Corporate Strategy

Vision 2030

Contribute to a sustainable society through advanced materials and solutions

“Contribute to a sustainable society through advanced materials and solutions”
—Our long-term vision toward 2030.
In the pressing movement towards carbon neutrality, this statement illustrates our resolve to boldly take on the challenge of entering new business domains. This commitment also clarifies our company’s purpose of existence as “contribution to a sustainable society”.

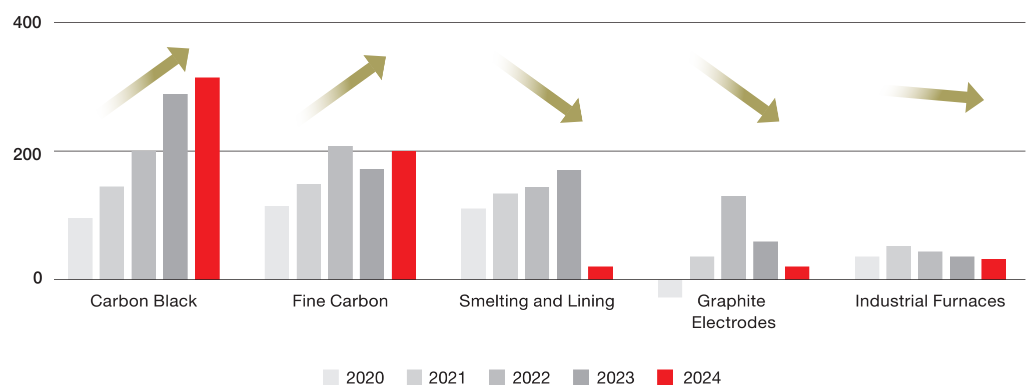
Our vision for 2030

Net sales 500 billion JPY	**View of the company size** View as a company that supports infrastructure worldwide over the long term and in a stable manner
EBITDA margin 20%	**Earning capacity** Receive compensation for providing quality products and services that contribute to the society
ROIC (adjusted) 12%	**Improving capital efficiency** Business entity that can consistently generate ROIC exceeding WACC long-term

Consolidated Earnings Summary (2020 to 2024)

The Carbon Black business boosted the Company's overall earnings, backed by growing strong demand in North America. The Fine Carbon business is also undergoing increasing profit growth due to demand for next-generation semiconductors for EVs. Earnings in the Graphite Electrodes and the Smelting and Lining businesses decreased rapidly, necessitating structural reforms. For the Graphite Electrodes business, we decided to consolidate our domestic production into a single site in Japan, and to divest our manufacturing site in Germany. In the Smelting and Lining business, we have implemented stopgap measures, including the full impairment of intangible fixed assets such as goodwill. However, from 2025 onwards, our focus will shift to structural reforms aimed at fundamentally rebuilding its value creation capabilities. With shrinking profits in both the Smelting and Lining and the Graphite Electrodes businesses, Carbon Black and Fine Carbon accounted for 85% of the total company EBITDA in FY2024. To maintain a healthy business portfolio, it is crucial to revitalize and develop the two segments through structural reforms.

EBITDA by segment from 2020 to 2024 (one hundred million JPY)



Performance outlook by Business Segment

Carbon Black

2025 2026 2027

Remaining strong

- Annual growth for tire production to continue at 3%.
- The supply of both the petroleum- and coal-based raw material oil falls due to carbon neutral trends.

Fine Carbon

2025 2026 2027

Growth expected

- Memory semiconductors will bottom out. The silicon market is projected to grow at approx. 10% annually.
- Due to a deceleration in EVs, demand in SiC semiconductor related materials will rapidly decrease in 2025; but growth will continue over the medium and long term.

Smelting and Lining

2025 2026 2027

Gradual recovery

- Replacement demand for cathodes for aluminum smelting is weak in 2025 due to the impact of inventory digestion by customers.
- Purchases are projected to return to a level of actual demand from 2026.
- Aluminum will continue to grow at 3% annually.

Graphite Electrodes

2025 2026 2027

Recovery to take time

- Recovery will take time on the back of the worsening supply-demand balance and emerging new players.
- In the longer term, a rise in demand for graphite electrodes is expected, driven by the shift from blast furnaces to EAF.

Industrial Furnaces

2025 2026 2027

Gradual recovery

- Demand for MLCC is projected to recover from the second half of 2026, growing 5 to 10% annually.
- Due to a deceleration in EVs, full-fledged capital investment for the LiB market is projected from 2026.

Challenges Facing Our Company

Our Company's business environment is in a period of transition. Significant changes in the international landscape include the Russian invasion of Ukraine and the rise of economic nationalism. In terms of the competitive landscape, the increasing production capacity and quality improvement of Chinese manufacturers represent a major change. And more than just climate change, issues related to biodiversity are becoming prevalent as global environmental issues, and these are positioned as important management issues in our business strategy. Under Vision 2030, we are committed to addressing these crucial challenges with a long-term perspective.

Business environment surrounding our Company

Increased geopolitical risks

- Russia-Ukraine war
- Rise of economic nationalism and protectionism

Rise of new powers

- Excess production capacity in China
- Quality improvement of Chinese and Indian peers

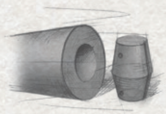
Global environmental issues

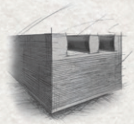
- Biodiversity, climate change issues
- Intensification of (increase in) natural disasters

Challenges facing our Company

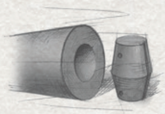
Businesses particularly impacted

Supply chain interruptions and rising energy costs.
Erosion of previous cost advantages particularly in the Smelting and Lining business, as all its manufacturing sites are located in Europe


Graphite Electrodes


Smelting and Lining

Downturn in global market conditions due to excess production in China and India


Graphite Electrodes

We need to swiftly explore and implement reforms across our manufacturing processes, energy used, and supply chains, including the introduction of innovative technologies.


Carbon Black

Corporate strategy

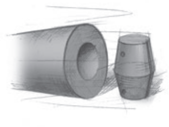
- Investment of management resources in Carbon Black and Fine Carbon businesses
- Structural reform and revitalization in Graphite Electrodes and Smelting and Lining businesses
- Initiatives aimed at net-zero CO_2 emissions in 2050

Three Initiatives to Achieve Vision 2030

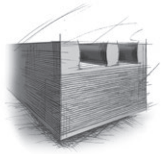
We will address three issues for achieving Vision 2030. The most pressing issue is the need to address the worsening profitability of the Graphite Electrodes and the Smelting and Lining businesses. While the challenges facing each business differ, we will implement fundamental structural reforms to swiftly stop the bleeding and restoring profitability in the short term. In contrast, we are aiming to achieve solid growth by allocating management resources in a proactive manner to Carbon Black, Fine Carbon and Industrial Furnaces that are positioned as growth businesses. For our long-term efforts, we will continue to focus on “Sustainable Value Creation,” which involves offering solutions that contribute to a sustainable society. Innovations in products, technologies, and manufacturing methods that consider finite resources and enable us to pass on a rich global environment to future generations are crucial themes that will enhance Tokai Carbon’s contribution to society.

<Short-term intensive measures>

Drastic structural reforms



Graphite Electrodes

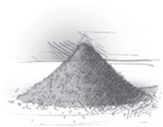


Smelting and Lining

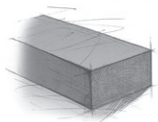
We will accomplish structural reforms mainly in the Graphite Electrodes and the Smelting and Lining businesses to improve earnings in a short-term and intensive manner.

<Medium-term measures>

Commitment to growth markets



Carbon Black



Fine Carbon

Industrial Furnaces

To ensure long-term profitability in the Carbon Black business, we are investing in key initiatives such as the relocation of the Thai plant and major environmental facilities in the U.S. For the Fine Carbon and the Industrial Furnaces businesses, we are focused on capturing medium- to long-term growth opportunities in their respective markets by increasing production capacity and developing new markets.

<Long-term measures>

Sustainable value creation

All Businesses

New Businesses

R&D

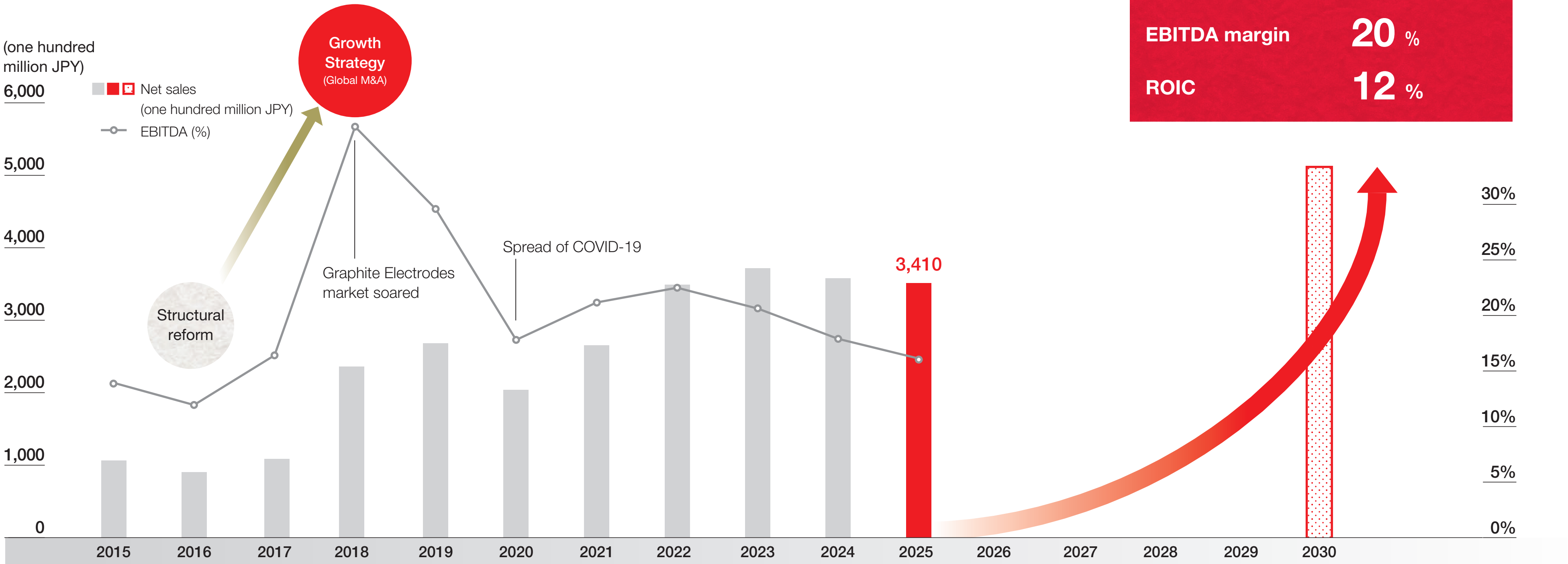
We position solutions for a sustainable society as our value proposition across all our businesses. This involves a comprehensive review of our existing product manufacturing throughout the entire supply chain. We will leverage our proprietary technologies while actively pursuing innovative technologies to create new markets.

Current Measures to Achieve the Performance Targets of Vision 2030

In 2025, EBITDA will reach a trough as the core Carbon Black and the Fine Carbon businesses will decline. Yet from 2026 onward, the effects of structural reforms in the Graphite Electrodes and the Smelting and Lining businesses are anticipated to become evident, with recovery expected for growth businesses.

Vision 2030

Net sales	500 billion JPY
EBITDA margin	20 %
ROIC	12 %



Downward factors for 2025	Upward factors from 2026	Factors toward enhancing long-term corporate value
• Increase in costs due to parallel operation of new and existing plants related to operation of a newly built carbon black plant in Thailand • Rapid decrease in demand for fine carbon for SiC semiconductors (market inventory cutback phase) • Delay in the recovery of industrial furnaces for MLCCs (rapid decrease in the EV market)	• Restoration of earning power due to structural reforms of the Graphite Electrodes and the Smelting and Lining businesses • A state-of-the-art carbon black plant to be launched in Thailand • Distribution network of fine carbon to be strengthened through investments in the U.S. • Continuing growth of industrial furnaces for MLCCs (deployment of next-generation fast baking furnaces)	• Contribution to realizing a circular economy • Creation of new business areas

* EBITDA is an acronym for Earnings Before Interest, Taxes, Depreciation & Amortization (calculated by adding back depreciation to operating profit)

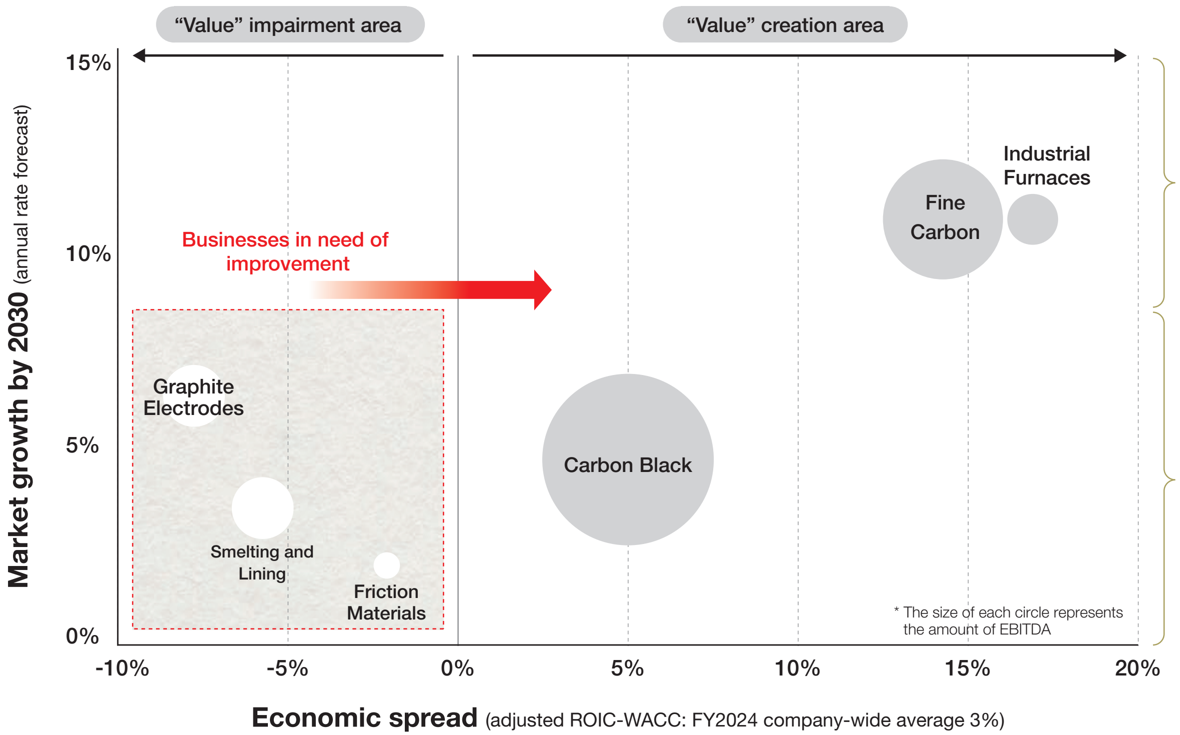
Enhancing Business Portfolio Management

Aims to enhance its corporate value by allocating management capital in a manner that maximizes economic profit

We take into account consistency with our long-term vision, the future potential of businesses, the competitive landscape, and our strengths to allocate management capital through the use of business-specific ROIC, WACC, and other metrics.

Under Vision 2030, we will adopt a short-term focus on structural reform in the Graphite Electrodes, the Smelting and Lining, and the Friction Materials businesses, while making more deliberate and bold growth-oriented investments, based on a medium-term perspective, in the Fine Carbon and the Industrial Furnaces businesses, which have a greater economic spread. In the Carbon Black business, we aim for continuous value creation as a stable business, implementing sustainability-related initiatives. By actively allocating capital to businesses with large economic spreads while also undertaking focused capital investment in other businesses, we aim to achieve a company-wide economic spread of 7% or greater.

Aiming to allocate management resources to maximize economic profit [(ROIC-WACC) x invested capital], targeting 7% or higher company-wide economic spread to enhance corporate value



Growth businesses

(Fine Carbon, Industrial Furnaces)

Direction	Growth investment
Action	● Development of next-generation materials and products ● Ramp-up of production in line with market growth ● Strengthening of sales in growth areas

Core business (Carbon Black)

Direction	Continuation of stable value creation
Action	● Large-scale environmental investment (mainly in the U.S.) ● Investment in relocation of the Thai plant ● Investment in R&D for high-function CB

* The market growth rate has been estimated by the Company.

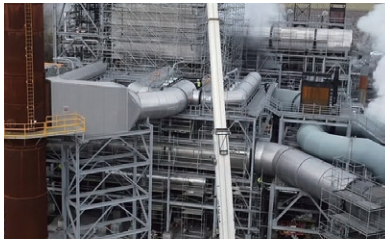
* EBITDA, ROIC, and WACC are actual results for FY2024. WACC is managed by calculating risks for each business. ROIC uses adjusted ROIC that takes in account goodwill and goodwill amortization.

Major Planned Investments

Investments in Carbon Black as the "core business" and Fine Carbon and Industrial Furnaces as "growth businesses" will continue

Since 2017, Tokai Carbon has steered its growth strategy primarily towards global M&A. To reduce our reliance on Graphite Electrodes, we have executed investments aimed at maximizing the value creation capabilities of each segment, thereby striving to optimize our business portfolio. In the high-ROIC, high-growth Fine Carbon and Industrial Furnaces businesses, which serve the semiconductor and electronic components industries, we are actively implementing capacity expansion projects to facilitate business growth. For our core Carbon Black business, we made significant environmental capital investments at our U.S. facilities from 2021 to 2024 to foster sustainable value creation. These environmental investments have now reached a significant milestone, and moving forward, we are establishing a system to expand value creation while coexisting with natural capital. Furthermore, the relocation of our Thai facility is planned to enhance business continuity and establish a supply system that prepares for future environmental measures. We consider capital expenditure planning as extremely important from the perspectives of our long-term vision, business portfolio management and sustainability, and we are making company-wide decisions conscious of selection and concentration from an optimal capital allocation perspective. With changes in the business environment becoming increasingly dynamic and intense, we are placing great importance on quick decision-making cycles.

Investments in Carbon Black as the "core business" and Fine Carbon and Industrial Furnaces as the "growth businesses" will continue from a medium- to long-term perspective.

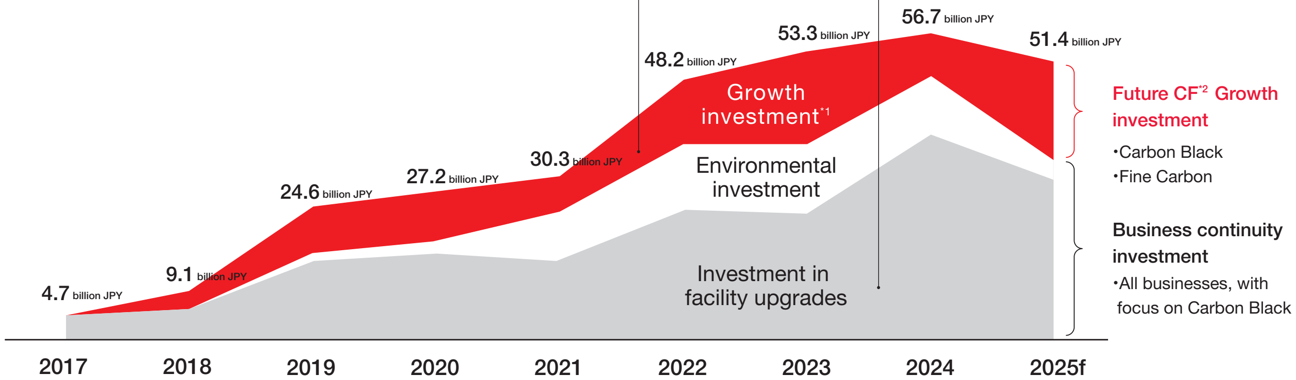


Carbon Black: Large-scale environmental capital investments (2021-2024)

- Greatly reduce burdens on the atmospheric environment by significantly lowering the emission of NOx (nitrogen oxides) and SOx (sulfur oxides) produced during the manufacturing process

Carbon Black: Relocation of the Thai plant (2023-2025)

- Reduce the environmental impact by securing the Company's own land and introducing state-of-the-art facilities. A sustainable supply system is to be established (approx. 35 billion JPY)



*1 Growth investment is organic investment (M&As are excluded).

*2 Future CF: Future cash flow

Financial and Capital Policy (Optimal Capital Structure)

Aiming for an adjusted net D/E ratio of approximately 0.35x as the optimal capital structure that ensures sufficient financial soundness (A rating or higher) and capital efficiency supporting business growth

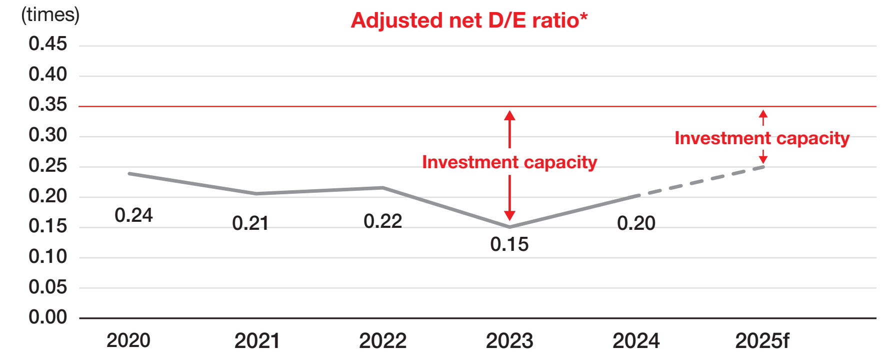
Our basic financial and capital policy aims to enhance corporate value through advanced business portfolio management. This involves maintaining sufficient financial soundness to support business growth in response to changes in the business environment, while simultaneously achieving both a reduction in the cost of capital and an improvement in capital efficiency.

Specifically, we ensure a stable fundraising base by maintaining a credit rating of A grade or higher, which is crucial for financial institutions and bond investors. At the same time, we have set our adjusted net D/E ratio after hybrid finance adjustments at approximately 0.35x. This represents our optimal capital structure for achieving a low Weighted Average Cost of Capital (WACC), which is significant from the perspective of equity investors. We use this as our financial discipline. Based on our business and investment plans to achieve the "ideal state" outlined in Vision 2030, we will appropriately assess our financial and investment capacity. This will enable us to execute capital allocation where investments, retained earnings, liquidity, debt procurement/reduction, and shareholder returns are all consistently aligned.

Target metrics for financial soundness and capital efficiency

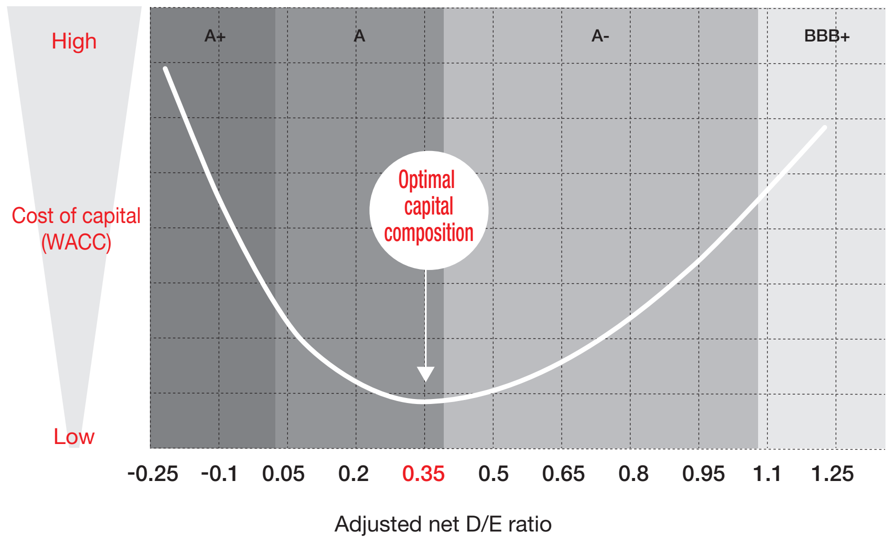
Adjusted net D/E ratio	**Approx. 0.35 times**
Net interest-bearing debt/EBITDA	**Approx. 1.0 times**
WACC	**5% or less**

By allocating capital based on a hurdle rate within a range of the investment capacity that considers the optimal capital structure, we aim to increase business revenues.



* Adjusted net D/E ratio: A net debt-to-equity ratio that takes into account the equity credit of hybrid financing obtained from rating agencies.

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



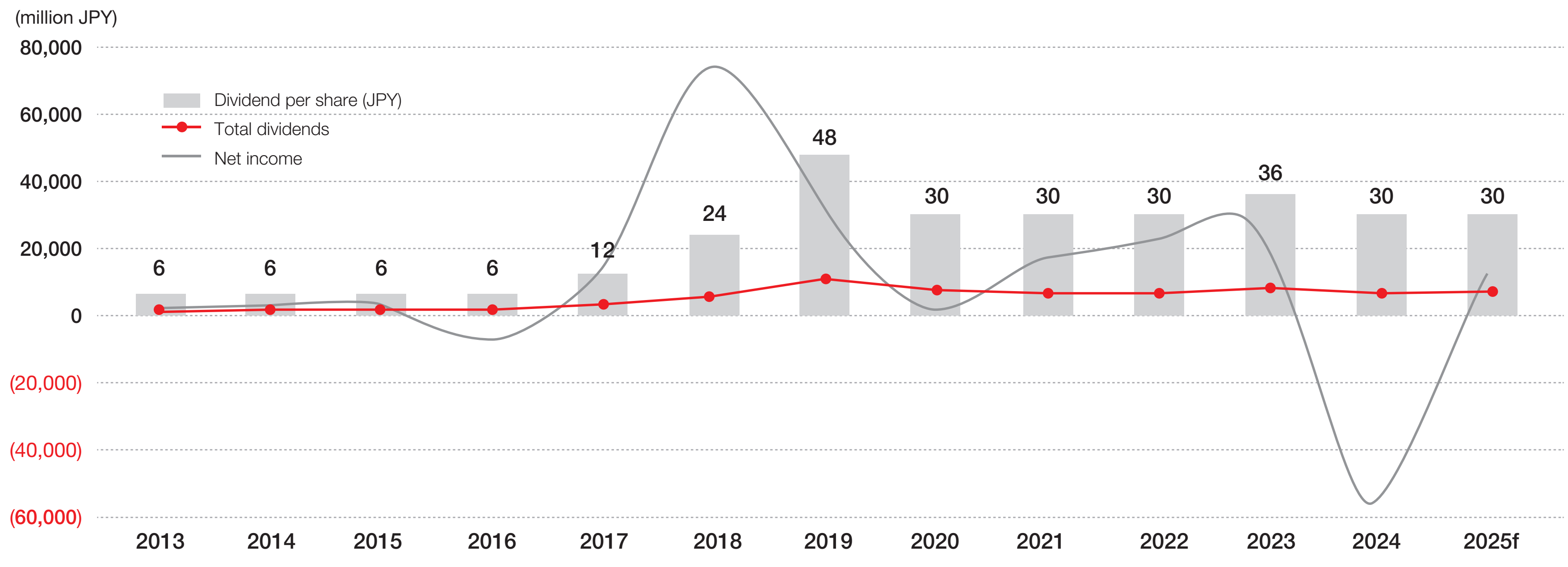
The adjusted net D/E ratio to be achieved is approx. 0.35x as an optimal capital structure that balances financial soundness (credit rating A) and minimization of capital costs (WACC).

Dividend Policy

Aiming for stable and consistent dividends amid fluctuations in net income, with a target dividend payout ratio of 30%

Tokai Carbon considers the return of profits to shareholders as an important management issue for improving corporate value over the medium to long term. In light of this, our basic policy is providing stable and continuous dividends with the aim of a consolidated dividend payout ratio of 30%. This is determined by taking into account the financial results and outlook, investment plans, cash flow conditions, and other factors of each fiscal year. Under our capital allocation policy, which prioritizes value-enhancing initiatives including business investments, dividend decisions consider not only single-year performance but also medium-term outlooks and preparations for growth investment opportunities. While the Company incurred a net loss in FY2024 for reasons including the recording of structural reform costs, we proceeded with an annual dividend of 30 JPY per share, in line with the projection at the start of the fiscal year. While we expect the dividend payout ratio to exceed 30% in FY2025, we plan to maintain an annual dividend of 30 JPY per share.

Net income and total dividends



Dividend payout ratio	106%	50%	52%	-	21%	7%	32%	627%	40%	28%	30%	-	59%

*f = forecast