

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [Japanese GAAP]

February 9, 2023

Company name: Tokai Carbon Co., Ltd. Listing: Tokyo Stock Exchange Prime Market
 Securities code: 5301 URL: <https://www.tokaicarbon.co.jp/en/>
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 Scheduled date of annual general meeting of shareholders: March 30, 2023
 Scheduled date to commence dividend payments: March 31, 2023
 Scheduled date to file annual securities report: March 30, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (Conference call for analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (January 1 to December 31, 2022)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2022	340,371	31.5	40,588	64.7	42,521	71.7	22,418	39.2
Fiscal year ended December 31, 2021	258,874	28.4	24,647	213.6	24,770	295.5	16,105	-

Note: Comprehensive income: Fiscal year ended December 31, 2022: 56,689 million yen (45.3%)
 Fiscal year ended December 31, 2021: 39,006 million yen (-%)

	Net Income per Share	Net Income per Share Fully Diluted	Return on Equity	Ordinary Income to Total Assets Ratio	Operating Income to Net Sales Ratio
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2022	105.16	-	9.0	7.8	11.9
Fiscal year ended December 31, 2021	75.55	-	7.5	5.1	9.5

Reference: Share of profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2022: 332 million yen
 Fiscal year ended December 31, 2021: 112 million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	576,465	300,868	46.6	1,260.95
As of December 31, 2021	512,503	256,570	44.7	1,075.19

For reference: Shareholders' capital: As of December 31, 2022: 268,827 million yen
 As of December 31, 2021: 229,210 million yen

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended December 31, 2022	41,205	(49,900)	(10,629)	49,377
Fiscal year ended December 31, 2021	38,072	(35,282)	1,211	64,435

2. Dividends

	Annual Dividends					Total amount of dividend (full year)	Dividend payout ratio (consolidated)	Dividends to net assets ratio (consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2021	-	15.00	-	15.00	30.00	6,395	39.7	3.0
Fiscal year ended December 31, 2022	-	15.00	-	15.00	30.00	6,395	28.5	2.6
Fiscal year ending December 31, 2023 (Forecast)	-	18.00	-	18.00	36.00		29.5	

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2023
(January 1 to December 31, 2023)

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	198,000	26.1	20,000	19.6	20,000	2.8	11,000	18.9	51.60
Full year	410,000	20.5	45,000	10.9	45,000	5.8	26,000	16.0	121.95

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries accompanying changes in the scope of consolidation): Yes

Newly included: -

Excluded: 1 company (Tokai Carbon (Tianjin) Co., Ltd.)

(2) Changes in accounting policy and changes and restatements of accounting estimates

(a) Changes in accounting policy accompanying the revision of accounting standards: Yes

(b) Changes in accounting policy other than those listed in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(3) Number of shares issued (common stock)

(a) Number of shares issued at the end of the period (including treasury stock)

As of December 31, 2022	224,943,104 shares	As of December 31, 2021	224,943,104 shares
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(b) Number of treasury stock at the end of the period

As of December 31, 2022	11,748,117 shares	As of December 31, 2021	11,762,569 shares
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(c) Average number of shares during the period

Fiscal year ended December 31, 2022	213,190,636 shares	Fiscal year ended December 31, 2021	213,178,164 shares
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(Reference) Overview of Non-Consolidated Financial Results

Non-Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (January 1 to December 31, 2022)

(1) Operating Results

(Percentages indicate year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2022	74,570	27.2	6,440	320.5	21,230	258.3	18,607	161.1
Fiscal year ended December 31, 2021	58,646	19.9	1,531	202.0	5,926	24.5	7,126	63.9

	Net Income per Share	Net Income per Share Fully Diluted
	Yen	Yen
Fiscal year ended December 31, 2022	87.28	-
Fiscal year ended December 31, 2021	33.43	-

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	336,648	136,901	40.7	642.14
As of December 31, 2021	327,488	123,897	37.8	581.18

Reference: Shareholders' capital: As of December 31, 2022: 136,901 million yen
As of December 31, 2021: 123,897 million yen

* The financial results are not subject to audit by certified public accountants or audit firms.

* Appropriate use of earnings forecasts and other pertinent information

(Cautionary statement on forward-looking statements)

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors.

(How to obtain the supplemental material on quarterly financial results)

Tokai Carbon has scheduled a briefing on financial results in the form of a telephone meeting for analysts and institutional investors on Friday, February 10, 2023. The materials for this briefing will be posted on the corporate website on that day.

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1. Operating Results

(1) Operating Results for the Consolidated Fiscal Year Ended December 31, 2022

The global economy in the current fiscal year (from January 1, 2022 to December 31, 2022) simultaneously experienced a significant slowdown in the pace of economic recovery and an increase in inflation, contrary to expectations at the beginning of the year. Generally speaking, as countries around the world were making progress in balancing anti-infection measures and economic activities, the Russian disruption of supply chains stemming from the invasion of Ukraine, and the ongoing global inflation and resulting monetary tightening have become major downward factors. As a result, uncertainty about the future of the global economy has once again increased.

Under these circumstances, in February 2022, the Tokai Carbon Group, disclosed the rolling medium-term management plan “T-2024”. Based on the three basic policies of “returning core businesses to a path of growth,” “optimizing the business portfolio (selection and concentration)” and “strengthening the consolidated governance structure”, we have aimed to achieve net sales of 356 billion yen, operating income of 57 billion yen, ROS of 16%, and EBITDA of 91 billion yen as quantitative targets by 2024. Focusing on our core businesses of graphite electrodes and carbon black, we are working to secure appropriate profits by passing through the rising costs to selling prices. At the same time, we are expanding our production capacity for the growing future demand.

As a result, net sales for the fiscal year under review increased 31.5% year on year to 340,371 million yen. Operating income increased 64.7% year on year to 40,588 million yen. Ordinary income increased 71.7% year on year to 42,521 million yen. Net income attributable to owners of the parent company increased 39.2% year on year to 22,418 million yen.

Results by business segment were as follows:

Graphite Electrodes

Sales and profit increased due to the recovery in the market price for graphite electrodes, which had been delayed compared with face-to-face industries. Also, the inventory adjustments in the market led a higher sales volume in the period, despite the current concerns of global economy slowdown and the rising energy costs.

As a result, net sales for the Graphite Electrodes business increased 46.8% year on year to 59,630 million yen, while operating income increased significantly to 8,032 million yen (compared with 400 million yen in operating loss for the same period of the previous year).

Carbon Black

Automobile production recovery was behind schedule due to the prolonged shortage of semiconductors, however, demand in replacement tires was strong, particularly for truck and bus applications in North America driving the overall robust carbon black demand. Sales volume dropped due to the sale of China operation, although the revenue and profit increased due to the selling price hike to adjust the increase in raw material oil prices.

As a result, net sales for the Carbon Black business increased 39.2% year on year to 138,484 million yen, while operating income increased 39.8% year on year to 12,282 million yen.

Fine Carbon

In the semiconductor market, some components for manufacturing equipment are slowing down due to a decline in demand for smartphones and PCs and the impact of the U.S. policy toward China. On the other hand, demand for SiC (silicon carbide) semiconductors and other products in the power semiconductor industry steadily increased. Demand for graphite and SiC in this segment was generally robust, and the effects of increased production also emerged. As a result, both sales and profit increased.

As a result, net sales for the Fine Carbon business increased 26.2% year on year to 49,393 million yen, while operating income increased 54.3% year on year to 14,825 million yen.

Smelting & Lining

Sales of aluminum electrolytic furnaces cathodes were strong as smelters in other regions compensated for the suspension of operations and reduced production at European smelters due to rising energy prices. Sales in carbon electrodes also remained strong on the back of strong metallic silicon demand. The impact of the Ukraine crisis, including difficulties in procuring raw materials and rising costs, far exceeded the above-mentioned positive factors, however, efforts were made to maintain profitability by raising prices and increasing production and sales.

As a result, net sales for the Smelting and Lining business increased by 31.2% year on year to 65,203 million yen, while operating income decreased by 30.1% year on year to 1,345 million yen.

Industrial Furnaces and Related Products

Demand for energy-related products remained firm, however, the expected delivery schedule was delayed due to a slowdown in the electronic component-related industries, which are our main customers for industrial furnaces and heating elements.

As a result, net sales for the Industrial Furnaces and Related Products business decreased 9.7% year on year to 16,272 million yen and while operating income decreased 17.1% year on year to 4,475 million yen.

Other Operations

Friction materials

Demand from major applications remained firm, although there were negative factors such as the slowdown in Chinese construction machinery and supply chain disruptions.

As a result, net sales of friction materials increased 5.4% year on year to 9,362 million yen.

Anode materials

Sales decreased year on year due to intensified competition from a rise in new competitors and sluggish sales of EVs using our materials.

As a result, net sales of anode materials decreased 35.1% year on year to 1,888 million yen.

Others

Net sales from real estate leasing and other business increased 0.7% year on year to 136 million yen.

As a result, net sales for Other Operations decreased 4.5% to 11,387 million yen, while operating income increased 47.0% to 1,108 million yen.

(2) Financial Position at the End of the Consolidated Fiscal Year Ended December 31, 2022

(Assets, Liabilities and Net Assets)

(a) Assets

Total assets at the end of the consolidated fiscal year under review came to 576,465 million yen, an increase of 63,962 million yen from the end of the previous consolidated fiscal year.

Current assets amounted to 246,691 million yen, an increase of 31,541 million yen from the end of the previous consolidated fiscal year, mainly due to increase in accounts receivable and inventories. Fixed assets amounted to 329,773 million yen, an increase of 32,420 million yen from the end of the previous consolidated fiscal year, mainly due to increases in tangible fixed assets and investment securities, despite decreases in goodwill and customer-related assets.

(b) Liabilities

Total liabilities at the end of the consolidated fiscal year under review came to 275,596 million yen, an increase of 19,664 million yen from the end of the previous consolidated fiscal year.

Current liabilities amounted to 146,696 million yen, an increase of 16,277 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in short-term loans payable and commercial papers. Long-term liabilities amounted to 128,900 million yen, an increase of 3,386 million yen from the end of the previous consolidated fiscal year, mainly due to an increase in deferred tax liabilities despite a decrease in long-term loans payable.

(c) Net assets

Total net assets at the end of the consolidated fiscal year under review came to 300,868 million yen, an increase of 44,297 million yen from the end of the previous consolidated fiscal year, mainly due to increases in foreign currency translation adjustments and in retained earnings.

As a result, the Group's equity ratio increased 1.9 percentage points year on year to 46.6%.

(3) Cash Flows

At the end of the consolidated fiscal year under review, the Group's cash and cash equivalents totaled 49,377 million yen, a decrease of 15,057 million yen from the previous consolidated fiscal year. Cash flows and the major sources and uses of cash in the consolidated fiscal year under review are summarized as follows.

(a) Cash flows from operating activities

Operating activities provided net cash of 41,205 million yen, an increase of 3,133 million yen from the previous consolidated fiscal year. This was mainly due to an increase in net income before income taxes despite a decrease in revenue due to an increase in inventories.

(b) Cash flows from investing activities

Investing activities used net cash of 49,900 million yen, an increase of 14,618 million yen from the previous consolidated fiscal year. This was mainly due to an increase in purchase of tangible fixed assets.

(c) Cash flows from financing activities

Financing activities provided net cash of 10,600 million yen, a decrease of 11,841 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in payment for repayment of short-term loans payable.

(4) Future Outlook

Aiming to realize our long-term vision for 2030, we have formulated a new rolling medium-term management plan T-2025. Based on the three basic policies of “returning core businesses to a path of growth,” “optimizing the business portfolio (selection and concentration),” and “building a sustainable management foundation,” we aim to achieve 484 billion yen in net sales, 69 billion yen in operating income, and ROS of 14% by 2025.

Carbon neutrality, which cannot be avoided in order to realize a sustainable society, is an extremely important challenge for our company, which makes carbon its living. These goals are difficult to achieve on our own, however, we will work together with our customers and business partners to raise the collective strength of the Group and work with a sense of urgency.

In this operating environment, the Group forecasts consolidated financial results for the consolidated fiscal year ending December 31, 2023 as follows: net sales of 410 billion yen (up 20.5% year on year), operating income of 45 billion yen (up 10.9% year on year), ordinary income of 45 billion yen (up 5.8% year on year), and net income attributable to owners of the parent company of 26 billion yen (up 16.0% year on year).

Also, the exchange rate assumption for the above forecasts is 130 yen to the U.S. dollar.

The above business outlook is based on the information available at the time of the release of these materials, and actual results may materially differ from the forecast, subject to variable factors that may arise in the future.

2. Basic Policy on Selecting Accounting Standards

In consideration of securing comparability of consolidated financial statements between fiscal years and companies, Tokai Carbon Group will prepare its consolidated financial statements in accordance with the Japanese accounting standards for the time being. In the meantime, the Group will appropriately apply the International Financial Reporting Standards (IFRS) in consideration of various circumstances in Japan and overseas.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of December 31, 2021)	Fiscal year under review (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	78,858	70,909
Notes and accounts receivable	56,668	65,197
Merchandise and finished goods	20,169	26,198
Work in progress	29,362	41,584
Raw materials and supplies	22,947	33,548
Other	7,377	9,528
Allowance for doubtful accounts	(234)	(274)
Total current assets	215,149	246,691
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	29,783	30,944
Machinery, equipment and vehicles, net	84,239	90,597
Land	7,724	8,035
Construction in progress	15,085	44,366
Other, net	7,332	8,004
Total tangible fixed assets	144,165	181,948
Intangible assets		
Goodwill	55,553	52,837
Customer-related assets	57,880	55,724
Other	9,914	10,276
Total intangible assets	123,349	118,839
Investments and other assets		
Investment securities	21,802	22,548
Net defined benefit asset	3,500	2,927
Deferred tax assets	3,620	2,210
Other	958	1,325
Allowance for doubtful accounts	(43)	(25)
Total investments and other assets	29,838	28,986
Total fixed assets	297,353	329,773
Total assets	512,503	576,465

(Millions of yen)

	Previous fiscal year (As of December 31, 2021)	Fiscal year under review (As of December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable	22,294	28,119
Electronically recorded obligations	3,934	4,153
Short-term loans payable	2,000	10,940
Commercial papers	50,000	60,000
Current portion of loans payable	12,710	9,805
Income taxes payable	5,913	5,673
Contract liability	-	2,271
Provision for bonuses	2,777	3,887
Current portion of bonds payable	10,000	-
Provision for loss on sale of equity invested in associates	1,137	-
Other	19,650	21,845
Total current liabilities	130,418	146,696
Long-term liabilities		
Bonds payable	55,000	55,000
Long-term loans payable	38,539	35,706
Deferred tax liabilities	18,499	24,171
Retirement benefit liability	7,340	6,567
Provision for retirement benefits for directors	90	105
Provision for executive officers' retirement benefits	58	58
Provision for environment and safety measures	284	315
Other	5,701	6,974
Total long-term liabilities	125,514	128,900
Total liabilities	255,932	275,596
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	17,350	13,811
Retained earnings	175,727	191,750
Treasury stock	(7,244)	(7,236)
Total shareholders' equity	206,269	218,761
Accumulated other comprehensive income		
Valuation difference on other securities	9,370	9,587
Deferred gains or losses on hedges	(41)	274
Foreign currency translation adjustments	11,805	37,681
Cumulative remeasurements of defined benefit plans	1,805	2,521
Total accumulated other comprehensive income	22,940	50,065
Non-controlling interests	27,360	32,041
Total net assets	256,570	300,868
Total liabilities and net assets	512,503	576,465

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2021)	Fiscal year under review (January 1 to December 31, 2022)
Net sales	258,874	340,371
Cost of sales	188,142	246,318
Gross profit	70,732	94,052
Selling, general and administrative expenses	46,085	53,463
Operating income	24,647	40,588
Non-operating income		
Interest income	288	607
Dividend income	586	737
Share of profit of entities accounted for using equity method	112	332
Foreign exchange gains	657	2,162
Other	861	529
Total non-operating income	2,506	4,368
Non-operating expenses		
Interest expenses	1,043	1,042
Other	1,340	1,393
Total non-operating expenses	2,383	2,436
Ordinary income	24,770	42,521
Extraordinary income		
Gain on sale of investment securities	47	544
Gain on sales of fixed assets	216	88
Gain on liquidation of subsidiaries and associates	6	-
Total extraordinary income	270	633
Extraordinary losses		
Loss on retirement of fixed assets	104	624
Loss on sale of equity invested in associates	-	160
Accident-related loss	-	141
Loss on valuation of investment securities	-	116
Loss on sales of fixed assets	5	0
Loss on sale of investment securities	-	0
Provision for loss on sale of equity invested in associates	1,137	-
Impairment losses	385	-
Demolition and removal costs	30	-
Loss on liquidation of subsidiaries and associates	24	-
Total extraordinary losses	1,685	1,043
Net income before income taxes	23,354	42,111
Income taxes - current	8,744	8,685
Income taxes - deferred	(5,496)	6,096
Total income taxes	3,248	14,782
Net income	20,106	27,329
Net income attributable to non-controlling interests	4,000	4,910
Net income attributable to owners of the parent company	16,105	22,418

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2021)	Fiscal year under review (January 1 to December 31, 2022)
Net income	20,106	27,329
Other comprehensive income		
Valuation difference on other securities	1,915	218
Deferred gains or losses on hedges	28	316
Foreign currency translation adjustments	15,676	28,353
Remeasurements of defined benefit plans	917	716
Share of other comprehensive income of associates accounted for using equity method	362	(244)
Total other comprehensive income	18,900	29,360
Comprehensive income	39,006	56,689
(Breakdown)		
Comprehensive income attributable to owners of the parent company	34,306	49,543
Comprehensive income attributable to non-controlling interests	4,699	7,145

(3) Consolidated Statements of Changes in Equity

Previous fiscal year (January 1 to December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	20,436	17,338	166,017	(7,248)	196,543
Change during period					
Dividends of surplus			(6,395)		(6,395)
Net Income Attributable to Owners of the Parent Company			16,105		16,105
Purchase of treasury stock				(3)	(3)
Disposal of treasury stock		11		6	18
Net changes of items other than shareholders' equity					
Total change in items during period	-	11	9,710	3	9,725
Balance at end of period	20,436	17,350	175,727	(7,244)	206,269

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	7,436	(70)	(3,529)	887	4,723	23,548	224,815
Change during period							
Dividends of surplus							(6,395)
Net Income Attributable to Owners of the Parent Company							16,105
Purchase of treasury stock							(3)
Disposal of treasury stock							18
Net changes of items other than shareholders' equity	1,934	28	15,335	917	18,216	3,812	22,029
Total change in items during period	1,934	28	15,335	917	18,216	3,812	31,755
Balance at end of period	9,370	(41)	11,805	1,805	22,940	27,360	256,570

Fiscal year under review (January 1 to December 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Balance at beginning of period	20,436	17,350	175,727	(7,244)	206,269
Change during period					
Dividends of surplus			(6,395)		(6,395)
Net Income Attributable to Owners of the Parent Company			22,418		22,418
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock		8		10	19
Changes in the parent company's interest due to transactions with non-controlling shareholders		(3,547)			(3,547)
Net changes of items other than shareholders' equity					
Total change in items during period	-	(3,538)	16,023	8	12,492
Balance at end of period	20,436	13,811	191,750	(7,236)	218,761

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	9,370	(41)	11,805	1,805	22,940	27,360	256,570
Change during period							
Dividends of surplus							(6,395)
Net Income Attributable to Owners of the Parent Company							22,418
Purchase of treasury stock							(2)
Disposal of treasury stock							19
Changes in the parent company's interest due to transactions with non-controlling shareholders							(3,547)
Net changes of items other than shareholders' equity	216	316	25,875	716	27,125	4,680	31,805
Total change in items during period	216	316	25,875	716	27,125	4,680	44,297
Balance at end of period	9,587	274	37,681	2,521	50,065	32,041	300,868

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2021)	Fiscal year under review (January 1 to December 31, 2022)
Cash flows from operating activities		
Net income before income taxes	23,354	42,111
Depreciation	22,900	27,460
Loss (gain) on retirement / sales of tangible fixed assets	(107)	535
Amortization of goodwill	6,971	7,522
Increase (decrease) in allowance for doubtful accounts	(5)	1
Increase (decrease) in provision for bonuses	959	867
Increase (decrease) in provision for loss on sale of equity invested in associates	1,137	(1,137)
Increase (decrease) in retirement benefit liability	593	(890)
Decrease (increase) in retirement benefit asset	(771)	573
Interest and dividend income	(875)	(1,344)
Interest expenses	1,043	1,042
Foreign exchange losses (gains)	(349)	(1,593)
Share of (profit) loss of entities accounted for using equity method	(112)	(332)
Decrease (increase) in notes and accounts receivable - trade	(13,566)	(6,140)
Decrease (increase) in inventories	(6,147)	(24,711)
Increase (decrease) in notes and accounts payable - trade	9,142	4,659
Other	470	80
Subtotal	44,636	48,706
Interest and dividends received	1,208	1,345
Interest paid	(1,080)	(1,038)
Income taxes paid	(7,168)	(8,368)
Other	477	560
Cash flows from operating activities	38,072	41,205
Cash flows from investing activities		
Payments into time deposits	(14,223)	(20,767)
Proceeds from withdrawal of time deposits	9,513	15,080
Purchase of tangible fixed assets	(28,955)	(43,989)
Proceeds from sales of tangible fixed assets	302	188
Purchase of intangible assets	(575)	(1,222)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	-	740
Other	(1,344)	69
Cash flows from investing activities	(35,282)	(49,900)

(Millions of yen)

	Previous fiscal year (January 1 to December 31, 2021)	Fiscal year under review (January 1 to December 31, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,142)	8,875
Net increase (decrease) in commercial papers	10,000	10,000
Proceeds from long-term loans payable	-	7,227
Repayments of long-term loans payable	(9,461)	(13,154)
Proceeds from issuance of bonds	10,000	-
Redemption of bonds payable	-	(10,000)
Dividends paid	(6,395)	(6,395)
Dividends paid to non-controlling interests	(887)	(988)
Payments for acquisition of shares of subsidiaries without change in scope of consolidation		(5,024)
Other	(901)	(1,168)
Cash flows from financing activities	1,211	(10,629)
Effect of exchange rate change on cash and cash equivalents	2,705	4,266
Net increase (decrease) in cash and cash equivalents	6,707	(15,057)
Cash and cash equivalents at beginning of the period	57,727	64,435
Cash and cash equivalents at end of the period	64,435	49,377

(5) Notes to Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not Applicable

(Changes in Accounting Policy)

(Application of accounting standards for revenue recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as, "Revenue Recognition Accounting Standard") etc. has been applied from the beginning of the current fiscal year. With the application of the Revenue Recognition Accounting Standard, revenue is recognized at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

Moreover, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control over the goods or products is transferred to the customer is a normal period in total sales of the goods or products by applying the alternative treatment set forth in Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition.

The application of the Revenue Recognition Accounting Standard, etc. is in accordance with the transitional treatment provided in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. However, the application of the Revenue Recognition Accounting Standard, etc. does not have any impact on the profit or loss and the beginning retained earnings of the current fiscal year.

Due to the application of Revenue Recognition Accounting Standard, "Other," which was shown in "Current liabilities" in the balance sheet in the previous fiscal year is included in "Contract liability" and "Other" from the current fiscal year. In accordance with the transitional treatment set forth in Paragraph 89-2 of Revenue Recognition Accounting Standard, the previous fiscal year has not been reclassified using the new presentation method.

In addition, in accordance with the transitional treatment set forth in Paragraph 89-3 of the Revenue Recognition Accounting Standard, revenue derived from contracts with customers pertaining to the previous fiscal year is not presented.

(Application of accounting standard for fair value measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as, "Fair Value Measurement Accounting Standard") etc. has been applied from the beginning of the fiscal year. In accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy set forth in the Fair Value Measurement Accounting Standard, etc. will be applied into the future. Moreover, there is no impact on the consolidated financial statements.

(Business Combinations)

Separation of business

The Company concluded an equity transfer agreement on November 15, 2021 to transfer all equity interests in Tokai Carbon (Tianjin) Co., Ltd. (hereinafter, "Tokai Carbon (Tianjin)") to Cabot (China) Limited, a wholly owned subsidiary of Cabot Corporation, and transferred the shares on February 28, 2022. As a result, Tokai Carbon (Tianjin) Co., Ltd. was excluded from the Company's scope of consolidation.

(1) Outline of the business divestiture

- (a) Name of the successor company
Cabot (China) Limited
- (b) Name and description of business of the divested subsidiary
Name of subsidiary: Tokai Carbon (Tianjin) Co., Ltd.
Description of business: Production and sales of carbon black

(c) Reason for business divestiture

In 2004, the Company established a joint venture Tokai Carbon (Tianjin) Co., Ltd. in the Tianjin Economic and Technology Development Zone in order to respond to rapidly growing Chinese demand for carbon black. In 2013, the Company acquired all shares of the then joint venture partner and made it a wholly owned subsidiary. To date, Tokai Carbon (Tianjin) Co., Ltd. has responded to the needs of customers, mainly tire and industrial rubber component manufacturers, by supplying high-quality carbon black. However, the business environment surrounding Tokai Carbon (Tianjin) Co., Ltd. has become increasingly severe year by year due to intensified market competition and price competition, as well as stricter environmental regulations and operational restrictions. Under these circumstances, the Company reviewed the redistribution of the Company's resources from various points of view under the basic policies of optimizing the business portfolio (selection and concentration) in its medium-term management plan, T-2023, and decided to sell the Tokai Carbon (Tianjin) Co., Ltd. business.

(d) Date of business divestiture

February 28, 2022 (deemed date of sale: January 1, 2022)

(e) Legal form of business divestiture

Transfer of contribution in exchange for cash

(2) Outline of the total treatment implemented

(a) Transfer gains and losses

Loss on sale of equity invested in associates 1,297 million yen

Of this, 1,137 million yen has been accounted to provision for loss on sale of equity invested in associates in the previous fiscal year.

(b) Proper book value of assets and liabilities of the transferred businesses and their major breakdown

Current assets	3,705	million yen
Fixed assets	2,272	million yen
Total assets	5,977	million yen
Current liabilities	389	million yen
Long-term liabilities	168	million yen
Total liabilities	557	million yen

(c) Accounting treatment

The book value between the consolidated difference of the capital contribution and the sale price is recorded as transfer gain or loss total.

(3) The reportable segment in which the divested enterprise was included;

Carbon Black

(4) The estimated amount of profit or loss pertaining to the divested business which is reported in total at consolidated statements of income for the current fiscal year;

As the beginning of the current fiscal year is deemed to be the date of sale, the consolidated statements of income of the current fiscal year does not include profit or loss from the divested businesses.

Common control transactions, etc.

Additional shares of subsidiaries acquisition

(1) Outline of transaction

(a) Names and description of business of the company involved in the combination

Name	Tokai Carbon Korea Co., Ltd. (a consolidated subsidiary of the Company)
Description of business	Manufacture and sale of carbon graphite products and CVD-SiC coating products

(b) Date of business combination

May 11, 2022

(c) Legal form of business combination

Stock acquisition from non-controlling shareholders

- (d) Name of the company after business combination
There is no change.
- (e) Other information related to the outline of transaction
In order to stabilize the management of Tokai Carbon Korea Co., Ltd. and improve the corporate value of the Tokai Group, the Company additionally acquired 350,000 shares of Tokai Carbon Korea Co., Ltd. held by KC Co., Ltd., the second largest stockholder after the Company.
- (2) Outline of the accounting treatment implemented
In accordance with the Accounting Standard for Business Combinations (ASBJ statement No. 21, January 16, 2019) and Implementation Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), transactions under common control, etc. are treated as transactions with non-controlling shareholders.
- (3) The matters set forth in the case of additional acquisition of shares of subsidiaries;
Breakdown by acquisition cost of the acquired company and type of consideration
- | | | |
|-------------------------------|------|-------------------|
| Consideration for acquisition | Cash | 5,024 million yen |
| Acquisition cost | | 5,024 million yen |
- (4) Matters related to changes in the Company's ownership interest in transactions with non-controlling shareholders
- (a) Major fluctuation factors in capital surplus
Additional shares of subsidiaries acquisition
- (b) Decrease in capital surplus due to transactions with non-controlling shareholders
3,547 million yen

(Segment Information)

1. Overview of Reportable Segments

The Company's reportable segments are those components of the Company for which discrete financial information is available and that are subject to regular reviews by the Board of Directors to determine the allocation of management resources and to evaluate business performance.

The Company establishes product-specific divisions at the head office, and each division carries out business activities by formulating comprehensive domestic and overseas strategies for the products that it handles.

Accordingly, the Company is composed of product-specific segments based on divisions, and its five reportable segments are the Graphite Electrodes business, Carbon Black business, Fine Carbon business, Smelting and Lining business, and Industrial Furnaces and Related Products business.

The major products of each reportable segment are as follows:

Reportable Segment	Major Products
Graphite Electrodes	Artificial graphite electrodes for electric arc furnaces
Carbon Black	Carbon black (for rubber products, black pigments, and conductive materials)
Fine Carbon	Specialty graphite products, solid SiC, SiC coated graphite
Smelting and Lining	Cathodes for smelting aluminum, furnace linings, carbon electrodes, and other products
Industrial Furnaces and Related Products	Industrial electric furnaces, silicon carbide heating elements

2. Methods for calculating the amounts of net sales, operating income or loss, assets and other accounts items for each reportable segment

The accounting methods adopted for reportable business segments are in accordance with the accounting principles adopted for the preparation of consolidated financial statements.

Income for reportable segments consists of figures based on operating income.

The figure for inter-segment sales/transfer is based on the prevailing market value.

3. Information on the amounts of net sales, operating income or loss, assets, and other account items for each reportable segment

Previous fiscal year (January 1 to December 31, 2021)

(Millions of yen)

	Reportable Segment						Other Operations (Note 1,3)	Total	Adjustments (Note 2)	Amount recorded in the consolidated financial statements (Note 4)
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	40,619	99,491	39,125	49,696	18,019	246,951	11,922	258,874	—	258,874
Intersegment sales/transfers	152	70	114	115	743	1,196	28	1,224	(1,224)	—
Subtotal	40,771	99,561	39,240	49,812	18,762	248,148	11,950	260,098	(1,224)	258,874
Segment income (loss)	(400)	8,783	9,611	1,925	5,396	25,316	754	26,070	(1,423)	24,647
Segment assets	81,394	126,217	90,965	146,303	29,100	473,980	10,689	484,669	27,833	512,503
Other items										
Depreciation	4,072	5,521	3,992	7,849	305	21,741	559	22,301	598	22,900
Impairment losses	-	-	-	-	-	-	385	385	-	385
Investment in equity-method associates	-	-	970	-	-	970	-	970	-	970
Increase in tangible and intangible fixed assets	8,707	10,722	4,074	5,896	121	29,522	520	30,042	304	30,347

Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.

2. The adjustment amounts are as follows.

(1) The 1,423-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 1,352 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.

(2) The adjustment of segment assets, which is 27,833 million yen, includes 38,313 million yen of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus funds (e.g., cash and deposits) and investment securities, etc.

(3) The adjustment of the increase in tangible fixed assets and intangible assets, which is 304 million yen, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.

3. The Impairment losses of 385 million yen of Other Operations is the impairment losses of anode material manufacturing facility.

4. Segment income (loss) is reconciled to the operating income reported in the consolidated financial statements.

Fiscal year under review (January 1 to December 31, 2022)

(Millions of yen)

	Reportable Segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the consolidated financial statements (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	59,630	138,484	49,393	65,203	16,272	328,984	11,387	340,371	—	340,371
Intersegment sales/transfers	310	60	155	409	479	1,415	34	1,449	(1,449)	—
Subtotal	59,940	138,545	49,549	65,612	16,751	330,399	11,421	341,820	(1,449)	340,371
Segment income (loss)	8,032	12,282	14,825	1,345	4,475	40,960	1,108	42,069	(1,480)	40,588
Segment assets	95,430	165,576	108,382	161,035	26,774	557,198	10,365	567,564	8,900	576,465
Other items										
Depreciation	4,930	7,557	4,754	8,889	322	26,453	480	26,934	525	27,460
Impairment losses	-	-	-	-	-	-	-	-	-	-
Investment in equity-method associates	-	-	1,058	-	-	1,058	-	1,058	-	1,058
Increase in tangible and intangible fixed assets	6,238	26,162	7,027	6,461	978	46,868	684	47,552	598	48,150

- Notes:
1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
 2. The adjustment amounts are as follows.
 - (1) The 1,480-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 1,322 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.
 - (2) The adjustment of segment assets, which is 8,900 million yen, includes 18,296 million yen of corporate-wide assets that are not allocated to each reportable segment. The main components of the corporate-wide assets are surplus funds (e.g., cash and deposits) and investment securities, etc.
 - (3) The adjustment of the increase in tangible fixed assets and intangible assets, which is 598 million yen, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.
 3. Segment income is reconciled to the operating income reported in the consolidated financial statements.

(Related Information)

Previous fiscal year (January 1 to December 31, 2021)

Information on each region

Net sales

(Millions of yen)

USA	Japan	Asia	Europe	Other regions	Total
75,483	61,311	67,470	27,375	27,233	258,874

Note: Net sales are based on the locations of the customers and are classified into countries or regions.

Fiscal year under review (January 1 to December 31, 2022)

Information on each region

Net sales

(Millions of yen)

USA	Japan	Asia	Europe	Other regions	Total
117,909	69,550	79,343	32,302	41,266	340,371

Note: Net sales are based on the locations of the customers and are classified into countries or regions.

[Information on impairment loss of fixed assets for each reportable segment]

Previous fiscal year (January 1 to December 31, 2021)

Descriptions are omitted since similar information is disclosed in the Segment Information.

Fiscal year under review (January 1 to December 31, 2022)

Descriptions are omitted since similar information is disclosed in the Segment Information.

(Per Share Information)

	Previous fiscal year (January 1 to December 31, 2021)	Fiscal year under review (January 1 to December 31, 2022)
Net assets per share	1,075.19 yen	1,260.95 yen
Net income per share	75.55 yen	105.16 yen

Notes: 1. Net income per share - fully diluted is not listed, as there were no potential common shares at the end of the fiscal year.

2. The basis of calculation of net income per share is as follows.

	Previous fiscal year (January 1 to December 31, 2021)	Fiscal year under review (January 1 to December 31, 2022)
Net income attributable to owners of the parent company (millions of yen)	16,105	22,418
Amount not attributable to common shareholders (millions of yen)	-	-
Net income available to common shares attributable to owners of the parent company (millions of yen)	16,105	22,418
Average number of common shares during the period (thousands of shares)	213,178	213,190

(Material Subsequent Events)

Not Applicable