



August 9, 2016

## Consolidated Financial Results for the Six Months Ended June 30, 2016 [Japanese GAAP]

|                                                               |                                                                     |
|---------------------------------------------------------------|---------------------------------------------------------------------|
| Listed company name:                                          | <b>Toyo Tanso Co., Ltd.</b>                                         |
| Stock exchange listing:                                       | Tokyo Stock Exchange, 1st Section                                   |
| Stock code:                                                   | 5310                                                                |
| Location of headquarters:                                     | Osaka, Japan                                                        |
| Website:                                                      | <a href="http://www.toyotanso.co.jp">http://www.toyotanso.co.jp</a> |
| Representative:                                               | Takashi Konishi, President                                          |
| Contact:                                                      | Toshimi Boki, General Manager,<br>Finance and Accounting Department |
| TEL:                                                          | 81-6-6472-5811 (from overseas)                                      |
| Scheduled date for submission<br>of quarterly report:         | August 10, 2016                                                     |
| Scheduled date for dividend payment:                          | -                                                                   |
| Supplementary materials for quarterly<br>financial summaries: | Yes                                                                 |
| Quarterly financial results briefing:                         | Yes (for securities analysts and institutional investors)           |

### 1. Consolidated financial results for the six months ended June 30, 2016

(From January 1, 2016 to June 30, 2016)

(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 |        |
|-----------------------------------|-----------|-------|------------------|--------|-----------------|--------|-----------------------------------------|--------|
|                                   |           | %     |                  | %      |                 | %      |                                         | %      |
| Six months ended<br>June 30, 2016 | 16,941    | (4.1) | 513              | 45.2   | 257             | (48.4) | 241                                     | (37.7) |
| Six months ended<br>June 30, 2015 | 17,673    | 3.5   | 353              | (39.7) | 499             | (5.9)  | 387                                     | (57.6) |

Note: Comprehensive income:  
Six months ended June 30, 2016 (2,306) million yen (-%)  
Six months ended June 30, 2015 602 million yen (-%)

|                                   | Profit attributable to<br>owners of parent<br>per share (basic) | Profit attributable to<br>owners of parent per<br>share (diluted) |
|-----------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|
|                                   | yen                                                             | yen                                                               |
| Six months ended<br>June 30, 2016 | 11.65                                                           | -                                                                 |
| Six months ended<br>June 30, 2015 | 18.70                                                           | 18.66                                                             |

**(2) Financial position**

(Millions of yen, rounded down)

|                         | Total assets | Net assets | Equity ratio |
|-------------------------|--------------|------------|--------------|
|                         |              |            | %            |
| As of June 30, 2016     | 69,327       | 56,976     | 80.3         |
| As of December 31, 2015 | 72,990       | 59,487     | 79.6         |

Reference: Shareholders' equity

|                   |                    |
|-------------------|--------------------|
| June 30, 2016     | 55,704 million yen |
| December 31, 2015 | 58,130 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, 2015             | -                         | 0.00               | -                 | 25.00    | 25.00             |
| Year ending December 31, 2016 (Actual)   | -                         | 0.00               |                   |          |                   |
| Year ending December 31, 2016 (Forecast) |                           |                    | -                 | 25.00    | 25.00             |

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

**3. Consolidated results forecast for the fiscal year ending December 31, 2016**

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

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

|                                      | Net sales |       | Operating income |        | Ordinary income |        | Profit attributable to owners of parent |        | Profit attributable to owners of parent per share |
|--------------------------------------|-----------|-------|------------------|--------|-----------------|--------|-----------------------------------------|--------|---------------------------------------------------|
|                                      |           | %     |                  | %      |                 | %      |                                         | %      | yen                                               |
| Fiscal year ending December 31, 2016 | 32,500    | (8.6) | 700              | (11.4) | 500             | (45.5) | 350                                     | (13.0) | 16.88                                             |

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

Please refer to "Notification of Differences between Consolidated Earnings Forecasts for First Half of Fiscal Year and Actual Results, and Revisions to Consolidated Earnings Forecasts for Fiscal Year," released on August 9, 2016, for details.

**\* Others**

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

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

New subsidiaries: \_\_\_ (name of company(ies))

Excluded subsidiaries: \_\_\_ (name of company(ies))

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

(Note) For details, please refer to “Adoption of specific accounting methods for the preparation of quarterly consolidated financial statements” on page 3 of the Attached Documents.

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

1) Changes in accounting policies due to revisions of accounting standards, etc.: 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 “Changes in accounting policies and accounting estimates and restatements” on page 3 of the Attached Documents.

**(4) Number of shares outstanding (common stock)**

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

As of June 30, 2016 20,750,688 shares

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

2) Number of treasury stock at the end of period

As of June 30, 2016 17,169 shares

As of December 31, 2015 17,169 shares

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

Six months ended June 30, 2016 20,733,519 shares

Six months ended June 30, 2015 20,733,611 shares

**\* Implementation status of quarterly review procedures**

This quarterly financial results report is not subject to the quarterly review procedures stipulated by the Financial Instruments and Exchange Act. The review of quarterly consolidated financial statements has been completed at the time of 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 “Explanation of Information Regarding Consolidated Earnings Forecasts and Other Projections” on page 3 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 August 22, 2016. 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 quarterly consolidated financial statements and other items were listed in thousand-yen units. However, beginning in the first quarter and the cumulative first quarter of 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 first half in the previous fiscal year will be shown in million-yen units.

○ **Attached Documents**

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## **1. Qualitative Information Regarding Consolidated Results for the Six Months under Review**

### **(1) Explanation Regarding Business Results**

During the first half of the consolidated fiscal year under review, although the US economy continued to expand gradually, Europe lost some of its strength and economic growth in emerging markets such as China continued to slow. Moreover, despite a recovery in corporate earnings and employment conditions, the outlook for the Japanese economy remains uncertain given the appreciation of the yen, the drop in crude oil prices and a weak stock market.

Toyo Tanso Group's business environment faced harsher competition with other companies overall. In this environment, demand in the solar cell market grew, while demand in the semiconductor market and general industries market was solid. However, demand in the LED market and carbon brush market was somewhat lackluster.

The Group attempted to counter this increasingly harsh competitive environment by carrying out measures to reform the 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 first half of the consolidated fiscal year under review, net sales fell 4.1% year on year to 16,941 million yen. On the income side, despite decreases attributable to the strong yen and the posting of a provision of allowance for doubtful accounts, operating income rose 45.2% to 513 million yen due to improvements in marginal profit and reductions in fixed costs. However, ordinary income fell 48.4% to 257 million yen due to foreign exchange losses. Moreover, profit attributable to owners of parent fell 37.7% to 241 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.

The overall performance of each business segment was as follows. (Please refer to "4. Supplementary Information" for an overview of each product category.)

#### **Japan**

Although sales for metallurgical applications were solid, products for LED applications were weak, and sales of carbon products for mechanical applications were also poor. As a result, net sales fell 4.9% year on year to 8,679 million yen and operating income decreased 72.3% to 182 million yen.

#### **United States**

Sales of some metallurgical applications faltered, and sales of electronics-related products were disappointing. As a result, net sales fell 12.9% to 1,368 million yen. On the income side, we posted an operating loss of 235 million yen (compared to a 266 million yen operating loss in the same period of the previous fiscal year) due to the posting of 135 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 fell 5.2% year on year to 1,569 million yen and operating income decreased 68.9% to 16 million yen.

#### **Asia**

Carbon brush-related products and some metallurgical applications were weak, but demand increased for solar cell applications spurred by facility upgrades. As a result, net sales rose 0.1% year on year to 5,324 million yen and operating income increased 271.0% to 309 million yen.

### **(2) Explanation Regarding Financial Position**

Total assets as of June 30, 2016, decreased by 3,663 million yen from the end of the previous consolidated fiscal year. This was primarily because, although the increase in equity-method affiliates led to a 447 million yen increase in investments and other assets, cash and deposits decreased by 654 million yen due to capital spending, notes and accounts receivable—trade fell 1,410 million yen, inventories decreased by 1,002 million and property, plant and equipment fell 1,247 million yen due to the posting of depreciation expenses.

Total liabilities decreased by 1,152 million yen from the end of the previous consolidated fiscal year. This was primarily because notes and accounts payable—trade decreased 254 million, interest-bearing liabilities fell 432 million yen and income taxes payable declined 313 million yen.

Total net assets decreased by 2,510 million yen from the end of the previous consolidated fiscal year. This was primarily due to a 2,415 million yen fall in the foreign currency translation adjustment.

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

In the first half of the consolidated fiscal year under review, net sales were generally in line with forecasts, despite the effect of the strong yen. Despite decreases attributable to the strong yen and the posting of a provision of allowance for doubtful accounts, operating income surpassed forecasts due to improvements in marginal profit and reductions in fixed costs. However, ordinary income fell short of forecasts due to foreign exchange losses. Moreover, profit attributable to owners of parent totaled 241 million yen, compared to the forecast of a 150 million yen loss, because subsidy income for the Takuma Division and a subsidiary in China was posted, offsetting the reversal of deferred tax assets and the impairment losses on some manufacturing facilities related to the porous carbon business.

The Company has revised the earnings forecasts for the full year released on February 12, 2016, due to revisions to sales and income plans in light of the results in the first half of the fiscal year, the exchange rate and market trends, and plans to carry out business restructuring, such as closing and consolidating sales offices in Japan. (Assumed exchange rates for the second half of the fiscal year: 100 yen/US\$; 115 yen/EUR; and 15 yen/CNY)

## **2. Items Regarding Summary Information (Others)**

### **(1) Changes in significant subsidiaries during the six months under review**

None

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

Tax expense calculation

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 half under review.

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

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 first quarter of this consolidated fiscal year. 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 first quarter of this consolidated fiscal year, 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 quarter 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 first half of the previous fiscal year and 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 first quarter 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 profit/loss.

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 first quarter of 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 first quarter of this fiscal year, and the specific cost method is used from the start of the fiscal year.

This change has a minimal impact.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly consolidated balance sheets

(Millions of yen, rounded down)

|                                        | As of December 31, 2015 | As of June 30, 2016 |
|----------------------------------------|-------------------------|---------------------|
|                                        | Amount                  | Amount              |
| <b>Assets</b>                          |                         |                     |
| Current assets                         |                         |                     |
| Cash and deposits                      | 11,627                  | 10,973              |
| Notes and accounts receivable - trade  | 13,047                  | 11,636              |
| Merchandise and finished goods         | 7,061                   | 6,473               |
| Work in process                        | 7,778                   | 7,459               |
| Raw materials and supplies             | 2,168                   | 2,072               |
| Other                                  | 1,556                   | 1,799               |
| Allowance for doubtful accounts        | (428)                   | (319)               |
| Total current assets                   | 42,810                  | 40,094              |
| Non-current assets                     |                         |                     |
| Property, plant and equipment          |                         |                     |
| Buildings and structures, net          | 8,680                   | 8,878               |
| Machinery, equipment and vehicles, net | 10,774                  | 9,910               |
| Land                                   | 5,869                   | 5,789               |
| Construction in progress               | 1,076                   | 471                 |
| Other, net                             | 615                     | 720                 |
| Total property, plant and equipment    | 27,016                  | 25,769              |
| Intangible assets                      | 1,174                   | 1,027               |
| Investments and other assets           | 1,989                   | 2,436               |
| Total non-current assets               | 30,180                  | 29,232              |
| <b>Total assets</b>                    | <b>72,990</b>           | <b>69,327</b>       |



(Millions of yen, rounded down)

|                                                       | As of December 31, 2015 | As of June 30, 2016 |
|-------------------------------------------------------|-------------------------|---------------------|
|                                                       | Amount                  | Amount              |
| <b>Liabilities</b>                                    |                         |                     |
| Current liabilities                                   |                         |                     |
| Notes and accounts payable - trade                    | 2,408                   | 2,154               |
| Electronically recorded obligations - operating       | 1,083                   | 1,067               |
| Short-term loans payable                              | 1,453                   | 1,409               |
| Accounts payable - other                              | 1,775                   | 1,390               |
| Income taxes payable                                  | 403                     | 89                  |
| Provision for bonuses                                 | 384                     | 256                 |
| Other                                                 | 3,829                   | 4,290               |
| Total current liabilities                             | 11,338                  | 10,658              |
| Non-current liabilities                               |                         |                     |
| Long-term loans payable                               | 1,215                   | 827                 |
| Net defined benefit liability                         | 140                     | 137                 |
| Asset retirement obligations                          | 261                     | 262                 |
| Other                                                 | 547                     | 464                 |
| Total non-current liabilities                         | 2,164                   | 1,692               |
| <b>Total liabilities</b>                              | 13,503                  | 12,351              |
| <b>Net assets</b>                                     |                         |                     |
| Shareholders' equity                                  |                         |                     |
| Capital stock                                         | 7,692                   | 7,692               |
| Capital surplus                                       | 9,534                   | 9,534               |
| Retained earnings                                     | 37,932                  | 37,991              |
| Treasury shares                                       | (59)                    | (59)                |
| Total shareholders' equity                            | 55,100                  | 55,159              |
| Accumulated other comprehensive income                |                         |                     |
| Valuation difference on available-for-sale securities | 111                     | 62                  |
| Foreign currency translation adjustment               | 2,893                   | 477                 |
| Remeasurements of defined benefit plans               | 25                      | 5                   |
| Total accumulated other comprehensive income          | 3,030                   | 545                 |
| Subscription rights to shares                         | 102                     | 100                 |
| Non-controlling interests                             | 1,254                   | 1,170               |
| <b>Total net assets</b>                               | 59,487                  | 56,976              |
| <b>Total liabilities and net assets</b>               | 72,990                  | 69,327              |

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

(Quarterly consolidated statements of income)

Six months ended June 30, 2015 and 2016

(Millions of yen, rounded down)

|                                                               | Six months ended<br>June 30, 2015<br>Amount | Six months ended<br>June 30, 2016<br>Amount |
|---------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Net sales                                                     | 17,673                                      | 16,941                                      |
| Cost of sales                                                 | 13,555                                      | 12,667                                      |
| Gross profit                                                  | 4,118                                       | 4,274                                       |
| Selling, general and administrative expenses                  | 3,764                                       | 3,761                                       |
| Operating income                                              | 353                                         | 513                                         |
| Non-operating income                                          |                                             |                                             |
| Interest income                                               | 42                                          | 35                                          |
| Dividend income                                               | 5                                           | 6                                           |
| Foreign exchange gains                                        | 40                                          | —                                           |
| Gain on currency options                                      | 15                                          | 127                                         |
| Share of profit of entities accounted for using equity method | —                                           | 49                                          |
| Other                                                         | 89                                          | 106                                         |
| Total non-operating income                                    | 193                                         | 325                                         |
| Non-operating expenses                                        |                                             |                                             |
| Interest expenses                                             | 26                                          | 12                                          |
| Foreign exchange losses                                       | —                                           | 546                                         |
| Other                                                         | 21                                          | 22                                          |
| Total non-operating expenses                                  | 47                                          | 581                                         |
| Ordinary income                                               | 499                                         | 257                                         |
| Extraordinary income                                          |                                             |                                             |
| Gain on sales of non-current assets                           | 5                                           | 49                                          |
| Gain on sales of investment securities                        | 1                                           | —                                           |
| Subsidy income                                                | 41                                          | 747                                         |
| Insurance income                                              | 86                                          | 12                                          |
| Gain on reversal of subscription rights to shares             | —                                           | 1                                           |
| Total extraordinary income                                    | 134                                         | 811                                         |
| Extraordinary losses                                          |                                             |                                             |
| Loss on sales of non-current assets                           | 0                                           | 0                                           |
| Loss on retirement of non-current assets                      | 8                                           | 18                                          |
| Impairment loss                                               | —                                           | 290                                         |
| Total extraordinary losses                                    | 8                                           | 309                                         |
| Income before income taxes and minority interests             | 625                                         | 760                                         |
| Income taxes                                                  | 268                                         | 392                                         |
| Profit                                                        | 357                                         | 368                                         |
| Profit (loss) attributable to non-controlling interests       | (30)                                        | 126                                         |
| Profit attributable to owners of parent                       | 387                                         | 241                                         |

(Quarterly consolidated statement of comprehensive income)

Six months ended June 30, 2015 and 2016

(Millions of yen, rounded down)

|                                                                                      | Six months ended<br>June 30, 2015<br>Amount | Six months ended<br>June 30, 2016<br>Amount |
|--------------------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>Profit</b>                                                                        | 357                                         | 368                                         |
| Other comprehensive income                                                           |                                             |                                             |
| Valuation difference on available-for-sale securities                                | 17                                          | (48)                                        |
| Foreign currency translation adjustment                                              | 200                                         | (2,633)                                     |
| Remeasurements of defined benefit plans, net of tax                                  | 26                                          | (20)                                        |
| Share of other comprehensive income of entities accounted for<br>using equity method | —                                           | 28                                          |
| Total other comprehensive income                                                     | 244                                         | (2,674)                                     |
| Comprehensive income                                                                 | 602                                         | (2,306)                                     |
| Comprehensive income attributable to:                                                |                                             |                                             |
| Owners of parent                                                                     | 579                                         | (2,243)                                     |
| Non-controlling interests                                                            | 22                                          | (63)                                        |

### (3) Consolidated statements of cash flows

(Millions of yen, rounded down)

|                                                                      | Six months ended<br>June 30, 2015 | Six months ended<br>June 30, 2016 |
|----------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>Cash flows from operating activities</b>                          |                                   |                                   |
| Income before income taxes and minority interests                    | 625                               | 760                               |
| Depreciation                                                         | 1,871                             | 1,786                             |
| Impairment loss                                                      | —                                 | 290                               |
| Share of (profit) loss of entities accounted for using equity method | —                                 | (55)                              |
| Increase (decrease) in net defined benefit asset or liability        | (86)                              | (75)                              |
| Increase (decrease) in provision for bonuses                         | (90)                              | (105)                             |
| Increase (decrease) in allowance for doubtful accounts               | (38)                              | 86                                |
| Interest and dividend income                                         | (48)                              | (41)                              |
| Interest expenses                                                    | 26                                | 12                                |
| Foreign exchange losses (gains)                                      | (40)                              | 139                               |
| Loss (gain) on sales of non-current assets                           | 2                                 | (31)                              |
| Loss (gain) on sales of investment securities                        | (1)                               | —                                 |
| Decrease (increase) in notes and accounts receivable - trade         | 433                               | 279                               |
| Decrease (increase) in inventories                                   | 421                               | 248                               |
| Increase (decrease) in notes and accounts payable - trade            | 679                               | 254                               |
| Other                                                                | (377)                             | (896)                             |
| Subtotal                                                             | 3,379                             | 2,653                             |
| Interest and dividend income received                                | 48                                | 52                                |
| Interest expenses paid                                               | (24)                              | (11)                              |
| Income taxes paid                                                    | (503)                             | (422)                             |
| Net cash provided by (used in) operating activities                  | 2,900                             | 2,272                             |
| <b>Cash flows from investing activities</b>                          |                                   |                                   |
| Payments into time deposits                                          | (2,402)                           | (1,811)                           |
| Proceeds from withdrawal of time deposits                            | 2,368                             | 2,246                             |
| Purchase of property, plant and equipment                            | (1,507)                           | (1,144)                           |
| Proceeds from sales of property, plant and equipment                 | 4                                 | 52                                |
| Purchase of intangible assets                                        | (195)                             | (41)                              |
| Purchase of investment securities                                    | (84)                              | (6)                               |
| Other                                                                | 9                                 | (10)                              |
| Net cash provided by (used in) investing activities                  | (1,806)                           | (715)                             |
| <b>Cash flows from financing activities</b>                          |                                   |                                   |
| Net increase (decrease) in short-term loans payable                  | (829)                             | 86                                |
| Repayments of long-term loans payable                                | (752)                             | (371)                             |
| Repayments of finance lease obligations                              | (16)                              | (11)                              |
| Purchase of treasury shares                                          | (0)                               | —                                 |
| Cash dividends paid                                                  | (457)                             | (516)                             |
| Dividends paid to non-controlling interests                          | (24)                              | (21)                              |
| Net cash provided by (used in) financing activities                  | (2,080)                           | (832)                             |
| <b>Effect of exchange rate change on cash and cash equivalents</b>   | 26                                | (754)                             |
| <b>Net increase (decrease) in cash and cash equivalents</b>          | (959)                             | (30)                              |
| <b>Cash and cash equivalents at beginning of period</b>              | 9,061                             | 7,147                             |
| <b>Cash and cash equivalents at end of period</b>                    | 8,101                             | 7,116                             |

#### (4) 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.

(Segment information)

[Segment information]

#### I. Six months ended June 30, 2015 (From January 1, 2015 to June 30, 2015)

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

(Millions of yen, rounded down)

|                                     | Reportable segments |               |        |       |        | Adjusted amount<br>(Note) 1 | Amount recorded in the consolidated quarterly income statement<br>(Note) 2 |
|-------------------------------------|---------------------|---------------|--------|-------|--------|-----------------------------|----------------------------------------------------------------------------|
|                                     | Japan               | United States | Europe | Asia  | Total  |                             |                                                                            |
| Net sales                           |                     |               |        |       |        |                             |                                                                            |
| (1) Sales to unaffiliated customers | 9,126               | 1,570         | 1,656  | 5,319 | 17,673 | —                           | 17,673                                                                     |
| (2) Intersegment sales or transfers | 2,945               | 45            | 17     | 59    | 3,067  | (3,067)                     | —                                                                          |
| Total                               | 12,072              | 1,615         | 1,673  | 5,378 | 20,741 | (3,067)                     | 17,673                                                                     |
| Segment profit (loss)               | 658                 | (266)         | 54     | 83    | 529    | (175)                       | 353                                                                        |

(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       | 6,874 | 1,535         | 1,830  | 7,325                  | 4,366      | 107           | 17,673 |
| Composition (%) | 38.9  | 8.7           | 10.4   | 41.4                   | 24.7       | 0.6           | 100.0  |

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

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

(1) North America: United States

(2) Europe: France, Germany, Italy

(3) Asia: China, Taiwan, South Korea

##### 3. Information related to impairment losses on non-current assets, goodwill and other for each reportable segment

(Important impairment losses related to non-current assets)

Not applicable.

## II. Six months ended June 30, 2016 (From January 1, 2016 to June 30, 2016)

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

(Millions of yen, rounded down)

|                                     | Reportable segments |               |        |       |        | Adjusted amount<br>(Note) 1 | Amount recorded in the consolidated quarterly income statement<br>(Note) 2 |
|-------------------------------------|---------------------|---------------|--------|-------|--------|-----------------------------|----------------------------------------------------------------------------|
|                                     | Japan               | United States | Europe | Asia  | Total  |                             |                                                                            |
| Net sales                           |                     |               |        |       |        |                             |                                                                            |
| (1) Sales to unaffiliated customers | 8,679               | 1,368         | 1,569  | 5,324 | 16,941 | —                           | 16,941                                                                     |
| (2) Intersegment sales or transfers | 3,043               | 80            | 15     | 65    | 3,204  | (3,204)                     | —                                                                          |
| Total                               | 11,723              | 1,448         | 1,585  | 5,389 | 20,146 | (3,204)                     | 16,941                                                                     |
| Segment profit (loss)               | 182                 | (235)         | 16     | 309   | 273    | 239                         | 513                                                                        |

(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       | 6,800 | 1,370         | 1,745  | 6,932                  | 4,863      | 92            | 16,941 |
| Composition (%) | 40.1  | 8.1           | 10.3   | 40.9                   | 28.7       | 0.6           | 100.0  |

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

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

(1) North America: United States

(2) Europe: France, Germany, Italy

(3) Asia: China, Taiwan, South Korea

### 3. Information related to impairment losses on non-current assets, goodwill and other for each reportable segment

(Important impairment losses related to non-current assets)

(Millions of yen, rounded down)

|                 | Japan | United States | Europe | Asia | Total |
|-----------------|-------|---------------|--------|------|-------|
| Impairment loss | 290   | —             | —      | —    | 290   |

In the Japan segment, sales plans for some manufacturing facilities related to the porous carbon business were expected to undercut initial forecasts, the utilization rate fell sharply due to the drop in production volumes, and the recoverable amount undercut the book value. As a result, the Company recognized an impairment loss.

(Additional information)

(Effects of Changes in Corporate Tax Rates)

The “Law for Partial Revision of Income Tax Law” (Article 15, 2016) and the “Law for Partial Revision of Local Tax Law, etc.” (Article 13, 2016) went into effect on March 31, 2016, resulting in a reduction in corporate tax rates from fiscal years beginning on or after April 1, 2016.

This change has a minimal impact.

(Significant subsequent events)

(Impairment loss)

At the Board of Directors meeting held on August 9, 2016, the Company decided to consolidate the Company’s sales offices to raise efficiency and streamline operations, and will accordingly close the Tsukuba sales office and the Shizuoka sales office.

As a result, the Company expects to post an 85 million yen extraordinary loss in the third quarter of this consolidated fiscal year.

## 4. Supplementary Information

### (1) Orders and sales by product category

#### i. Orders

(Millions of yen, rounded down)

| Products                                                             | Year ended December 31, 2015 |       |        |       |       |                   | Year ending December 31, 2016 |       |        |
|----------------------------------------------------------------------|------------------------------|-------|--------|-------|-------|-------------------|-------------------------------|-------|--------|
|                                                                      | 1Q                           | 2Q    | 1H     | 3Q    | 4Q    | Fiscal year total | 1Q                            | 2Q    | 1H     |
| Special graphite products                                            | 3,942                        | 3,757 | 7,699  | 3,466 | 3,498 | 14,664            | 3,710                         | 3,035 | 6,746  |
| Carbon products for general industries (for mechanical applications) | 815                          | 841   | 1,657  | 636   | 660   | 2,953             | 806                           | 756   | 1,562  |
| Carbon products for general industries (for electrical applications) | 1,427                        | 1,430 | 2,857  | 1,326 | 1,344 | 5,528             | 1,223                         | 1,064 | 2,288  |
| Compound materials and other products                                | 2,645                        | 3,019 | 5,665  | 2,201 | 2,735 | 10,602            | 2,106                         | 2,236 | 4,342  |
| Total                                                                | 8,831                        | 9,048 | 17,879 | 7,630 | 8,238 | 33,748            | 7,846                         | 7,092 | 14,939 |

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

(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 3,206 million yen attributable to such orders.



iii. Sales performance by product category

(Millions of yen, rounded down)

| Products                                                             | Year ended December 31, 2015 |       |        |       |       |                   | Year ending December 31, 2016 |       |        |
|----------------------------------------------------------------------|------------------------------|-------|--------|-------|-------|-------------------|-------------------------------|-------|--------|
|                                                                      | 1Q                           | 2Q    | 1H     | 3Q    | 4Q    | Fiscal year total | 1Q                            | 2Q    | 1H     |
| Special graphite products                                            | 3,699                        | 4,413 | 8,112  | 3,679 | 3,759 | 15,551            | 3,996                         | 3,631 | 7,627  |
| [Electronics applications]                                           | 1,241                        | 1,514 | 2,755  | 1,066 | 1,216 | 5,038             | 1,574                         | 1,291 | 2,866  |
| [General industries applications]                                    | 2,021                        | 2,439 | 4,460  | 2,167 | 2,136 | 8,765             | 1,981                         | 1,955 | 3,936  |
| [Others]                                                             | 436                          | 459   | 896    | 444   | 406   | 1,747             | 440                           | 383   | 824    |
| Carbon products for general industries (for mechanical applications) | 818                          | 813   | 1,631  | 699   | 702   | 3,033             | 791                           | 766   | 1,557  |
| Carbon products for general industries (for electrical applications) | 1,283                        | 1,404 | 2,687  | 1,374 | 1,317 | 5,380             | 1,291                         | 1,219 | 2,511  |
| Compound materials and other products                                | 2,295                        | 2,436 | 4,732  | 2,609 | 2,844 | 10,186            | 2,458                         | 2,261 | 4,719  |
| [3 major products]                                                   | 1,992                        | 2,128 | 4,120  | 2,285 | 2,468 | 8,874             | 2,162                         | 1,960 | 4,123  |
| [Other products]                                                     | 302                          | 308   | 611    | 324   | 376   | 1,312             | 295                           | 300   | 596    |
| Related goods                                                        | 350                          | 159   | 509    | 311   | 586   | 1,407             | 247                           | 278   | 525    |
| Total                                                                | 8,446                        | 9,227 | 17,673 | 8,674 | 9,210 | 35,558            | 8,785                         | 8,156 | 16,941 |

**(2) Overview**

**Special graphite products**

In electronics applications, performance slightly exceeded that in the same period of the previous fiscal year, mainly due to solid demand for solar cell applications resulting from facility upgrades in China.

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

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

**Carbon products for general industries**

Despite solid sales of pantograph sliders, sales of carbon products for mechanical applications fell slightly year on year mainly due to low demand for bearings.

Sales of carbon products for electrical applications undercut those in the same period of the previous fiscal year mainly due to the weak performance of electrical power tool applications, offsetting flat demand for cleaner applications.

**Compound materials and other products**

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