

November 13, 2017

## Consolidated Financial Results for the Nine Months Ended September 30, 2017 [Japanese GAAP]

Listed company name:	<b>Toyo Tanso Co., Ltd.</b>
Stock exchange listing:	Tokyo Stock Exchange, 1st Section
Stock code:	5310
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Website:	<a href="http://www.toyotanso.co.jp">http://www.toyotanso.co.jp</a>
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Scheduled date for submission of quarterly report:	November 14, 2017
Scheduled date for dividend payment:	-
Supplementary materials for quarterly financial summaries:	No
Quarterly financial results briefing:	No

### 1. Consolidated financial results for the nine months ended September 30, 2017

(From January 1, 2017 to September 30, 2017)

**(1) Operating results** (cumulative total)

(Millions of yen, rounded down)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		%		%		%		%
Nine months ended September 30, 2017	25,693	4.6	2,487	244.6	2,423	422.6	1,979	853.0
Nine months ended September 30, 2016	24,555	(6.8)	721	10.6	463	(39.9)	207	(62.9)

(Note): Comprehensive income:  
 Nine months ended September 30, 2017 2,012 million yen; (-%)  
 Nine months ended September 30, 2016 (2,556) million yen; (-%)

	Profit attributable to owners of parent per share (basic)	Profit attributable to owners of parent per share (diluted)
	yen	yen
Nine months ended September 30, 2017	95.43	95.29
Nine months ended September 30, 2016	10.02	-

**(2) Financial position**

(Millions of yen, rounded down)

	Total assets	Net assets	Equity ratio
			%
As of September 30, 2017	71,932	59,365	81.4
As of December 31, 2016	69,797	58,182	81.4
<b>(Reference): Shareholders' equity</b>			
September 30, 2017		58,522 million yen	
December 31, 2016		56,831 million yen	

**2. Dividends**

	Dividends per share (yen)				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total (Full year)
Year ended December 31, 2016	-	0.00	-	25.00	25.00
Year ending December 31, 2017 (Actual)	-	0.00	-		
Year ending December 31, 2017 (Forecast)				30.00	30.00

(Note) Revisions of projected dividends most recently announced: Yes

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

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

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
		%		%		%		%	yen
Fiscal year ending December 31, 2017	34,500	6.3	3,300	405.6	3,300	334.7	2,500	779.7	120.49

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

Please refer to "Notification of Revisions to Consolidated Earnings Forecasts and Dividend Forecasts" released on November 13, 2017, 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 8 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.: None

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

3) Changes in accounting estimates: None

4) Restatements: None

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

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

As of September 30, 2017 20,777,588 shares

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

2) Number of treasury stock at the end of period

As of September 30, 2017 17,169 shares

As of December 31, 2016 17,169 shares

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

Nine months ended September 30, 2017 20,745,389 shares

Nine months ended September 30, 2016 20,733,519 shares

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

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

(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.

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

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

During the first three quarters of the consolidated fiscal year under review, the US economy continued to expand on the back of an increase in personal consumption and capital spending, while Europe continued to experience a gradual recovery, despite weaknesses in some sectors due to the UK's exit from the EU and uncertainty over policies. Emerging economies such as China recovered overall. The Japanese economy also made a gradual recovery, with improvements in corporate earnings and employment conditions attributable to economic measures taken by the government.

In this environment, conditions in the solar cell market were strong as a result of an increase in foreign demand, particularly in China. In addition, demand in the semiconductor market remained solid due to growing demand, with steady performances in the markets for LED applications, general industries applications, and carbon brushes.

The business environment surrounding the Group remains harsh as a result of heightened competition with other companies. However, the Group is achieving solid results by steadily meeting demand, and also by taking on various business structural reform measures with a sense of urgency, such as cutting fixed costs and consolidating bases.

As a result, in the nine months of the consolidated fiscal year under review, net sales rose 4.6% year on year to 25,693 million yen. On the income side, operating income rose 244.6% to 2,487 million yen, ordinary income rose 422.6% to 2,423 million yen, and profit attributable to owners of parent stood at 1,979 million yen, up 853.0% year on year.

The overall performance of each business segment was as follows.

#### **Japan**

Sales of LED applications and semiconductor applications were strong, and other categories were also solid. This, coupled with the results of efforts to improve profitability, led to a 4.0% increase year on year in net sales to 13,295 million yen, and a 591.1% increase year on year in operating income to 1,663 million yen.

#### **United States**

Sales of LED applications and semiconductor applications were disappointing, but metallurgical applications were steady, and the Group made efforts to improve revenue. As a result, net sales fell 3.9% year on year to 1,835 million yen, and an operating loss of 124 million yen was posted (compared to a 318 million yen operating loss in the same period of the previous fiscal year).

#### **Europe**

Sales of carbon brush-related products were strong, and metallurgical applications remained steady, but electronics-related applications were weak. As a result, net sales fell 0.7% year on year to 2,204 million yen and an operating loss of 4 million yen was recorded (compared to a 40 million yen operating profit in the same period of the previous fiscal year).

#### **Asia**

Sales for solar cell applications and metallurgical applications were strong, and sales of carbon brush-related products were steady. Efforts to improve profitability also paid off. As a result, net sales rose 9.4% year on year to 8,358 million yen, and operating income increased 66.6% year on year to 784 million yen.

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

Total assets as of September 30, 2017 increased by 2,134 million yen from the end of the previous consolidated fiscal year. This was primarily because, although property, plant and equipment fell by 763 million yen as a result of depreciation posted and inventories decreased by 592 million yen, cash and deposits increased by 2,130 million yen and notes and accounts receivable-trade increased by 1,508 million yen.

Total liabilities increased by 950 million yen from the end of the previous consolidated fiscal year. This was primarily because, although interest-bearing liabilities decreased by 553 million yen, income taxes payable increased by 599 million yen, provision for bonuses increased by 291 million yen, notes and

accounts payable-trade increased by 140 million yen and other current liabilities increased by 524 million yen due to an increase in advance payment received for the contract for the Chinese high-temperature reactor-pebble-bed module project.

Total net assets increased by 1,183 million yen from the end of the previous consolidated fiscal year. This was primarily because retained earnings increased by 1,461 million yen, outweighing the 504 million yen decrease in non-controlling interests resulting from the sale of a consolidated subsidiary.

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

In light of the results in the nine months of the consolidated fiscal year under review, the Company has revised the consolidated earnings forecasts for the fiscal year ending December 31, 2017, released on August 9, 2017.

For details, please refer to the press release entitled “Notification of Revisions to Consolidated Earnings Forecasts and Dividend Forecasts,” released on November 13, 2017.

## 2. Quarterly Consolidated Financial Statements and Important Notes

### (1) Quarterly consolidated balance sheets

(Millions of yen, rounded down)

	As of December 31, 2016	As of September 30, 2017
	Amount	Amount
<b>Assets</b>		
Current assets		
Cash and deposits	12,242	14,372
Notes and accounts receivable–trade	12,083	13,592
Merchandise and finished goods	6,480	5,772
Work in process	7,674	7,641
Raw materials and supplies	1,977	2,124
Other	1,179	1,236
Allowance for doubtful accounts	(275)	(250)
Total current assets	41,362	44,489
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,911	8,717
Machinery, equipment and vehicles, net	9,181	8,187
Land	5,770	5,836
Construction in progress	769	1,191
Other, net	788	724
Total property, plant and equipment	25,421	24,658
Intangible assets	1,011	906
Investments and other assets	2,002	1,877
Total non-current assets	28,435	27,442
<b>Total assets</b>	<b>69,797</b>	<b>71,932</b>

(Millions of yen, rounded down)

	As of December 31, 2016	As of September 30, 2017
	Amount	Amount
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable–trade	1,931	2,072
Electronically recorded obligations–operating	1,000	1,027
Short-term loans payable	1,477	1,037
Accounts payable–other	1,440	1,342
Income taxes payable	95	694
Provision for bonuses	348	639
Other	3,854	4,379
Total current liabilities	10,148	11,194
Non-current liabilities		
Long-term loans payable	487	374
Net defined benefit liability	138	144
Asset retirement obligations	264	266
Other	576	587
Total non-current liabilities	1,466	1,372
<b>Total liabilities</b>	11,615	12,566
<b>Net assets</b>		
Shareholders' equity		
Capital stock	7,692	7,715
Capital surplus	9,534	9,557
Retained earnings	38,034	39,495
Treasury shares	(59)	(59)
Total shareholders' equity	55,201	56,709
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	119	188
Foreign currency translation adjustment	1,613	1,646
Remeasurements of defined benefit plans	(102)	(22)
Total accumulated other comprehensive income	1,629	1,812
Subscription rights to shares	100	98
Non-controlling interests	1,249	745
<b>Total net assets</b>	58,182	59,365
<b>Total liabilities and net assets</b>	69,797	71,932

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

(Quarterly consolidated statement of income)

Nine months ended September 30, 2016 and 2017

(Millions of yen, rounded down)

	Nine months ended September 30, 2016 Amount	Nine months ended September 30, 2017 Amount
Net sales	24,555	25,693
Cost of sales	18,489	18,399
Gross profit	6,065	7,293
Selling, general and administrative expenses	5,343	4,806
Operating income	721	2,487
Non-operating income		
Interest income	48	43
Dividend income	25	16
Gain on currency options	133	20
Share of profit of entities accounted for using equity method	84	52
Other	131	128
Total non-operating income	424	261
Non-operating expenses		
Interest expenses	18	19
Foreign exchange losses	619	90
Loss on misappropriation of funds	—	182
Other	44	33
Total non-operating expenses	682	325
Ordinary income	463	2,423
Extraordinary income		
Gain on sales of non-current assets	48	104
Gain on sales of investments in capital of subsidiaries and affiliates	—	87
Subsidy income	739	175
Insurance income	12	—
Gain on reversal of subscription rights to shares	1	0
Total extraordinary income	801	367
Extraordinary losses		
Loss on sales of non-current assets	1	0
Loss on retirement of non-current assets	26	115
Impairment loss	375	—
Total extraordinary losses	404	115
Profit before income taxes	861	2,675
Income taxes	508	590
Profit	352	2,084
Profit attributable to non-controlling interests	145	104
Profit attributable to owners of parent	207	1,979

(Quarterly consolidated statement of comprehensive income)

Nine months ended September 30, 2016 and 2017

(Millions of yen, rounded down)

	Nine months ended September 30, 2016 Amount	Nine months ended September 30, 2017 Amount
<b>Profit</b>	352	2,084
Other comprehensive income		
Valuation difference on available-for-sale securities	(39)	68
Foreign currency translation adjustment	(2,859)	(229)
Remeasurements of defined benefit plans, net of tax	(26)	80
Share of other comprehensive income of entities accounted for using equity method	17	7
Total other comprehensive income	(2,909)	(72)
Comprehensive income	(2,556)	2,012
Comprehensive income attributable to:		
Owners of parent	(2,509)	2,162
Non-controlling interests	(47)	(150)

### **(3) Notes on quarterly consolidated financial statements**

(Notes regarding the premise of a going concern)

Not applicable.

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

Not applicable.

(Changes in important subsidiaries during the nine months of the consolidated fiscal year under review)

Not applicable.

Although this does not pertain to a change in a specified subsidiary, during the second quarter of the consolidated fiscal year the Group sold its investments in consolidated subsidiary Jiayang Toyo Tanso Co., Ltd., and so this company was removed from the scope of consolidation.

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

**Tax expense calculations**

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

(Segment information)

**I. Nine months ended September 30, 2016 (From January 1, 2016 to September 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 (Note) 1	Amount recorded in the consolidated quarterly income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	12,786	1,908	2,220	7,639	24,555	—	24,555
(2) Intersegment sales or transfers	4,438	88	15	91	4,633	(4,633)	—
Total	17,225	1,997	2,235	7,730	29,189	(4,633)	24,555
Segment profit (loss)	240	(318)	40	470	433	288	721

(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	10,003	1,911	2,511	10,006	6,985	121	24,555
Composition (%)	40.7	7.8	10.2	40.8	28.4	0.5	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	375	—	—	—	375

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. The Company also recognized an impairment loss incurred due to the decision to consolidate the Company's sales offices to raise efficiency and streamline operations.

## II. Nine months ended September 30, 2017 (From January 1, 2017 to September 30, 2017)

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

(Millions of yen, rounded down)

	Reportable segments					Adjusted amount (Note) 1	Amount recorded in the consolidated quarterly income statement (Note) 2
	Japan	United States	Europe	Asia	Total		
Net sales							
(1) Sales to unaffiliated customers	13,295	1,835	2,204	8,358	25,693	—	25,693
(2) Intersegment sales or transfers	4,606	48	20	89	4,765	(4,765)	—
Total	17,902	1,883	2,224	8,448	30,459	(4,765)	25,693
Segment profit (loss)	1,663	(124)	(4)	784	2,318	169	2,487

(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	10,382	2,056	2,366	10,761	7,756	127	25,693
Composition (%)	40.4	8.0	9.2	41.9	30.2	0.5	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.

(Additional information)

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

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

### 3. Supplementary Information

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

##### i. Orders

(Millions of yen, rounded down)

Products	Year ended December 31, 2016						Year ending December 31, 2017			
	1Q	2Q	3Q	1Q-3Q	4Q	Fiscal year total	1Q	2Q	3Q	1Q-3Q
Special graphite products	3,710	3,035	2,646	9,392	2,994	12,387	3,306	3,599	4,300	11,206
Carbon products for general industries*2 (for mechanical applications)	806	756	905	2,468	658	3,127	1,320	504	417	2,242
Carbon products for general industries (for electrical applications)	1,223	1,064	1,397	3,685	1,318	5,003	1,235	1,353	1,352	3,940
Compound materials and other products	2,106	2,236	2,172	6,514	2,162	8,676	2,300	2,408	2,771	7,479
Total	7,846	7,092	7,121	22,061	7,133	29,195	8,161	7,865	8,841	24,868

(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. Data for general carbon products (carbon for mechanical applications) includes orders that have not been officially confirmed.

##### ii. Outstanding orders

(Millions of yen, rounded down)

Products	Year ended December 31, 2016				Year ending December 31, 2017		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Special graphite products*2	5,567	5,231	4,755	4,816	4,937	5,041	5,546
Carbon products for general industries*3 (for mechanical applications)	441	459	684	653	1,209	918	551
Carbon products for general industries (for electrical applications)	1,067	886	965	926	876	902	911
Compound materials and other products	1,950	1,917	1,983	1,841	1,987	2,193	2,503
Total	9,026	8,495	8,388	8,237	9,011	9,056	9,513

(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 outstanding 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 3,186 million yen attributable to such orders.

\*3. Data for general carbon products (carbon for mechanical applications) includes orders that have not been officially confirmed.

iii. Sales performance by product category

(Millions of yen, rounded down)

Products	Year ended December 31, 2016						Year ending December 31, 2017			
	1Q	2Q	3Q	1Q-3Q	4Q	Fiscal year total	1Q	2Q	3Q	1Q-3Q
Special graphite products	3,996	3,631	3,361	10,988	3,230	14,219	3,655	3,768	4,168	11,593
[Electronics applications]	1,574	1,291	1,094	3,960	1,058	5,018	1,301	1,327	1,538	4,167
[General industries applications]	1,981	1,955	1,888	5,825	1,893	7,719	1,996	2,083	2,246	6,327
[Others]	440	383	378	1,202	278	1,481	357	357	383	1,097
Carbon products for general industries (for mechanical applications)	791	766	694	2,251	714	2,966	791	822	815	2,430
Carbon products for general industries (for electrical applications)	1,291	1,219	1,284	3,795	1,357	5,153	1,293	1,321	1,348	3,963
Compound materials and other products	2,458	2,261	2,091	6,811	2,309	9,120	2,171	2,209	2,476	6,857
[3 major products]	2,162	1,960	1,843	5,966	2,018	7,985	1,897	1,943	2,193	6,033
[Other products]	295	300	248	844	290	1,134	274	266	283	823
Related goods	247	278	181	707	296	1,003	202	327	319	850
Total	8,785	8,156	7,613	24,555	7,909	32,464	8,115	8,449	9,128	25,693

**(2) Overview**

**Special graphite products**

In electronics applications, demand for solar cell applications and semiconductor applications was strong, and sales exceeded levels in the same period of the previous fiscal year.

In general industries applications, demand for products for EDM electrodes was robust, and demand for industrial furnace applications and products for continuous casting remained solid. Accordingly, sales came in above the previous year.

As a result, sales of special graphite products overall were up from the same period of the previous fiscal year.

**Carbon products for general industries**

Sales of carbon products for mechanical applications surpassed the same period of the previous fiscal year, with strong ongoing demand for mainstay products, such as bearings, seal materials, and pantograph sliders. Carbon products for electrical applications exceeded sales in the same period of the previous fiscal year due to solid demand for small motor applications such as electrical power tools and cleaner applications, but competition with other companies remained harsh.

**Compound materials and other products**

Sales of compound materials and other products overall slightly exceeded levels in the same period of the previous fiscal year, but at present in SiC (silicon carbide)-coated graphite products, LED applications were strong, and in graphite sheet products, demand for metallurgical applications remained solid. In C/C composite products, solar cell applications and semiconductor applications remained solid performers.