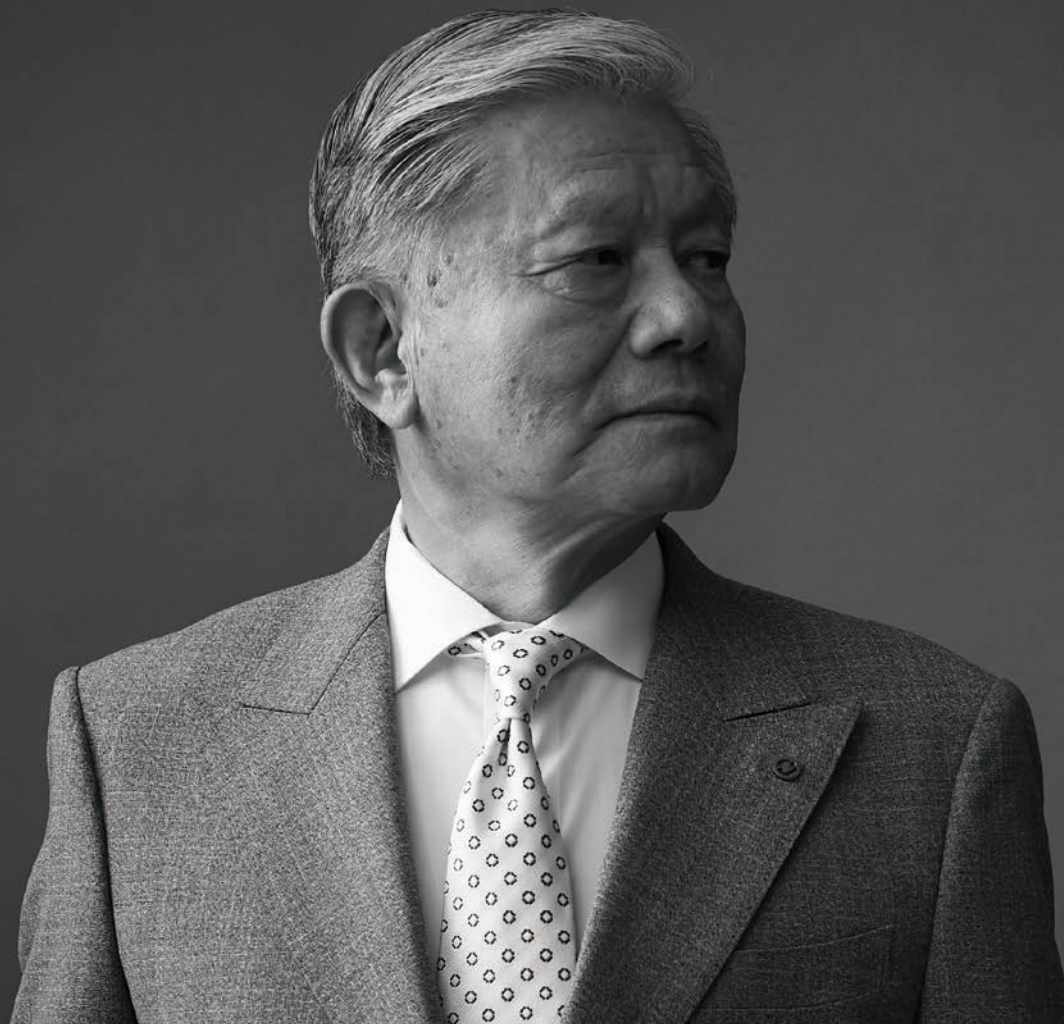


# Message from the President



## Sustainable cash inflow through portfolio diversity

With the COVID-19 pandemic ravaging the world, 2020 was a year of perseverance. Facility upgrades were postponed and production cut measures were taken, but at the same time, the acquisition of Tokai COBEX Savoie was undertaken for the Company's future growth. The downturn in our core Graphite Electrodes and Carbon Black businesses caused by slowdowns in the steel and tire industries negatively impacted consolidated financial results as net sales dropped 23.1% YoY to 201.5 billion yen, operating income dropped 85.5% YoY to 7.8 billion yen, net income attributable to owners of the parent company dropped 96.8% YoY to 1.0 billion yen, and EBITDA dropped 54.2% YoY to 35.2 billion yen.

In the past, it would not have been a surprise if the Company recorded losses under such a radical environmental change. Despite the substantial drop of sales and profits, we managed to secure profitability thanks to what we believe were the results of our aggressive efforts at diversifying the business portfolio. Japan continues to suffer from the impact of the COVID-19 pandemic, but the global economy is trending upward, especially in China, which was the first to resume economic activities, and in the US, which implemented a massive fiscal stimulus package to boost its economy. Our business is starting to recover as well after bottoming out in the first half of 2020. The rollout of vaccines will likely further accelerate the economy going forward, and we are determined to seize this growth opportunity.

# Back to growth trajectory

**Our focus will now be more on developing the integration synergies within the expanded business portfolio to maximize sales and profits.**

President and CEO

Hajime Nagasaka



## Creating synergies from the M&A

I would like to take a look back at some of the initiatives we have worked on since I became president. The theme for the initial two years from 2015 to 2016 was structural reform. First, we worked diligently to shape the mindset of our employees, and to face our past problems. The next four years from 2017 to 2020 was a growth phase focused on M&A. We invested total of approximately 180 billion yen for a series of M&A during these four years. The investment started with acquisitions in our two core businesses, specifically Graphite Electrode and Carbon Black plants in North America. The EAF ratio (EAF production to the total crude steel production) in North America is around 70%, which is far higher than the rest of the world. The North American production plant for the Carbon Black business

is equipped with the technology to mass-produce general-purpose products at a low cost, which complements our production technology in Japan. These two acquisitions of North American operation were very meaningful for us.

Meanwhile, to improve our business portfolio, which is overly dependent on the two core businesses, we strengthened our Fine Carbon business in anticipation of future growth in semiconductor demand by making Tokai Carbon Korea Co., Ltd. a consolidated subsidiary. Furthermore, we acquired German manufacturer COBEX HoldCo GmbH (now Tokai COBEX HoldCo GmbH) to enter the aluminum-related market, which is expected to grow steadily on the back of demand for lighter weight automotive parts. We followed this up with the launch of our Smelting and Lining business by acquiring Tokai COBEX Savoie in France together with its access to the electric

## Message from the President

vehicle (EV) market, which is expected to expand in Europe. It was not a smooth journey, but our series of initiatives from structural reform to portfolio diversification were well received by investors, and our market capitalization, which was around 80 billion yen when I became president, has risen to around 400 billion yen.

This six-year period was at a rather higher running pace. The T-2023 (medium-term management plan for 2021-2023) should be a term to stop for a moment to solidify our business platform and focus on creating integration synergies with the companies we have acquired so far in order to stay competitive going forward.

### Creating integration synergies through overall optimization

To create integration synergies from our series of M&A deals, we have already laid the groundwork toward achieving overall optimization, such as consolidating production and allocating production items to locations close to end markets, and we expect to start seeing the benefits of these efforts in 2021. To be more specific, we used to export a certain amount of graphite electrodes from Japan and Germany to the US, but we are now increasing the production capacity of our North American production plants and shifting toward producing and consuming locally. In addition, with regard to our Smelting and Lining business, we will push for efficiency improvements by switching production items between Tokai COBEX's plant in Poland and Tokai COBEX Savoie in France. At the same time, we will transfer the extruded materials currently produced at the Tanoura Plant in Japan to Tokai COBEX Savoie to boost our cost competitiveness. Furthermore, we will manufacture anode materials for lithium-ion batteries at Tokai COBEX Savoie, which we intend to make into a manufacturing base for the European EV market, which is expected to grow.

### T-2023: Pushing forward while solidifying our operational platform

I will now explain the three basic policies of our T-2023 plan. The first is to return our core businesses to a path of growth. Our target industries, namely steel, automobiles, semiconductors, and aluminum, are all on a recovery and growth trend. As such, we will seize this opportunity to improve profitability and stabilize earnings in our core Graphite Electrodes and Carbon Black businesses. The second policy is to optimize our business portfolio (selection and concentration). We will concentrate our limited management resources on our growth and competitive businesses to further enhance our presence in

the fine carbon, smelting and lining, and industrial furnace markets. Furthermore, on top of adding new businesses, we also believe that it is important to review businesses that we do not project substantial growth in, and I consider this to be the second phase of the structural reform that we undertook in the past when I started my role as President. Finally, our third policy is to strengthen our consolidated governance structure to enhance our ability to promote company-wide strategies in a rapidly globalizing world.

### Aiming for record high sales by capturing the upward trends

Again, the upward trends in our target industries are increasingly apparent, and we are aiming for record high sales as part of our T-2023 plan. We are also expecting operating income to be nearly as high as its 2018 level, when our Graphite Electrodes business expanded unexpectedly due to market fluctuations.

For the Graphite Electrodes business, which saw a severe drop, the market conditions for a recovery are now in place with the completion of inventory adjustments and the expansion of electric furnace steel production, and we expect production volumes and sales prices to begin a full-scale recovery in 2022 and 2023. Similarly, we expect our Carbon Black business to remain strong as production expands in our target tire market.

In the Fine Carbon business, demand for use in semiconductors and solar power generation continues to grow, and Tokai Carbon Korea, the production base for solid silicon carbide (Solid-SiC) focus rings, is performing particularly well. As such, we are looking to expand our production capacity in a timely manner to take advantage of further market growth. Meanwhile, we will fully transfer the production of extruded materials to Tokai COBEX Savoie in France, and as part of our "selection and concentration" approach, we will reorganize the processing and sales bases of the Fine Carbon Division in Europe to improve the efficiency of our production and sales systems and to drastically reduce costs.

In the Smelting and Lining business, we have already consolidated the brands of the two companies we acquired into Tokai COBEX, and are working to improve productivity and operational efficiency by unifying customer databases, sharing manufacturing technologies, and integrating systems to integrate production, sales, and accounting management functions. Going forward, we are looking to accelerate the integration process and strengthen our presence in terms of both sales and profits.

The industrial furnace business that we operate under Tokai Konetsu Kogyo Co., Ltd. has secured stable and

Overview of medium-term management plan T-2023

T-2023 basic policies

**① Returning core businesses to a path of growth**

- Manage to increase the operation rate as the market grows
- Improving and stabilizing the profitability of graphite electrodes

**② Optimizing the business portfolio (selection and concentration)**

- Continually revising business composition and product composition
- Increasing production capacity for high value-added products
- Concentrating investment in promising businesses and product development

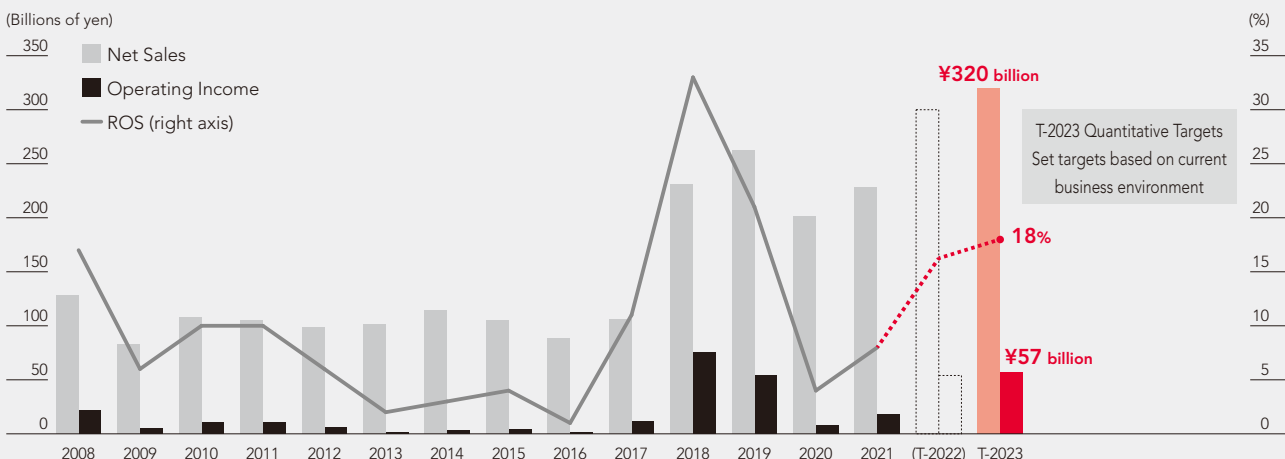
**③ Strengthening the consolidated governance structure**

- Responding to globalization of the head office organization
- Strengthening the governance structure, mainly through the business and head office management functions
- Building an ESG management base

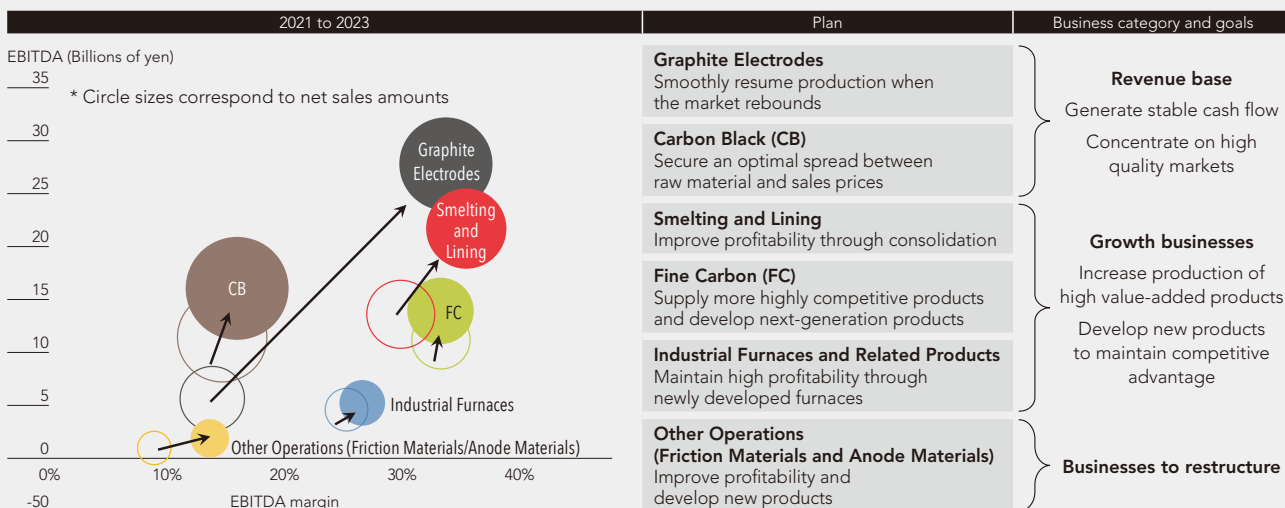
T-2023 Quantitative Targets



(Reference) Comparison with previous T-2022 plan



Projected EBITDA growth by business segment for T-2023 period



## Message from the President

high profits while building up a track record fueled by the expansion of the 5G, IoT, and electric vehicle (EV) markets, and the future is very promising.

Lastly, we have positioned the Anode Materials and Friction Materials businesses as businesses to be restructured. In the Anode Materials business, which has been sluggish in the face of fierce competition, we are looking to take on the challenge of accelerating growth by fundamentally revamping our business model, which includes expanding into Europe. Likewise, in the Friction Materials business, where it is difficult to pursue a growth strategy that simply builds on what has worked in the past, we will undertake more in-depth structural reforms to strengthen our competitiveness and fundamentally improve profitability.

### Strengthening governance to integrate operations of diverse companies

As a result of a series of M&A deals, over 70% of our sales are now generated overseas, and naturally, over 70% of our employees are also based overseas. We believe that strengthening our consolidated governance structure is an extremely important priority in operating group companies with different cultures and business practices in an integrated manner and demonstrating our strength as a “United Tokai Carbon,” while also caring for the environment and society. Under the T-2023 plan, in parallel with our initiatives to create integration synergies, we will strengthen our management functions on three fronts, which include the head office corporate division, the business management division, and the internal audit division.

### Prioritizing debt reduction and allocating cash flow

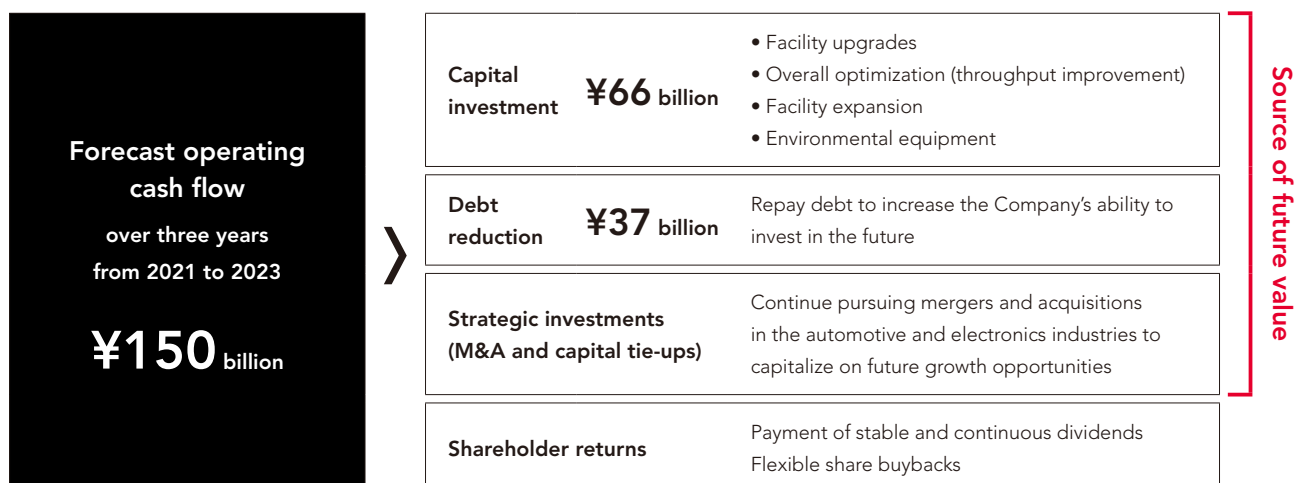
Through the above initiatives, we expect to generate a cumulative total of 150 billion yen in operating cash flow over the three-year period covered in T-2023, of which approximately 66 billion yen will be allocated mainly for facility upgrades, environmental impact reduction, and growth investments. In 2020 in particular, we secured cash reserves by quickly procuring funds as an emergency response to the COVID-19 pandemic, but we also postponed some of our planned facility upgrades, and this situation needs to be addressed appropriately.

In addition, we plan to allocate 37 billion yen for debt reduction to bring our net debt-to-equity ratio to zero in an effort to maintain or improve our credit rating. For the M&A funds used to launch the Smelting and Lining business, we will use hybrid financing to maintain a sound financial base while also stabilizing our liquidity by converting short-term debt into long-term debt.

Finally, we plan to allocate the remaining 47 billion yen to shareholder returns and strategic investments. With regard to shareholder returns, we are focusing on paying stable and continuous dividends while maintaining a basic dividend payout ratio of 30%, and our policy is to maintain an annual dividend of 30 yen per share for 2021. With this overall allocation of cash flow, we believe that we will have to take a cautious approach to strategic investments for the time being.

## Allocation of operating cash flow

In principle, funds needed for investment in growth will be provided by cash on hand and operating cash flow



Our ESG efforts  
have been well  
received by  
investors



## Promoting “Carbon neutrality”

Last but not least, in 2020, we were included in two leading ESG investment indices, the FTSE4Good Index Series and the FTSE Blossom Japan Index for the first time. We believe that this is the result of our efforts to establish an ESG management base and improve information disclosure as part of our key measures in T-2021, which we announced two years ago.

We have no choice but to seriously address carbon neutrality, an issue which is rapidly gaining momentum.

We have made carbon our business for over a century, viewing it as an indispensable “material that brings joy”. However, with the movement toward carbon neutrality, we must seriously consider how we can contribute to society and our planet in the long term. More specifically, we have recently launched the Carbon Neutrality Project with myself as the project leader, and will implement it as a cross-organizational initiative. Additionally, we will be working on the analysis and disclosure of climate change risks in line with TCFD policies.

## Our approach to sustainability

Business category	Approach	Key examples	Current status
Group-wide	<ul style="list-style-type: none"> <li>Strengthen ESG management base</li> <li>Expand ESG disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Identification and management of materialities and KPIs</li> <li>Establishment of a consolidated environmental data collection and management system</li> <li>Disclosure of climate change risks in line with TCFD policies.</li> <li>Human rights initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Continuing PDCA management of materialities and KPIs</li> <li>Developing consolidated information collection system (during T-2023 plan period)</li> <li>Disclosing analysis of climate change risks (2021)</li> <li>Completed human rights due diligence</li> </ul>
Graphite Electrodes	<ul style="list-style-type: none"> <li>Adjust production in line with electric furnace steel growth</li> <li>Improve productivity by reducing electrode consumption rate</li> </ul>	<ul style="list-style-type: none"> <li>Development of new, highly functional electrodes</li> </ul>	<ul style="list-style-type: none"> <li>10% improvement in electrode consumption rate in user equipment tests</li> </ul>
Carbon Black	<ul style="list-style-type: none"> <li>Recover and reuse waste heat</li> <li>Recycle carbon</li> </ul>	<ul style="list-style-type: none"> <li>Power generation using waste heat energy, etc.</li> <li>Recycling of tires and carbon black</li> </ul>	<ul style="list-style-type: none"> <li>Private power generation and supply of electricity to communities</li> <li>Started dialogue with supply chain</li> </ul>
Smelting and Lining	<ul style="list-style-type: none"> <li>Reduce customer energy consumption per unit</li> <li>Use renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Proposal of RuC, a cathode with reduced environmental impact</li> <li>Switch to renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Good results in user equipment tests</li> <li>Switched power for the production plants in Poland to 100% renewable energy sources</li> </ul>
Anode Materials	<ul style="list-style-type: none"> <li>Support the development and manufacture of battery materials that contribute to EV adoption</li> </ul>	<ul style="list-style-type: none"> <li>Development of anode materials with high functionality and low carbon footprint</li> </ul>	<ul style="list-style-type: none"> <li>Selected as one of the companies eligible to receive the EU Commission’s battery development subsidy</li> </ul>

# History of Tokai Carbon Value Creation

The Tokai Carbon Group pioneered the manufacturing of graphite electrodes in Japan. Since then, we have continued to grow and have established new growth businesses in carbon black, fine carbon, industrial furnaces, anode materials, friction materials, and smelting and lining.



Enriching Japan as a country.  
That was how Tokai Carbon began.

Tokai Carbon was founded in 1918. The company was rooted in the founder's idea that he wanted to enrich the lives of people through the domestic production of high quality electrodes essential to steel production, which was an industry of national importance. We have built unshakable reliability, earned through consistent, steady efforts over time to provide useful technologies to people, to society, and to the world without wavering, for more than 100 years.

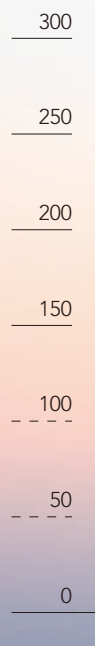


We are expanding that abundance  
and supporting a sustainable society.

We have held firmly to the view that we must focus on mutual relationships of trust and never sacrifice the abundance of others or the environment, precisely because Tokai Carbon is a company that provides convenience, freedom, and comfort to the daily lives of people. We are actively working to achieve the sustainable development goals (SDGs) adopted by the United Nations while confronting issues in the global environment, society, and governance.

## Sales

(Billions of yen)



**2000**  
Thai Tokai Carbon Product Co., Ltd.  
acquired as a consolidated subsidiary

## The Corporate Philosophy of Tokai Carbon

# Ties of Reliability

We hope to build Ties of Reliability with our stakeholders (customers, suppliers, shareholders, employees, society, etc.) by providing them with the means to realize their respective objectives and by responding to their requests without fail.



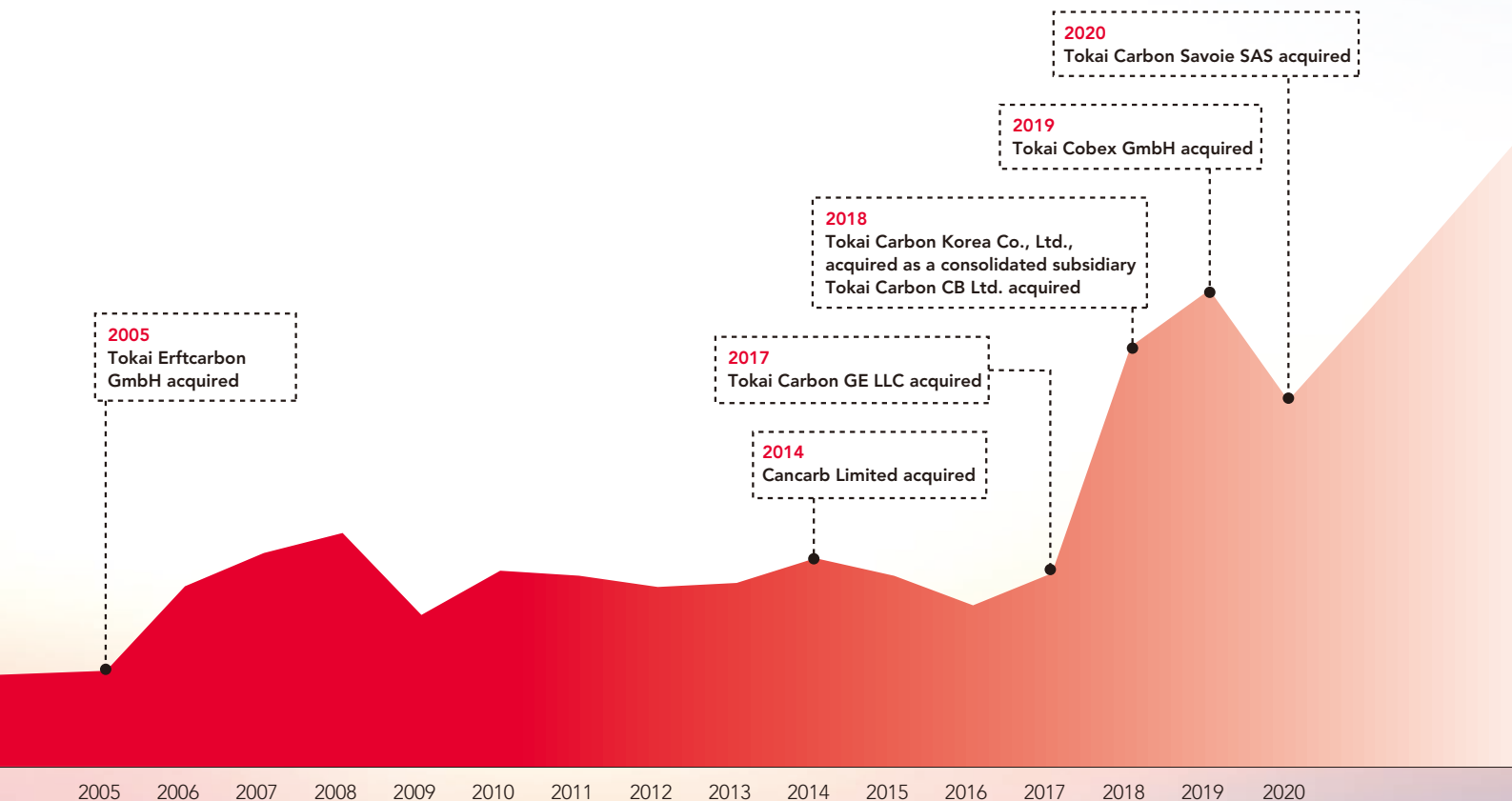
There is a reason why we have also succeeded in friendly M&A.

In the mergers and acquisitions we have executed in the past, we have been able to build very good relationships through such means as holding a welcome ceremony hosted by local employees and inviting the mayor and legislators to participate. We have been able to share our record of accomplishments over more than a century and our corporate culture of placing importance on “ties” in many cases. We are delighted that our M&A partners feel that things will go well if they partner with Tokai Carbon.



The “Ties of Reliability” that we have cultivated for more than a century constitute the corporate philosophy of Tokai Carbon.

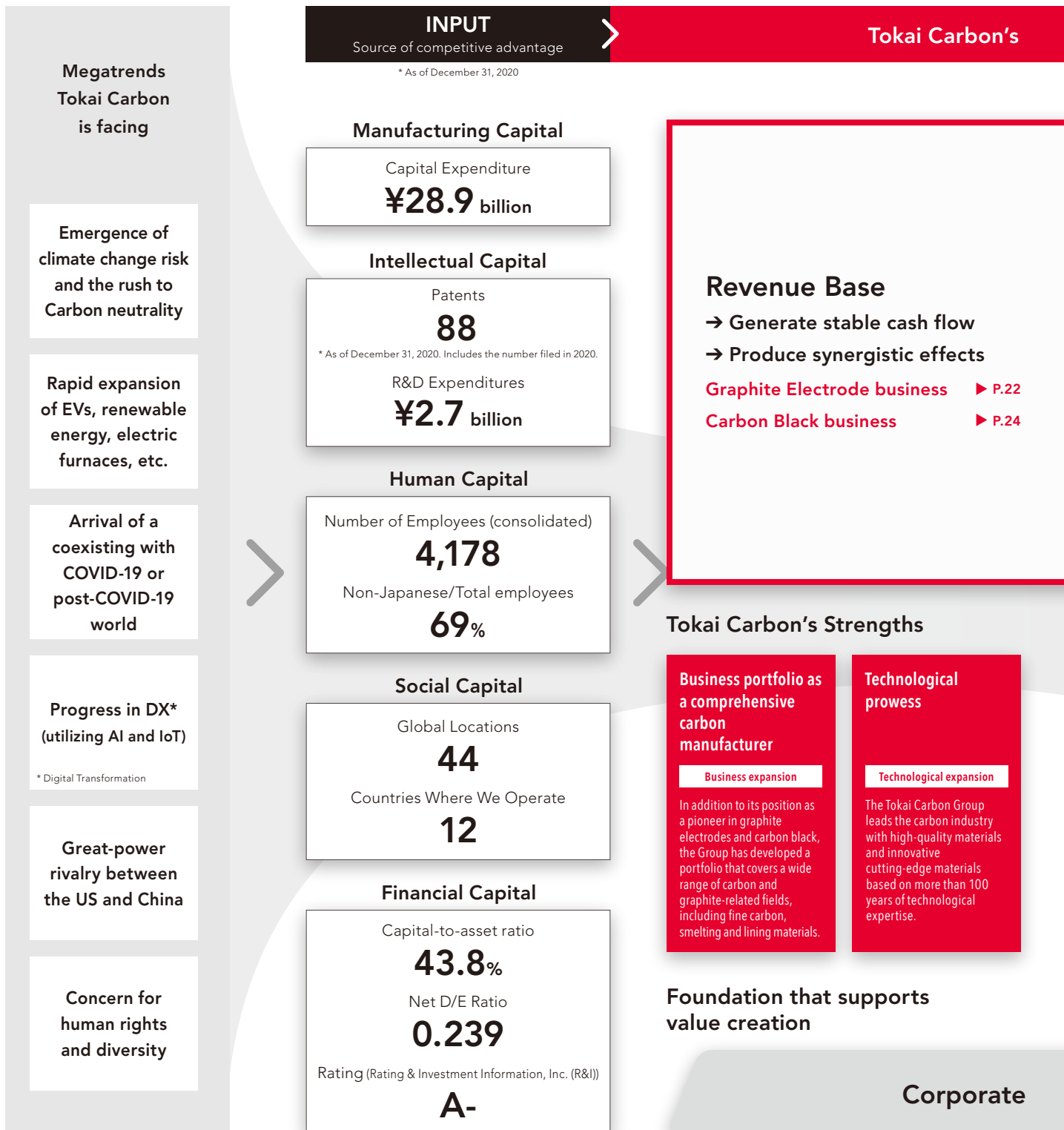
Developing “Ties of Reliability” with our shareholders, customers, suppliers, local communities, employees, and all other stakeholders around the world through our corporate activities is the corporate philosophy of Tokai Carbon. We regard shareholder return as an important management issue in striving to enhance corporate value over the long term, and will work to provide stable, consistent dividends while taking investment plans, cash flow, and other factors aimed at revenue growth in mind.





# Tokai Carbon's Value Creation Model

The Tokai Carbon Group has been leading the carbon industry in Japan for over a century. Drawing on our strong management platform and multiple strengths, we are able to support the sustainable development of a wide range of industries and society while helping to lower the burden on the global environment through our business.



Long-term vision  
**A global company supporting society with carbon products**

**Business Model**

**OUTPUT**

Products and services offered

**OUTCOME**

Value provided to stakeholders

**Growth businesses**

- Boost production in line with market growth
- Develop new products with added value

- Fine Carbon business** ▶ P.26
- Smelting and Lining business** ▶ P.28
- Industrial Furnaces and Related Products** ▶ P.30

**Businesses subject to structural reform**

- Other Businesses** ▶ P.31  
 (Friction Materials, Anode Materials)

**Graphite Electrodes**



For DC Furnaces (direct current furnaces)

**Carbon Black**



SEAST

**Fine Carbon**



Isotropic Graphite G/HK Series

**Smelting and Lining**



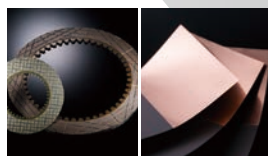
Cathodes for aluminum smelters

**Industrial Furnaces and Related Products**



Industrial Furnaces

**Other Businesses (Friction Materials, Anode Materials)**



Paper Friction Materials/ Anode Materials (Copper Plates)

**Saving Energy/ Cutting CO<sub>2</sub> Emissions**

- Steelmaking with a lower environmental burden
- Helping to promote adoption of solar and wind power



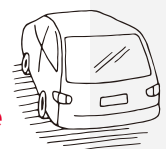
**Development of a Recycling-Oriented Society**

- Recycling of steel scrap



**Enhancement of Safety and Convenience in Daily Life**

- Enhancing tire performance for a safer driving experience
- Technology for smart devices



**Development of Industrial and Social Infrastructure**

- Contributing to the production of high-quality steel
- Technology supporting industrial robots



**Global reach**

**Regional expansion**

We are expanding production and sales bases not only in Japan but also in Asia, Europe, and North America to pursue growth markets and opportunities on a global scale.

**Long-term relationships with customers and supply chains**

**Trust expansion**

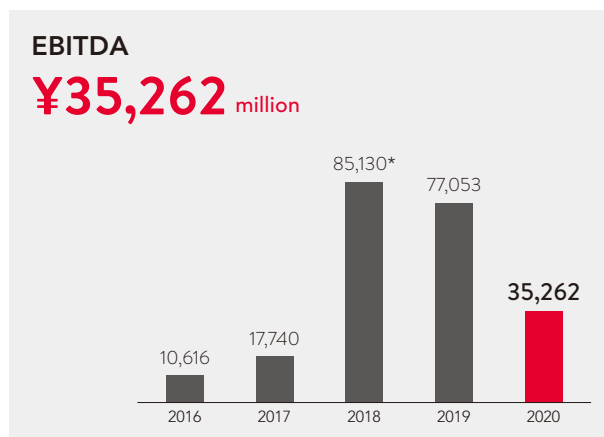
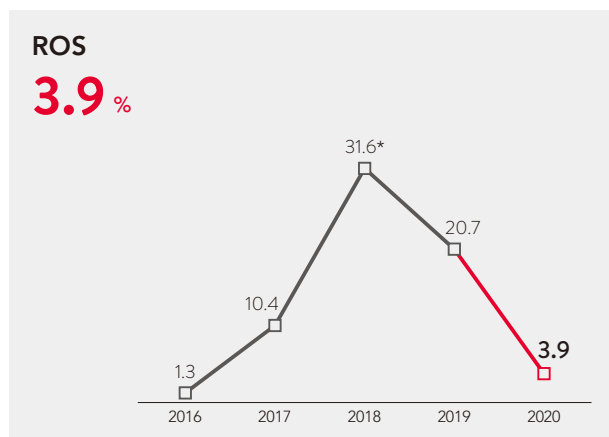
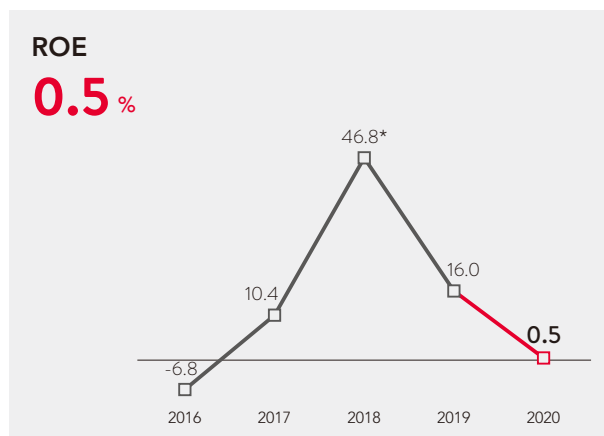
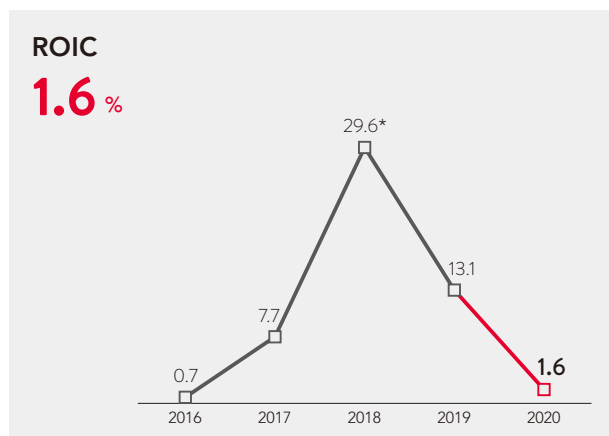
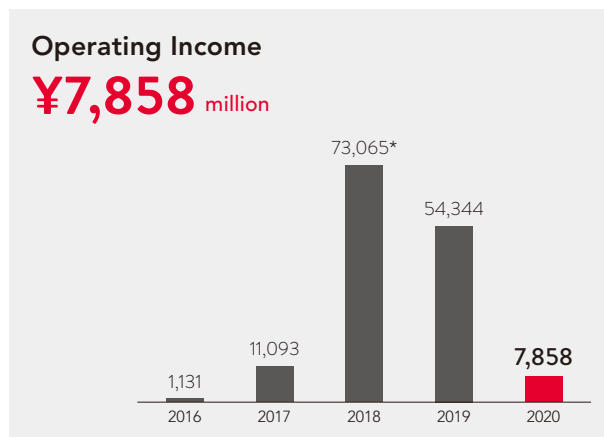
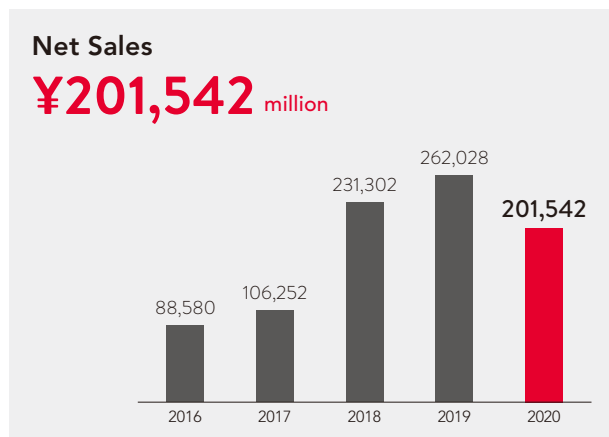
The Group's long-term, trust-based relationships with customers and raw material suppliers around the world contribute to its business continuity and stability.

**Governance**

▶ P.40

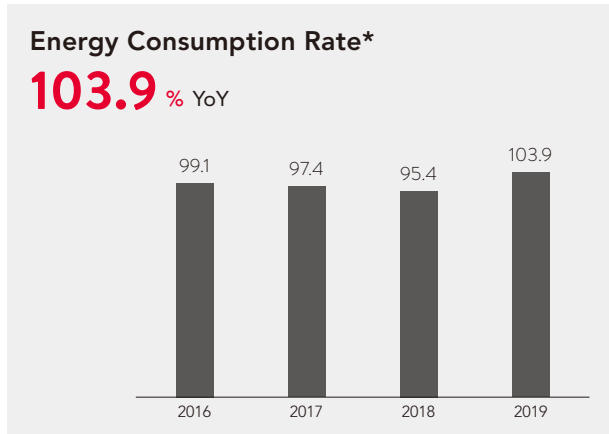
# 2020 Performance Data

## Consolidated Financial Indicators

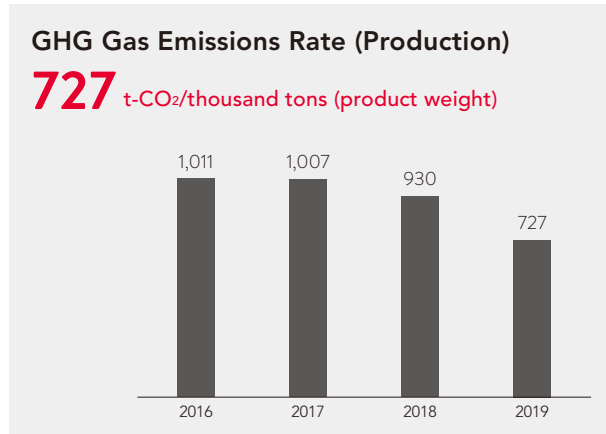


\* FY2018 figures were retroactively revised due to the confirmation of provisional accounting treatment of the business combination of Tokai Carbon Korea Co., Ltd. and Tokai Carbon CB Ltd.

## Non-financial Indicators (Tokai Carbon Co., Ltd.)

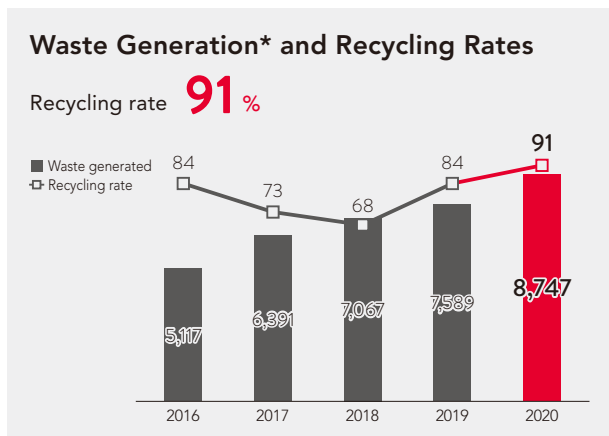


\* Period: April to March yearly base

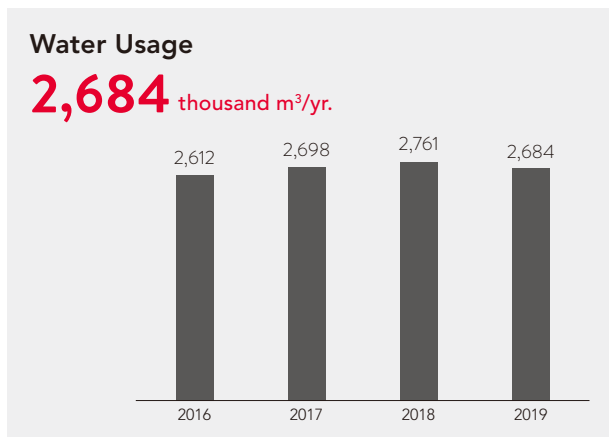
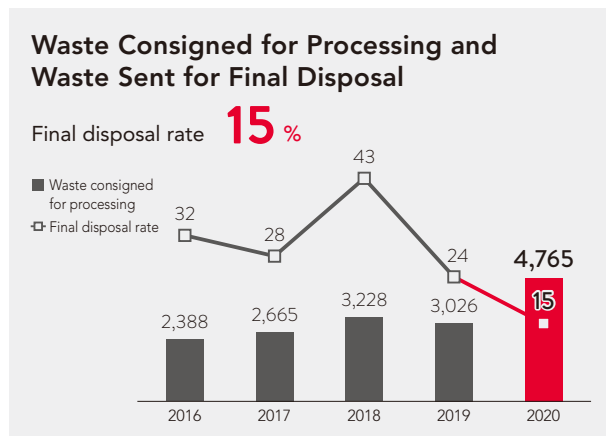


\* Period: April to March yearly base

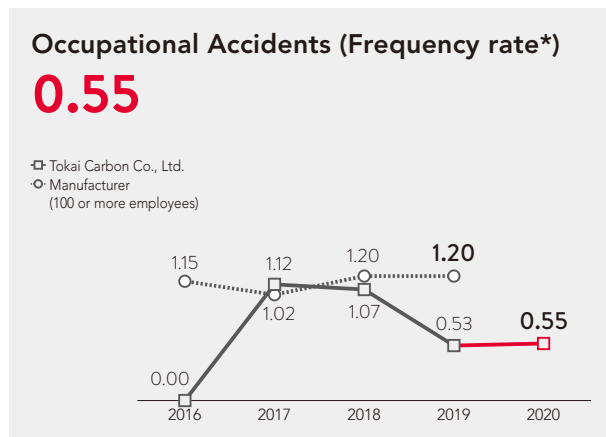
\* Based on Tokai Carbon Co., Ltd.'s CO<sub>2</sub> emissions and production volume (weight)



\* Volume of waste generated = Volume consigned for processing + Volume recycled internally or externally, and volume of valuable waste



\* Period covered: April to March of the following year



\* Frequency rate: Injuries or deaths per million working hours

\* As of April 2021, the FY2019 frequency rate of occupational accidents for manufacturing businesses (with 100 or more employees) has not been announced.