

**Toyo Tanso Co., Ltd.**

***Results for the First Half of the Fiscal Year Ending May 31, 2012***

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**January 2012**

**Toyo Tanso Co., Ltd.**

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**Part 1 Summary of Consolidated Results**

**Masao Nakahara, Senior Managing Director**

***Point 1***

**We achieved our highest half-year performance ever thanks to expanded sales in a wide range of applications and regions particularly in relation to the environment and energy-related sectors, and also to increasing sales prices, such as through the shift to high value-added goods.**

***Point 2***

**Our overseas sales ratio reached 64% (ratio of sales to Asia: 48%) as demand from China and other emerging countries grew substantially.**

***Point 3***

**We secured a recurring profit ratio of around 20% as a result of our successful efforts to improve productivity despite the impacts of the historically high level of the yen and the heavy burden of depreciation costs.**

***Point 4***

**Taking into account a further appreciation of the yen and current adjustments being made in the solar cell market, we will not revise our forecast for the full fiscal year.**

# Part 1 2. Results for the First Half of the Fiscal Year Ending May 31, 2012

(Unit: Yen, millions)

	FY11/5 Q2 cumulative	FY12/5 Q2 cumulative	Change	% increase	Notes
<b>Net sales</b>	<b>18,413</b>	<b>21,535</b>	<b>3,122</b>	<b>17.0%</b>	1. Net sales Net sales surged to a record half-year high of 21.5 billion yen, withstanding the loss caused by the stronger yen.
<b>Operating profit</b>	<b>3,019</b>	<b>4,411</b>	<b>1,391</b>	<b>46.1%</b>	2. Recurring profit/Operating profit We secured recurring and operating profit ratios of around 20% despite the stronger yen and the heavy burden of depreciation costs.  The increase in sales prices, such as through the shift to high value-added goods, and the increase in output resulting from improved productivity also contributed to increasing profits.
(Ratio of operating profit to net sales)	<b>16.4%</b>	<b>20.5%</b>			
<b>Recurring profit</b>	<b>2,796</b>	<b>4,363</b>	<b>1,566</b>	<b>56.0%</b>	
(Ratio of recurring profit to net sales)	<b>15.2%</b>	<b>20.3%</b>			
<b>Net income</b>	<b>1,916</b>	<b>2,383</b>	<b>466</b>	<b>24.4%</b>	3. Net income We recorded a tax penalty of 540 million yen according to the transfer pricing taxation system.
<b>Net income per share</b>	<b>92.45 yen</b>	<b>114.98 yen</b>			
<b>Exchange rate</b>	<b>85.5 yen/\$ 111.6 yen/€ 13.1 yen/CNY</b>	<b>78.0 yen/\$ 109.4 yen/€ 12.3 yen/CNY</b>			

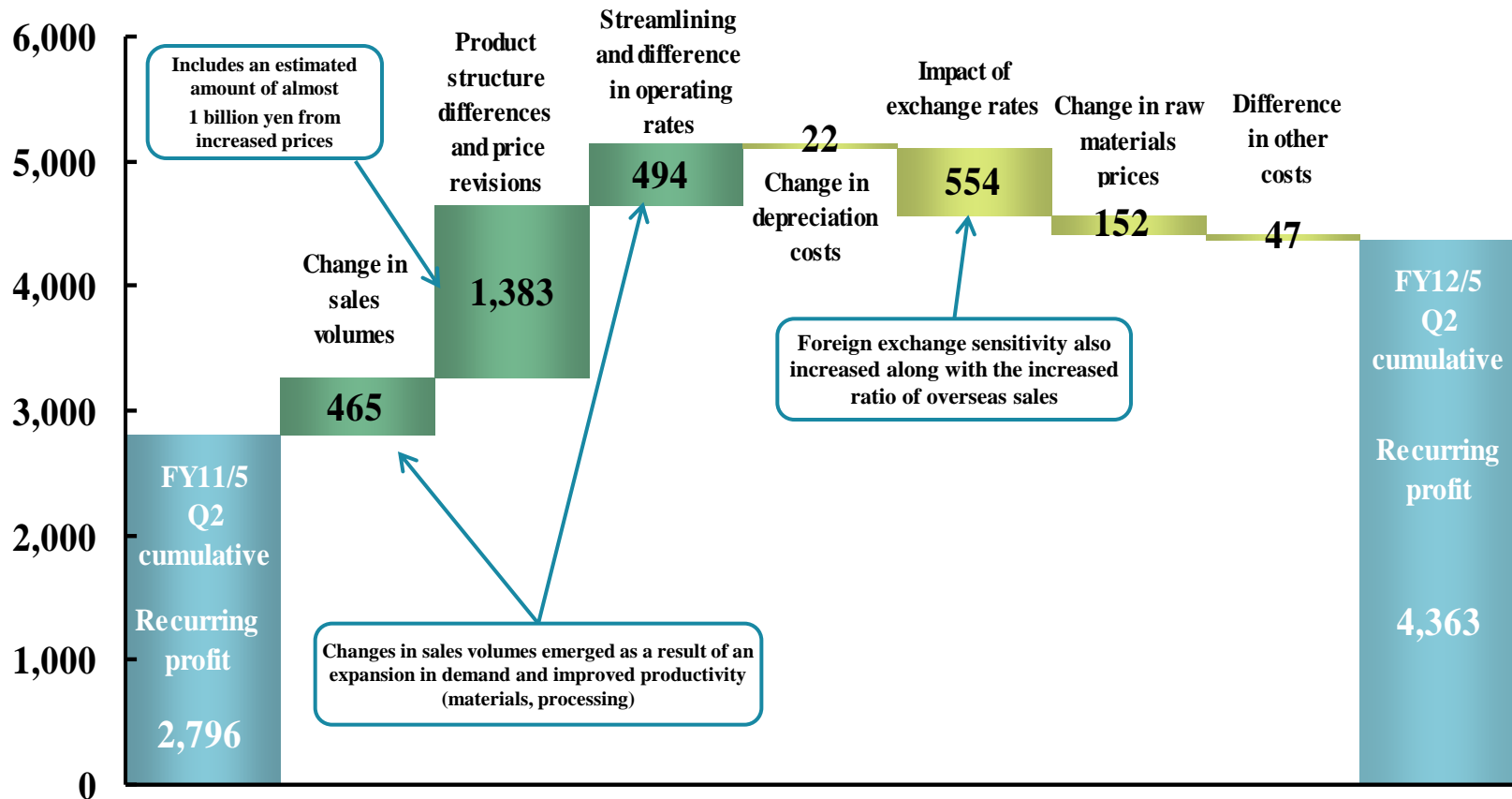
# Part 1 3. Factors Affecting Changes in Recurring Profit

(Cumulative total for Q2 of the year ended May 31, 2011 vs.

Cumulative total for Q2 of the year ending May 31, 2012)

**Recurring profit rose sharply, thanks to expanded sales and production and increased prices (including improved product mix) despite the growing impacts of foreign exchange trends.**

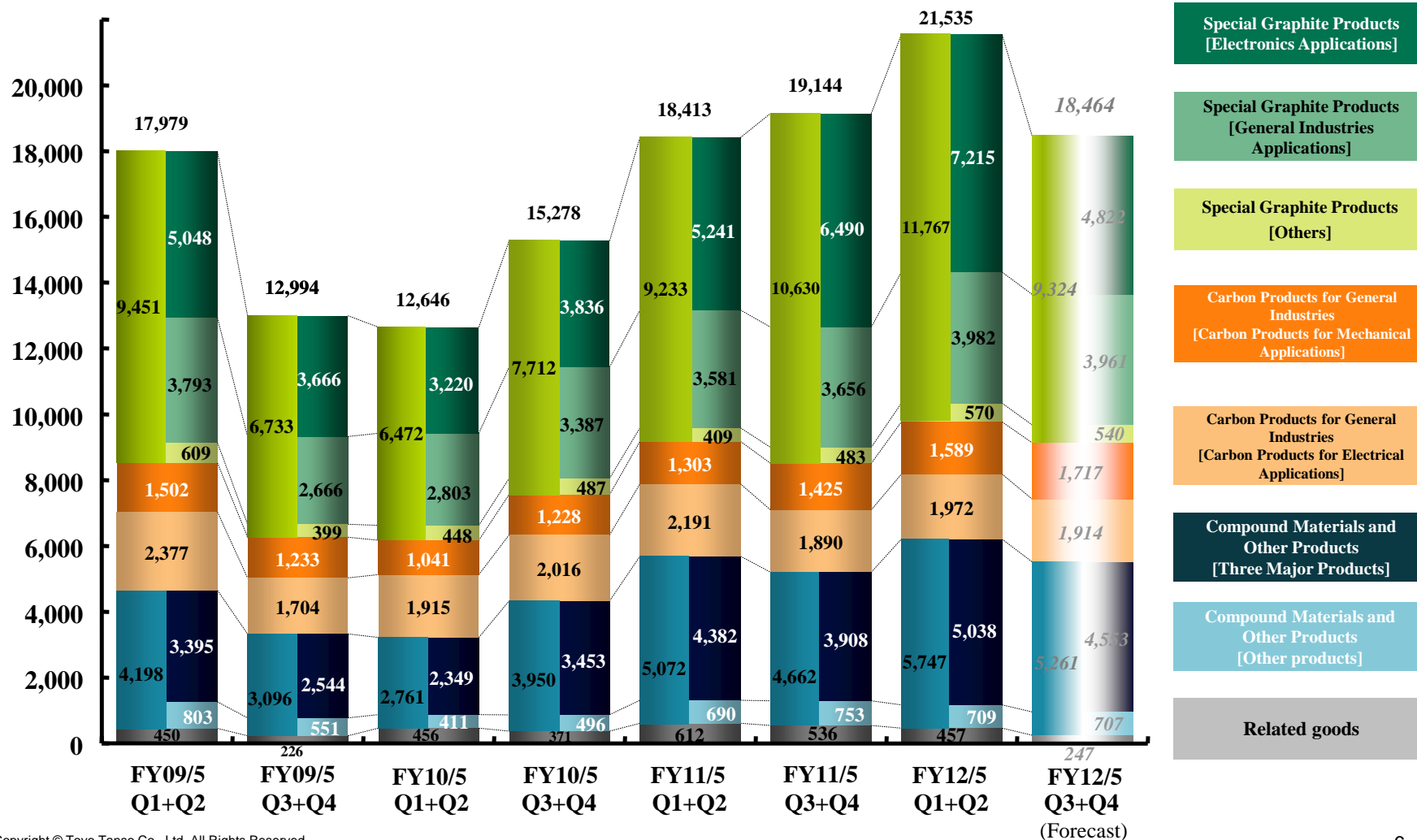
(Unit: Yen, millions)



# Part 1 4. Net Sales by Product and Segment

Sales expanded steadily in electronics applications (solar cells) and compound materials (C/C composite materials), as well as in carbon products for general industries for mechanical applications.

(Unit: Yen, millions)



# Part 1 5. Earnings Forecast for the Fiscal Year Ending May 31, 2012

(Unit: Yen, millions)

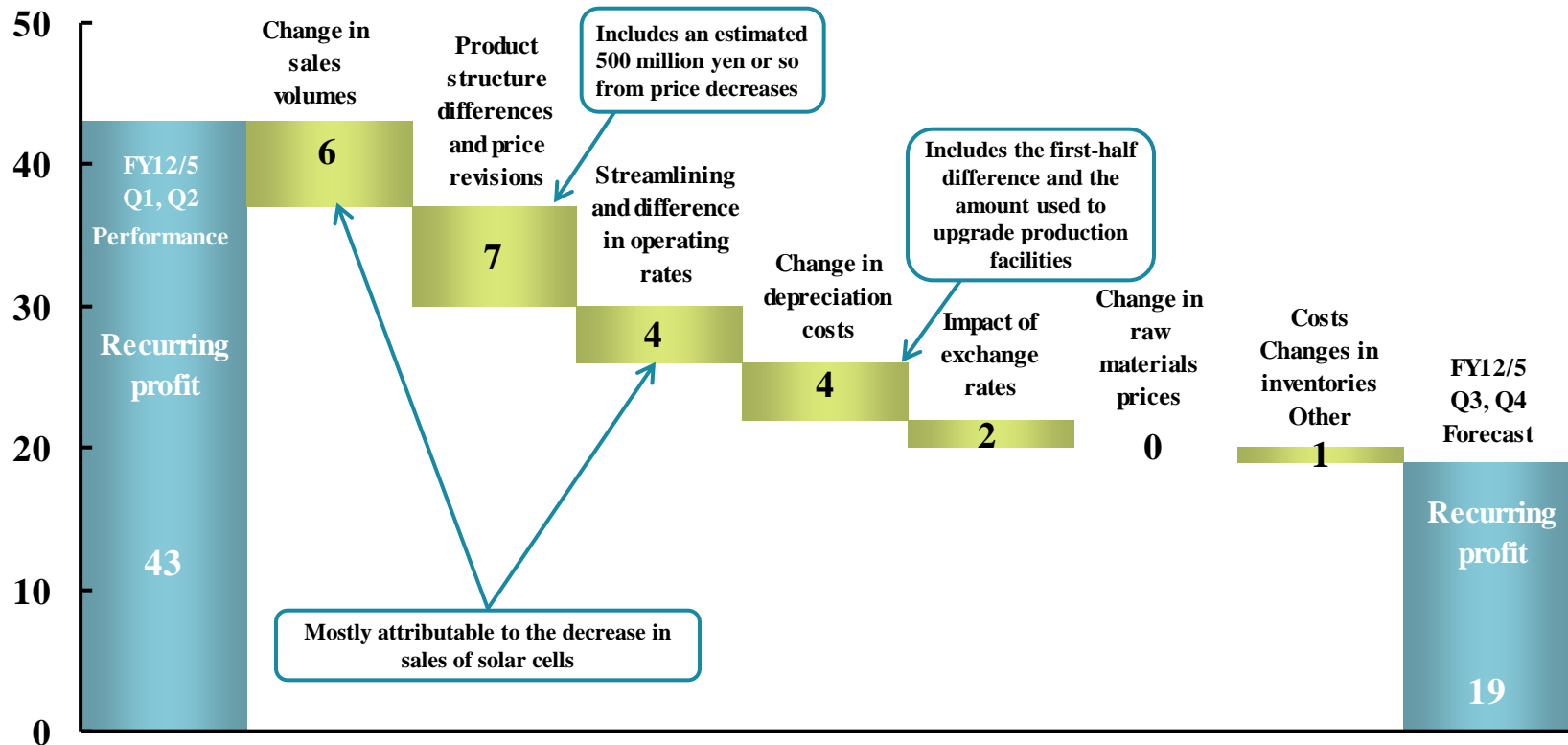
	FY11/5	FY12/5		Change	% increase	Notes
		Forecast	Breakdown			
<b>Net sales</b>	<b>37,557</b>	<b>40,000</b>	Q1, Q2 performance <b>21,535</b> ----- Q3, Q4 forecast <b>18,464</b>	<b>2,442</b>	<b>6.5%</b>	1. Net sales We expect a 14% decrease in sales compared to the first half, in consideration of the adjustment in the solar cell market and the loss caused by the stronger yen.
<b>Operating profit</b>	<b>5,868</b>	<b>6,300</b>	Q1, Q2 performance <b>4,411</b> ----- Q3, Q4 forecast <b>1,888</b>	<b>431</b>	<b>7.4%</b>	
(Ratio of operating profit to net sales)	<b>15.6%</b>	<b>15.8%</b>				2. Operating profit/Recurring profit Marginal profit ratio and sales prices are expected to fall as a result of a decrease in net sales.
<b>Recurring profit</b>	<b>5,614</b>	<b>6,300</b>	Q1, Q2 performance <b>4,363</b> ----- Q3, Q4 forecast <b>1,936</b>	<b>685</b>	<b>12.2%</b>	
(Ratio of recurring profit to net sales)	<b>14.9%</b>	<b>15.8%</b>				
<b>Net income</b>	<b>3,699</b>	<b>4,000</b>	Q1, Q2 performance <b>2,383</b> ----- Q3, Q4 forecast <b>1,616</b>	<b>300</b>	<b>8.1%</b>	
<b>Net income per share</b>	<b>178.43 yen</b>	<b>192.92 yen</b>	Q1, Q2 performance <b>114.98 yen</b> ----- Q3, Q4 forecast <b>77.94 yen</b>			
<b>Exchange rate</b>	<b>84.0 yen/\$</b> <b>112.8 yen/€</b> <b>12.8 yen/CNY</b>		78.0 yen/\$ Q1, Q2 performance <b>109.4 yen/€</b> ----- 12.3 yen/CNY  75 yen/\$ Q3, Q4 forecast <b>100 yen/€</b> ----- 11.4 yen/CNY			

# Part 1 6. Factors Affecting Changes in Recurring Profit

(Q1, Q2 performance vs. Q3, Q4 forecast for the year ending May 31, 2012)

A profit decline is anticipated in the second half due to a drop in sales quantities and prices that is expected to occur as a result of adjustments in the solar cell market, and also to growing depreciation costs and costs incurred from the impact of exchange rates.

(Unit: 100 mil. Yen)





# Toyo Tanso Co., Ltd.

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## **Part 2 Future Management Policies**

**Naotaka Kondo, President**

### ***1. Expand applications***

1. Expand sales of carbon products for mechanical applications  
(expansion of the production framework)
2. Strengthen efforts to develop new automotive applications  
(including EV and hybrid vehicles)
3. Promote efforts to develop wind power generation applications

### ***2. Expand the C/C composite product business***

***—Expand applications and utilize new plants***

### ***3. Strengthen countermeasures against the strong yen***

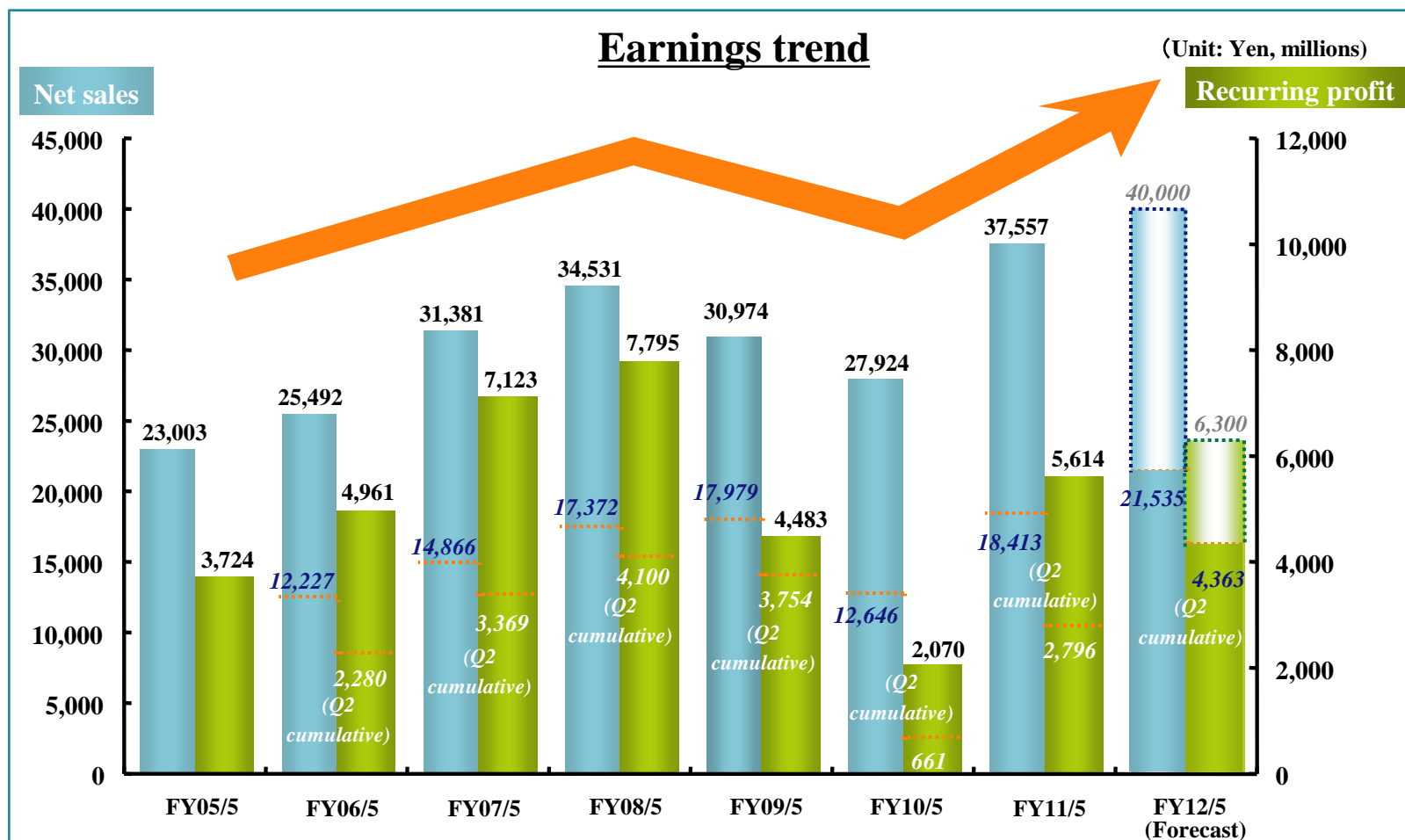
1. Consider strengthening or establishing new overseas production centers
2. Promote global procurement (raw materials, indirect materials, production facilities)
3. Strengthen the cost competitiveness of domestic production centers and facilities  
(redeployment, automation, re-engineering including “scrap & build” processes)

### ***4. Develop and expand applications of new high-tech materials***

***—Porous carbon, MBC, CBC, etc.***

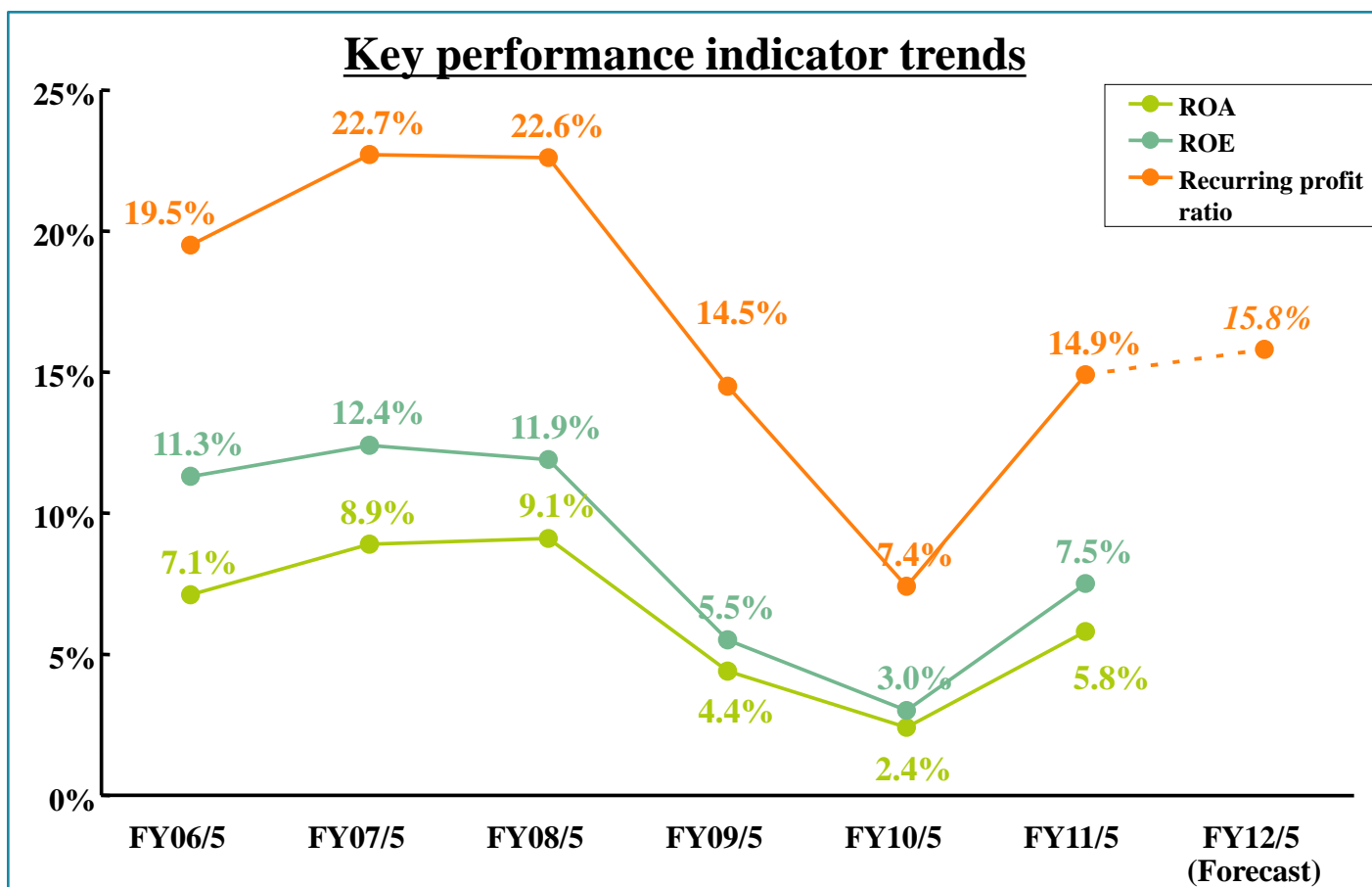
## 1. Maintain the growth trend

Sales and profit continued to grow substantially during the first half.  
Continue to maintain the growth trend even through temporary adjustments.



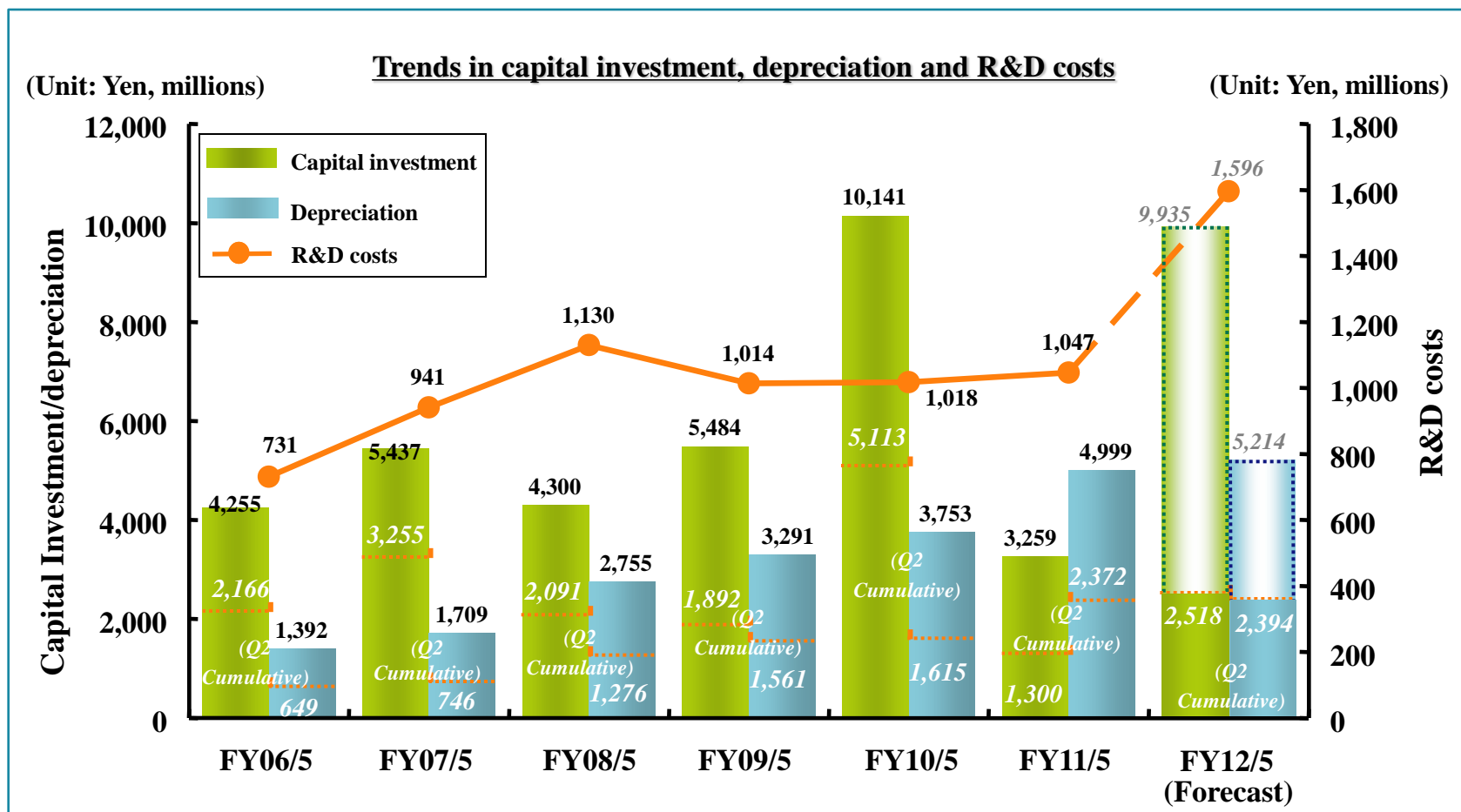
## 2. Aim to be a profitable and efficient company

Secure a recurring profit ratio of around 15% (first-half performance: 20.3%).  
Aim to achieve a double-digit ROE as a future benchmark.



## 3. To expand actively and invest strategically in terms of both quality and quantity

Investment and depreciation costs for the full fiscal year are expected to decrease only slightly, even though significant decreases were posted for the first half due to the postponement and reduction of some investments. We will maintain an active investment stance.



## 3. To expand actively and invest strategically in terms of both quality and quantity

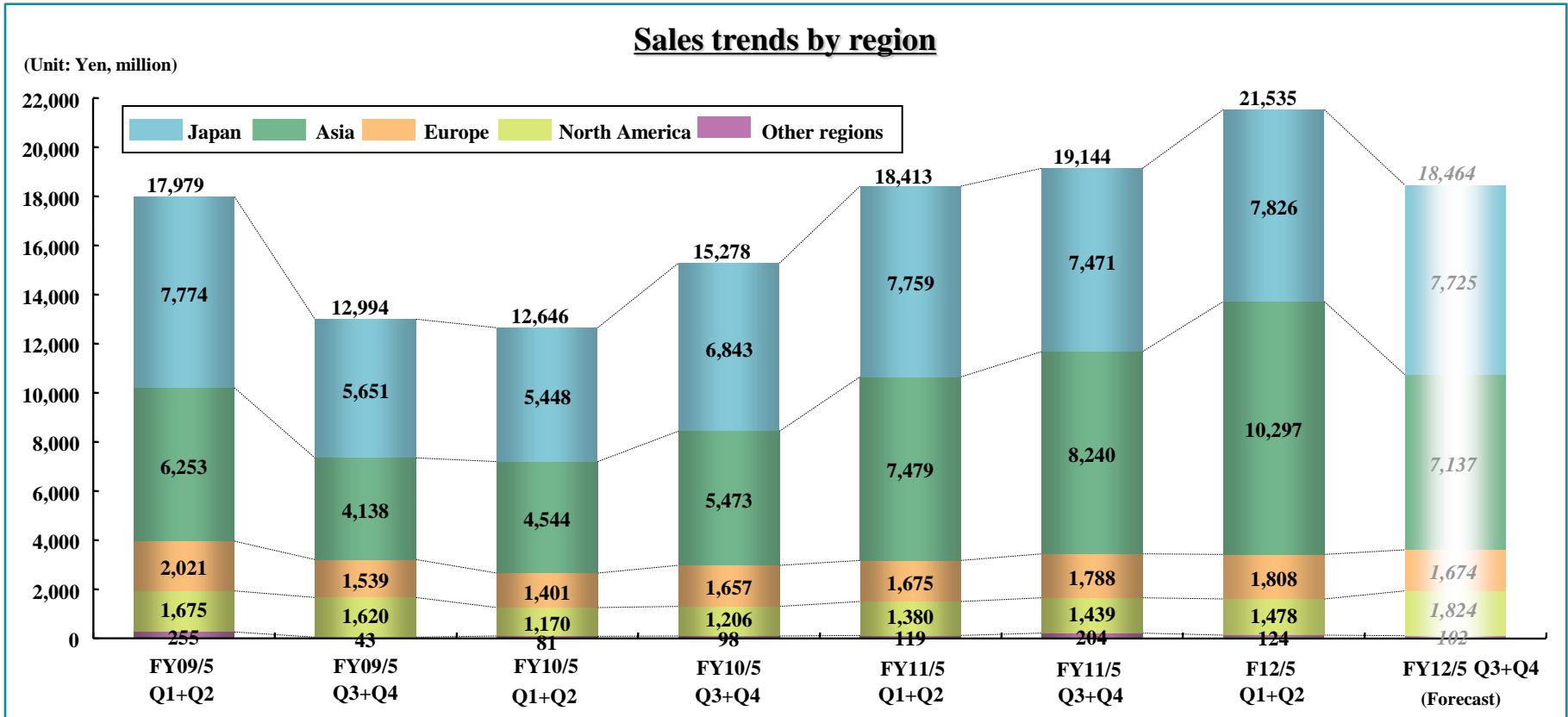
Strategic large-scale capital investments and R&D investments will be carried out as planned.  
(Some will be cut down after a review of value analyses and specifications.)

### Primary strategic capital investments

	<b>Isotropic graphite</b> To expand new plant	<b>C/C composite</b> Construction of new plant	<b>Coating</b> Expansion and upgrading of production system	<b>Expand and upgrade R&amp;D infrastructure and system</b>
<b>Production scale</b>	“Increase by roughly 20%” from current level	“Roughly double” that of the current level	1st period: “roughly triple the size” of that in 2009 2nd period: an additional increase of “roughly 30%”	[Overview]
<b>Operating period</b>	From the beginning of fiscal 2013 (Expected to fully contribute to sales from fiscal 2013 2Q)	From the summer of 2012 to the summer of 2013 (phased augmentation)	1st period: already running in spring 2011 2nd period: spring 2012	1. Introducing state-of-the-art manufacturing research equipment 2. Invest in environment and energy-related applications 3. Strengthen and expand the development framework
<b>Outline of facilities</b>	To enlarge new plant in Takuma (3rd plant)	To build a new dedicated, integrated plant on an adjacent vacant lot	To augment manufacturing processes in Japan (Ohnohara plant) and the U.S.	
<b>Amount of investment incl. buildings, incidental facilities</b>	Scale of investment: Approx. 5 billion yen	Scale of investment: Approx. 3 billion yen	Scale of investment: Approx. 2 billion yen	Scale of investment: Approx. 1.5 billion yen
<b>Features and strengths</b>	We aim to further differentiate our products and improve our competitiveness with this new plant, which is able to handle the manufacturing of primarily large and/or high purity materials.	Facility that is able to handle the manufacturing of differentiated, high value- added products including ultra-large materials (more than 2 meters in diameter). Equipped with an integrated production line that is designed to take into consideration automation as well as material handling.	To incorporate cutting-edge manufacturing processes and operating and management know-how and further reinforce the strengths of the integrated process from material development, processing and coating through inspection.	We will place emphasis on strengthening our existing competitiveness and on building pillars of future businesses.

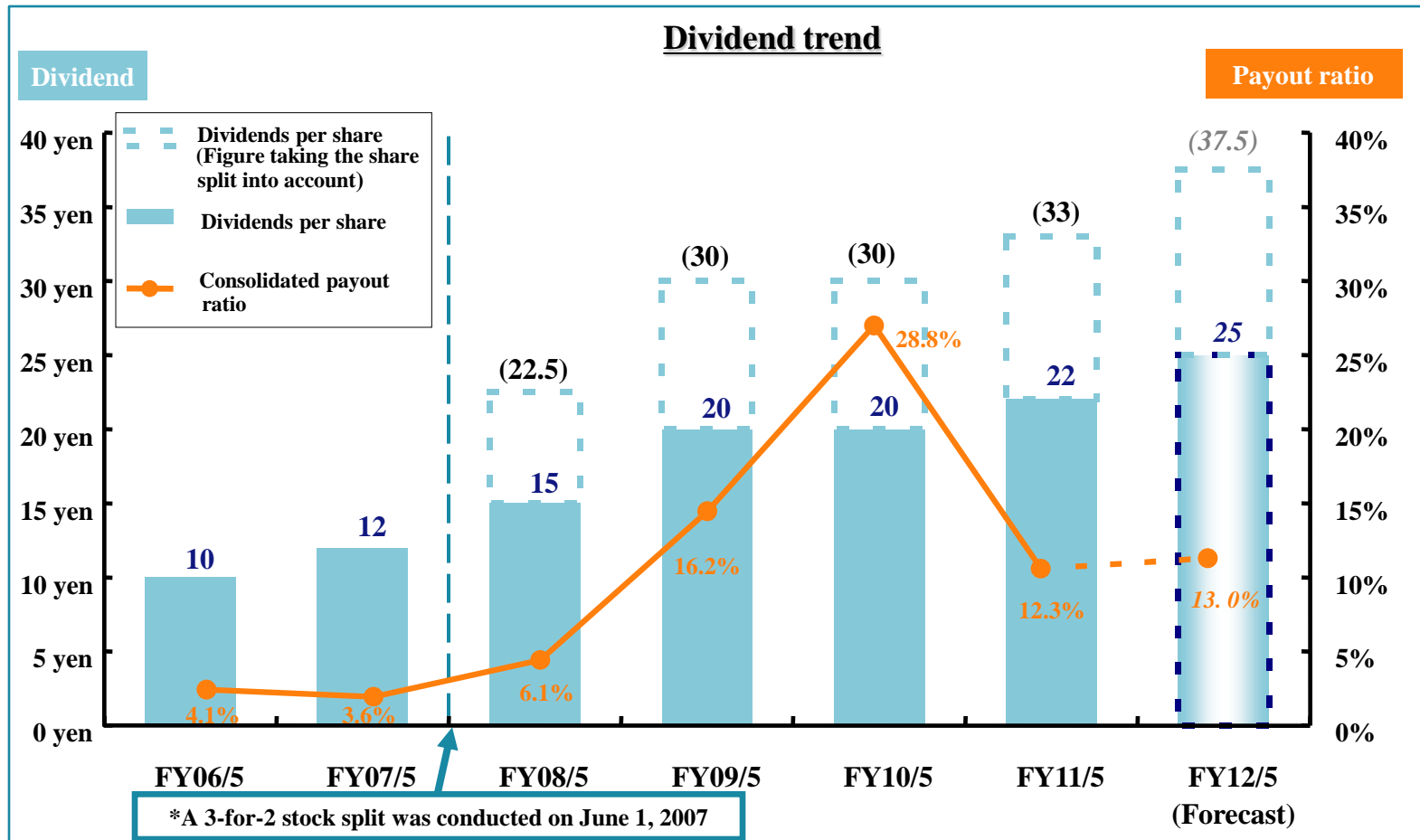
## 4. To accelerate our global expansion

- Overseas sales continued its substantial growth trend and reached 63.7% with the presence of Asia (47.8%) expanding.
- Sales in China expanded especially sharply and reached 36.7%, overtaking first-half sales in Japan for the first time.
- We are currently exploring new areas into which to advance in accordance with the philosophy of “local production for local consumption” and “production in optimum locations.”



**5. To balance our shareholder returns of profits with our investments for the future as a growing company**

**To continue to raise dividends while taking into account the balance between implementing such a hike and reinvestment for future growth.**





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## **Part 3 Supplementary Materials**

# Supplementary Material 1 Overview of Operations by Product and Segment

## Notes and future outlook (1/2)

	Application	Image of net sales by application			Notes and future outlook	
		FY11/5 Q3, Q4	FY12/5 Q1, Q2	FY12/5 Q3, Q4 forecast		
Special graphite products	Electronics applications	Products for solar cell manufacturing				<ul style="list-style-type: none"> <li>The ongoing uptrend from the second half of the previous year showed further acceleration. Demand continued to grow robustly in our core China market, as well as in other Asian regions. Sales also fared well in Europe and North America. Thanks in part to increasing prices, demand grew sharply particularly in the first quarter, so that net sales for the full first half increased more than 1.5-fold compared to the previous year and increased approx. 20% from the second half of the previous year.</li> <li>However, a period of adjustment is anticipated in autumn as a reaction against the sudden expansion in demand and sense of oversupply, at least for the full second half. The scope and duration of the adjustment period is difficult to predict at this stage, but as we had anticipated the adjustment since the beginning of the year, we will work to compensate for any sales decreases by directing our efforts to expanding sales mainly of carbon products for general industries and mechanical applications in a wide range of sectors, as they are expected to maintain strong and steady performance.</li> <li>Products for solar cell manufacturing will continue to be medium to long-term growth products even after temporary adjustments. Therefore, we will strengthen their competitiveness through forward-looking cost reductions and differentiation, and develop new customers.</li> </ul>
		Products for single crystal silicon manufacturing				<ul style="list-style-type: none"> <li>The operating rates of wafer manufacturers were generally low. Although some applications showed strong performance, such as smartphones and other such devices, recovery of the semiconductor market is expected to take a little more time.</li> <li>Sales ultimately increased by 10% to 20% during the first half. A slowdown may occur in the immediate future, but its impact on overall sales is expected to be minimal, because products for single crystal silicon manufacturing now carry a smaller weight than before.</li> </ul>
	General industries applications and others	Products for EDM electrode manufacturing				<ul style="list-style-type: none"> <li>Demand continued to be strong in core overseas markets, owing to growing demand in the automotive and consumer electronics industries mainly in newly emerging countries.</li> <li>In the domestic market, the mold industry faced difficult conditions due to the strong yen and accompanying structural problems, but the sales level has basically remained unchanged owing to automotive upgrade demands. We will direct future efforts to expanding sales in untapped precision applications and customers whose needs we have not been able to satisfy due to lack of materials.</li> </ul>
		Products for continuous casting and metallurgy, etc.				<ul style="list-style-type: none"> <li>Both overseas and domestic demands were strong on the whole as a result of the turnaround in economy and infrastructure investments by newly emerging countries. Sales of industrial furnace components, in particular, continued to be brisk.</li> <li>In the domestic market, there were concerns over the indirect impact of the March earthquake disaster, but recovery efforts progressed steadily. Strong demand is expected to continue, given the firm performance of the automotive industries.</li> </ul>

# Supplementary Material 1 Overview of Operations by Product and Segment

## Notes and future outlook (2/2)

	Application	Image of net sales by application			Notes and future outlook	
		FY11/5 Q3, Q4	FY12/5 Q1, Q2	FY12/5 Q3, Q4 forecast		
Carbon products for general industries	Carbon products for mechanical applications				<ul style="list-style-type: none"> <li>Sales expansion activities led to steady performance results. In the domestic market, which accounts for the largest share, sales of mainstay bearings and sealing materials mainly for pump, air-conditioner, and plant applications continued on a strong note, with an added boost by demand generated by post-disaster reconstruction work.</li> <li>Sales in the overseas market, which had been lagging, has a large potential for expansion. Therefore, we will aim for further expansion, such as by establishing a strong production framework.</li> </ul>	
					<ul style="list-style-type: none"> <li>Demand for pantograph sliders, which is largely unaffected by economic conditions, remains steady. We are continuing to push forward with efforts to advance overseas.</li> </ul>	
	Carbon products for electrical applications				<ul style="list-style-type: none"> <li>Sales in the European market made a strong upturn compared to other markets, but we faced an uphill battle mainly in our core Chinese market due to strong pressure to lower prices. Since overseas sales account for a high share (over 80%) of net sales, loss caused by the stronger yen came as a severe blow.</li> <li>However, since the impacts of economic changes remained relatively small, we forecast a gradual increase in sales over the medium to long term thanks to increasing demand in emerging countries. We will direct our efforts to strengthening global cost competitiveness and development capabilities.</li> </ul>	
					<ul style="list-style-type: none"> <li>Products for industrial and automotive applications continued their recovery trend, albeit gradual, as a result of an upturn in the economy, and are expected to maintain stable growth.</li> </ul>	
Compound materials and other products	Three major products				<ul style="list-style-type: none"> <li>Compound semiconductor products were expected to expand, but they were subject to prolonged adjustments made against the rapid expansion of LED-related products. Although signs of partial recovery were seen, full-scale recovery is expected to require more time, due mainly to the weak performance of LCD backlights.</li> <li>Semiconductor-related products (for Si-Epi, etc.) had shown a recovery trend, but lost speed toward the end of the first half. On the whole for all coating products, only a slight sales increase was recorded in the first half. We forecast only a slight increase also in the second half. However, as these products will continue to be growth areas over the medium to long term, we will increase our competitive power in integrated manufacturing, from material development to processing and coating, and aim to gain a leading edge over our competitors.</li> </ul>	
						<ul style="list-style-type: none"> <li>Demand for large-scale crucibles for semiconductor manufacturing picked up owing partly to the completion of inventory adjustments by major customers. With a growing number of buyers, sales remained strong despite unpredictable market conditions.</li> <li>Solar cell-related products continued to go strong in both the domestic and overseas markets. Sales expanded steadily, bolstered by new projects and spot deliveries for products related to nuclear fission reactors. However, we need to keep a watchful eye on the impact of changes in the solar cell market.</li> <li>Products for industrial furnaces continued to forge ahead. For C/C products on the whole, sales increased by roughly 20% during the first half compared to the same period last year. We anticipate a decrease in the second half due to a decrease in spot deliveries, but forecast no major changes in the growth trend.</li> </ul>
						<ul style="list-style-type: none"> <li>A gradual recovery trend continued on the whole, with a sales increase of roughly 10% during the first half compared to the same period last year. The future of semiconductor-related products may be uncertain, but steady performance is expected to continue, mainly centered on automotive products.</li> </ul>

## Balance Sheet for the First Half of the Fiscal Year Ending May 31, 2012

(Unit: Yen, millions)

	Nov.30,2010	May.31,2011	Nov.30,2011	Notes
<b>Total assets</b>	<b>61,894</b>	<b>65,191</b>	<b>67,233</b>	
Trade notes and accounts receivable	12,214	13,047	14,393	1. Trade notes and accounts receivable Increase of 1,346 million yen from the end of FY11/5 owing to increased sales.
Inventory	11,339	12,454	13,637	2. Inventory Increase of 1,182 million yen from the end of FY11/5, as a result of the systematic accumulation of intermediate stock.
Tangible fixed assets	26,979	26,162	26,158	
<b>Total liabilities and net assets</b>	<b>61,894</b>	<b>65,191</b>	<b>67,233</b>	
Interest-bearing debt	2,850	2,071	1,789	
Capital	7,692	7,692	7,692	
Net assets	49,711	51,748	53,224	
<b>Equity ratio</b>	<b>78.5%</b>	<b>77.5%</b>	<b>77.0%</b>	

**Statement of Cash Flows for the First Half of the Fiscal Year Ending May 31, 2012**

(Unit: Yen, millions)

	FY11/5 First Half	FY12/5 First Half	Notes
Cash and cash equivalents at the end of the period	5,745	6,909	
Changes in cash and cash equivalents	(56)	(181)	
Cash and cash equivalents at the beginning of the period	5,802	7,090	
CF from operating activities	3,702	2,484	1. CF from operating activities Decreased due to an increase in notes and accounts receivable-trade and inventory.
CF from investing activities	(3,915)	(1,754)	2. CF from investing activities Cash outflow decreased, due to a decrease in expenditures for the acquisition of tangible and intangible fixed assets.
CF from financing activities	308	(729)	3. Cash outflow increased due to the repayment of long-term borrowings.



**Note: This presentation contains “forward-looking statements” and forecasts of business results. These statements are not historical facts but instead represent the Company’s beliefs regarding future events, many of which, by their nature, are inherently uncertain and out of the Company’s control. It is possible that the Company’s actual results may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements.**

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