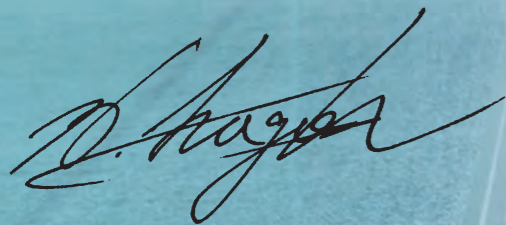


Top Message

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We will boldly take on the challenge of investing in cutting-edge fields while cultivating the pillars of our earnings

With a sense of urgency, we will raise Tokai Carbon to a higher level. While enhancing the profitability of our core businesses, we will continue to invest in cutting-edge fields for stakeholders and the next generation of employees who will be responsible for Tokai Carbon in the future.



Hajime Nagasaka

President and CEO





Our Structural Reforms and Business Portfolio Transformation to Date

Nine years have already passed since I became President of Tokai Carbon in February 2015.

During my second year in office in 2016, I devoted myself to thorough structural reforms, and from 2017 onward, I shifted my focus to a growth strategy, leading to multiple overseas M&As. As a result, Tokai Carbon's business portfolio has been diversified, and the scale of its business has expanded to approximately three times in terms of sales and ten times in terms of operating income compared to 2014.

Tokai Carbon is a global company with a 105-year history. If you follow the Company's trajectory so far, it can be said that our business has developed along with the automobile industry, which has flourished over the years. Japan's automotive industry accelerated in the late 1970s as the country shifted its main focus from the steel industry and heavy industry to the auto industry. Many automotive parts manufacturers have continued to grow in line with the development of finished goods manufacturers, with some suppliers now exceeding 500 billion yen in sales and some top suppliers now witnessing sales in excess of 1 trillion yen.

In contrast, our company's sales remained stagnant at around 100 billion yen even in 2014. Our Graphite Electrode and the Carbon Black businesses, which were our core businesses at the time, complemented each other's market fluctuations and produced relatively stable profits. At that time, we did not have a keen awareness of the issue of business stagnation. However, upon assuming the position of President, I once again felt a sense of crisis which told me that the Company needed to change its direction. Although our business performance was stable, I knew from experience that we would not be able to gain the trust of investors and financial institutions if we remained to be a company with sales of just around 100 billion yen. Therefore, I felt it was my mission to draw up a clear growth strategy for our Company and work tirelessly to implement it.

In an equipment industry like ours, the bottom line is achieving profits of scale. A company needs to be a certain size when a large amount of funds are needed for future capital investment or research and development and to attract excellent human resources. With this in mind, I decided that our medium-term target would be to achieve net sales of 300 billion yen.

Decisive implementation of structural reforms

At first, we decisively implemented bold structural reforms without being preoccupied with immediate sales and profits, and focused on the thorough elimination of waste within the company. As a result, revenue and profits fell sharply in 2016, which resulted in a negative net income. Naturally, although people around me began to criticize me more and more, I continued with my reforms believing that the results would follow rather than being concerned about the short-term numbers.

I thought it would be a good idea to proceed with structural reforms all at once. We accomplished 60% of the structural reforms that we had originally envisioned in about one year. However, I determined that the remaining 40% of reforms, especially for changing internal awareness, would take some time, so I decided that the Company should move on to the next stage while continuing to work on the remaining reforms.

Business portfolio transformation

From 2017 to 2020, the Company implemented five M&As overseas. We focused on increasing the sizes of our earnings pillars with the aim of moving away from a profit structure that relies on our Graphite Electrodes and Carbon Black businesses. Until that time, the Company had been operating virtually debt-free. However, as a result of actively raising funds from financial institutions as well as directly from the capital markets and investing a cumulative total of approximately 180 billion yen, our balance sheet structure changed significantly. Despite this, I believe we have successfully diversified our business portfolio, making us less susceptible to fluctuations in the graphite electrode and carbon black markets.

Results right in front of us

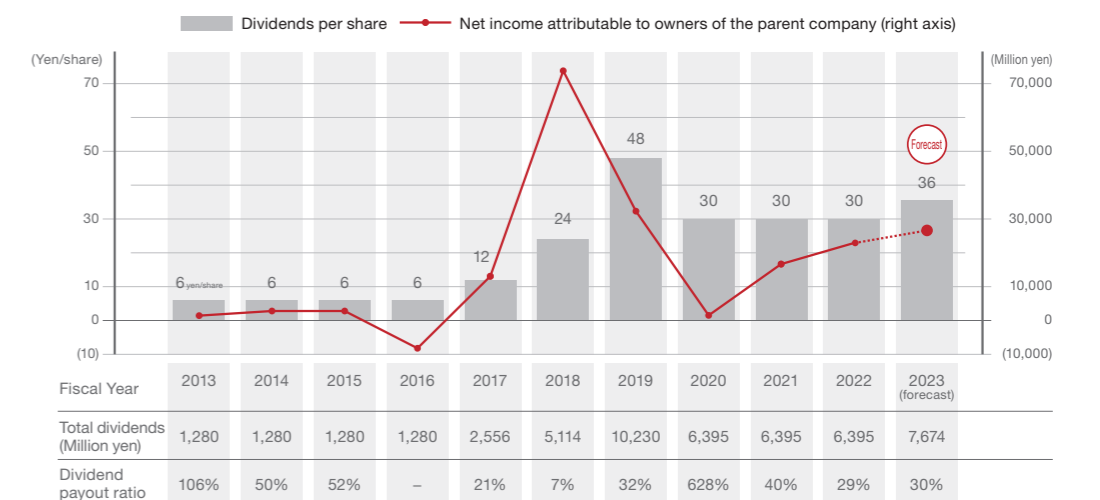
In 2022, while the multi-year COVID-19 pandemic began to show signs of abating, supply chain disruptions triggered by the crisis in Ukraine, the global inflationary trend, and the resulting tightening of monetary policy were major downward pressures. Uncertainty regarding the global economic outlook increased once again. Under these circumstances, in accordance with our basic policies of "returning core businesses to a path of growth," "optimizing the business portfolio (selection & concentration)," and "strengthening the consolidated governance structure" set forth in the rolling medium-term management plan "T-2024" announced in February, the Company expanded its business activities, and was able to achieve significant increases in both revenue and profit compared to the previous fiscal year. I believe that the reason why we were able to exceed our initial plan targets despite the challenging business conditions is that our structural reforms and business portfolio transformation have gradually begun to show results.

As for 2023, we aim to achieve net sales 484 billion yen, an operating income of 69 billion yen, and an operating income to net sales ratio of 14% in 2025 in accordance with our basic policies of "returning core businesses to a path of growth," "optimizing the business portfolio (selection & concentration)," and "establishing a foundation for sustainability management" set forth in the new rolling medium-term management plan "T-2025."

With regard to shareholder returns, Tokai Carbon will continue to focus on consistent, stable dividends while setting the target dividend payout ratio at 30%. Although the current business environment is quite severe and does not allow for optimism, we will continue to be vigilant.

Shareholder Returns

Dividends Per Share and Net Income Attributable to Owners of the Parent Company



Further Strengthening Our Core Businesses to Realize Our Long-term Vision

It goes without saying that I could not carry out structural reforms and business portfolio transformation on my own. I am very grateful for the deep understanding and support of the management team and the efforts of our employees. Going forward, I will continue to work together with management and employees to achieve even higher level results aimed at our long-term vision for 2030: “Contribute to a sustainable society through advanced materials and solutions.”



The potential of our core businesses

Our graphite electrodes are mainly used in electric furnaces where scrap iron is melted down to produce steel for construction and other uses. One medium- to long-term business opportunity is the shift from blast furnaces to electric furnaces, which is aimed at reducing CO₂ emissions in the steelmaking process. Although the blast furnace manufacturing method emits a large amount of CO₂, the electric furnace manufacturing method is said to reduce the amount of CO₂ emissions to about 25% of that amount. Since the shift from blast furnaces to electric furnaces is a global trend, particularly in the United States, we expect business opportunities for the Company to expand further.

About 70% of the carbon black produced is used for tires. The automotive industry is undergoing a major transformation with the shift from gasoline and diesel vehicles to EVs moving forward. However, the demand for tires will not diminish as long as the vehicles are running on the ground. We are working with a sense of mission to ensure that we can meet demand, which is expected to continue to grow, with high-quality products.

Smelting and Lining is a business closely related to aluminum smelting and is mainly performed at our plants in Poland and France. Although I expect that demand for aluminum vehicles and wheels will grow as a result of the shift to EVs, the aerospace industry will be the key to the future. There is currently goodwill amortization associated

with M&A, so the contribution to profit is yet to come. However, I have high expectations for the expansion of our Smelting and Lining business.

Fine carbon is a product made from tiny carbon particles broken down to the micron level. More than 70% of fine carbon is used for semiconductor-related applications. Although memory semiconductors used in PCs and mobile phones are currently in an adjustment phase, demand for power semiconductors used in EVs and other applications is growing significantly. I see our Fine Carbon business as another highly profitable business with great potential.

Nurturing our businesses and generating stable cash flows

First, I would like for the Company to fully nurture these existing businesses and generate stable cash flows while allocating some of the cash we earn to cutting-edge business fields. It goes without saying that the research and development of cutting-edge businesses involves a high level of risk. However, I would like for the Company to continue taking on challenges looking toward next-generation business expansion. Although I do not expect that we will easily succeed, we will move forward with a sense of speed by grasping the changes of the times, and will indicate the direction in which we are headed while considering not only internal management resources but also co-creation with like-minded external partners.

Increasing Management Sustainability

In terms of contributing to the sustainability of society, our efforts are just getting started. The most important issue that we face is carbon neutrality. Of the Company’s six businesses, the Carbon Black business accounts for the largest amount of CO₂ emissions, so reducing CO₂ emissions in this business is an urgent issue. In addition to conventional, steady efforts to save energy and improve the yield ratio, we will pursue with a sense of urgency innovative technologies such as product recycling and CO₂ recovery, as well as dream technologies such as the development of carbon products that utilize recovered CO₂.

With regard to governance, we have viewed the strengthening of governance of domestic and foreign group companies as a key issue that must be prioritized. Since overseas sales account for approximately 80% of our sales in our company, governance is particularly important for our overseas subsidiaries. While many Japanese companies appoint Japanese nationals as the CEOs of their overseas subsidiaries, we appoint local personnel as CEOs of all of our overseas subsidiaries except one in Thailand and one in the United States. This is because we are convinced of the superiority of our style of delegating what needs to be delegated based on a relationship of trust with competent

local personnel. Naturally, this does not mean that we can just appoint anyone that is local to the position of CEO. However, I believe that each of our subsidiaries has a good CEO right now.

Three of our eight directors are external directors. In order for them to guide our Board of Directors, it is important for them to know us well. Therefore, we also invite them to attend the weekly meetings of the Management Committee so that they can better understand the status of business execution. Since the outside directors have extensive experience in their respective fields, we place a high degree of trust in them.

Tokai Carbon Will be Further Expanded for the Next Generation

While achieving our net sales target of 484 billion yen and operating income target of 69 billion yen for 2025 will be challenging, my dream is to take our business scale to an even higher level in the not-too-distant future beyond “T-2025.”

As we continue to invest in cutting-edge businesses and continue to conduct research and development, the most important thing is that those efforts lead to business expansion. However, it is also true that the hurdles to overcome are high. Currently, working on post-merger integrations related to past M&As is a top priority, and M&As will continue to be an option for the Company.

I want Tokai Carbon to be a company that is trusted and recognized by society by doing what we can do now for the next generation of employees who will be responsible for Tokai Carbon in the future.

I welcome you to look forward to the future initiatives of Tokai Carbon, a company that boldly takes on challenges for the future.

