush is a device that enables a stable and sustained supply of electricity while sliding on rotating bodies and has come to be used for the environment and energy, such as the power collection facilities of wind-power generation.

(3) Compound materials and other products

In compound materials and other products, we manufacture and sell compound materials coated by other materials with isotropic graphite as the base material (SiC-coated graphite (*), etc.), materials compounded with carbon and carbon fiber (C/C composite products (*)), and natural graphite materials (graphite sheets (*)).

(i) SiC-coated graphite products

SiC-coated graphite products have high thermal and etching resistance (*) and high purity that reduces the generation of organic pollutants. Taking advantage of these features, we sell these products to the semiconductor industry in Japan and overseas as susceptor materials for the thin-film manufacturing process in the production process of silicon and compound semiconductors.

(ii) C/C composite products

C/C composite products are advanced materials that are light and strong and retain a high carbon thermal quality, and that are used for a wide spectrum of applications in Japan and overseas, such as the manufacturing processes of solar cells and single-crystal silicon, materials for vacuum furnaces, as well as special applications including the wall materials of nuclear fusion reactors.

(iii) Graphite sheet products

Graphite sheet products are light sheet products and are used for automotive parts such as gaskets and mufflers, given their characteristics of not being sensitive to other substances even under high temperatures. Demand for graphite sheet products is also expected to rise for the protection of carbon members in the manufacturing process of quartz and single-crystal silicon. Applications in areas that require dealing with heat, such as heat sinks, are also expected, leveraging their high thermal conductivity in the face direction.

(iv) Porous carbon products

Porous carbon products are products in powder form that have a large volume of mesopores (2-50 nm pores), and thus have functions that conventional porous materials do not. In addition to applications in absorbent materials compatible with a wide range of substances, they can be used in applications related to energy storage, such as electrode material and additives for electrical storage devices, and bio-related applications, such as protein adhesion and separation and body sensor materials.

Please refer to the glossary below for words with an asterisk (*).

This glossary is prepared by the Company based on its understanding and judgment as a reference to enable investors to have a better understanding of the descriptions in this report.

[Glossary]

[Thermal conductivity]

The heat conductivity possessed by a substance.

[Thermal expansion]

The expansion of a substance associated with a rise in temperature.

[Crucible]

A pot-like container for holding heat-temperature liquid.

[Compound semiconductor]

A semiconductor that consists of substances comprising multiple elements. Examples of a compound semiconductor include gallium arsenide, gallium nitride, and silicon carbide. Features that silicon semiconductors do not have are used.

[Susceptor]

A platform used to develop a thin film on the surface of wafers.

[Continuous casting dies]

A mold to cool and solidify molten metal by touching it in a continuous casting process that casts dissolving metal by continuously cooling it. Metal products that have the cross-section of this mold will be made continuously.

[EDM electrode]

An electrode that will make a pair with a processed material. It generates an electrical discharge between the electrode and the processed material and transcribes the shape of the electrode on the processed material.

[Self-lubricating nature]

Property in which adhesion barely occurs because of a layered crystal structure and a low friction coefficient.

[Piston ring]

A sealing ring that prevents leakage from a space between a piston and the inner wall of a cylinder in a reciprocating compressor.

[Mechanical seal]

A machine part to control leaks from a rotating shaft of fluid or gas equipment, a sidewall due to a reciprocating motion, or a pressure container, etc., and prevent the intrusion of a different liquid from outside.

[Pantograph slider]

A power collection body that collects electricity by touching an overhead wire and sliding on it to supply power to a train.

[SiC-coated graphite]

A product that generates a precise thin film of silicon carbide on the surface of isotropic graphite. This can curb the generation and reaction of a small amount of gas from graphite.

[C/C composite product]

Graphite reinforced by carbon fibers that are light weight and very strong.

[Graphite sheet]

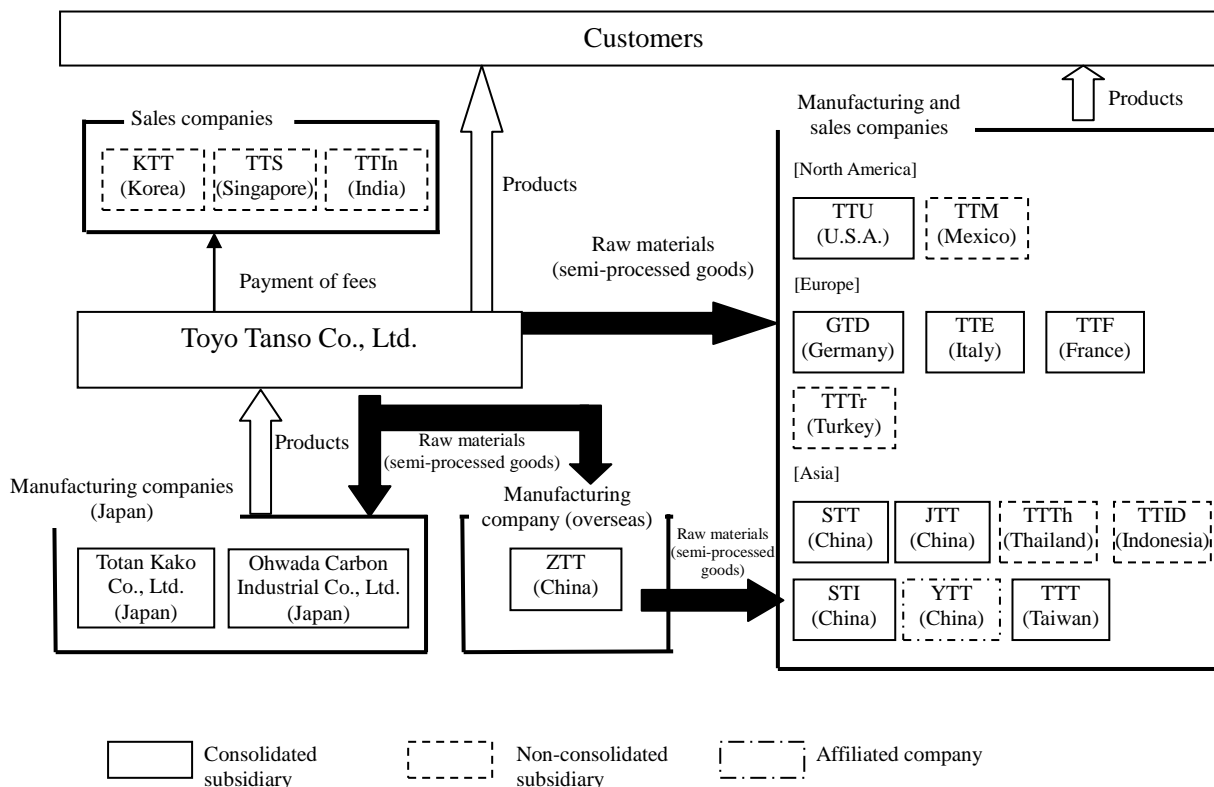
Graphite that is formed into a sheet-like shape using a special production method. This is used for gaskets and other products because of its flexible nature.

[Etching resistance]

Degree of lack of attrition by gaseous and liquid bodies with high reactive properties.

[Business Flow Chart]

The business flow chart of the Toyo Tanso Group is as follows. Only major business relations are indicated in this chart.



The formal names of the companies represented by the acronyms used in the chart above are as follows:

Company name	(TTU) ... Toyo Tanso USA, Inc.
	(TTE) ... Toyo Tanso Europe S.p.A.
	(TTF) ... Toyo Tanso France S.A.
	(GTD) ... GTD Graphit Technologie GmbH
	(STT) ... Shanghai Toyo Tanso Co., Ltd.
	(STI) ... Shanghai Toyo Tanso Industrial Co., Ltd.
	(ZTT) ... Toyo Tanso (Zhejiang) Co., Ltd.
	(JTT) ... Jiaxiang Toyo Tanso Co., Ltd.
	(TTT) ... Toyo Tanso Taiwan Co., Ltd.
	(YTT) ... Shanghai Yongxin Toyo Tanso Co., Ltd.
	(KTT) ... Toyo Tanso Korea Co., Ltd.
	(TTTh) ... Toyo Tanso (Thailand) Co., Ltd.
	(TTS) ... Toyo Tanso Singapore Pte. Ltd.
	(TTIn) ... Toyo Tanso India Private Limited
	(TTTr) ... Toyo Tanso Graphite and Carbon Products Industry and Commercial A.S
	(TTM) ... Toyo Tanso Mexico, S.A. de C.V.
	(TTID) ... PT. Toyo Tanso Indonesia

3. Management Policy

(1) Basic Policies for the Management of the Company

BRAND VISION: Future that Company aspires to

We enrich people's lives and society by contributing to the development of scientific technology.

BRAND PROMISE: Long-term commitments that Company makes

We are committed to always living up to the public's trust and meeting expectations without forgetting our pioneering spirit to create products never before seen.

BRAND VALUE: Value offered to stakeholders

We form the foundation for a wide variety of industries and products and beat the competition in providing the best technology at the highest quality that make the impossible possible.

BRAND PERSONALITY: Company conduct and world-view

We are required to demonstrate the following attributes:

Integrity: Sincerity

Challenging: Continuing to take up challenges without being afraid of making mistakes

Never give up: Always persevering

Unique: Creative and original

Passionate: Acting with enthusiasm

Humanity: Respecting people and valuing human ties

(2) Medium- to Long-Term Management Strategies and Issues to Address

The business environment in which we operate has become increasingly competitive, and we expect similar trends to continue in the near term, while the recovery in demand for our mainstay products, such as special graphite products, has been limited. As a result, the Group will strive to improve the marginal profit ratio and reduce fixed costs by reforming our business structure with the aim of shifting to a business structure that can generate steady profits that do not fluctuate with the business environment, and building a foundation for further growth and development in the future. Through these efforts, the Group aims at operating income of 3.0 billion yen on a consolidated basis for the fiscal year ending December 31, 2018. Priority measures aimed at improving the marginal profit ratio and reducing fixed costs are described below.

(Select specific businesses on which to focus resources)

- Review projects with poor profitability
- Review price strategy on new orders

(Optimize organization)

- Streamline headquarters and indirect departments at domestic plants
- In addition to the completed consolidation of sales offices in Japan, liquidation of Indian subsidiary, and the termination of the joint venture at a Chinese subsidiary, continue to consider the optimization of bases

(Optimize personnel)

- Reduce the hiring of indefinite-term employees
- Reduce new and ongoing use of temporary employees
- Review personnel structure at overseas bases

(Strengthen business management)

In order to entrench the results achieved with the three priority measures described above, we will shift to a comprehensive business operation system with the introduction of the business division system, currently underway, and also strengthen business management by reinforcing governance systems in both domestic and overseas operations and ensuring the use of the standards for the continuation of or withdrawal from existing businesses.

In addition to the above priority measures, we will strive to quickly bring the US business, which continues to post operating losses, back to profitability by continuing to use and apply long-term retained stock and considering and reducing nonessential and non-urgent capital investments, in tandem with the completed consolidation of business bases at the US headquarters, employee reductions, and the reinforcement of governance through reforms in the management system.

4. Basic Approach to Selection of Accounting Standards

The Group will prepare its consolidated financial statements in line with Japanese standards for the near term, given that these standards enable comparison of consolidated financial statements across fiscal periods and between companies.

We plan to respond appropriately to the adoption of international accounting standards, taking into account conditions in Japan and overseas.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen, rounded down)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	11,627	12,242
Notes and accounts receivable - trade	13,047	12,083
Merchandise and finished goods	7,061	6,480
Work in process	7,778	7,674
Raw materials and supplies	2,168	1,977
Deferred tax assets	941	673
Other	614	505
Allowance for doubtful accounts	(428)	(275)
Total current assets	42,810	41,362
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,191	18,840
Accumulated depreciation	(9,511)	(9,929)
Buildings and structures, net	8,680	8,911
Machinery, equipment and vehicles	47,497	47,779
Accumulated depreciation	(36,722)	(38,598)
Machinery, equipment and vehicles, net	10,774	9,181
Land	5,869	5,770
Construction in progress	1,076	769
Other	4,266	4,593
Accumulated depreciation	(3,651)	(3,805)
Other, net	615	788
Total property, plant and equipment	27,016	25,421
Intangible assets	1,174	1,011
Investments and other assets		
Investment securities	343	352
Deferred tax assets	40	37
Net defined benefit asset	382	341
Other	1,223	1,412
Allowance for doubtful accounts	(1)	(143)
Total investments and other assets	1,989	2,002
Total non-current assets	30,180	28,435
Total assets	72,990	69,797

(Millions of yen, rounded down)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,408	1,931
Electronically recorded obligations - operating	1,083	1,000
Short-term loans payable	1,453	1,477
Accounts payable - other	1,775	1,440
Income taxes payable	403	95
Provision for bonuses	384	348
Other	3,829	3,854
Total current liabilities	11,338	10,148
Non-current liabilities		
Long-term loans payable	1,215	487
Deferred tax liabilities	197	203
Net defined benefit liability	140	138
Asset retirement obligations	261	264
Other	350	372
Total non-current liabilities	2,164	1,466
Total liabilities	13,503	11,615
Net assets		
Shareholders' equity		
Capital stock	7,692	7,692
Capital surplus	9,534	9,534
Retained earnings	37,932	38,034
Treasury shares	(59)	(59)
Total shareholders' equity	55,100	55,201
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	111	119
Foreign currency translation adjustment	2,893	1,613
Remeasurements of defined benefit plans	25	(102)
Total accumulated other comprehensive income	3,030	1,629
Subscription rights to shares	102	100
Non-controlling interests	1,254	1,249
Total net assets	59,487	58,182
Total liabilities and net assets	72,990	69,797

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
(Consolidated statement of income)

(Millions of yen, rounded down)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net sales	35,558	32,464
Cost of sales	27,273	24,890
Gross profit	8,284	7,573
Selling, general and administrative expenses	7,494	6,921
Operating income	790	652
Non-operating income		
Interest income	89	61
Dividend income	25	28
Share of profit of entities accounted for using equity method	-	98
Gain on currency options	42	25
Revenue from sales of electric power	46	46
Miscellaneous income	108	149
Total non-operating income	312	410
Non-operating expenses		
Interest expenses	41	23
Foreign exchange losses	107	228
Miscellaneous loss	36	51
Total non-operating expenses	184	303
Ordinary income	917	759
Extraordinary income		
Gain on sales of non-current assets	6	50
Gain on sales of investment securities	1	-
Subsidy income	1,131	779
Insurance income	79	17
Gain on reversal of subscription rights to shares	-	1
Total extraordinary income	1,219	848
Extraordinary losses		
Loss on sales of non-current assets	0	1
Loss on retirement of non-current assets	421	41
Impairment loss	* 290	* 455
Loss on valuation of shares of subsidiaries	39	-
Subsidiary relocation expenses	224	-
Total extraordinary losses	976	498
Profit before income taxes	1,160	1,108
Income taxes - current	790	419
Income taxes - deferred	(16)	283
Total income taxes	774	702
Profit	386	406
Profit (loss) attributable to non-controlling interests	(15)	122
Profit attributable to owners of parent	402	284

(Consolidated statement of comprehensive income)

(Millions of yen, rounded down)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Profit	386	406
Other comprehensive income		
Valuation difference on available-for-sale securities	16	8
Foreign currency translation adjustment	(1,035)	(1,411)
Remeasurements of defined benefit plans, net of tax	69	(128)
Share of other comprehensive income of entities accounted for using equity method	-	70
Total other comprehensive income	(949)	(1,461)
Comprehensive income	(563)	(1,055)
Comprehensive income attributable to		
Owners of parent	(497)	(1,116)
Non-controlling interests	(65)	60

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 31, 2015

(Millions of yen, rounded down)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,692	9,534	38,013	(59)	55,181
Cumulative effects of changes in accounting policies			(26)		(26)
Restated balance	7,692	9,534	37,986	(59)	55,154
Changes of items during period					
Dividends of surplus			(456)		(456)
Profit attributable to owners of parent			402		402
Purchase of treasury shares				(0)	(0)
Change of scope of equity method			-		-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	(53)	(0)	(54)
Balance at end of period	7,692	9,534	37,932	(59)	55,100

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	95	3,878	(43)	3,930	68	1,738	60,918
Cumulative effects of changes in accounting policies							(26)
Restated balance	95	3,878	(43)	3,930	68	1,738	60,891
Changes of items during period							
Dividends of surplus							(456)
Profit attributable to owners of parent							402
Purchase of treasury shares							(0)
Change of scope of equity method							-
Net changes of items other than shareholders' equity	16	(985)	69	(900)	33	(483)	(1,350)
Total changes of items during period	16	(985)	69	(900)	33	(483)	(1,404)
Balance at end of period	111	2,893	25	3,030	102	1,254	59,487

Fiscal year ended December 31, 2016

(Millions of yen, rounded down)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,692	9,534	37,932	(59)	55,100
Changes of items during period					
Dividends of surplus			(518)		(518)
Profit attributable to owners of parent			284		284
Purchase of treasury shares				-	-
Change of scope of equity method			335		335
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	101	-	101
Balance at end of period	7,692	9,534	38,034	(59)	55,201

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	111	2,893	25	3,030	102	1,254	59,487
Changes of items during period							
Dividends of surplus							(518)
Profit attributable to owners of parent							284
Purchase of treasury shares							-
Change of scope of equity method							335
Net changes of items other than shareholders' equity	8	(1,279)	(128)	(1,400)	(1)	(5)	(1,406)
Total changes of items during period	8	(1,279)	(128)	(1,400)	(1)	(5)	(1,305)
Balance at end of period	119	1,613	(102)	1,629	100	1,249	58,182

(4) Consolidated Statement of Cash Flows

(Millions of yen, rounded down)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Cash flows from operating activities		
Profit before income taxes	1,160	1,108
Depreciation	3,673	3,414
Impairment loss	290	455
Share of (profit) loss of entities accounted for using equity method	-	(103)
Increase (decrease) in net defined benefit asset or liability	(173)	(135)
Increase (decrease) in long-term accounts payable (directors' retirement benefits)	(3)	(37)
Increase (decrease) in provision for bonuses	(0)	(19)
Increase (decrease) in allowance for doubtful accounts	(122)	15
Interest and dividend income	(115)	(90)
Interest expenses	41	23
Foreign exchange losses (gains)	107	32
Gain on sales of non-current assets	(6)	(50)
Loss on sales and retirement of non-current assets	421	43
Decrease (increase) in notes and accounts receivable - trade	262	328
Decrease (increase) in inventories	938	960
Increase (decrease) in notes and accounts payable - trade	1,145	(349)
Other	18	173
Subtotal	7,638	5,769
Interest and dividend income received	109	117
Interest expenses paid	(40)	(23)
Income taxes (paid) refund	(910)	(743)
Net cash provided by (used in) operating activities	6,797	5,120
Cash flows from investing activities		
Payments into time deposits	(5,525)	(6,580)
Proceeds from withdrawal of time deposits	3,284	5,249
Purchase of property, plant and equipment	(2,616)	(2,740)
Proceeds from sales of property, plant and equipment	10	64
Purchase of intangible assets	(219)	(65)
Purchase of investment securities	(138)	(6)
Other	(28)	(48)
Net cash provided by (used in) investing activities	(5,235)	(4,127)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,128)	84
Repayments of long-term loans payable	(1,135)	(740)
Repayments of finance lease obligations	(33)	(29)
Purchase of treasury shares	(0)	-
Cash dividends paid	(451)	(519)
Dividends paid to non-controlling interests	(418)	(66)
Net cash provided by (used in) financing activities	(3,167)	(1,270)
Effect of exchange rate change on cash and cash equivalents	(309)	(445)
Net increase (decrease) in cash and cash equivalents	(1,914)	(722)
Cash and cash equivalents at beginning of period	9,061	7,147
Cash and cash equivalents at end of period	7,147	6,424

(5) Notes to the Consolidated Financial Statements

(Notes regarding the premise of a going concern)

Not applicable.

(Significant items that form the basis of preparations for consolidated financial statements)

1. Items concerning the scope of consolidation

(1) Number of consolidated subsidiaries: 11

Names of consolidated subsidiaries

Totan Kako Co., Ltd.

Ohwada Carbon Industrial Co., Ltd.

Toyo Tanso USA, Inc.

Toyo Tanso Europe S.p.A.

Toyo Tanso France S.A.

GTD Graphit Technologie GmbH

Shanghai Toyo Tanso Co., Ltd.

Shanghai Toyo Tanso Industrial Co., Ltd.

Toyo Tanso (Zhejiang) Co., Ltd.

Jiaxiang Toyo Tanso Co., Ltd.

Toyo Tanso Taiwan Co., Ltd.

(2) Names of significant non-consolidated subsidiaries

Significant non-consolidated subsidiaries

Toyo Tanso Korea Co., Ltd.

Toyo Tanso (Thailand) Co., Ltd.

Toyo Tanso Singapore Pte. Ltd.

Toyo Tanso India Private Limited

Toyo Tanso Graphite and Carbon Products Industry and Commercial A.S

Toyo Tanso Mexico, S.A. de C.V.

PT. Toyo Tanso Indonesia

(Reason for exclusion from the scope of consolidation)

Non-consolidated subsidiaries were not included in the scope of consolidation because their total assets, net sales, net income (loss; amount corresponding to equity), and retained earnings (amount corresponding to equity) do not have a material impact on the consolidated financial statements.

2. Items concerning the application of the equity method

(1) Number of affiliated companies accounted for using the equity method: 1

Significant affiliated companies accounted for using the equity method

Shanghai Yongxin Toyo Tanso Co., Ltd

(2) Because non-consolidated subsidiaries have very little impact on net income (loss; amount corresponding to equity) or retained earnings (amount corresponding to equity) and have no materiality overall, the equity method has not been applied to the investment account for these companies, and they have instead been valued at cost.

There are seven non-consolidated subsidiaries to which the equity method has not been applied: Toyo Tanso Korea Co., Ltd., Toyo Tanso (Thailand) Co., Ltd., Toyo Tanso Singapore Pte. Ltd., Toyo Tanso India Private Limited, Toyo Tanso Graphite and Carbon Products Industry and Commercial A.S, Toyo Tanso Mexico, S.A. de C.V., and PT. Toyo Tanso Indonesia.

(3) Since Shanghai Yongxin Toyo Tanso Co., Ltd. has become increasingly important, the equity method is being applied to this subsidiary beginning with the current consolidated fiscal year.

3. Items concerning the business years of subsidiaries

The closing date for all consolidated subsidiaries is in line with the consolidated closing date.

4. Items concerning accounting policies

(1) Valuation standards and method for significant assets

a. Securities

(a) Shares of subsidiaries and affiliates

Stated at cost using the moving average method

(b) Other securities

Securities with a readily determinable fair value

Stated at fair value based on market price on the consolidated closing date (valuation differences are treated through the partial direct net asset adjustment method and sales costs are calculated with the moving average method)

Securities without a readily determinable fair value

Stated at cost using the moving average method

b. Derivatives

Stated at fair value

c. Inventories

(a) Merchandise and raw materials

Mainly stated at cost using the moving average method

(The carrying amount on the balance sheet is reduced for decreases in profitability.)

(b) Finished goods and work in process (processed)

Mainly stated at individual cost

(The carrying amount on the balance sheet is reduced for decreases in profitability.)

(c) Semi-finished goods and work in process (materials)

Mainly stated at individual cost

(The carrying amount on the balance sheet is reduced for decreases in profitability.)

(d) Supplies

Mainly stated at cost based on the last purchase price

(The carrying amount on the balance sheet is reduced for decreases in profitability.)

(2) Depreciation method for significant depreciable assets

a. Property, plant and equipment (excluding leased assets)

The straight-line method is used.

The main useful lives are as follows.

Buildings and structures: 3 to 50 years

Machinery, equipment and vehicles: 4 to 9 years

b. Intangible assets (excluding leased assets)

The straight-line method is used. However, the straight-line method is used for software (in-house use) based on the in-house use period (five years).

c. Leased assets

Leased assets in financial lease transactions without transfer of ownership

The straight-line method is applied for useful lives for the lease period, with a residual value of zero.

(3) Criteria for posting significant reserves

a. Allowance for doubtful accounts

To make allowance for losses on uncollectible accounts, the expected uncollectible amount is posted based on the loss ratio for general receivables and individually examining the collectability of specific doubtful accounts.

b. Provision for bonuses

The Toyo Tanso Group posts the liability amount of expected payments for the current consolidated fiscal year to provide for bonuses paid to employees.

c. Provision for directors' bonuses

Toyo Tanso Co., Ltd. posts the expected payment amount to provide for bonuses paid to directors (including executive officers).

(4) Accounting policies for retirement benefits

a. Attribution method for projected retirement benefits

The benefit formula method is used to attribute projected retirement benefits to periods until the fiscal year-end.

b. Amortization of actuarial differences and unrecognized prior service costs

Actuarial differences are treated as a lump-sum expense in the following consolidated fiscal year.

c. Adoption of simplified methods for small-scale companies

Some consolidated companies adopt a simplified method in which the amount paid for voluntary termination is posted as retirement benefit obligations when calculating net defined benefit liabilities and retirement benefit expenses.

(5) Standards for converting significant foreign currency-denominated assets and liabilities to Japanese yen

Foreign currency-denominated receivables and payables are converted to yen at the spot exchange rate on the consolidated closing date and the translation adjustment is treated as a profit or loss. The assets and liabilities of overseas subsidiaries are converted to yen at the spot exchange rate on the consolidated closing date, and revenue and expenses are converted to yen at the average annual exchange rate. Translation differences are then posted as part of non-controlling interests and foreign currency translation adjustment in net assets.

(6) Scope of funds contained within the consolidated statement of cash flows

Cash on hand, deposits that can be withdrawn at any time, and short-term investments with high liquidity that can easily be converted to cash and have maturities within three months of acquisition that are exposed to only a minimal price fluctuation risk are posted.

(7) Other material items relating to the preparation of the consolidated financial statements

Accounting treatment for consumption taxes

The tax-excluded method is used.

(Changes to accounting policies)

[Application of accounting methods for business combinations]

Toyo Tanso adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013, hereinafter "Business Combinations Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2013, hereinafter "Consolidation Accounting Standard"), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issued on September 13, 2013, hereinafter "Business Divestitures Accounting Standard") and other standards from the consolidated fiscal year under review. Accordingly, the accounting method was changed to record the difference arising from changes in equity in subsidiaries that Toyo Tanso continues to control as capital surplus, and to record business acquisition costs as expenses for the fiscal year in which they occurred. In addition, regarding business combinations that became or will become effective from the start of the consolidated fiscal year under review, the accounting method was changed to retroactively reflect adjustments to the amount allocated to acquisition cost under provisional accounting treatment on the consolidated financial statements of the fiscal year in which the relevant business combinations became or will become effective. In addition, presentation of net income and others has been changed and "minority interests" has been changed to "non-controlling interests." Consolidated financial statements for the previous fiscal year have been restated to reflect these changes in presentation.

The Business Combinations Accounting Standard and other standards were applied from the beginning of the consolidated fiscal year under review in accordance with the transitional treatments stated in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.

These changes have no impact on consolidated financial statements.

[Changes in valuation standards and valuation methods for inventories]

The Group had primarily stated inventories (semi-finished goods, work in process [materials]) at costs determined by the moving-average method (the amount posted on the balance sheet is calculated by writing down the book value of assets that decreased in profitability), but beginning in the fiscal year under review, inventories will be stated at cost using the specific cost method (the amount posted on the balance sheet is calculated by writing down the book value of assets that decreased in profitability).

This change is intended to ensure that the costs of inventories are managed exhaustively and in a timely manner, that inventories are valued more appropriately, and that inventories are reported in period profits/losses. The utilization of a newly introduced cost of sales accounting system is a good opportunity for this change.

The necessary records for receipt and payment of inventories for the specific cost method were not preserved in past consolidated fiscal years. Accordingly, it is not practically possible to calculate the cumulative effect when adopting this accounting method retroactively. Accordingly, the book value of inventories at the end of the previous fiscal year is used as the balance at the start of the fiscal year under review, and the specific cost method is used from the start of the fiscal year.

This change has a minimal impact.

(Changes in method of presentation)

[Consolidated statement of income]

“Loss on sales of notes payable” and “Depreciation,” which were posted separately under “Non-operating expenses” in the previous consolidated fiscal year, were negligible in terms of their financial importance, and are thus presented under “Miscellaneous loss” in the current consolidated fiscal year. In order to reflect this change in the presentation method, the change has also been made to the consolidated financial statements in the previous consolidated fiscal year.

As a result, 0 million yen in “Loss on sales of notes payable” and 14 million yen in “Depreciation,” presented under “Non-operating expenses” in the consolidated statement of income for the previous fiscal year, have been included in “Miscellaneous loss.”

(Consolidated statement of income)

* Impairment loss

Previous consolidated fiscal year (From January 1, 2015 to December 31, 2015)

The Group posted impairment losses on the following assets in the previous consolidated fiscal year.

(i) Assets for which impairment losses were recognized

(Millions of yen, rounded down)

Type	Type	Name of Company	Location	Impairment loss
Idle assets	Machinery, equipment and vehicles Construction in progress	Toyo Tanso Co., Ltd.	Takuma Division (Mitoyo, Kagawa)	217
Business assets	Buildings and structures Machinery, equipment and vehicles	Toyo Tanso USA, Inc.	Durham, Connecticut, USA	73

(ii) Reasons for recognition of impairment losses

Some manufacturing facilities at Takuma Division of Toyo Tanso Co., Ltd. are idle due to lower production volume, and we recognized an impairment loss as the recoverable amount fell short of the book value amount. The operating activities of Toyo Tanso USA, Inc. generated a loss, and having determined that there was little possibility that future cash flow would be able to recover an amount equivalent to the book value, we recognized an impairment loss.

(iii) Impairment loss amounts and amounts by type of primary non-current assets

Buildings and structures: 0 million yen
Machinery, equipment and vehicles: 89 million yen
Construction in progress: 201 million yen

(iv) Grouping method

Toyo Tanso groups its assets by individual company, and as the aforementioned assets are idle, decisions to recognize impairment losses were made on the basis of each individual asset.

Consolidated subsidiaries group their assets according to the minimum independent cash-flow-generating unit.

(v) Method for calculating recoverable amount

The recoverable amount for the Company's machinery, equipment and vehicles and business assets of Toyo Tanso USA, Inc. is calculated primarily by using the usable value, but the recoverable amount is set at zero since the usable value based on future cash flow is negative.

As for construction in progress of the Company, the recoverable amount is calculated from the net realizable value calculated using rational estimates taking into account transactions and other factors.

Current consolidated fiscal year (from January 1, 2016 to December 31, 2016)

The Group posted impairment losses on the following assets in the current consolidated fiscal year.

(i) Assets for which impairment losses were recognized

(Millions of yen, rounded down)

Type	Type	Name of Company	Location	Impairment loss
Business assets	Buildings and structures Machinery, equipment and vehicles Property, plant and equipment (other) Intangible assets	Toyo Tanso Co., Ltd.	Headquarters and others (Nishiyodogawa-ku, Osaka)	292
Sales office	Buildings and structures Land	Toyo Tanso Co., Ltd.	Tsukuba Sales Office (Hanabatake, Tsukuba)	83
Sales office	Buildings and structures	Toyo Tanso Co., Ltd.	Shizuoka Sale Office (Aoi-ku, Shizuoka)	2
Business assets	Machinery, equipment and vehicles Property, plant and equipment (other)	Jiaxiang Toyo Tanso Co., Ltd.	China (Jining, Shandong)	77

(ii) Reasons for recognition of impairment losses

Sales plans are expected to undercut initial forecasts for some manufacturing facilities in Toyo Tanso's porous carbon business. As a result, the utilization rate fell sharply due to a drop in the production volume, and the recoverable value fell short of the book value. Accordingly, the Company posted impairment losses.

The Company also recognized an impairment loss incurred due to the decision made at the Board of Directors meeting held on August 9, 2016 to close sales offices to consolidate them with the aim of raising efficiency and streamlining operations. As a result, the recoverable value fell short of the book value, and the Company recognized impairment losses.

The operating activities of Jiaxiang Toyo Tanso Co., Ltd. generated a loss, and having determined that there was little possibility that future cash flow would be able to recover an amount equivalent to the book value, we recognized an impairment loss.

(iii) Impairment loss amounts and amounts by type of primary non-current assets

Buildings and structures:	11 million yen
Machinery, equipment and vehicles:	349 million yen
Property, plant and equipment (other):	11 million yen
Land:	82 million yen
Intangible assets:	0 million yen

(iv) Grouping method

The Company groups its assets into the smallest unit that generates cash flow independently and for which income and expenditure can be continuously ascertained.

Consolidated subsidiaries group their assets into the smallest unit that generates cash flow independently.

(v) Method for calculating recoverable amount

The recoverable amount for the Company's business assets is calculated primarily by using the usable value, but the recoverable amount is set at zero since the usable value based on future cash flow is negative.

The recoverable amount for the Company's sales offices is set using their net realizable value based on the fixed asset tax assessment value.

The business assets of Jiaxiang Toyo Tanso Co., Ltd. are set using their net realizable value calculated using reasonable estimates taking into account transactions and other factors.

(Segment information)

[Segment information]

1. Reportable Segments

The reportable segments of the Toyo Tanso Group are business components for which separate financial information is available and whose operating results are regularly reviewed by the Board of Directors in order to decide on the allocation of management resources and evaluate performance.

The Company primarily engages in the manufacture and sale of carbon products, in Japan through Toyo Tanso and domestic subsidiaries, and abroad through overseas subsidiaries based in the United States, Europe, and Asia. All overseas subsidiaries are independently managed companies. They conduct business by formulating their own comprehensive regional strategies for the products they handle.

For this reason, our business is composed of segments that are based on region-based production and sales frameworks, and is categorized into the four reportable segments of Japan, United States, Europe, and Asia.

2. Calculation methods of net sales, profits, losses, assets, and other items by reportable segment

The accounting methods of reportable segments are by and large the same as those described in “Significant items that form the basis of preparations for consolidated financial statements.”

Profits of reportable segments are recorded on an operating income basis.

Inter-segment sales are based on prices in arms-length transactions.

3. Information on net sales, profits, losses, assets, and other items by reportable segment

Previous consolidated fiscal year (From January 1, 2015 to December 31, 2015)

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	18,387	3,411	3,241	10,517	35,558	-	35,558
(2) Inter-segment sales or transfers	5,704	88	21	186	6,001	(6,001)	-
Total	24,092	3,500	3,263	10,703	41,559	(6,001)	35,558
Segment profit (loss)	849	(403)	12	408	867	(77)	790
Segment assets	58,986	2,233	4,073	18,284	83,578	(10,587)	72,990
Other items							
(1) Depreciation	2,963	107	181	422	3,675	(2)	3,673
(2) Increase in property, plant and equipment and intangible assets	1,500	44	239	1,236	3,021	-	3,021

(Notes) 1. The adjusted amounts are as follows:

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

(2) Adjusted segment assets mainly take into account the elimination of inter-segment transactions and unrealized income.

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

Current consolidated fiscal year (From January 1, 2016 to December 31, 2016)

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	17,096	2,487	2,919	9,960	32,464	-	32,464
(2) Inter-segment sales or transfers	5,827	104	15	120	6,067	(6,067)	-
Total	22,923	2,591	2,935	10,081	38,531	(6,067)	32,464
Segment profit (loss)	347	(517)	26	584	441	211	652
Segment assets	57,786	2,029	3,698	16,764	80,278	(10,480)	69,797
Other items							
(1) Depreciation	2,828	68	166	353	3,416	(2)	3,414
(2) Increases in tangible and intangible fixed assets	2,146	42	127	345	2,662	-	2,662

(Notes) 1. The adjusted amounts are as follows:

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

[Related information]

Previous consolidated fiscal year (From January 1, 2015 to December 31, 2015)

1. Information by product and service

This information has been omitted because the entire business of the Company and its subsidiaries falls under the single business category of carbon product-related business.

2. Information by region

(1) Net sales

(Millions of yen, rounded down)

	Japan	North America	Europe	Asia		Rest of world	Total
				Asia (including China)	China only		
Net sales	13,713	3,368	3,612	14,663	9,071	201	35,558
Composition (%)	38.6	9.5	10.1	41.2	25.5	0.6	100.0

(Notes) 1. Net 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 are listed below.

- (1) North America: United States
- (2) Europe: France, Germany, Italy
- (3) Asia: China, Taiwan, South Korea

(2) Property, plant and equipment

(Millions of yen, rounded down)

	Japan	United States	Europe	Asia		Total
				Asia (including China)	China only	
	20,997	337	1,502	4,178	3,323	27,016

3. Information by major customer

This information has been omitted because we do not have any unaffiliated customers that have accounted for more than 10% of sales in the consolidated statement of income.

Current consolidated fiscal year (From January 1, 2016 to December 31, 2016)

1. Information by product and service

This information has been omitted because the entire business of the Company and its subsidiaries falls under the single business category of carbon product-related business.

2. Information by region

(1) Net sales

(Millions of yen, rounded down)

	Japan	North America	Europe	Asia		Rest of world	Total
				Asia (including China)	China only		
Sales	13,396	2,537	3,286	13,091	9,175	152	32,464
Composition (%)	41.3	7.8	10.1	40.3	28.3	0.5	100.0

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

(2) Property, plant and equipment

(Millions of yen, rounded down)

	Japan	United States	Europe	Asia		Total
				Asia (including China)	China only	
	19,962	302	1,359	3,797	2,989	25,421

3. Information by major customer

This information has been omitted because we do not have any unaffiliated customers that have accounted for more than 10% of sales in the consolidated statement of income.

[Information on impairment loss for non-current assets by reportable segment]

Previous consolidated fiscal year (From January 1, 2015 to December 31, 2015)

(Millions of yen, rounded down)

	Japan	United States	Europe	Asia	Total
Impairment loss	217	73	-	-	290

Current consolidated fiscal year (From January 1, 2016 to December 31, 2016)

(Millions of yen, rounded down)

	Japan	United States	Europe	Asia	Total
Impairment loss	377	-	-	77	455

[Information on the amortization of goodwill and unamortized balance by reportable segment]

Previous consolidated fiscal year (From January 1, 2015 to December 31, 2015)

Not applicable.

Current consolidated fiscal year (From January 1, 2016 to December 31, 2016)

Not applicable.

[Information on gain on bargain purchase by reportable segment]

Previous consolidated fiscal year (From January 1, 2015 to December 31, 2015)

Not applicable.

Current consolidated fiscal year (From January 1, 2016 to December 31, 2016)
Not applicable.

(Per share information)

	From January 1, 2015 to December 31, 2015	From January 1, 2016 to December 31, 2016
Net assets per share	2,803.69 yen	2,741.06 yen
Profit attributable to owners of parent per share (basic)	19.40 yen	13.71 yen
Profit attributable to owners of parent per share (diluted)	19.38 yen	- yen

(Notes) 1. Profit attributable to owners of parent per share (diluted) in the consolidated fiscal year under review is not noted as there are no residual shares outstanding.

2. The basis for calculating profit attributable to owners of parent per share (basic) and profit attributable to owners of parent per share (diluted) is outlined below.

	From January 1, 2015 to December 31, 2015	From January 1, 2016 to December 31, 2016
Profit attributable to owners of parent per share (basic)		
Profit attributable to owners of parent (millions of yen)	402	284
Amount not attributed to common shareholders (millions of yen)	-	-
Profit attributable to owners of parent related to common shares (millions of yen)	402	284
Average outstanding shares during the fiscal year (shares)	20,733,590	20,733,519
Profit attributable to owners of parent per share (diluted)		
Adjustments to profit attributable to owners of parent (millions of yen)	-	-
Increase in shares outstanding (shares)	25,826	-
Overview of potential shares that were not included in the calculation of profit attributable to owners of parent per share (diluted) because they have no dilutive effects	-	-

(Significant subsequent events)

[Dissolution of joint venture in China]

At the Board of Directors meeting held on January 26, 2017, the Group decided to transfer all of its equity in its consolidated subsidiary Jiayang Toyo Tanso Co., Ltd. (hereafter, Jiayang Toyo Tanso) to Jiayang Zhengda Carbon Product Co., Ltd. (hereafter, Zhengda Carbon Product) and to dissolve the joint venture contract.

(1) Reasons for dissolution of joint venture

In April 2005, the Company and Zhengda Carbon Product established Jiayang Toyo Tanso to address the growing demand for graphite in China. The company processed and sold graphite products, primarily for solar cell applications. However, profitability has deteriorated in recent years as the market has contracted and competition over prices has intensified. In light of market trends and the business environment, as well as conservative estimates of the future profitability of this consolidated subsidiary, the Company decided to dissolve the joint venture contract.

(2) Description of dissolution of joint venture contract

All of the equity that the Company holds in Jiayang Toyo Tanso (55.0% of all equity) will be transferred to Zhengda Carbon Product and the joint venture contract will be dissolved. As a result, Jiayang Toyo Tanso will no longer be a consolidated subsidiary of the Company.

(3) Overview of joint venture company

(i) Name	Jiayang Toyo Tanso Co., Ltd.
(ii) Location	Jining City, Shangdong Province, China
(iii) Name and position of representative	Zhan GuoBin, President
(iv) Business	Processing and sale of graphite and carbon products
(v) Capital	RMB 35,949,000
(vi) Date of establishment	April 2005
(vii) Major shareholders and shareholding ratio	Company (55.0%), Zhengda Carbon Product (45.0%)

(4) Schedule

Date of decision at Board of Directors Meeting: January 26, 2017

Date of equity transfer: 2017 (provisional)

Date of dissolution of joint venture: 2017 (provisional)

*The joint venture will be dissolved on the day that the equity transfer is completed.

(5) Extraordinary income and outlook

The dissolution of this joint venture is expected to result in extraordinary income totaling 170 million yen for the fiscal year ending December 31, 2017, but the impact is currently being examined.

(Disclosure omissions)

The disclosure of notes related to lease transactions, financial instruments, securities, derivatives transactions, projected benefit obligations, and tax effect accounting has been omitted from the consolidated financial results as the necessity of disclosure of these items is not believed to be very high.

6. Others

(1) Orders and Sales by Product Category

i. Orders

(Unit: millions of yen)

Products	Year ended December 31, 2015					Year ended December 31, 2016				
	1Q	2Q	3Q	4Q	Fiscal year total	1Q	2Q	3Q	4Q	Fiscal year total
Special graphite products	3,942	3,757	3,466	3,498	14,664	3,710	3,035	2,646	2,994	12,387
Carbon products for general industries (for mechanical applications)	815	841	636	660	2,953	806	756	905	658	3,127
Carbon products for general industries (for electrical applications)	1,427	1,430	1,326	1,344	5,528	1,223	1,064	1,397	1,318	5,003
Compound materials and other products	2,645	3,019	2,201	2,735	10,602	2,106	2,236	2,172	2,162	8,676
Total	8,831	9,048	7,630	8,238	33,748	7,846	7,092	7,121	7,133	29,195

* 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.

ii. Outstanding orders

(Unit: millions of yen)

Products	Year ended December 31, 2015				Year ended December 31, 2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Special graphite products*2	5,628	5,575	5,607	5,727	5,567	5,231	4,755	4,816
Carbon products for general industries (for mechanical applications)	422	437	382	424	441	459	684	653
Carbon products for general industries (for electrical applications)	1,133	1,177	1,130	1,237	1,067	886	965	926
Compound materials and other products	2,043	2,692	2,315	2,240	1,950	1,917	1,983	1,841
Total	9,228	9,882	9,436	9,629	9,026	8,495	8,388	8,237

*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 Outstanding orders for special graphite products include orders for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM). Outstanding orders in the quarter under review include 3,183 million yen attributable to such orders.

iii. Sales performance by product category

(Unit: millions of yen)

Products	Year ended December 31, 2015					Year ended December 31, 2016				
	1Q	2Q	3Q	4Q	Fiscal year total	1Q	2Q	3Q	4Q	Fiscal year total
Special graphite products	3,699	4,413	3,679	3,759	15,551	3,996	3,631	3,361	3,230	14,219
[Electronics applications]	1,241	1,514	1,066	1,216	5,038	1,574	1,291	1,094	1,058	5,018
[General industries applications]	2,021	2,439	2,167	2,136	8,765	1,981	1,955	1,888	1,893	7,719
[Others]	436	459	444	406	1,747	440	383	378	278	1,481
Carbon products for general industries (for mechanical applications)	818	813	699	702	3,033	791	766	694	714	2,966
Carbon products for general industries (for electrical applications)	1,283	1,404	1,374	1,317	5,380	1,291	1,219	1,284	1,357	5,153
Compound materials and other products	2,295	2,436	2,609	2,844	10,186	2,458	2,261	2,091	2,309	9,120
[3 major products]	1,992	2,128	2,285	2,468	8,874	2,162	1,960	1,843	2,018	7,985
[Other products]	302	308	324	376	1,312	295	300	248	290	1,134
Related goods	350	159	311	586	1,407	247	278	181	296	1,003
Total	8,446	9,227	8,674	9,210	35,558	8,785	8,156	7,613	7,909	32,464

(2) Overview

Special graphite products

In electronics applications, performance was in line with the previous fiscal year, in part due to an increase in demand for solar cell applications resulting from facility upgrades.

In general industries applications, demand for products for continuous casting was poor, and that for products for EDM electrodes was weak. As a result, performance undercut that in the previous fiscal year.

Therefore, special graphite products overall performed worse than in the previous fiscal year.

Carbon products for general industries

Sales of carbon products for mechanical applications were in line with the previous fiscal year, with solid sales of seal materials and pantograph sliders.

Carbon products for electrical applications fell slightly short of the previous fiscal year because, although demand for electrical power tools was solid, washing machine applications and cleaner applications were weak.

Compound materials and other products

Sales of SiC (silicon carbide)-coated graphite products fell short of levels in the previous fiscal year due to the poor performance of some semiconductor applications and a decline in demand for LED applications. C/C composite products slightly undercut their performance in the previous fiscal year as demand for solar cell applications was weak, although sales promotion activities for industrial furnace applications progressed in Japan and overseas and semiconductor applications were robust. Sales of graphite sheet products were up over the previous fiscal year due to solid demand for electronics-related applications and metallurgical applications and a solid performance from automotive applications.

(3) Changes of executives

The disclosure information will be released once it has been finalized.