

Toyo Tanso Co., Ltd.

Results for the Fiscal Year Ended December 31, 2016

February 2017
Toyo Tanso Co., Ltd.

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Toyo Tanso Co., Ltd.

Results for the Fiscal Year Ended December 31, 2016

Part 1. Summary of Consolidated Results

Point 1

Net sales were down 3,090 million yen over the previous year due to decreases attributable to the strong yen, order adjustments prioritizing profitability, and the impact of sluggish market conditions for some products. However, net sales were generally in line with forecasts.

Point 2

Despite improvements in marginal profit ratio and reductions in fixed costs, operating income fell by 140 million yen over the previous year due to the impact of exchange rates, structural reform costs, and the unexpected posting of 150 million yen in provision of allowance for doubtful accounts. Although the Company posted share of profit of entities accounted for using the equity method, ordinary income was down by 160 million yen over the previous year due to the posting of foreign exchange losses. However, the weaker yen reduced the amount of foreign exchange losses posted, and ordinary income came in at 260 million yen above forecast.

Point 3

The Company posted 780 million yen in subsidy income, but recorded 460 million yen in impairment losses and 280 million yen in income taxes deferred due to the reversal of deferred tax assets. As a result, profit attributable to owners of parent fell by 120 million yen over the previous year and was 70 million short of forecast.

Point 4

Beginning this fiscal year, the Company is shifting to a business structure that can steadily generate profits and is carrying out business structure reforms with the aim of establishing a foundation for future growth. We will decisively continue with reforms without exceptions to achieve goals for the fiscal year ending December 31, 2018.

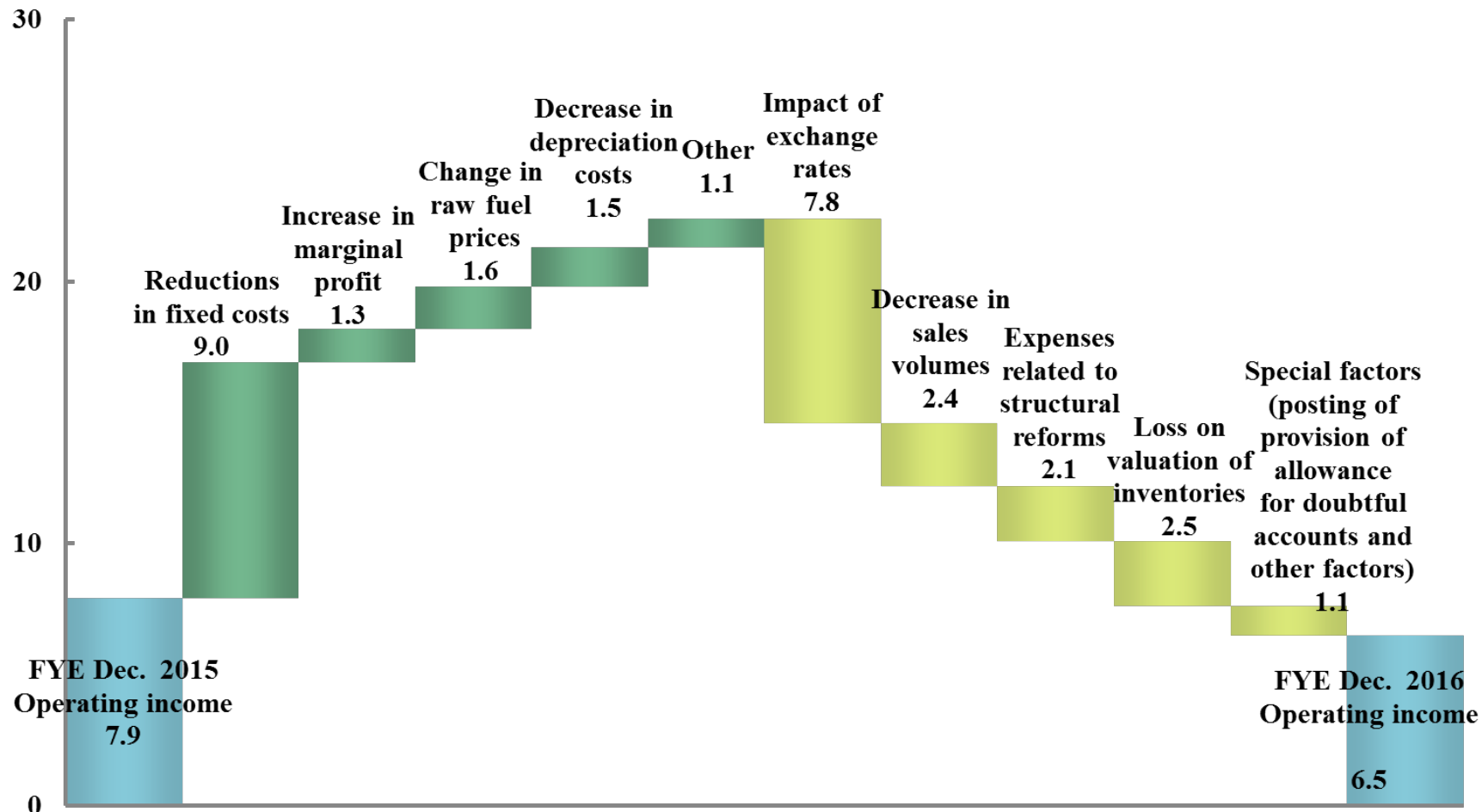
Part 1. 2. Results for the Fiscal Year Ended December 31, 2016 and Forecasts for the Fiscal Year Ending December 31, 2017

	FYE Dec. 2015	FYE Dec. 2016		FYE Dec. 2017 (forecast)		
		Year-on-year change		Breakdown		Year-on-year change
(Unit: Yen, millions)						
Net sales	35,558	32,464	(3,093) / (8.7) %	31,000	H1 result 15,000 H2 forecast 16,000	(1,464) / (4.5) %
Operating income	790	652	(137) / (17.4) %	1,500	H1 result 600 H2 forecast 900	847 / 129.8 %
(Ratio of operating income to net sales)	2.2%	2.0%		4.8%		
Ordinary income	917	759	(158) / (17.3) %	1,600	H1 result 650 H2 forecast 950	840 / 110.8 %
(Ratio of ordinary income to net sales)	2.6%	2.3%		5.2%		
Profit attributable to owners of parent	402	284	(118) / (29.4) %	1,500	H1 result 750 H2 forecast 750	1,215 / 427.8 %
Profit attributable to owners of parent per share (basic)	19.40 yen	13.71 yen		72.35 yen	H1 result 36.17 yen H2 forecast 36.18 yen	
Exchange rate	121.1 yen/\$ 134.3 yen/€ 19.2 yen/CNY	108.9 yen/\$ 120.4 yen/€ 16.4 yen/CNY		105 yen/\$ 115 yen/€ 15.0 yen/CNY	*The final delivery date for the Chinese high-temperature reactor-pebble-bed modules (HTR-PM) has not been finalized, and thus this amount is not included in the earnings forecast for the Fiscal Year Ending December 31, 2017.	

Part 1. 3. Factors Affecting Changes in Operating Income

(Results for the year ended December 31, 2015 vs. results for the year ended December 31, 2016)

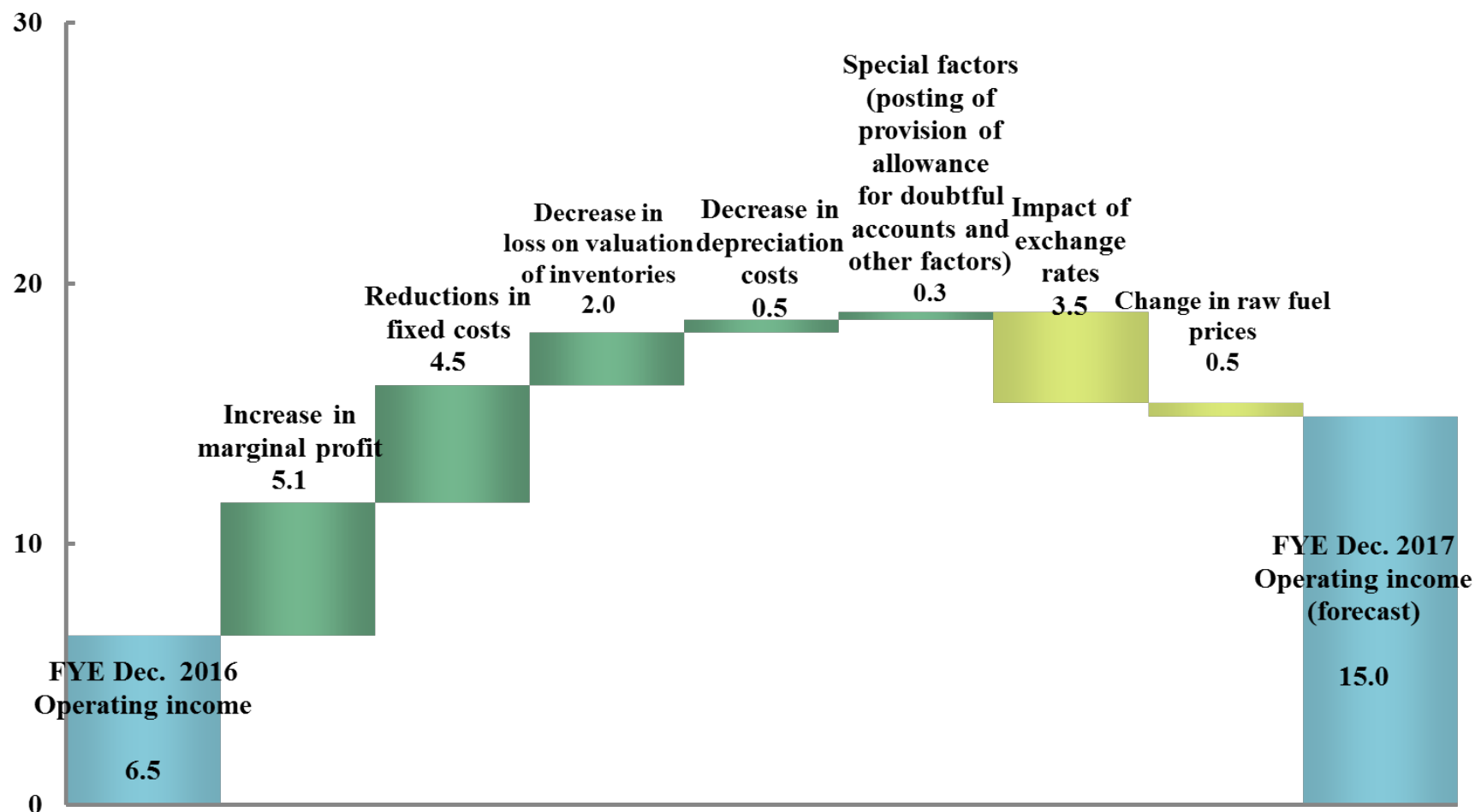
(Unit: Yen, 100 millions)



Part 1. 3. Factors Affecting Changes in Operating Income

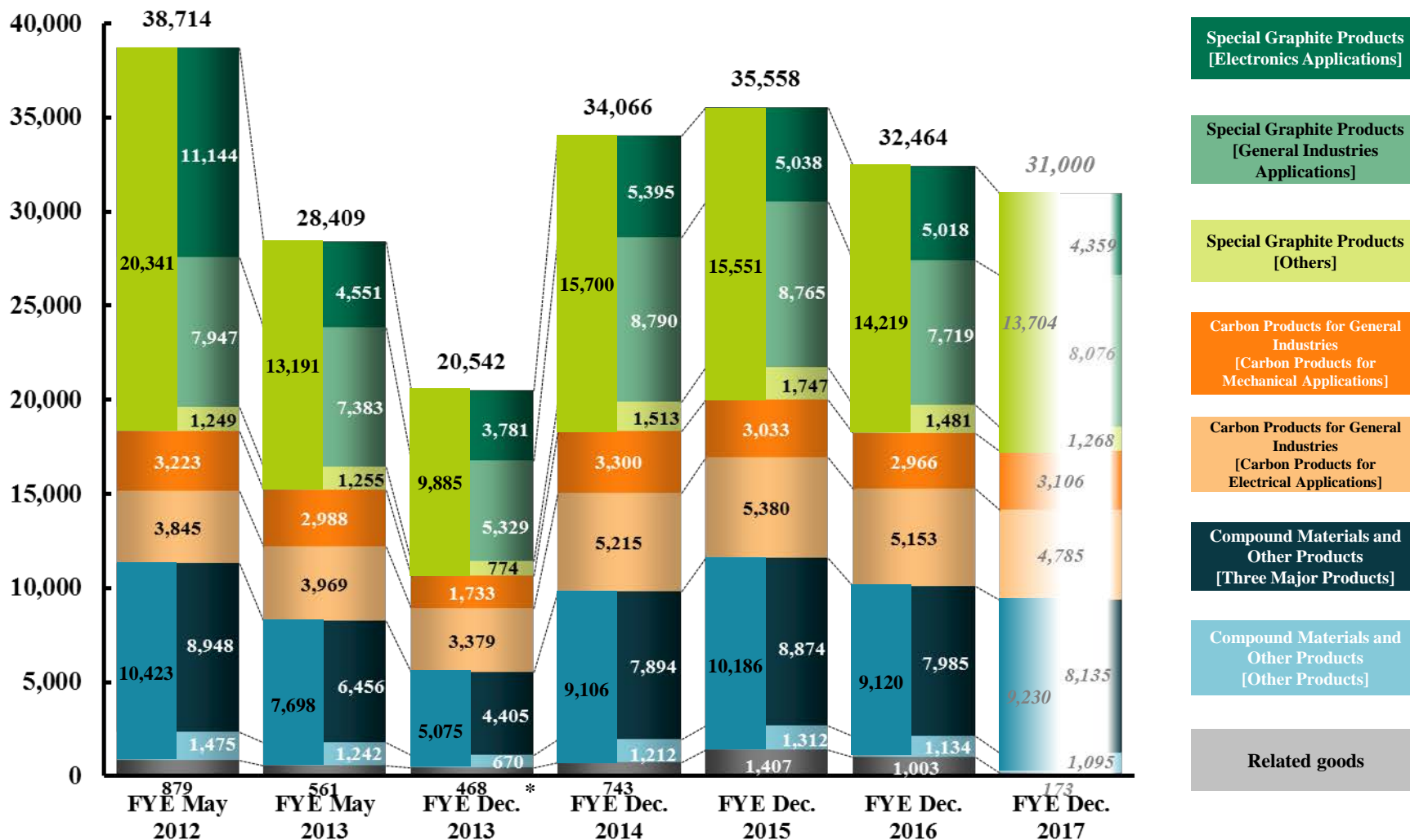
(Results for the year ended December 31, 2016 vs. forecast for the year ending December 31, 2017)

(Unit: Yen, 100 millions)



Part 1. 4. Net Sales by Product and Segment (full year)

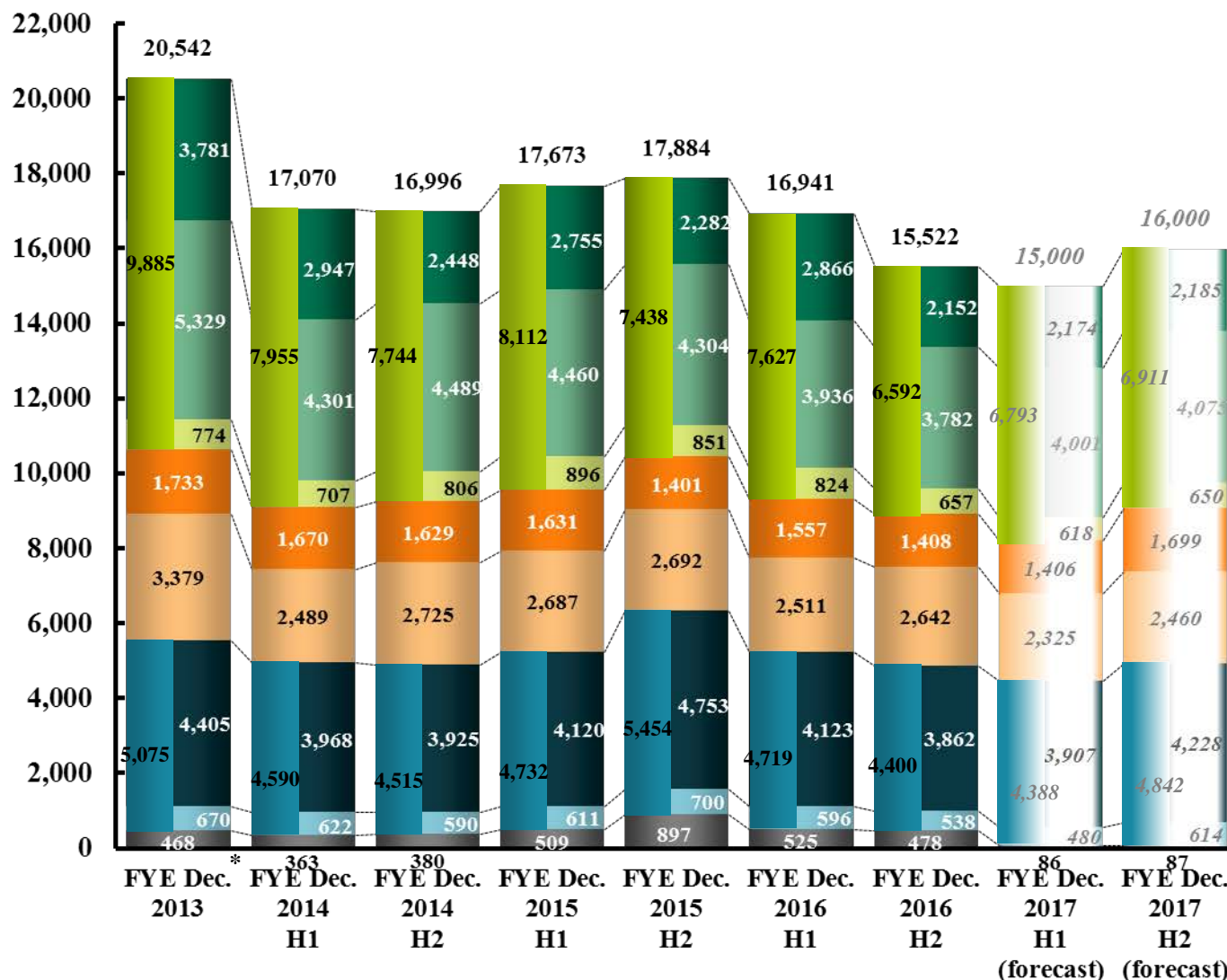
(Unit: Yen, millions)



* The final day of the fiscal period was changed from May 31 to December 31 as of the fiscal year ended December 31, 2013. (forecast)
For this reason, the fiscal year ended December 31, 2013 was an irregular seven-month fiscal period (nine months for some subsidiaries).

Part 1. 4. Net Sales by Product and Segment (six-month period)

(Unit: Yen, millions)



* The final day of the fiscal period was changed from May 31 to December 31 as of the fiscal year ended December 31, 2013. For this reason, the fiscal year ended December 31, 2013 was an irregular seven-month fiscal period (nine months for some subsidiaries).

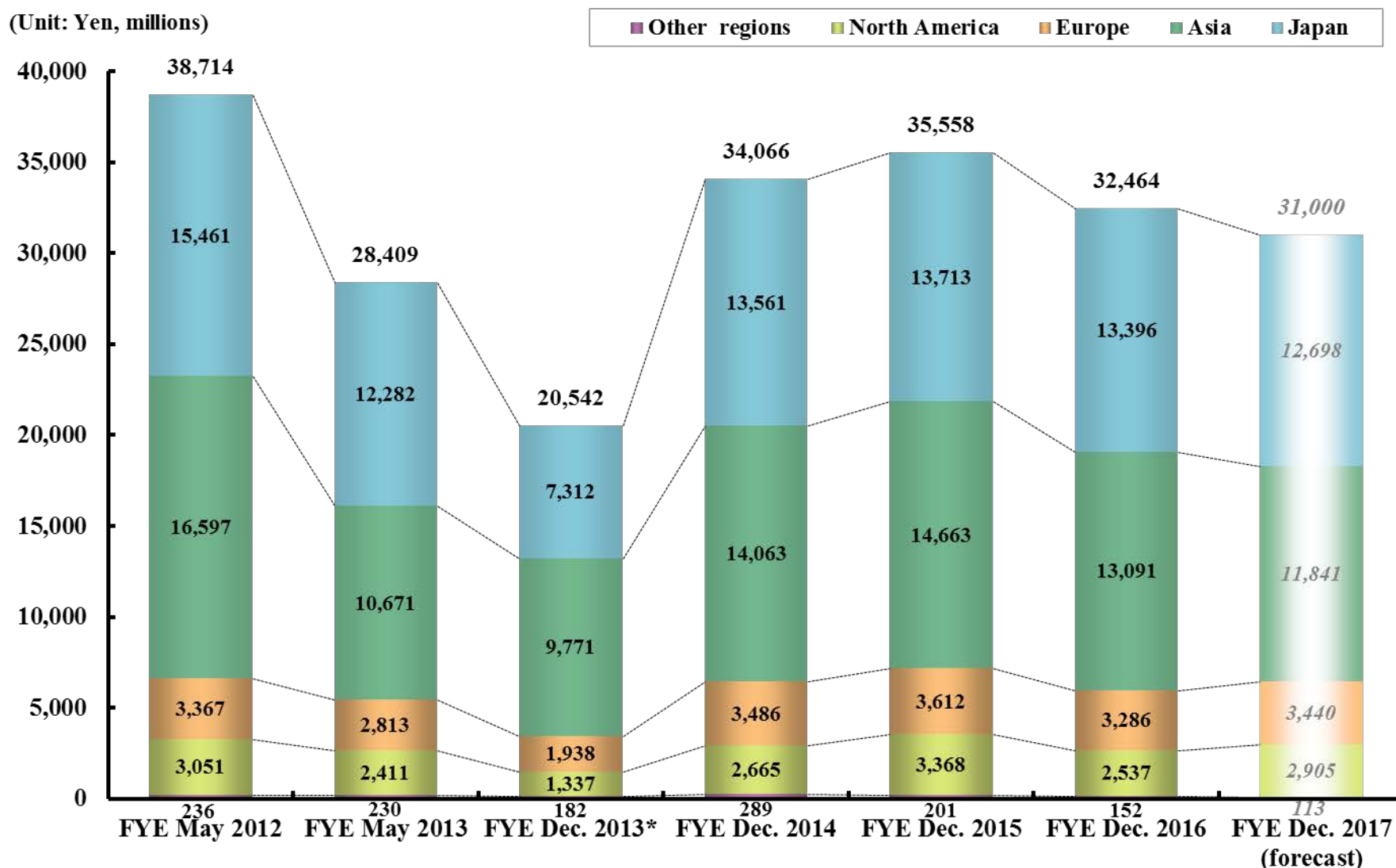
Part 1. 4. Net Sales by Product and Segment

Key Points for Primary Products and Segments

Primary products and segments		Points
Special Graphite Products	[Electronics Applications]	<p>✓ Applications for the manufacture of solar cells: Despite ongoing price competition in China, demand for facility upgrades in the first half of the fiscal year under review contributed to full-year sales, which were in line with the previous fiscal year. The Company worked to restore prices and narrow down orders to ensure profitability.</p> <p>✓ Applications for single-crystal silicon manufacturing: Although customer utilization rates are rising, sales are sluggish due to long life of graphite products. The Company will continue to improve profitability of low-profit projects.</p>
	[General Industries Applications]	<p>✓ Demand is weak for both EDM electrodes and metallurgical applications (products for continuous casting and industrial furnaces, etc.). New bases were established in Indonesia and Mexico and customers cultivated primarily for auto and metallurgical applications. We expect a modest recovery in the fiscal year ending December 31, 2017.</p>
Carbon Products for General Industries [Carbon Products for Mechanical Applications]		<p>✓ Although demand for pantograph sliders was solid, demand was low for bearings. The Company focused on reinforcing molding and impregnation technology.</p>
Carbon Products for General Industries [Carbon Products for Electrical Applications]		<p>✓ Performance in both Asia and Europe was sluggish. Global manufacturing and sales chains were optimized.</p>
Compound Materials and Other Products	[Three Major Products]	<p>✓ SiC-coated graphite products: Boast a higher share of market for applications for compound semiconductors such as LEDs. Raising quality and improving yield are urgent issues due to a higher level of demands from customers. Utilization rate for Si-Epi remains high, particularly for domestic customers.</p> <p>✓ C/C composite products: Semiconductor applications performed well. Sales increased for industrial furnaces as well due to demand to replace other materials, but sales for solar cell applications were weak.</p> <p>✓ Graphite sheet products: Electronics-related products and auto-related products were both stable.</p>

Part 1. 5. Net Sales by Region

(Unit: Yen, millions)

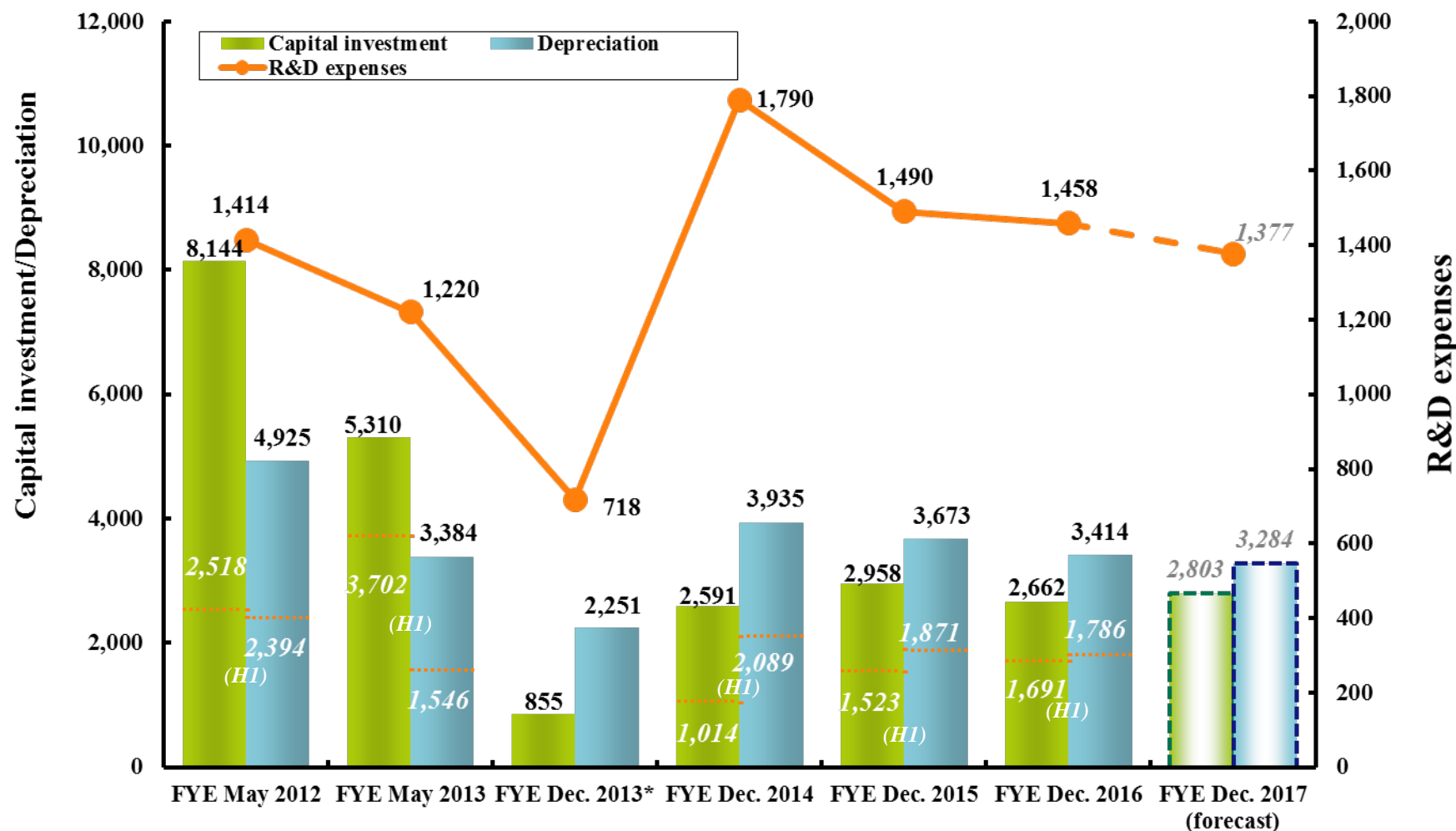


* The final day of the fiscal period was changed from May 31 to December 31 as of the fiscal year ended December 31, 2013.
For this reason, the fiscal year ended December 31, 2013 was an irregular seven-month fiscal period (nine months for some subsidiaries).

Part 1. 6. Capital Investment, Depreciation, and R&D Expenses

(Unit: Yen, millions)

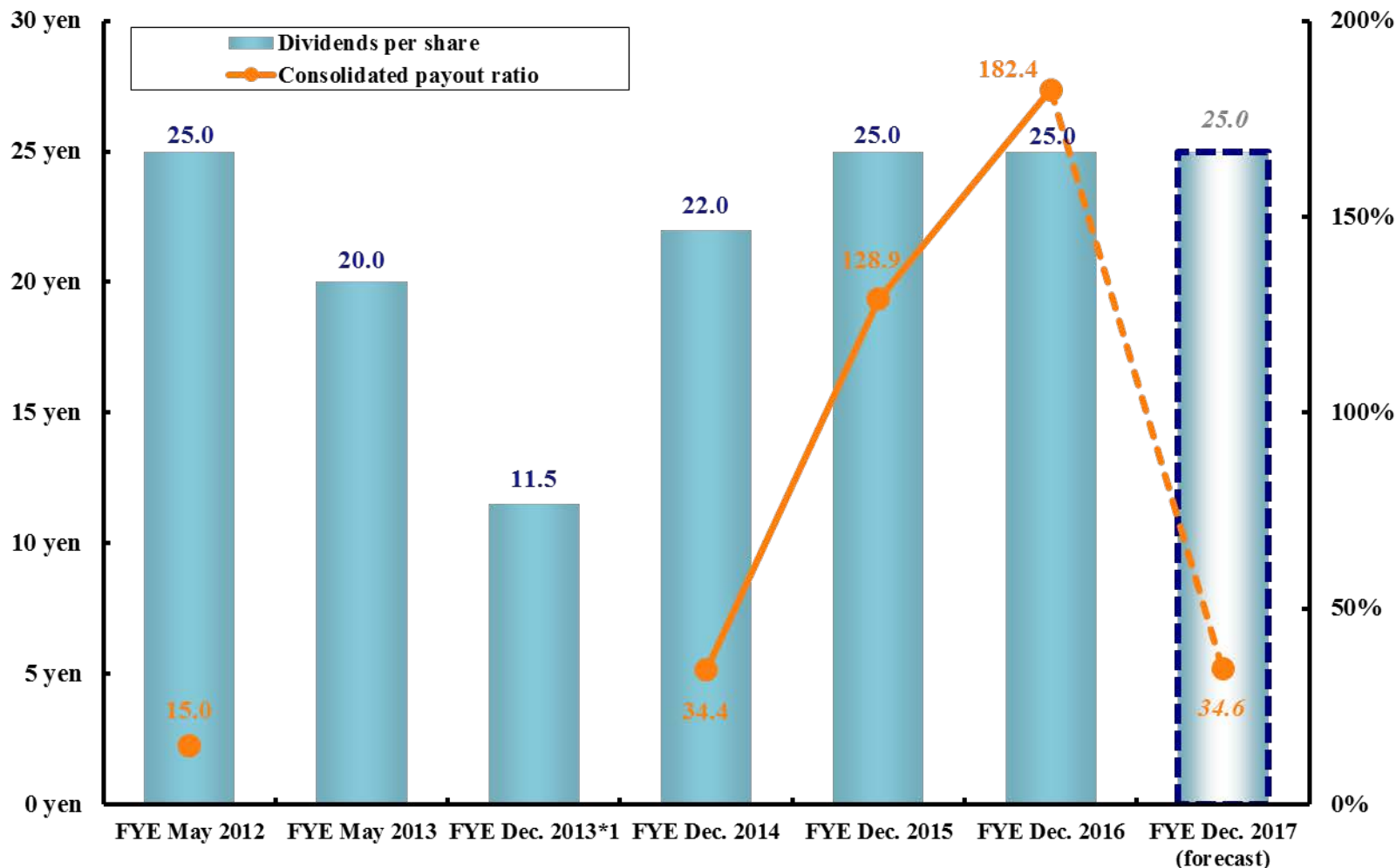
(Unit: Yen, millions)



Part 1. 7. Dividend

Dividend

Payout ratio



*1 The final day of the fiscal period was changed from May 31 to December 31 as of the fiscal year ended December 31, 2013. For this reason, the fiscal year ended December 31, 2013 was an irregular seven-month fiscal period (nine months for some subsidiaries).

2. Since net income was negative in the fiscal year ended May 31, 2013 and the fiscal year ended December 31, 2013, information on consolidated payout ratio is excluded here.

Part 1. 8. Consolidated Balance Sheet and Consolidated Statement of Cash Flows for the Fiscal Year Ended December 31, 2016

Consolidated Balance Sheet	(Unit: Yen, millions)		Consolidated Statement of Cash Flows	(Unit: Yen, millions)	
	December 31, 2015	December 31, 2016		FYE Dec. 2015	FYE Dec. 2016
Total assets	72,990	69,797	Cash and cash equivalents at end of period	7,147	6,424
Notes and accounts receivable - trade	13,047	12,083	Net increase (decrease) in cash and cash equivalents	(1,914)	(722)
Inventories	17,008	16,131	Cash and cash equivalents at beginning of period	9,061	7,147
Property, plant and equipment	27,016	25,421	Net cash provided by (used in) operating activities	6,797	5,120
Total liabilities and net assets	72,990	69,797	Net cash provided by (used in) investing activities	(5,235)	(4,127)
Interest-bearing liabilities	2,669	1,965	Net cash provided by (used in) financing activities	(3,167)	(1,270)
Capital stock	7,692	7,692			
Net assets	59,487	58,182			
Equity ratio	79.6%	81.4%			

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Part 2. Progress of Business Structure Reforms

Part 2. 1. Progress with Numerical Targets

Numerical targets for consolidated earnings resulting from business structure reforms (fiscal year ending December 31, 2018)

-Levels that can be achieved regardless of the future business environment-

Marginal profit ratio
3-point improvement
(compared to fiscal year ended December 31, 2015)

Fixed costs Decrease of 2.0 billion yen
(compared to fiscal year ended December 31, 2015)

➤The Company is currently taking measures to achieve targets; progress is in line with the forecasts for the fiscal year under review. However, these measures were started in the current fiscal year, and real results will not be visible until the next fiscal year and thereafter.

Operating income
3.0 billion yen

Profit attributable to owners of parent
2.0 billion yen

(1) Focus resources on select businesses

- Orders are currently being adjusted with an emphasis on profitability (impact on net sales amounted to several hundred million yen in the fiscal year ended December 31, 2016)
- Negotiations currently underway to restore prices

(2) Optimize organization

- Reorganization and consolidation of headquarters' General Administration Division and indirect departments at plants (April 2016)
- By setting up Technical Development Division, strengthen development from a long-term perspective and consolidated management of new business development (July)
- Carry out optimal marketing activities globally in each product segment and sales region by establishing Global Sales Division (July)
- Decision to close domestic sales offices (Tsukuba, Shizuoka; in December)
- Closure of subsidiary in India (process underway in line with local laws and regulations)
- Plans to dissolve joint venture agreement with Chinese subsidiary (2017)
- Overseas bases to be consolidated are currently being selected.

(3) Optimize staffing

- (Japan) No longer hire employees with indefinite terms; curb new and ongoing use of temporary employees
- (Overseas) Personnel structure is currently being reviewed at overseas bases
- A reduction of 106 employees over the previous year due to aforementioned measures

(4) Strengthen business management

- Set standards for deciding whether to continue or pull out of a business with an emphasis on capital profitability, and begin using standards
⇒ Based on these standards, it was decided to close a subsidiary in India and dissolve a joint venture agreement with a subsidiary in China
Multiple other businesses and bases are under consideration
- Appoint new supervising officers and chief executive officer at US subsidiary
Strengthen governance and functions through management and execution by corporate headquarter
- Plans to appoint supervising officer for each primary function; in conjunction with this, functional management of overall Group will be strengthened further, and efforts made to strengthen and improve efficiency of management (March 2017)
- Plans to establish a Governance Committee (February)

US operations; in addition to above four priority measures

- Close plant (east coast) and consolidate business bases in US headquarters (west coast) (March 2016)
- Reduce personnel (about 20 employees)
- Revenue in the fiscal year ending December 31, 2017 is expected to break even

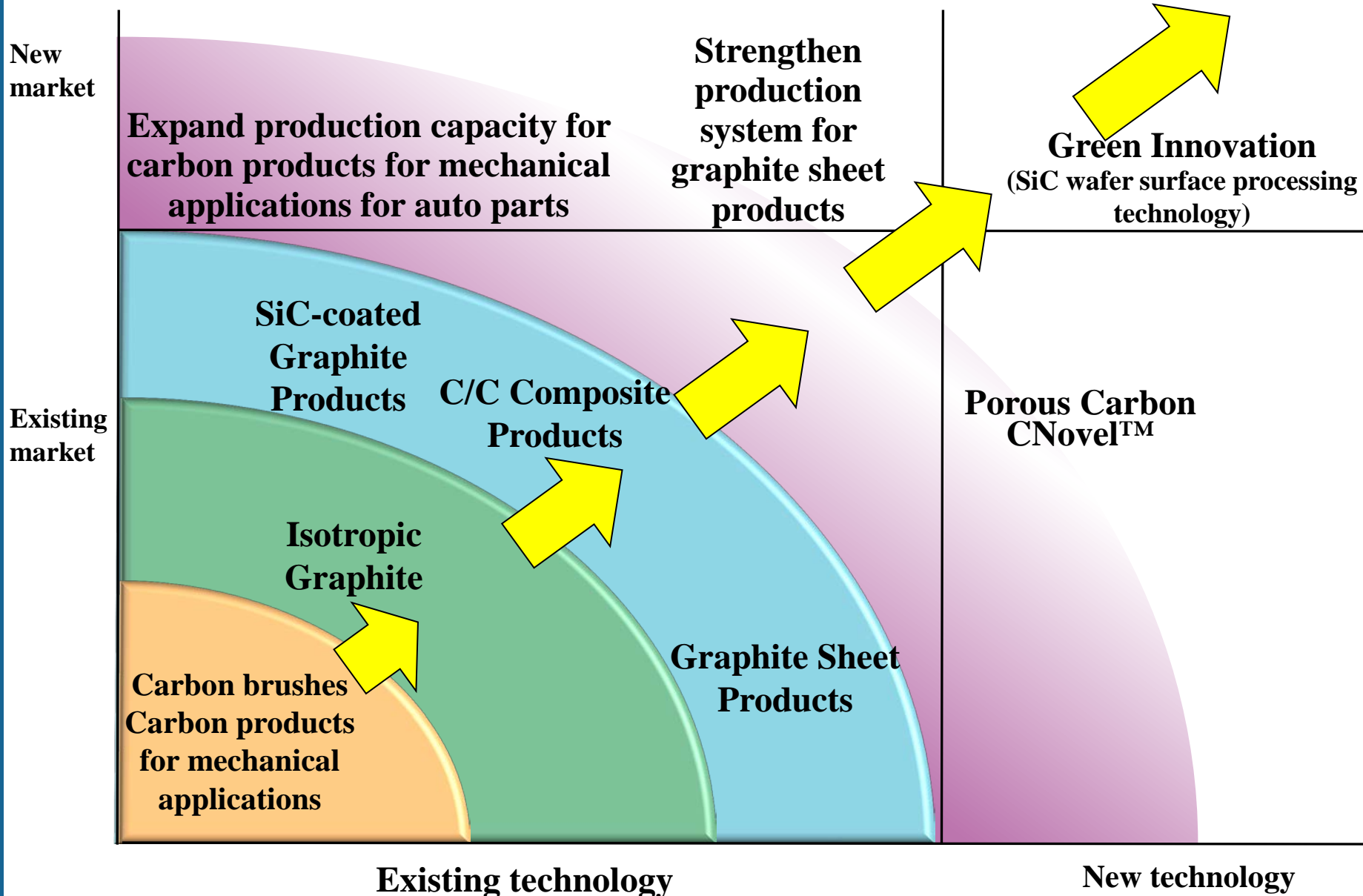
Expand production capacity for carbon products for mechanical applications

- Location: German subsidiary (GTD GRAPHIT TECHNOLOGIE GMBH in Langgöns)
- Date: Started in August 2016, to be completed in July 2017
- Investment: 1,176 million yen (of which 219 million yen was invested in fiscal year ended December 31, 2016 and 957 million yen will be invested in fiscal year ending December 31, 2017)
- Augment production capacity to expand sales of carbon products for mechanical applications for auto parts

Strengthen production system for graphite sheet products

- Location: Takuma Division (Kagawa Prefecture)
- Time: Started in February 2017, to be completed in December 2018
- Investment amount: 647 million yen (tentative)
- Strengthen stable supply system for existing applications (semiconductor applications, metallurgical applications, auto applications, etc.)
Expand into new markets (electrochemistry, life sciences, etc.) in medium term

Part 2. 4. Technology and Market Direction



Toyo Tanso Co., Ltd.

Results for the Fiscal Year Ended December 31, 2016

APPENDIX

Carbon industry

Carbon black

Graphite electrode

Company's business field: Focus on high-performance, high value-added sectors

Special carbon

Special Graphite Products (Isotropic Graphite)

Heat-Technology Material Division

- Electronics Applications
- General Industries Applications
- Others

- Excess supply capacity in industry
- Heightened price competition
- Deterioration in revenue structure
- Emergence of local manufacturers in China in solar cell market

Carbon Products for General Industries

Tribology Division

- Carbon Products for Mechanical Applications
- Carbon Products for Electrical Applications

- Relatively stable revenue structure

Compound Materials and Other Products

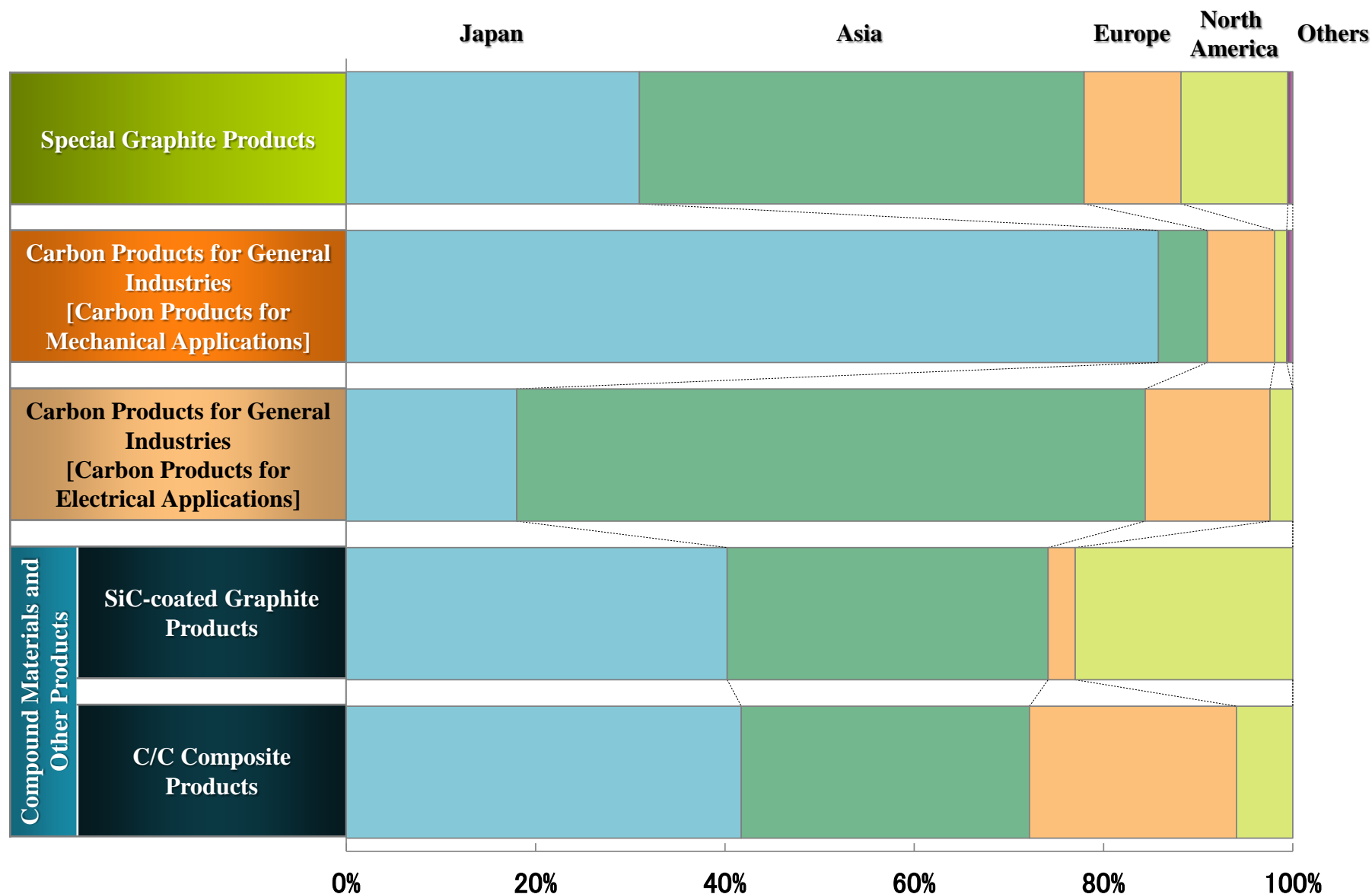
Heat-Technology Material Division

Performance Chemicals Division

- SiC-coated Graphite Products
- C/C Composite Products
- Graphite Sheet Products

- High value-added products
- Initiatives to create new materials through combinations with different materials

		Electronics field			Machines for general industries field	Transportation equipment field	Electrical field	Advanced technology field
		Solar cells	Semiconductors	LEDs				
Business Environment, Company's Conditions		Price competition	Longer life	Pursuit of high quality		Reinforcement of global expansion		Reinforcement of global expansion
Special Graphite Products		◎	◎	○	◎ Price competition Demand for quick delivery			○
Carbon Products for General Industries [Carbon Products for Mechanical Applications]					◎	◎	○	
Carbon Products for General Industries [Carbon Products for Electrical Applications]						◎	◎	
Compound Materials and Other Products [Three Major Products]	SiC-coated Graphite Products	○	◎	◎				
	C/C Composite Products	◎	◎		◎ Demand for replacement of other materials			○
	Graphite Sheet Products	○	◎		○	◎		
Newly Developed Products	Porous Carbon CNovel™							○
	Green Innovation		○ For next-generation semiconductors					





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 conditions indicated in these forward-looking statements.

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