Corporate Strategy

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Medium-term Management Plan “T-2026”

Our mid-term management plans are rolling management plans that will be updated annually over three years. The basic policy of the Medium-term Management Plan “T-2026” this fiscal year remains mostly the same as the previous plan (T-2025), but target themes have been revised in the light of changes in the business environment.

The target theme to “strengthening the earnings power of core businesses” will create stable growth for the Carbon Black business that supported our business performance in 2023. It will also increase the production capacity of the Fine Carbon business to respond to the tremendous demand for SiC semiconductors. The 2024 outlook for the Graphite Electrodes business has had to forecast a deficit, but we will restructure the business so that it can generate stable earnings.

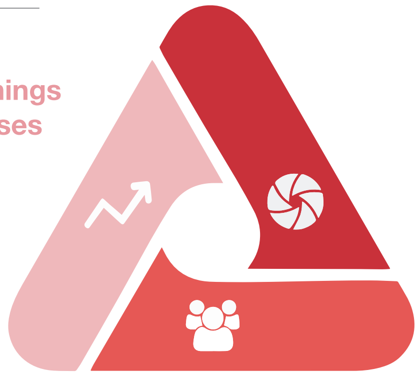
Our next target theme is “enhancing business portfolio management.” Management has continued its business selection and concentration efforts by withdrawing from non-core businesses and undertaking M&As since 2015. We now aim to employ more advanced management techniques to visualize the return on capital and growth of each business before concentrating the investment of management resources in growth businesses so that the value generated exceeds capital costs.

Our last target theme is “pursuing sustainability management.” We set “building an ESG management foundation” as a priority measure in 2019 and have been working to achieve this goal. As a result, Tokai Carbon has earned its place on the “FTSE4Good index Series,” “MSCI Japan ESG Select Leaders Index” and other renowned ESG indices. However, we have not set any other sustainability goals than the urgent challenge of carbon neutrality. We will continue to work to reach that goal in the future.

Basic Policies

Strengthening the earnings power of core businesses

- Reforming the structure of the Graphite Electrodes business
- Increasing high-added value and production capabilities of carbon black and fine carbon



Enhancing business portfolio management

- “Selection and concentration” considering growth and the return on capital

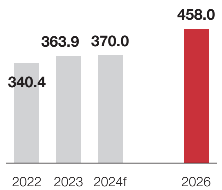
Pursuing sustainability management

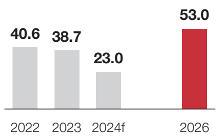
- Pursuing carbon neutral as the entire group
- Promoting the development of innovative technologies that contribute to a recycling-oriented society
- Strengthening the governance system
- Improving employee engagement

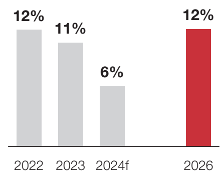
T-2026 performance targets

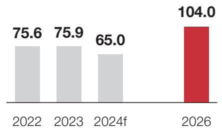
Strengthening the earning power of core businesses, enhancing business portfolio management, and pursuing sustainability management aim to achieve our performance targets for fiscal 2026.

Net sales	Operating profit	ROS	EBITDA
458 billion yen	**53** billion yen	**12**%	**104** billion yen (EBITDA margin 23%)









* ROS Return on Sales = Operating income to net sales foperating (income+net sales)
* EBITDA is an acronym for Earnings Before Interest, Taxes, Depreciation and Amortization that calculates the operating profit that includes depreciation and goodwill amortization.
* Assumed exchange rate for T-2026: 1 USD = 135 JPY; 1 EUR = 148 JPY *f = forecast (Outlook)

T-2026 Priority Measures

We have set three T-2026 priority measures: “reform the electrode production system,” “actively invest in growth businesses,” and “pursue sustainability measures.” The Graphite Electrodes business anticipates an increase in demand in the future following the shift to electric arc furnaces (EAFs) driven by carbon neutrality. Due to the current global stagnation in EAF steel production, we face the ongoing structural challenge of an excess supply from China and India in the market, which makes reforms to our production system more urgent. As structural reforms to our electrodes business are the biggest challenge for this fiscal year, we will move forward with investments into fine carbon, industrial furnaces, and other growth businesses. Our sustainability measures will focus on pursuing carbon neutrality and strengthening human capital among other initiatives, while looking to maximize corporate value through business portfolio management.

1

Priority measures

Reforms to the Electrode Production Systems

The industry faces structural issues with contineued oversupply from China and India, while global EAF steel production stagnates. We urgently need to review our production system, including evaluating options for how to utilize existing surplus capacity, while closely monitoring a future shift to EAF.

2

Priority measures

Active Investments in Growth Businesses

We will seize growth opporunities in face-to-face idustries and expand markets for Fine Carbon and Industrial Furnaces by increasing production capacity, tapping inot new markets, and building a global distribution network.

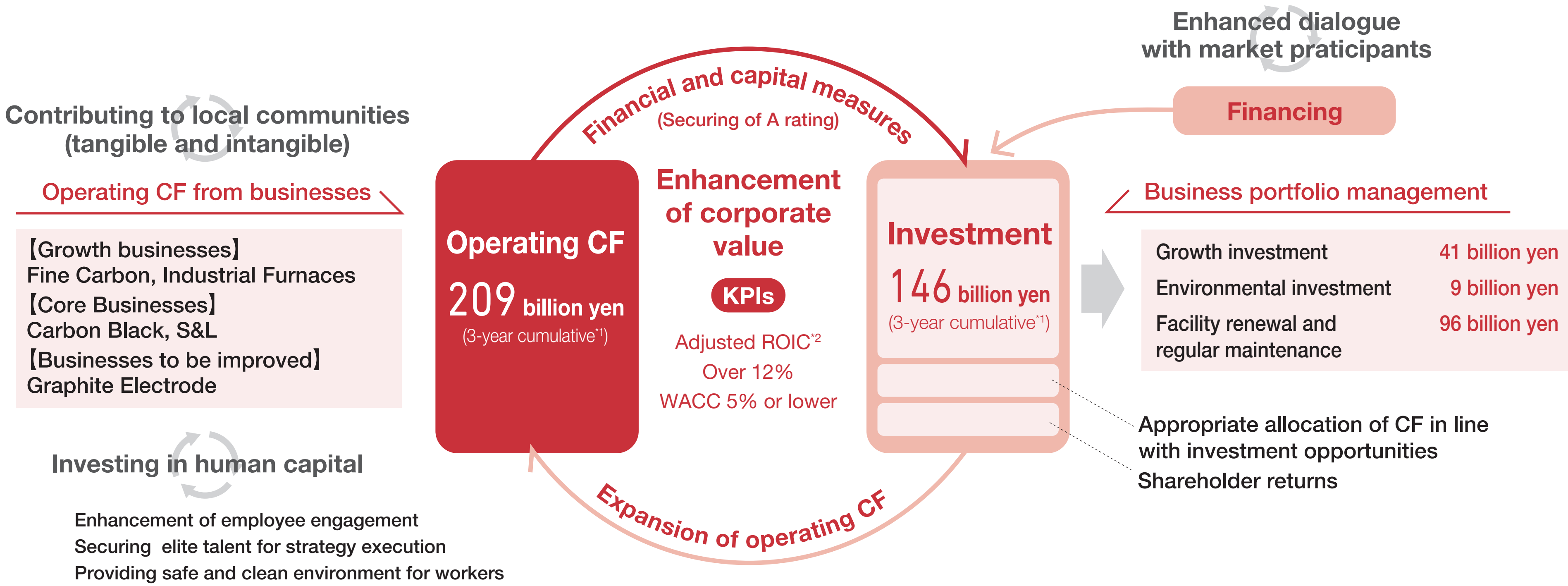
3

Priority measures

Sustainability Measures

We will conduct management that is conscious of the cost of capital through, business portfolio management; promote carbon neutral; strengthen the risk management and governance structure; enhance human capital; utilizite ICT; and follow TNFD recommentdations.

Overall Loop to Enhance Corporate Value

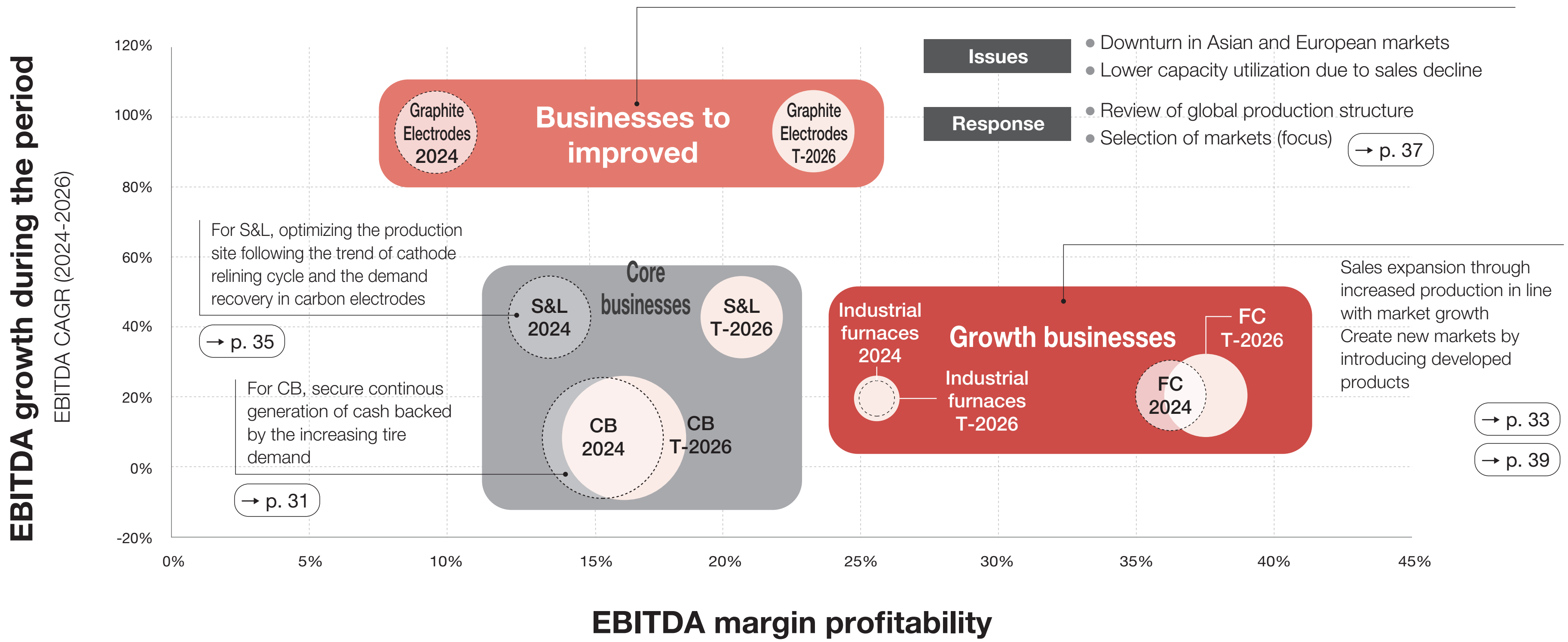


*1 3-year cumulative: The 3-year cumulative total for 2024 to 2026, the period of T-2026

*2 Adjusted ROIC: Adjusted ROIC is used as a KPI, after adjustment for goodwill, goodwill amortization, etc.

We will maintain financial soundness toward improving corporate value and expect to generate total operating cash flows of 209 billion yen over the three-year T-2026 plan. Tokai Carbon will also appropriately allocate growth and environment investments based on business portfolio management. Although it depends on the cash flow trends, we also aim to properly allocate other funds toward inorganic growth, new businesses, carbon neutrality, and other investment opportunities with the aim of stability generating and expanding operating cash flows. The adjusted ROIC has been set to over 12% and WACC to 5% or less as KPI for expanding the loop to improve this corporate value.

Maximize operating CF with strategies tailored to business issues



* The size of the circles represents the level of net sales

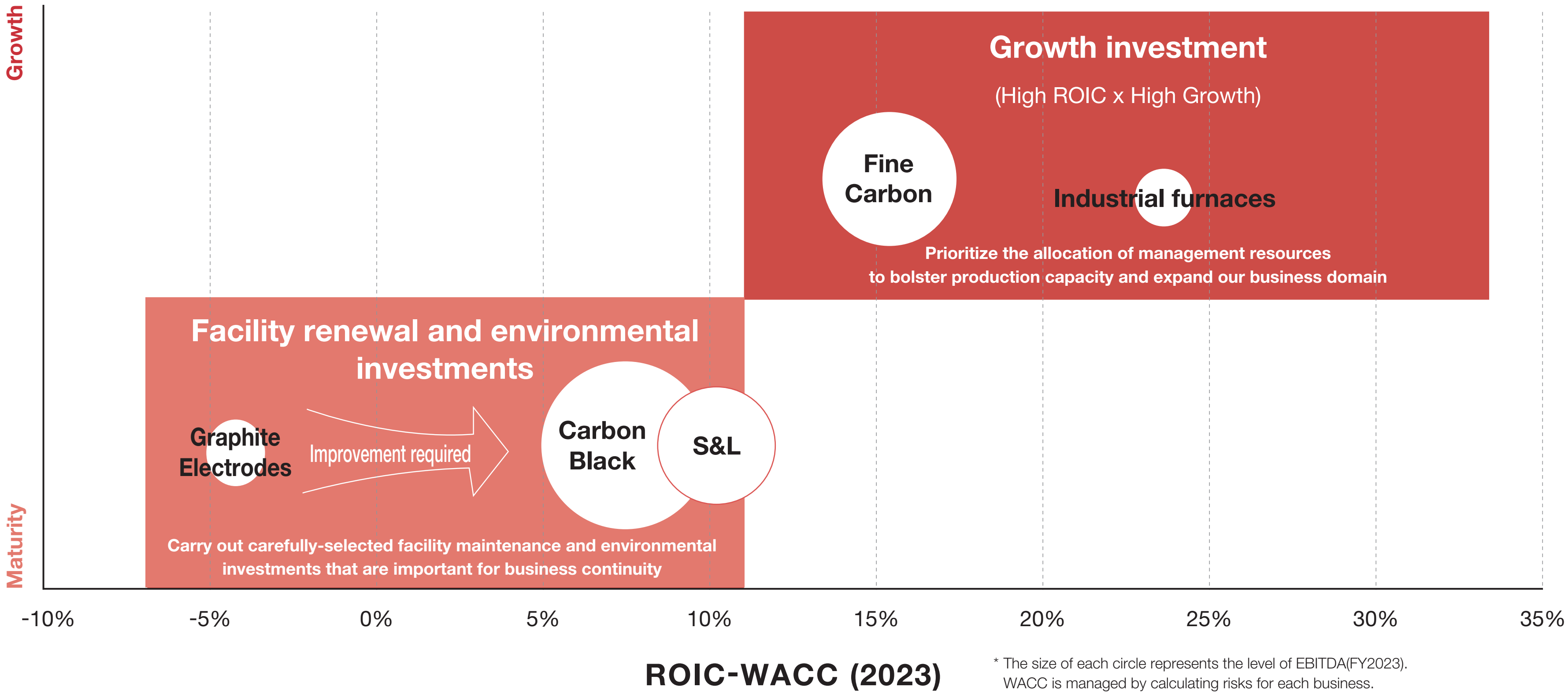
The vertical axis shows the growth and the horizontal axis the profit. We aim to maximize the operating cash flows (CF) toward 2026 by sementating our core businesses into “Core businesses,” “improvement businesses,” and “growth businesses” to execute the strategies that fits to the issues carried by each business.

Business Portfolio Management (Capital Allocation Guidelines)

To enhance corporate value, Tokai Carbon evaluates its businesses using the ROIC spread of each business. We will continue to be proactive in allocating the appropriate management resources to fine carbon and industrial furnaces, which are positioned in the higher growth and higher ROIC spread. The Graphite Electrodes, Carbon Black, and Smelting and Lining should generate stable profits as businesses in mature markets. The investment toward these businesses will be to ensure the stability of production and to be responsible for sustainable environment. Graphite Electrodes is positioned as a business to improve the ROIC spread therefore requiring drastic measures as structural reforms.

Allocation Guidelines for Operating Cash Flows

Aim to allocate management resources in a way that maximizes economic profit [(ROIC-WACC) x invested capital], calculated by multiplying excess profit by invested capital, while maintaining and improving business ROIC spreads, thereby enhancing corporate value.



* The size of each circle represents the level of EBITDA(FY2023).
WACC is managed by calculating risks for each business.
ROIC uses adjusted ROIC that takes in account goodwill and goodwill amortization.

Major Planned Investments

Our capital allocation guidelines aim to maximize the use of management resources. 41 billion yen will be injected to the growth investments mainly focusing on the Fine Carbon business. 9 billion yen will be injected to environmental investments and 96 billion yen to Carbon Black business that has to cover up the relocation of its manufacturing plant in Thailand. This equates to a total of 146 billion yen in investments.

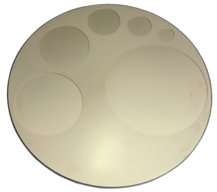
Facility renewal Regular maintenance
96.0 billion yen

Capital investments and maintenance costs are essential to continuously provide trustworthy quality and stable supply to the market building up trust between each cusomer.

Graphite Electrodes	15	Regular maintenance, Renewal of facilities, etc.
Carbon Black	49	Regular maintenance, migration of the Thailand plant, etc.
Fine Carbon	11	General repairs
Smelting & Lining	8	General repairs
Others	13	General repairs, DX/streamlining of operations, etc.

Growth investment
41.0 billion yen


Solid silicon carbide (SiC) focus ring


TaC susceptor

Capital investments for expanding the business focused to the Fine Carbon and Industrial Furnaces segment that are high in ROIC and growth potential.

Fine Carbon	30	Increase of graphite materials production capacity Support for Power semiconductor market, etc.
Carbon Black	4	Support for Carbon-neutral
Industrial Furnaces	2	Expansion of production capacity
Others	5	Automation, product development, etc.

Environmental investment
9.0 billion yen

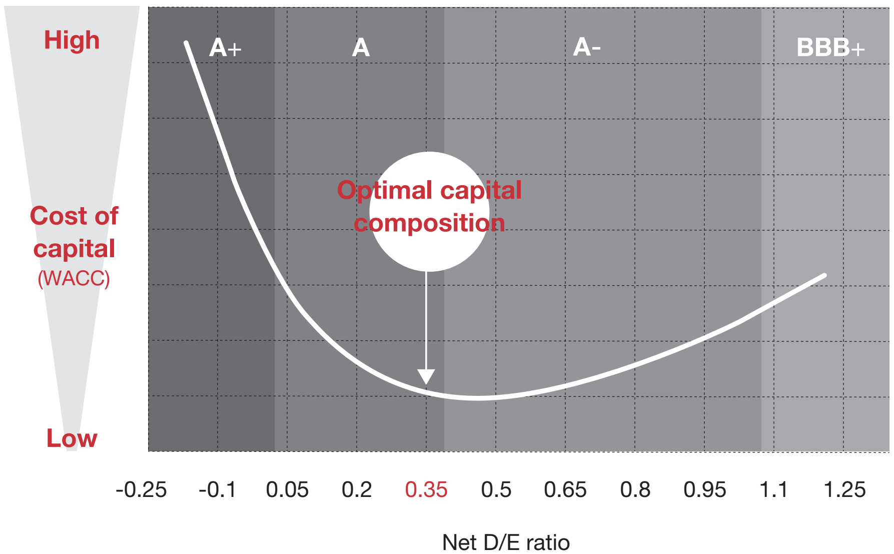
The large-scale environmental investments in the Carbon Black business reached an interim milestone in 2023. Future investments will take responsibility to focus on effective reduction of environmental impacts toward a sustainable society.

Carbon Black	4	Environmental measures primarily at the North American plants
Smelting & Lining	2	Flue gas desulfurization facilities, etc.
Carbon-neutral, etc.	3	

Financial/Capital Policies (Optimal Capital Structure)

Our basic financial and capital policy is to ensure sufficient financial soundness and readiness of core segments for the changing business environment to enhance corporate value. The Medium-term Management Plan "T-2026" lays out the capital structure to balance financial soundness and capital efficiency based on business/investment plans. We will allocate capital and funds in line with liquidity, fundraising, and the return to shareholders based on these strategies.
As specific metrics, a precondition to these strategies is an A rating in the assessments important to financial institutions and bond investors. An awareness of capital costs is also important from the perspective of stock investors. In addition to an A trust rating, our aim is to have a capital structure with a low weighted average cost of capital (WACC). The T-2026 sets a net D/E ratio of 0.35 times as the proper standard for financial leverage to accomplish this goal.
These metrics will help us understand our financial and investment reserves. We will also make other financial considerations, such as investments, retained earnings, debt reduction, returns to shareholders as well as other capital allocation and fundraising methods.

Balance between financial soundness (A trust rating) and minimization of capital costs (WACC)

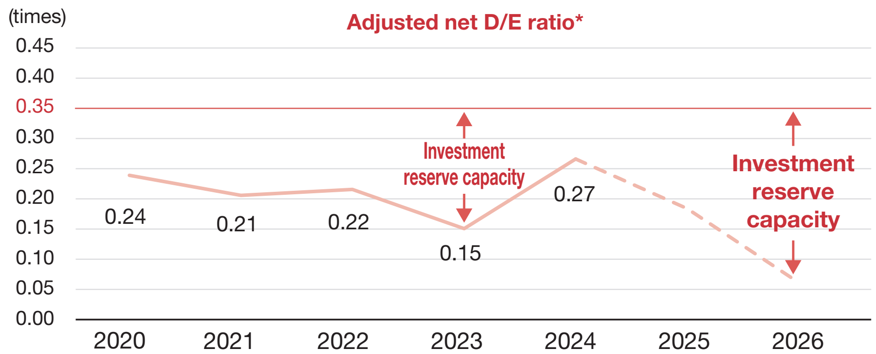


The net D/E ratio should aim to be 0.35 times in an ideal capital structure that balances financial soundness (A rating or higher) and minimizes capital costs (WACC).

Metrics and Targets for Financial Soundness and Capital Efficiency

Net D/E ratio	**Approx. 0.35 times**
Net interest-bearing debt/EBITDA	Approx. 1.0 times
WACC	5% or less

The allocation of capital based on a hurdle rate within a range of the investment reserves that considers the ideal capital structure aims to increase business revenues.

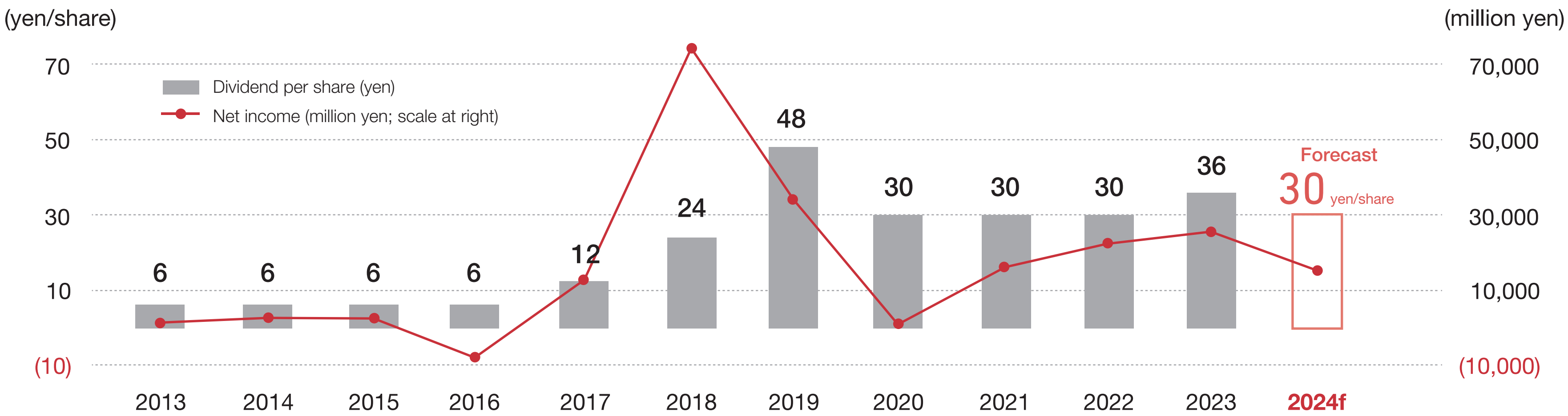


* Adjusted net D/E ratio: A net debt-to-equity ratio that accounts for the equity classification of hybrid financing obtained from rating agencies (debt to capital ratio).

Shareholder Returns

Our dividends policy remains to provide “consistent, stable dividends while setting a target payout ratio at 30%.” In terms of our forecast for dividends in 2024, our dividend policy goes beyond this to increase dividends to 30 yen per year, which is a payout ratio of 43%, based not only on annual performance but also medium-term performance, cash flow forecasts, and our financial strategies.

Dividends per share and net income



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024f
Dividend payout ratio	106%	50%	52%	-	21%	7%	32%	627%	40%	28%	30%	43%
Total dividends (million yen)	1,280	1,280	1,280	1,280	2,556	5,114	10,230	6,395	6,395	6,395	7,674	6,395

*f = forecast