

May 12, 2017

Consolidated Financial Results for the Three Months Ended March 31, 2017 [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
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Scheduled date for submission of quarterly report:	May 15, 2017
Scheduled date for dividend payment:	-
Supplementary materials for quarterly financial summaries:	No
Quarterly financial results briefing:	No

1. Consolidated financial results for the three months ended March 31, 2017

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

(1) Operating results (cumulative total)

(Millions of yen, rounded down)

(Percentages indicate changes from the same period in the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		%		%		%		%
Three months ended March 31, 2017	8,115	(7.6)	450	38.4	442	92.4	563	-
Three months ended March 31, 2016	8,785	4.0	325	27.0	230	0.5	(95)	-

Note:

Comprehensive income:

Three months ended March 31, 2017	154 million yen (-%)
Three months ended March 31, 2016	(869) million yen (-%)

	Profit attributable to owners of parent per share (basic)	Profit attributable to owners of parent per share (diluted)
	yen	yen
Three months ended March 31, 2017	27.15	27.13
Three months ended March 31, 2016	(4.61)	-

(2) Financial position

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio
			%
As of March 31, 2017	69,372	57,818	81.4
As of December 31, 2016	69,797	58,182	81.4

Reference: Shareholders' equity

March 31, 2017

56,460 million yen

December 31, 2016

56,831 million yen

2. Dividends

	Dividends per share (yen)				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total (Full year)
Year ended December 31, 2016	-	0.00	-	25.00	25.00
Year ending December 31, 2017 (Actual)	-				
Year ending December 31, 2017 (Forecast)		0.00	-	25.00	25.00

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

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

(Note) Revisions of consolidated forecasts most recently announced: None

*** Others**

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

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

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

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

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

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

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

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

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

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common stock)

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

As of March 31, 2017 20,750,688 shares

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

2) Number of treasury stock at the end of period

As of March 31, 2017 17,169 shares

As of December 31, 2016 17,169 shares

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

Three months ended March 31, 2017 20,733,519 shares

Three months ended March 31, 2016 20,733,519 shares

*** The quarterly financial results report is not subject to quarterly review procedures.**

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

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

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

(1) Explanation Regarding Business Results

During the first quarter of the consolidated fiscal year under review, the US economy continued to expand gradually, and although the outlook for Europe remained uncertain due to the UK's decision to leave the EU, the European economy remained in a modest recovery trajectory. Emerging economies such as China are recovering. The Japanese economy also made a gradual recovery, with ongoing improvements in the employment and income environment and growing personal spending.

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 were strong as a result of an increase in foreign demand, particularly in China. In addition, demand in the semiconductor market, the LED market, the general industries market and the carbon brush market was steady.

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

As a result, in the first quarter of the consolidated fiscal year under review, net sales fell 7.6% year on year to 8,115 million yen. On the income side, operating income rose 38.4% to 450 million yen, ordinary income rose 92.4% to 442 million yen, and profit attributable to owners of parent stood at 563 million yen (95 million yen loss attributable to owners of parent in the first quarter of the previous fiscal year).

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

Japan

Products for metallurgical and LED applications were weak, and sales of semiconductor applications and carbon products for mechanical applications were poor. As a result, net sales in Japan fell 2.5% year on year to 4,300 million yen. Operating income increased 178.8% to 468 million yen due to reductions in fixed costs.

United States

Sales of electronics-related products for semiconductor applications were disappointing, but metallurgical applications were solid. As a result, net sales fell 10.9% to 655 million yen. On the income side, we posted an operating loss of 80 million yen (compared to a 206 million yen operating loss in the same period of the previous fiscal year).

Europe

Although sales of metallurgical applications for industrial furnaces were solid, sales of electronics-related products for solar cell applications were poor. As a result, net sales in Europe fell 14.9% to 723 million yen and an operating loss of 4 million yen was posted (operating income of 17 million yen in the same period of the previous fiscal year).

Asia

Sales for solar cell applications were strong, but fell over the same period in the previous year due to one-off demand for facility upgrades in that period. Metallurgical applications were weak. As a result, net sales fell 12.7% year on year to 2,436 million yen and operating income decreased 58.4% to 92 million yen.

(2) Explanation Regarding Financial Position

Total assets as of March 31, 2017, decreased by 424 million yen from the end of the previous consolidated fiscal year. This was primarily because inventories decreased by 371 million yen and property, plant and equipment fell by 468 million yen as a result of depreciation posted, although cash and deposits increased by 399 million yen.

Total liabilities decreased by 61 million yen from the end of the previous consolidated fiscal year. This was primarily because, although provisions for bonuses increased 207 million yen and other current liabilities increased 130 million yen due to higher advances received for high-temperature reactor-pebble-bed modules in China; accounts payable-other declined 435 million yen; and interest-bearing liabilities fell 189 million yen.

Total net assets decreased by 363 million yen from the end of the previous consolidated fiscal year. This was primarily because foreign currency translation adjustments decreased by 450 million yen, outweighing the 44 million yen increase in retained earnings.

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

There are no changes to the consolidated earnings forecasts for the fiscal year ending December 31, 2017, released on February 14, 2017.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Millions of yen, rounded down)

	As of December 31, 2016	As of March 31, 2017
	Amount	Amount
Assets		
Current assets		
Cash and deposits	12,242	12,642
Notes and accounts receivable - trade	12,083	12,038
Merchandise and finished goods	6,480	5,977
Work in process	7,674	7,759
Raw materials and supplies	1,977	2,023
Other	1,179	1,340
Allowance for doubtful accounts	(275)	(275)
Total current assets	41,362	41,505
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,911	8,893
Machinery, equipment and vehicles, net	9,181	8,723
Land	5,770	5,816
Construction in progress	769	773
Other, net	788	746
Total property, plant and equipment	25,421	24,953
Intangible assets	1,011	965
Investments and other assets	2,002	1,947
Total non-current assets	28,435	27,867
Total assets	69,797	69,372

(Millions of yen, rounded down)

	As of December 31, 2016	As of March 31, 2017
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,931	1,995
Electronically recorded obligations - operating	1,000	1,087
Short-term loans payable	1,477	1,393
Accounts payable - other	1,440	1,004
Income taxes payable	95	70
Provision for bonuses	348	555
Other	3,854	3,985
Total current liabilities	10,148	10,092
Non-current liabilities		
Long-term loans payable	487	382
Net defined benefit liability	138	136
Asset retirement obligations	264	265
Other	576	677
Total non-current liabilities	1,466	1,462
Total liabilities	11,615	11,554
Net assets		
Shareholders' equity		
Capital stock	7,692	7,692
Capital surplus	9,534	9,534
Retained earnings	38,034	38,078
Treasury shares	(59)	(59)
Total shareholders' equity	55,201	55,246
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	119	127
Foreign currency translation adjustment	1,613	1,162
Remeasurements of defined benefit plans	(102)	(77)
Total accumulated other comprehensive income	1,629	1,213
Subscription rights to shares	100	100
Non-controlling interests	1,249	1,257
Total net assets	58,182	57,818
Total liabilities and net assets	69,797	69,372

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

(Quarterly consolidated statements of income)

Three months ended March 31, 2016 and 2017

(Millions of yen, rounded down)

	Three months ended March 31, 2016 Amount	Three months ended March 31, 2017 Amount
Net sales	8,785	8,115
Cost of sales	6,422	5,983
Gross profit	2,362	2,131
Selling, general and administrative expenses	2,037	1,681
Operating income	325	450
Non-operating income		
Interest income	16	11
Gain on currency options	62	39
Share of profit of entities accounted for using equity method	29	27
Other	32	62
Total non-operating income	140	141
Non-operating expenses		
Interest expenses	6	6
Foreign exchange losses	213	128
Other	14	13
Total non-operating expenses	235	148
Ordinary income	230	442
Extraordinary income		
Gain on sales of non-current assets	5	29
Subsidy income	35	3
Gain on reversal of subscription rights to shares	1	—
Total extraordinary income	41	32
Extraordinary losses		
Loss on retirement of non-current assets	14	10
Total extraordinary losses	14	10
Income before income taxes and minority interests	257	464
Income taxes	341	(103)
Profit (loss)	(84)	568
Profit attributable to non-controlling interests	10	5
Profit (loss) attributable to owners of parent	(95)	563

(Quarterly consolidated statement of comprehensive income)

Three months ended March 31, 2016 and 2017

(Millions of yen, rounded down)

	Three months ended March 31, 2016 Amount	Three months ended March 31, 2017 Amount
Profit (loss)	(84)	568
Other comprehensive income		
Valuation difference on available-for-sale securities	(36)	8
Foreign currency translation adjustment	(828)	(431)
Remeasurements of defined benefit plans, net of tax	(6)	25
Share of other comprehensive income of entities accounted for using equity method	87	(15)
Total other comprehensive income	(784)	(413)
Comprehensive income	(869)	154
Comprehensive income attributable to:		
Owners of parent	(817)	146
Non-controlling interests	(51)	8

(3) Notes on quarterly consolidated financial statements

(Notes regarding the premise of a going concern)

Not applicable.

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

Not applicable.

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

Tax expense calculations

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

(Segment information)

I. Three months ended March 31, 2016 (From January 1, 2016 to March 31, 2016)

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

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated quarterly income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	4,409	735	850	2,790	8,785	-	8,785
(2) Intersegment sales or transfers	1,619	59	15	32	1,726	(1,726)	-
Total	6,028	794	866	2,822	10,511	(1,726)	8,785
Segment profit (loss)	168	(206)	17	222	202	122	325

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

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

2. Regional information

(Millions of yen, rounded down)

	Japan	North America	Europe	Asia		Rest of world	Total
				Asia (including China)	China only		
Net sales	3,519	709	943	3,577	2,570	35	8,785
Composition (%)	40.1	8.1	10.7	40.7	29.3	0.4	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 (except Japan) are listed below.

(1) North America: United States

(2) Europe: France, Germany, Italy

(3) Asia: China, Taiwan, South Korea

II. Three months under review (from January 1, 2017 to March 31, 2017)

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

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated quarterly income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	4,300	655	723	2,436	8,115	-	8,115
(2) Intersegment sales or transfers	1,461	17	2	22	1,503	(1,503)	-
Total	5,761	672	725	2,459	9,619	(1,503)	8,115
Segment profit (loss)	468	(80)	(4)	92	475	(25)	450

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

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

2. Regional information

(Millions of yen, rounded down)

	Japan	North America	Europe	Asia		Rest of world	Total
				Asia (including China)	China only		
Net sales	3,390	716	780	3,165	2,215	62	8,115
Composition (%)	41.8	8.8	9.6	39.0	27.3	0.8	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 (except Japan) are listed below.

(1) North America: United States

(2) Europe: France, Germany, Italy

(3) Asia: China, Taiwan, South Korea

(Additional information)

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued March 28, 2016) since the beginning of the first quarter of the consolidated fiscal year under review.

3. Supplementary Information

(1) Orders and sales by product category

i. Orders

(Millions of yen, rounded down)

Products	Year ended December 31, 2016					Year ending December 31, 2017
	1Q	2Q	3Q	4Q	Fiscal year total	1Q
Special graphite products	3,710	3,035	2,646	2,994	12,387	3,306
Carbon products for general industries (for mechanical applications)	806	756	905	658	3,127	1,320
Carbon products for general industries (for electrical applications)	1,223	1,064	1,397	1,318	5,003	1,235
Compound materials and other products	2,106	2,236	2,172	2,162	8,676	2,300
Total	7,846	7,092	7,121	7,133	29,195	8,161

(Note) 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

(Millions of yen, rounded down)

Products	Year ended December 31, 2016				Year ending December 31, 2017
	1Q	2Q	3Q	4Q	1Q
Special graphite products* ²	5,567	5,231	4,755	4,816	4,937
Carbon products for general industries (for mechanical applications)	441	459	684	653	1,209
Carbon products for general industries (for electrical applications)	1,067	886	965	926	876
Compound materials and other products	1,950	1,917	1,983	1,841	1,987
Total	9,026	8,495	8,388	8,237	9,011

- (Notes) 1. These orders were denominated in foreign currency prior to the previous quarter; discrepancies resulting from fluctuations in foreign exchange rates during the quarter under review are included in the figure for orders placed in this quarter.
2. 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 3,189 million yen attributable to such orders.

iii. Sales performance by product category

(Unit: millions of yen)

Products	Year ended December 31, 2016					Year ending December 31, 2017
	1Q	2Q	3Q	4Q	Fiscal year total	1Q
Special graphite products	3,996	3,631	3,361	3,230	14,219	3,655
[Electronics applications]	1,574	1,291	1,094	1,058	5,018	1,301
[General industries applications]	1,981	1,955	1,888	1,893	7,719	1,996
[Others]	440	383	378	278	1,481	357
Carbon products for general industries (for mechanical applications)	791	766	694	714	2,966	791
Carbon products for general industries (for electrical applications)	1,291	1,219	1,284	1,357	5,153	1,293
Compound materials and other products	2,458	2,261	2,091	2,309	9,120	2,171
[3 major products]	2,162	1,960	1,843	2,018	7,985	1,897
[Other products]	295	300	248	290	1,134	274
Related goods	247	278	181	296	1,003	202
Total	8,785	8,156	7,613	7,909	32,464	8,115

(2) Overview

Special graphite products

In electronics applications, demand for solar cell applications in China was strong, but performance undercut that in the same period in the previous year due to a one-off demand for facility upgrades in that period.

In general industries applications, demand for industrial furnaces and products for continuous casting was poor, but demand for products for EDM electrodes was solid. As a result, performance slightly surpassed that in the same period in the previous fiscal year.

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

Carbon products for general industries

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

Carbon products for electrical applications were in line with the same period in the previous fiscal year because demand for electrical power tools and cleaner applications was solid.

Compound materials and other products

Sales of SiC (silicon carbide)-coated graphite products fell short of levels in the same period in the previous fiscal year due to a decline in demand for semiconductor applications and LED applications. C/C composite products undercut their performance in the same period in the previous fiscal year as demand for semiconductor applications and solar cell applications was weak, although demand for industrial furnace applications was steady. Sales of graphite sheet products were up over the same period in the previous fiscal year due to strong demand for electronics-related applications and metallurgical applications and a steady performance from automotive applications.