

Top Message

Executing fundamental structural reform to realize Vision 2030

In Vision 2030, we envisioned the ideal form of the Company in 2030. We will first undertake rapid business restructuring and lead Tokai Carbon to future growth.

Hajime Nagasaka President and CEO



Responding to a drastically changing market environment

Viewing the fiscal year ended December 2024 as a year for starting anew, our Group addressed the facing challenges one by one, amid a drastically changing business environment. Despite acceptable results in the Carbon Black and the Fine Carbon businesses, due to substantial losses in the Graphite Electrodes and the Smelting and Lining segments - areas requiring urgent structural reform, as extension of conventional approaches offer no clear path to recovery - the fiscal year was an extremely challenging one overall, recording a net loss of 56.7 billion JPY.

In the Carbon Black business, we have achieved stable operations as a series of environmental investments came to fruition at our U.S. subsidiary acquired in 2018. While these environmental investments exceeded initial projections, the subsidiary, which boasts the top share in the U.S. market, has contributed significantly to the profits of Carbon Black business. In addition, a plant relocation project at our subsidiary in Thailand has progressed according to plan.

In the Fine Carbon business, during the year we undertook an expansion of production capacity for isotropic graphite material, used for semiconductor manufacturing and other applications. We also

expanded the business's domain by concluding a strategic partnership with France-based Soitec concerning the supply of the polycrystalline SiC substrates which serve as supporting platform for power semiconductors. However, the current business environment is by no means a positive one. Our business in the memory semiconductor domain in South Korea, once a driver of the division, remains sluggish. Our power semiconductor-related business had made up for this sluggishness, but it's now being impacted by the slowdown in the EV market.

We've embarked on a drastic rationalization of our Graphite Electrodes business. This includes the decision to close one of our two domestic plants in Japan by July 2025. For our German subsidiary, where we announced a 30% production capacity reduction in the summer of 2024, we felt a more decisive step was necessary given the ongoing European economic stagnation. Consequently, in May 2025, we announced its transfer to a German investment fund. I personally feel we've reached a significant milestone in the structural reform of our Graphite Electrodes business.

Our Smelting and Lining business, headquartered in Germany with two plants each in Poland and

France, still has significant ground to cover in its structural reform. While this business followed the growth trajectory I envisioned until 2023, unforeseen environmental shifts - including the escalating Russia-Ukraine situation, the rise of Chinese competitors, and the weakening JPY - have substantially eroded its price competitiveness, something we didn't anticipate at the time of the acquisition. We've repeatedly requested improved reform proposals from our local teams, but so far they are not satisfactory, leading us to ask for further re-evaluation. While we typically respect the autonomy of our overseas subsidiaries, I acknowledge that it was a mistake not to dispatch head office personnel to such substantial business operation. Looking ahead, a bold structural overhaul is indispensable. This may involve re-evaluating the local management structure, consolidating and reducing product lines, and implementing the necessary workforce reductions. We intend to finalize our direction for this transformation by the end of fiscal year 2025 and execute it decisively from fiscal year 2026 onwards.

Drafting Vision 2030 and rebuilding challenged businesses

In February 2025, we announced Vision 2030, articulating our long-term aspirations and the strategic efforts required to achieve them. From our T-2021 plan formulated in 2019 to T-2026 formulated in 2024, we had adopted a rolling method, annually reviewing and releasing as the next three-year Medium-term Management Plan. However, given the potential for significant shifts in our business portfolio three years down the road due to ongoing restructuring, this year we opted to release Vision 2030 instead of another Medium-term Management Plan. Vision 2030 outlines our desired state for 2030, beyond the ongoing business restructuring and its initiatives and measures to achieve it. Meanwhile, our immediate focus is on ensuring the successful attainment of our 2025 goals.

In “Vision 2030,” we have set quantitative targets for 2030 to achieve our long-term Vision of “Contribute to a sustainable society through advanced materials and solutions”. These targets include net sales of 500 billion JPY, EBITDA of 20%, and ROIC of 12%. Although we now find ourselves in a business environment with uncertain outlooks and amidst business structure reform that encompasses various options, the targets we have set out in Vision 2030 are based on a bottom-up calculation, with additional growth potential factoring in M&A opportunities. From my perspective, these are fully achievable numbers.

Vision 2030 puts forth three initiatives: drastic

structural reforms, commitment to growth markets, and sustainable value creation. First and foremost among these is drastic structural reform, which we intend to tackle as a top priority.

I believe it is crucial to remain steadfast in our approach to future structural reform. As an example, market conditions for graphite electrodes have historically been subject to significant fluctuations, and while the market has been stagnant since the 2018-2019 electrode bubble, “mini bubble” could potentially occur in the future. Even if such situation arises, however, I am determined not to embark on a strategy of restarting facilities to pursue volume.

The strengths of our graphite electrodes lie in technology and quality. We have absolute confidence in the quality of our products, and with over a century of accumulated technical expertise, we are capable of producing some of the world’s largest graphite electrodes. In electric arc furnace steelmaking, where graphite electrodes are used, there is a trend towards higher currents and greater power, which is expected to increase demand for large-diameter, high-quality graphite electrodes. From our perspective, instead of pursuing volume, we should specialize in business where we can leverage our strengths and demonstrate value. This, I believe, is the focus we must steadfastly adhere to as we work to restructure our business.

Discerning the next growth drivers and forging ahead

Despite somewhat dampened by the re-election of President Trump, the trend towards sustainability will undoubtedly remain unchanged. Addressing carbon neutrality is a necessary challenge for survival in a carbon-neutral society. Our Group is tackling a range of social issues with a long-term vision of providing solutions for realizing a sustainable society. However, I personally wish to emphasize the importance of thoroughly considering what we view as our growth drivers to ensure our Group's continued growth in the future society. At present, I identify two such growth drivers.

One is the Fine Carbon business, which targets the semiconductor industry, expected to show dramatic growth with the proliferation of AI, 5G, IoT, and other technologies. While there is currently a talk of slowdown in the EV market, the medium- to long-term shift towards EVs will likely remain unchanged. As mentioned previously, our strategic partnership with France-based Soitec regarding the supply of polycrystalline SiC wafers, which serve as supporting platforms for power semiconductors used in EVs and all electronic devices, has created new business possibilities for our company. It is possible that our products will be supporting the automotive industry in the not-so-distant future. The semiconductor industry is prone to significant ups and downs, but by continuing our cost reduction efforts to strengthen competitiveness and accurately

discerning the optimal timing for production increases while considering future demand trends, business opportunities should expand.

Another growth driver is the Carbon Black business, where approximately 70% of sales generated is from the tire industry. Tires are automotive parts of crucial importance in the sense that human lives depend on their performance. As such, we cannot sacrifice quality to reduce costs. Heavy EVs are said to demand even greater performance from tires. The need for high-quality tires and environmentally friendly tires will likely increase.

I am confident that these two growth drivers will propel our Group toward sustainable growth.



Discovering new possibilities and always providing answers

Through sunny days, cloudy days, and even during continuous heavy rain like now, our Group's employees have consistently put in hard work and effort.

Over my ten years as president, I have always been mindful of the desire to adequately reward these dedicated employees after achieving solid profits. Recognizing that our company's foundation is supported by the employees who work diligently on the front lines, we have earnestly engaged in employee engagement surveys. Moving forward, based on the survey results, we will strategically promote work style reforms, implement appropriate HR systems and competitive compensation, and prepare various training programs to support employee growth, all with the aim of ensuring that diverse talent wishes to work with us.

The number of mid-career hires has increased as our business expands, and I believe that our corporate culture is changing significantly as well. However, it also appears that employees are polarizing into those who perform as expected or even beyond, and those who fall short of expectations, something that I analyze as stemming from insufficient communication. While there is insufficient communication between frontline employees and management, and among management layers themselves, some employees who work diligently

may be struggling alone when their efforts don't yield results. It is crucial to engage in thorough dialogue and alleviate anxieties, enabling everyone to responsibly move forward towards our stated goals.

I am not entirely satisfied with the current evaluation of our Group by capital markets. Our Group has demonstrated high technological capabilities across various business domains, delivering high-quality products to our customers. To foster expectations for our Group's future among shareholders and investors, I sincerely hope that you will take an interest in and follow the progress of "Vision 2030," which our Group has outlined. While there are still many uncertain factors, including business structural reforms, I hold a strong conviction towards achieving the quantitative targets we have set.

I invite you to hold great expectations for the future of the Tokai Carbon Group. Even amid heavy rains, we will discover new possibilities and present new solutions.

