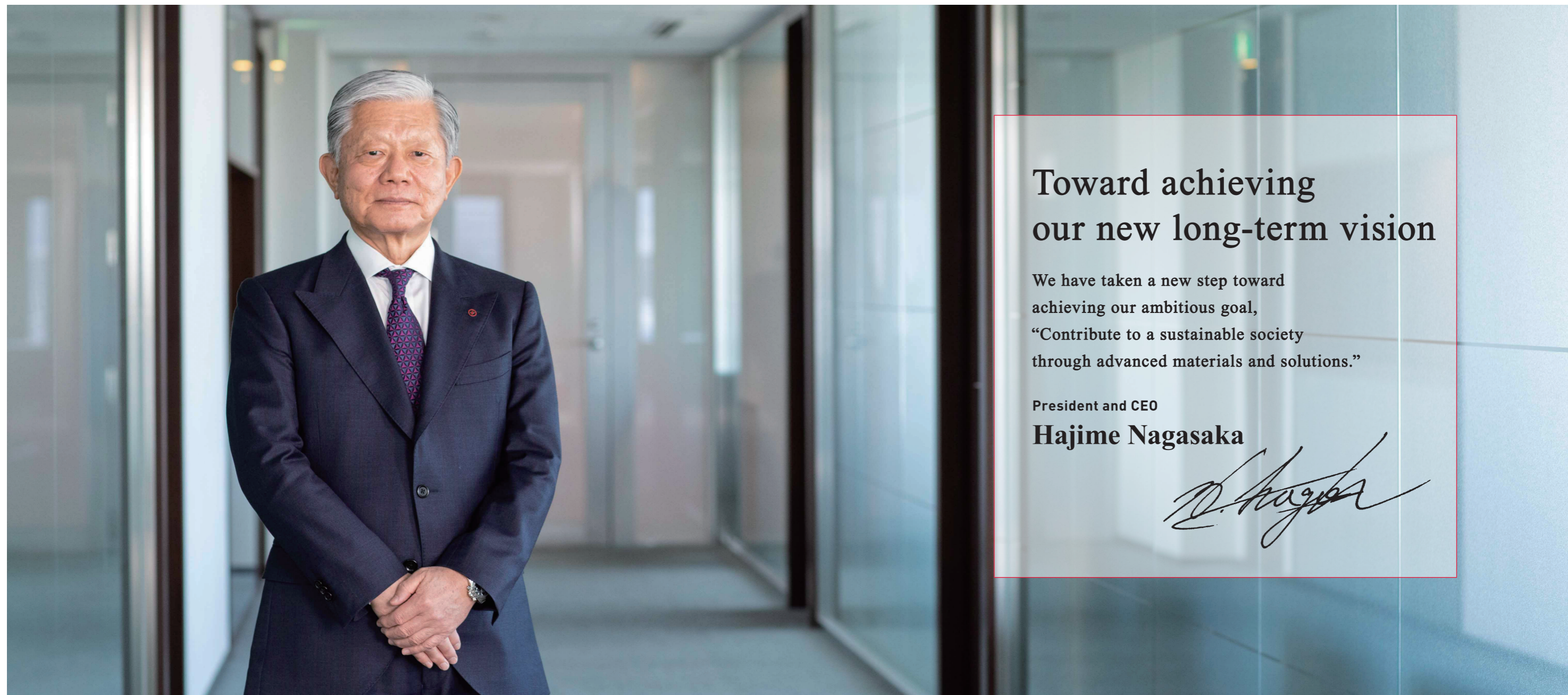


Integrated Report 2021 Message from the President



Toward achieving our new long-term vision

We have taken a new step toward
achieving our ambitious goal,
“Contribute to a sustainable society
through advanced materials and solutions.”

President and CEO

Hajime Nagasaka

One step closer to a stable business portfolio

To look back and summarize 2021, it was a year when social and economic activity began to recover globally, albeit at a rather slow pace, from the effects of the COVID-19 pandemic, which is arguably one of the most unprecedented disasters in human history. As we operated amid social and economic uncertainties, such as the resurgence of COVID-19 due to the Omicron variant, supply chain disruptions and growing concern about inflation, we pursued the basic policies of our medium-term management plan T-2023, “returning core businesses to a path of growth,” “optimizing the business portfolio [selection and concentration]” and “strengthening the consolidated governance structure.”

While we posted a loss in the Graphite Electrodes business, one of our core businesses, for the second consecutive year as market conditions only recovered more slowly than we had expected, we recorded a significant increase in both sales and profit from the previous year in the Carbon Black business, backed by an early recovery in business conditions.

As part of our efforts to optimize our business portfolio [selection and concentration], we implemented a project to expand the lithium-ion battery anode materials business into Europe by working together with our European base. Meanwhile, we announced the divestiture of Tokai Carbon (Tianjin) Co., Ltd., a Carbon Black business subsidiary in China, in November 2021 and completed the sale in February 2022.

To strengthen our consolidated governance structure, we stepped up efforts to reinforce our internal control system. For

example, we advanced post-merger integration of the several overseas subsidiaries we have acquired over the past few years, despite travel restrictions due to the COVID-19 pandemic. In terms of governance in a broader sense, we took measures necessary in light of the principles set out in Japan’s revised Corporate Governance Code, such as enhancing diversity in the composition of the Board of Directors and the promotion of core human resources to managerial positions and disclosing climate change risks in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In addition, as we confirmed that the Company satisfied the listing criteria for the Tokyo Stock Exchange’s Prime Market, one of the new segments established in the restructuring of the stock market, the Board of Directors resolved to select the Prime Market as the Company’s listing segment at its meeting held on

August 31, 2021. The segment transfer was completed in April 2022.

For our consolidated financial results for FY2021, we posted net sales of 258.8 billion yen, an increase of 28.4% from the previous year; operating income of 24.6 billion yen, an increase of 313.6% year on year; and net income attributable to owners of the parent company of 16.1 billion yen, an increase of 1,580.4% year on year, with return on sales (ROS), our key performance indicator, of 9.5%.

While we are still only halfway to putting our core businesses, the Graphite Electrodes and Carbon Black businesses, back on a growth path, we consider that we have come one step closer to building up a stable business portfolio that has a certain level of resilience to fluctuations in market conditions. This was a result of the overseas mergers and acquisitions we have implemented over the past few years.

Our determination and the reason for the existence of Tokai Carbon expressed in our new long-term vision

We have recently announced our new long-term vision, "Contribute to a sustainable society through advanced materials and solutions." This shows our determination to venture out of the business area of "carbon" and boldly take on the challenge of entering new areas as decarbonization gains momentum and calls for urgent action, while, at the same time, affirming that the reason for the existence of Tokai Carbon is "contributing to the realization of a sustainable society."

Obviously, carbon will likely remain the foundation of our core businesses even in the medium-term, including the Graphite Electrodes business with which the Company got its start. However, as the world pursues a sustainable society, a business portfolio that is dependent on fossil fuels poses substantial risks that can never be ignored. Accordingly, it is essential that we accelerate decarbonization efforts in our current businesses, while also adding new businesses that are free from fossil fuels to our portfolio.

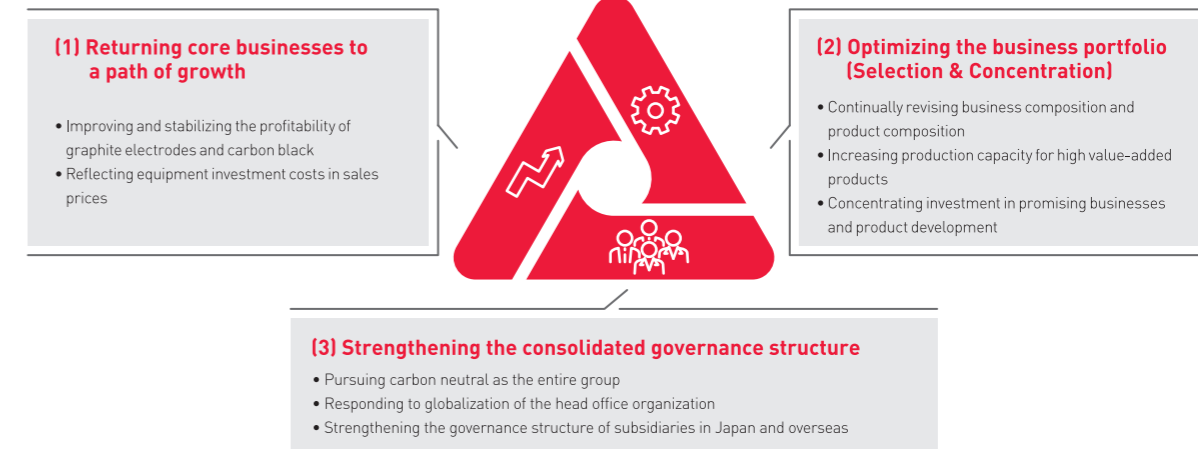
Increasing medium- to long-term competitiveness through sustainability efforts

We formulated our Sustainability Policy and announced it in November 2021 after a resolution by the Board of Directors and also established the Sustainability Committee as an advisory body to the Board of Directors in January 2022. Going forward, we will deeply explore how we should address and resolve sustainability issues as a company. Amid such discussions, we are expecting that the process will help us figure out new business areas we should venture into as we find ourselves in an unprecedented world living alongside COVID-19 and focused on decarbonization.

In May 2021, we launched the Carbon Neutral Project Team, of which I served as the head. In February 2022, we reorganized it into the Carbon Neutral Committee, a body to perform headquarters functions for the entire Tokai Carbon Group in terms of our efforts toward achieving carbon neutrality. Along with this, we established the Carbon Neutral Office to facilitate the committee. Although the recent Russian invasion of Ukraine, which is said to be the worst military crisis since World War II, has triggered supply chain disruptions and strains on the energy market, and some express concern about a possible adverse effect on the progress of decarbonization, we believe that the long-term momentum for decarbonization will not change despite these developments. We will address carbon neutrality not just as a risk but as a decisive issue that is highly likely to have a significant impact on our medium- to long-term competitiveness.

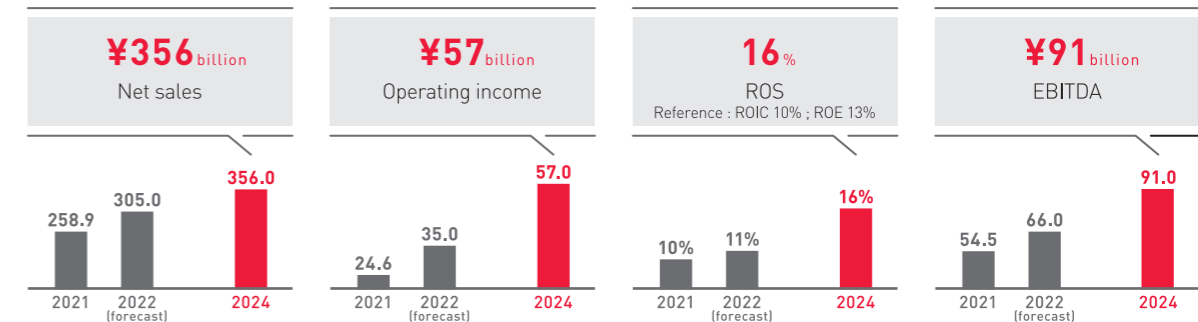
T-2024 Basic Policies

- 1) Return core businesses to a growth trajectory to stabilize the revenue base
- 2) Engage in a process of selection and concentration of businesses based on changes in the environment such as carbon neutrality and the pandemic
- 3) Strengthen the consolidated governance structure to respond to rapid progress in globalization



T-2024 Quantitative Targets

We aim to achieve targets by restoring profits from core businesses and continuing to invest in growth markets.



*ROS: Return on Sales = Operating income to net sales (operating income ÷ net sales)
 *Tokai Carbon ROIC = Operating Income after Taxes / Working Capital [(Trade Receivables + Inventories) + Fixed Assets]

Objectives of the medium-term management plan T-2024

We have recently announced our medium-term management plan "T-2024" for the period from 2022 to 2024 toward achieving our new long-term vision. Our end-user industries are expected to grow not only over the period of T-2024 but also in the medium- to long-term, including the electric arc furnace industry, which attracts attention for the low environmental impact of steel making process; the automotive industry and the tire industry, which anticipate a significant growth in demand for electric vehicles (EVs); and the

semiconductor industry, which witnesses advances in artificial intelligence (AI), the Internet of Things (IoT) and digitalization; as well as the aluminum industry, which addresses the need for reducing the weight of EVs and other vehicles. Taking full advantage of this management environment, under T-2024, we will aim to achieve the targets of net sales of 356 billion yen, operating income of 57 billion yen, ROS of 16% and EBITDA of 91 billion yen for FY2024, while continuing to pursue the basic policies of T-2023 announced in 2021: (1) returning core businesses to a path of growth, (2) optimizing the business portfolio (selection and concentration) and (3) strengthening the consolidated governance structure.

Returning core businesses to a path of growth

Further study is necessary to analyze the effects of the considerable uncertainty caused by the Russian invasion of Ukraine, a factor that was obviously beyond our projections at the time of the announcement of T-2024. But now, it is most important to effectively meet increasing demand from our end-user industries in both the Graphite Electrodes and Carbon Black businesses. In addition, it is also crucial to pass on the increasing raw material prices, as a result of the Ukraine crisis to selling prices to secure profitability. The two core businesses getting back on a growth path will raise the overall level of the company's performance.

Optimizing the business portfolio (selection and concentration)

In November 2021, the Board of Directors adopted a resolution on the Business Portfolio Management Policy and decided to deliberate on the direction of our business portfolio annually. All of the businesses will have targets for profitability and capital efficiency based on the Company's cost of capital. The portfolio will also examine the consistency with the long-term vision, medium- to long-term growth potential and other relevant viewpoints. The recent divestiture of the Carbon Black business subsidiary in China is part of our efforts to optimize our business portfolio. Going forward, we will continue to strive to build a business portfolio that enables continuous enhancement of our corporate value by advancing selection and concentration in terms of various aspects, such as business, product, product type and location, with the goal of increasing our return on invested capital (ROIC) from 4.8% for FY2021 to over 10% for FY2024.

Strengthening the consolidated governance structure

As a result of mergers and acquisitions, the number of overseas subsidiaries has increased in a short period of time. It remains imperative for us to strengthen the consolidated governance structure. We will work to carry out all possible measures, such as strengthening overseas subsidiaries' own governance structure, enhancing the cross-divisional functions of our head office organizations and increasing the number of employees dispatched overseas. Meanwhile, we expect that our efforts toward carbon neutrality, which also require Group-wide measures, could help make our consolidated governance structure stronger.

Tackling issues in each business by taking the management environment into consideration

In the Graphite Electrodes business, as business conditions are slow to recover, we will strive to secure reasonable profit through agile pricing in order to ensure that we can capture earnings opportunities which are significantly growing on the back of a global shift to electric arc furnaces driven by the momentum of decarbonization. Specifically, we will increase the proportion of supersized graphite electrodes, a segment in which we are in a strong position, to maintain our competitive advantage and meet customer demand.

In the Carbon Black business, we have withdrawn from the Chinese market and will focus our management resources on the U.S. and Asian markets, where steady growth is expected. As this

business is the largest CO₂ emitter in the Company, it will also be crucial to advance efforts toward carbon neutrality in collaboration with customers, such as through research and development for plant-derived raw materials and recycling of raw materials.

The Fine Carbon business is expected to remain strong, supported by 5G, IoT and the expansion of EVs. As our performance in this segment continues to be robust, led by Tokai Carbon Korea Co., Ltd., the production base for solid silicon carbide (Solid-SiC) focus rings, we will work to boost production and strive to grow faster than the market and increase our market share.

For the Smelting and Lining business, we estimate an operating income of zero for FY2022, taking into account of amortization of goodwill of approximately 10 billion yen per year while conservatively projecting increases in raw material and energy costs. We have some challenges to address, such as improvement of the profitability of our operations in France and the impact of the situation in Ukraine, including raw material procurement and the rise in energy costs. The business itself is highly promising in the long term as demand for aluminum is strong backed by the spread of EVs.

In the Industrial Furnaces business that we operate under Tokai Konetsu Kogyo Co., Ltd., we maintain high profitability, as in the Fine Carbon business, on the back of strong growth of the semiconductor market. We will work to expand production capacity and step up efforts to achieve further growth.

For the Friction Materials business, as we consider formulating a growth strategy to be rather difficult as long as we continue on the course we have taken, we will implement further substantial structural reform measures to strengthen competitiveness and drastically improve profitability.

In the Anode Materials business, we are working to expand into Europe, as mentioned earlier, and we need to win new customers, namely local battery manufacturers.

Outlook for capital expenditures and operating cash flow

During the three years of T-2024, we aim to generate an operating cash flow of 185 billion yen, out of which we plan to put 114 billion yen toward growth and business continuation investments. We also plan to invest 59 billion yen in facility renewals to be implemented from a medium- to long-term perspective, approximately 32 billion yen in facility expansions in the high-ROIC and high-growth Fine Carbon and Industrial Furnaces businesses and 20 billion yen in environmental investments.

Maintaining stable and continuous shareholder returns

We have decided to pay an annual dividend of 30 yen per share for FY2021, the same level as for the previous year. While the outlook for the management environment remains unclear because of factors such as the spread of COVID-19 due to the Omicron variant and concerns about an economic downturn caused by heightened geopolitical risks, we would like to maintain annual dividends of 30 yen per share for FY2022, as well, from the perspective of stable and continuous shareholder returns.



Shareholder Return

Tokai Carbon will focus on declaring stable, consistent dividends while setting the target dividend payout ratio of 30%. We will also consider using surplus cash flow to buy back the company's shares as dictated by collective consideration of the business environment, financial status, investment in growth, and the level of the stock price.

