

History of Tokai Carbon's transformation

Having established its revenue base through drastic structural reforms, the Tokai Carbon Group has shifted to a growth strategy and increased net sales by 2.5 times over the past several years. We will work to strengthen our governance system to maximize the synergy among our global locations, which we have expanded, and aim to become a company that contributes to a sustainable society.



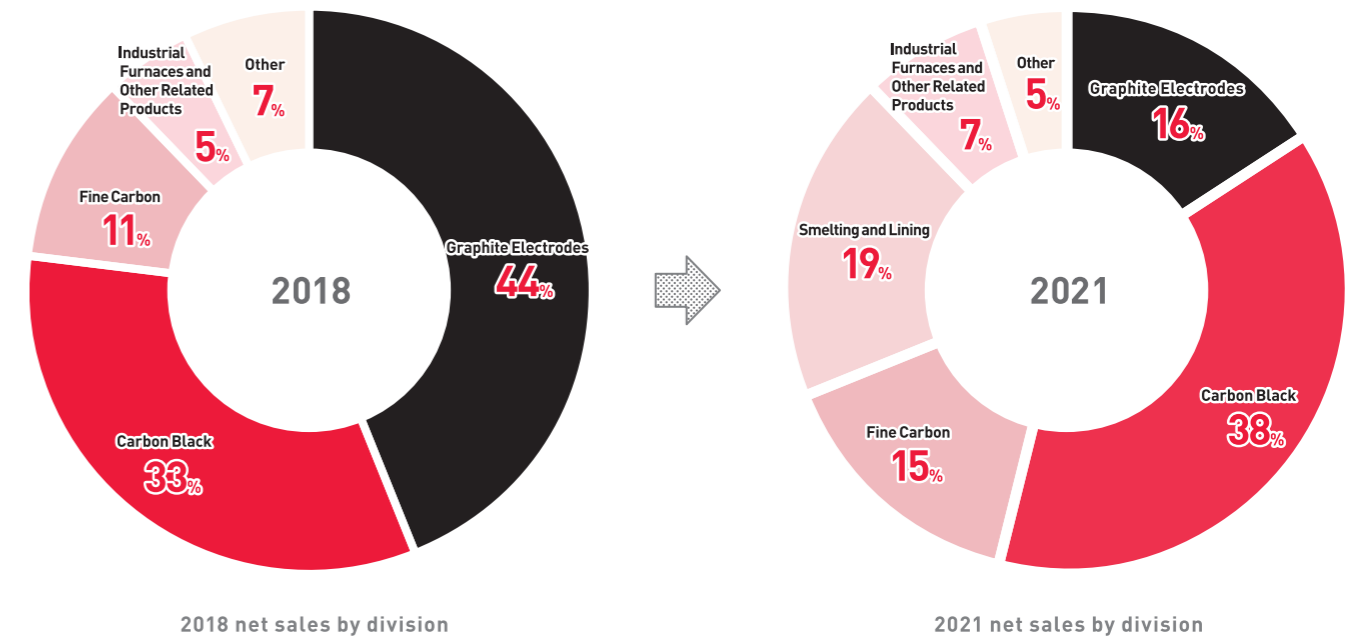
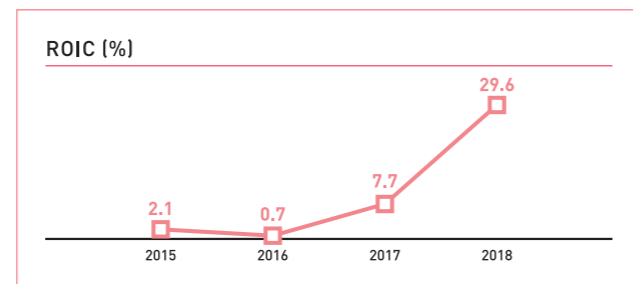
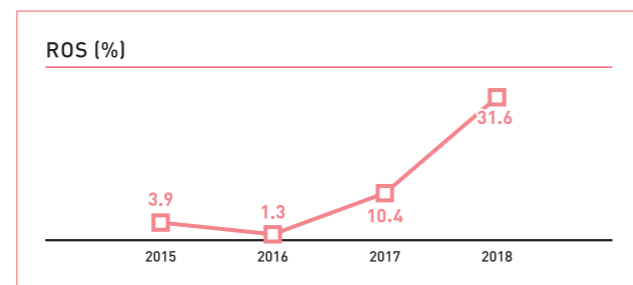
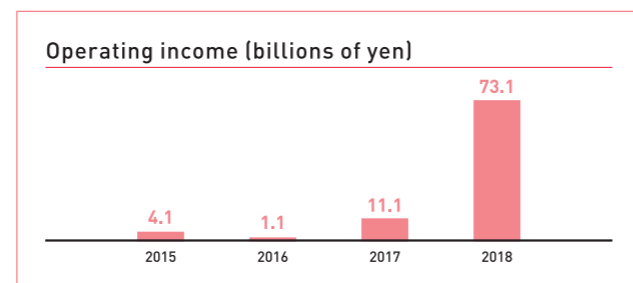
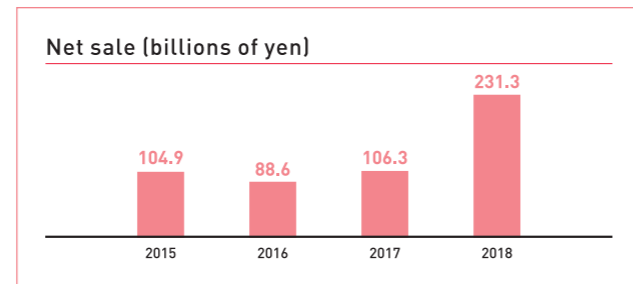
We underwent a period of low growth and low profitability because our response to rapid changes in the market was not fast enough. This brought overgrown assets and other management issues to the fore. Sharing an acute sense of crisis, in 2016, we implemented drastic structural reforms, including downsizing production capacity, optimizing the workforce, reducing fixed assets, and exiting from non-core businesses, as well as reducing inventories, to rebuild our business base.

We improved the profitability of the Graphite Electrodes and Fine Carbon businesses, which had been underperforming, and shifted to a growth strategy aimed at expanding into carbon black, industrial furnaces, and other business areas. We implemented M&As in the Graphite Electrodes, Fine Carbon, and Carbon Black businesses and achieved a significant improvement in net sales and operating income as well as in ROIC and other metrics, partly due to an upturn in the business environment.

To progress away from a business composition that is overly dependent on graphite electrodes, we strengthened our other existing businesses by investing in the North American operations of the Carbon Black business and making growth investments in the Fine Carbon business. We also launched the Smelting and Lining business through M&As in 2019 and carried out measures to strengthen the business in 2020. Through these efforts, we have increased sales and built a more robust business portfolio.

We will establish a system resilient against rapid changes in the business environment by making various growth areas our target markets and strive to enhance our corporate value over the medium- to long-term.

- Major measures**
- Workforce optimization (100 employees took early retirement.)
 - Inventory reduction (by approximately ¥13 billion across divisions)
 - Reduction of carbon black production capacity
 - Reduction of fine carbon production capacity
 - Sale of idle assets (by Tokai Konetsu Kogyo)
 - Exit from the Nagoya Green Club (golf driving range) business
 - Posting of impairment loss on the Graphite Electrodes business
 - Revitalization of human resources (cross-divisional assignment of personnel, mid-career recruitment of specialists)



(billions of yen)	2018	2019	2020	2021	2022 (estimate)	T-2024 (target)
Net sales	231.3	262	201.5	258.9	305	356
Graphite Electrodes	102.1	91.3	37.9	40.6	65	87
Carbon Black	76.9	101.8	70.8	99.5	114	123
Fine Carbon	25.4	30.4	31.8	39.1	41	51
Smelting and Lining	—	14.7	36.4	49.7	53	62
Industrial Furnaces and Other Related Products	11.4	12.6	13.9	18	20	21

* ROS: Return on Sales = Operating income to net sales ratio (= Operating income/Net sales)

* Tokai Carbon's ROIC = Operating income (after taxes)/(Working capital (= Trade receivables + Inventories - Trade payables) + Fixed assets)

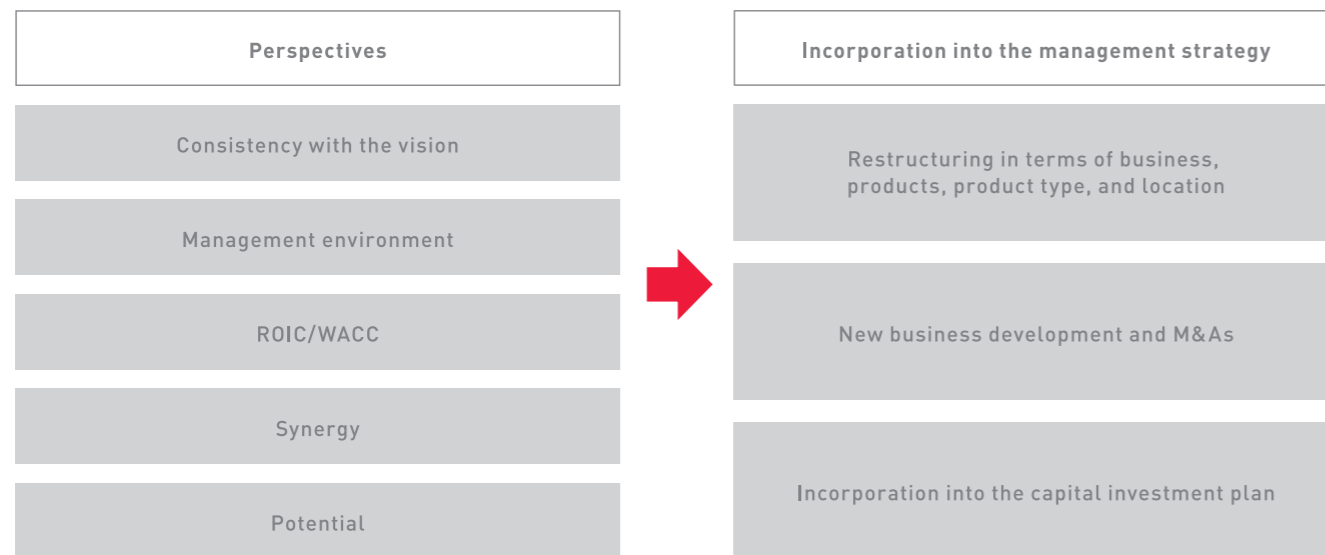
Business portfolio management

Our revenue streams are now diversified as we have worked to cast off a business composition overly dependent on core businesses by implementing growth investments and M&As aimed at building a more stable earnings structure. Meanwhile, the Board of Directors annually deliberates on optimizing management resource allocation across the Group. Through these efforts, we will strive to maximize our corporate value from a medium- to long-term perspective.

Business portfolio management

We will strive to maximize our corporate value from a medium- to

long-term perspective, with the Board of Directors deliberating on the total optimization of the Group management from various perspectives.



Capital efficiency management with ROIC

Since 2016, we have assessed capital efficiency for each business segment using ROIC as an indicator to drive improvement in each business's operating profit, productivity, CCC, costs, and other aspects. We place importance on ROIC when making decisions on

business portfolio management and management resource allocation. While we actively make capital investments in growth businesses, we aim to continuously improve our ROIC from a medium- to long-term perspective.

Long-term perspective (continuous improvement of capital efficiency)

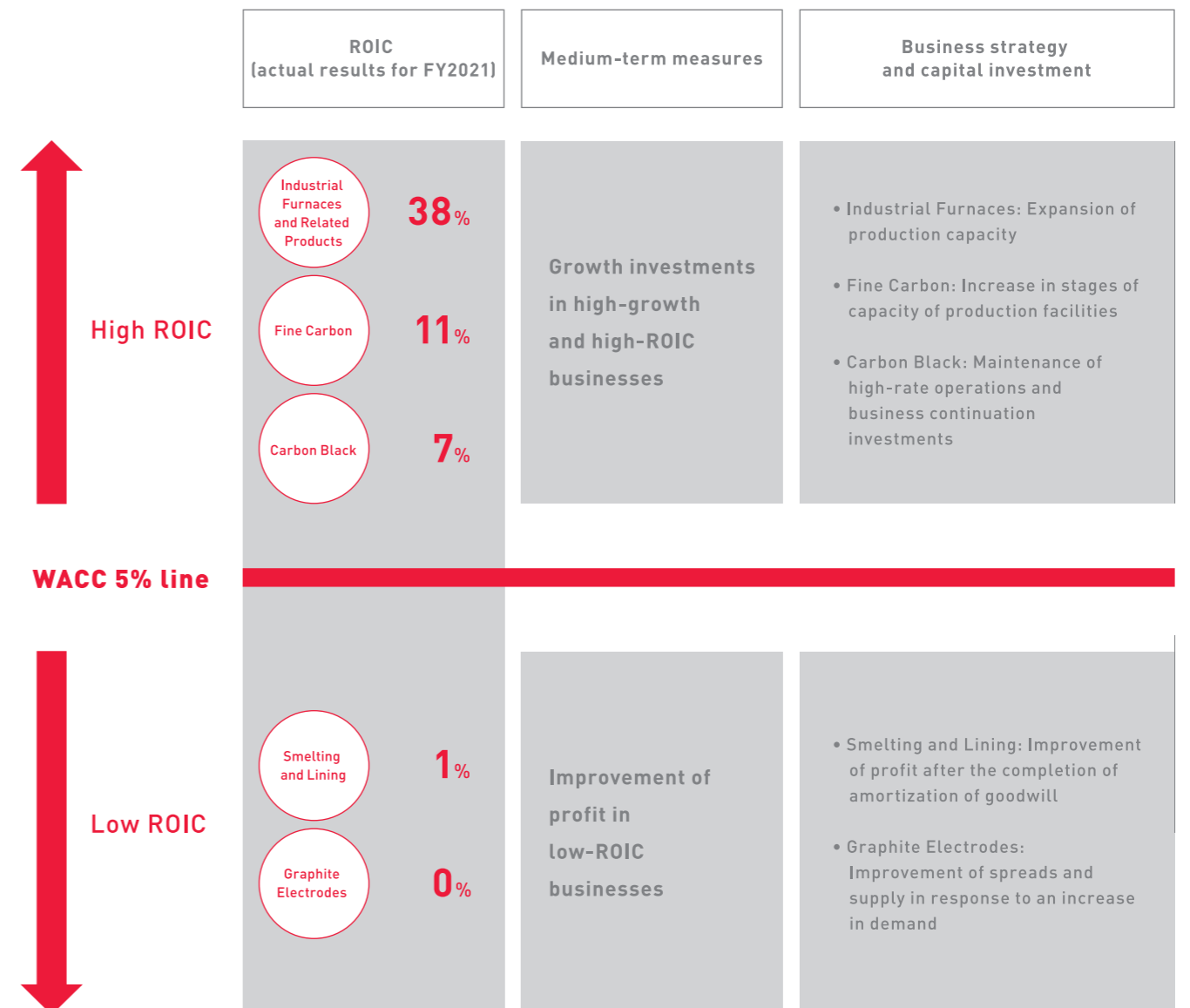
We will continue our efforts to optimize our business portfolio by leveraging the Group's strengths and the synergies generated among our businesses. As we pursue our efforts, we make it a

policy to analyze our technologies and the growth potential of markets and explore the possibilities of contributing to society through our products and technologies, including alliances with other companies. In particular, as the movement toward carbon neutrality increases, we will seek ways to contribute to a sustainable society, even venturing out of the areas of our carbon and other businesses.

Medium-term target for ROIC—achieving a ROIC of 10% by 2024 (under the medium-term management plan T-2024)

The Group's ROIC for FY2021 was 4.8%. It was negatively affected by a slow recovery in market conditions in the Graphite Electrodes business and amortization of goodwill in the Smelting and Lining business. In other business segments, however, capital efficiency is expected to remain high, as business conditions recovered from

the effects of the COVID-19 pandemic earlier than anticipated, and demand for semiconductors stayed strong. We aim to achieve an ROIC of 10%, a target under the medium-term management plan T-2024, by working to enhance the profitability of the Graphite Electrodes and Smelting and Lining businesses actively investing to increase production capacity in the Carbon Black, Fine Carbon, and Industrial Furnaces businesses, which are expected to realize high ROIC and high growth, and ramping up efforts to improve our performance.



Management resource allocation

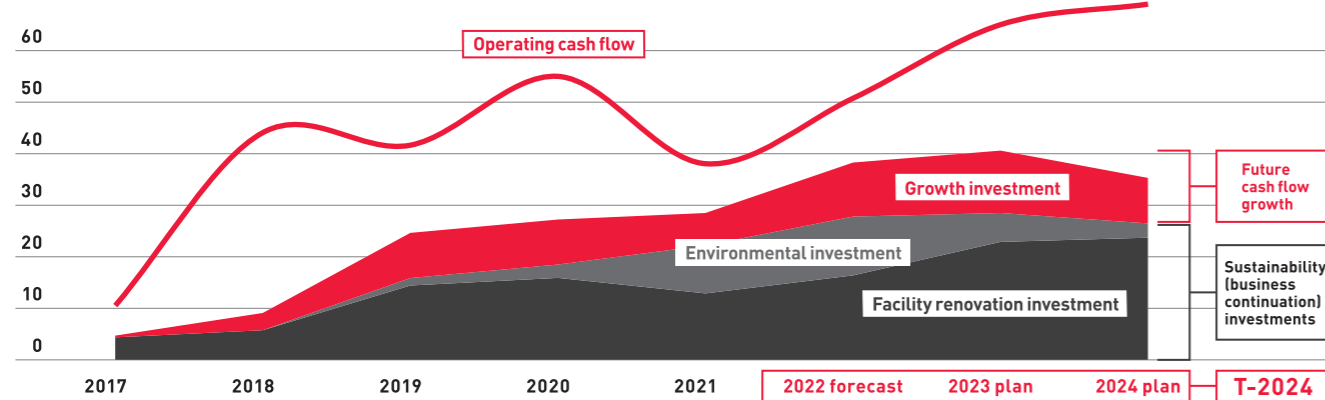
Continuously enhancing corporate value is essential to achieving our long-term vision. We will take steps to flexibly respond to changes in the business environment. We will work to optimize management resource allocation by continually reviewing how to allocate management resources across the Group and to each business segment and advancing selection and concentration in terms of business, products, product type, and location.

Outlook for capital expenditures and operating cash flow

During the three years of the medium-term management plan T-2024, we will put approximately 114 billion yen into growth and

Outlook for capital expenditures and operating cash flow

70 (billions of yen)



business continuation investments. In addition to medium- to long-term facility renovation investments, we plan to make growth investments of approximately 32 billion yen, primarily in high-ROIC businesses, and environmental investments of approximately 20 billion yen in the North American operations of the Carbon Black business, in the Smelting and Lining business, and others.

Capital investment plan

As for growth investments, we plan to invest to increase production capacity in stages in the Fine Carbon business, which is expected to continue to achieve high growth on the back of strong demand related to EVs, AI, and IoT, as well as in the Industrial Furnaces and Related Products business. In the Smelting and Lining business, we will invest to construct anode materials production facilities at our site in Europe to meet the demand for locally produced EV battery materials. By leveraging the anode materials production technology

cultivated in Japan and the large-scale heat treatment facilities located at the European site, while also drawing on support from the EU authorities through subsidies, we will produce low-cost, high-quality products. Supply is expected to be tight in the Carbon Black business, which is one of our core businesses, as demand for tires remains strong and the increase in geopolitical risks drives the use of locally produced goods. Given these circumstances, we plan to make facility renovation investments and environmental investments to ensure that we can continue to operate our existing facilities at full capacity.

List of major planned investments

	Estimated 3-year total amount of investment	Major target businesses for investment	Estimate (billions of yen)	Description of major investments
Growth investment	¥32 billion	Fine Carbon	16	Increase of graphite materials production capacity, capacity expansion at TCK, etc.
		Smelting and Lining	6	Development of the anode materials business in Europe (including the use of subsidies from EU authorities)
		Industrial Furnaces and Related Products	4	Expansion of production capacity
		Other Operations (Friction Materials and Anode Materials)	6	Optimization of overall operations, debottlenecking, product development, etc.
Environmental investment	¥20 billion	Carbon Black	12	Environmental measures primarily at the North American plants
		Smelting and Lining	3	Flue gas desulfurization facilities, etc.
		Carbon neutrality and others	5	
Facility renovation and regular maintenance	¥59 billion	Graphite Electrodes	13	Renewal of facilities and shift to high-value-added products
		Carbon Black	35	Regular renewal, replacement of large-scale facilities, etc.
		Fine Carbon	3	General repairs
		Smelting and Lining	6	General repairs
Other	¥3 billion	Other Operations (Friction Materials and Anode Materials)	2	General repairs
		Information systems and others	3	Streamlining of operations through digital transformation
Total	¥114 billion			

* The above planned investments reflect our medium-term strategy and other plans and are subject to major changes in the future due to various factors.

Financial management policy

Maintaining and improving our rating

Issuer credit rating: A- (Rating outlook: from "stable" to "positive") Rating & Investment Information, Inc. (R&I) changed the rating outlook for the Company from "stable" to "positive" in view of our improved business portfolio and enhanced financial base (as of May 31, 2022). The updated rating acknowledges the fact that we have the profitability and capability to generate cash flows that benefit A-category companies, keep financial risks under control by addressing the increase in interest-bearing debt due to acquisition of multiple companies and other factors while also utilizing hybrid financing, and the balance of debt and cash flows is improving due to the contributions of the effect of improved profitability and our management policy that stresses financial discipline.

Cash flow management

We aim to enhance our corporate value over the medium- to long-term by strengthening our capability to generate cash flows and increasing capital efficiency. With regard to improving capital efficiency, we aim to achieve an ROIC of over 10% by increasing EBITDA and pursuing further reforms of our cost structure. In addition, we will also make efforts to manage our balance sheet, such as ensuring inventories are kept at an appropriate level so that the CCC stands at 100 days or less.

	2019	2020	2021	T-2024
EBITDA (billions of yen)	77.1	35.2	54.5	91
CCC (days)	171	207	158	147
ROIC (%)	13.4	1.6	4.8	10.0

* Tokai Carbon's ROIC = Operating income (after taxes)/(Working capital (= Trade receivables + Inventories - Trade payables) + Fixed assets)

Reducing debt and aiming for a net D/E ratio of 0.0x

We will work to secure liquidity on hand and reduce debt to achieve

a net cash position while also increasing our investment capacity for the future. In addition, we will work to generate more cash by strengthening the profitability of our core businesses and focusing on prudent cash management. Through these efforts, we aim to lower our net D/E ratio to 0.0x.

	2017	2018	2019	2020	2021
Adjusted net interest-bearing debt (billions of yen)	(6)	2.9	70.3	56.5	54.4
Adjusted shareholders' equity (billions of yen)	126.4	187.1	236.8	236.3	264.2
Adjusted net D/E (times)	[0.047]	0.016	0.297	0.239	0.206

* Adjusted net D/E: A net debt-to-equity ratio that accounts for the equity classification of hybrid financing obtained from rating agencies.