

An aerial photograph of a city, likely Tokyo, with a prominent blue overlay. The overlay features a large, semi-transparent hexagon in the top left corner, a circular shape in the center, and a large, semi-transparent hexagon in the bottom right corner. The text "CSR Report 2018" is positioned in the upper right area of the image.

# CSR Report 2018



TOKAI CARBON CO., LTD.

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### Editorial policy

The Tokai Carbon Group issues a corporate social responsibility (CSR) report to outline Group business activities from two perspectives, social contributions and the environment. The objective of this CSR report is to clearly convey to stakeholders our approach and initiatives related to CSR.

### Scope of applicability

This report applies to Tokai Carbon Co., Ltd. and affiliated companies. The scope of applicability for reports with a limited reporting scope shall be indicated separately.

### Reporting period

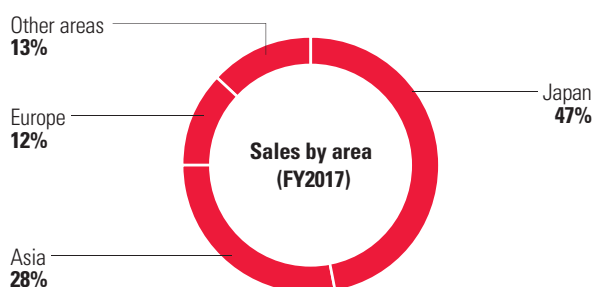
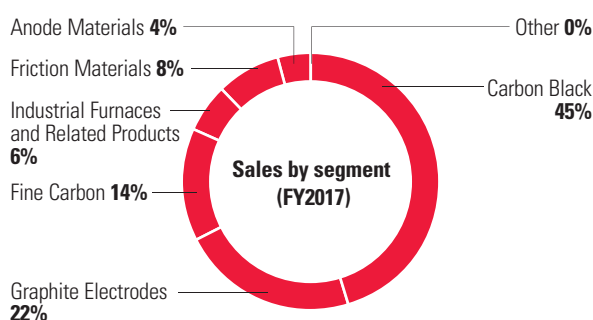
Excluding content with specific dates, this report reflects activities between January 1, 2017 and December 31, 2017.

### Referenced guidelines

Environmental Report Guidelines (2012 Edition)  
ISO 26000

## Corporate Data (as of December 31, 2017)

<b>Company Name</b>	TOKAI CARBON CO., LTD.
<b>Head Office</b>	Aoyama Bldg. 2-3, Kita-Aoyama 1-Chome, Minato-ku, Tokyo 107-8636. Japan Tel: +81-3-3746-5100 Fax: +81-3-3405-7205 Website: <a href="http://www.tokaicarbon.co.jp/en/">http://www.tokaicarbon.co.jp/en/</a>
<b>Established</b>	April 8, 1918
<b>Paid-in Capital</b>	20.44 billion yen
<b>Net Sales</b>	106.3 billion yen
<b>Number of Employees</b>	2,142
<b>Fiscal Year</b>	January 1 – December 31
<b>Common Stock</b>	Authorized shares: 598,764,000 shares Outstanding shares: 224,943,104 shares
<b>Number of Shareholders</b>	17,382
<b>Stock Exchange Listing</b>	First Section of the Tokyo Stock Exchange
<b>Securities Code Number</b>	5301
<b>Plants in Japan</b>	<ul style="list-style-type: none"> <li>• <b>Graphite Electrodes:</b> Shiga Plant (Shiga), Hofu Plant (Yamaguchi)</li> <li>• <b>Carbon Black:</b> Ishinomaki Plant (Miyagi), Chita Plant (Aichi), Kyusyu Wakamatsu Plant (Fukuoka)</li> <li>• <b>Fine Carbon:</b> Tanoura Plant (Kumamoto)</li> <li>• <b>Friction Materials:</b> Shonan Plant (Kanagawa)</li> <li>• <b>Anode Materials:</b> Production Technology Center (Yamaguchi)</li> </ul>





# Building a Future of Technology and Trust

In 2018, Tokai Carbon marks 100 years since its founding. It has been a century of relentless pursuit of technology and trust. Now, we are ready to break new ground over the next 100 years.

## Tokai Carbon Group Basic Philosophy : Ties of Reliability

Our corporate philosophy is Ties of Reliability. This represents our belief in the importance of being a reliable partner to our stakeholders (customers, shareholders, employees, and communities).

Reliability on our part forms the foundation of our business and enables us to continue our business activities. And the pillar that supports this foundation of reliability is the cycle of value that exists between company and stakeholder.

The cycle of value is represented by stakeholders entrusting management resources to a company, and that company in turn utilizing those management resources to create added value (in the form of products and services, and profit) that is returned to stakeholders. This concept allows us to provide added value to our stakeholders, thus enabling them to achieve their individual goals. Using this cycle of value to live up to the trust our stakeholders place in us, we are able to further the ties of reliability binding us and our stakeholders.

## Guidelines

By applying the following four guidelines, the Tokai Carbon Group will continue pursuing its corporate philosophy through unique activities as a manufacturer of carbon materials.

Ability to create value

Fairness

Ecology

Internationalism

## Code of Ethics

Fair business activities

Compliance

Information disclosure

Appropriate management  
of information

Respect for human rights

Severing relationships  
with antisocial forces

Respect for overseas  
cultures and customs

Response to breach of  
the Tokai Carbon Code  
of Ethics

Philosophy

<https://www.tokaicarbon.co.jp/en/company/philosophy.html>



# Building Trust through Technology

## A Century of Value Creation

Tokai Carbon pioneered the manufacturing of graphite electrodes in Japan and has been a consistent creator of value over its 100-year history.

Below are highlights of our first century.

## 1918–

### Contributed to the birth of Japan's manufacturing sector



**1918** Graphite Electrodes Business

**Established the company and pioneered the production of graphite electrodes in Japan**

Opened the door to domestic production of graphite electrodes.



**1927** Industrial Furnaces and Related Products Business

**Contributed to the chemical industry by delivering high-temperature industrial furnaces made in Japan**

Industrialized the production of EREMA silicon-carbide, non-metallic heating elements at the Nagoya Branch and introduced them to the market.



**1938** Fine Carbon Business

**Contributed to efficiency improvements for various types of industrial motors**

Accelerated production of electrical brushes.



**1950** Carbon Black Business

**Dramatically enhanced the strength of rubber**

Pioneered industrialization of the furnace process for producing carbon black in Japan, thereby, helping to lay the foundation for the development of an automobile-centric society.

## 1959–

### Facilitated mass production during Japan's era of high economic growth



**1959** Graphite Electrodes Business

**Contributed to the stable and larger-volume production of steel**

Became the first to supply 20-inch graphite electrodes in Japan, thereby, contributing to the enlargement of electric-arc furnaces.



**1960** Fine Carbon Business

**Helped to reduce accident likelihood, and increase overall safety, for the Shinkansen high-speed express train**

Developed electrical brushes for use in motors for high-speed trains. These brushes offered excellent commutation and wear-resistance performance.

Photo:Kyodo News



# 1970-

Supported the technological innovation of high-tech industries with high-value-added products



**1970** Graphite Electrodes Business

**Reduced the environmental impact of steel recycling**

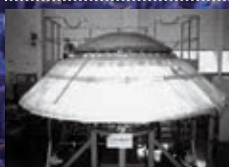
UHP electrodes, helping to reduce graphite electrode consumption.



**1977** Friction Materials Business

**Contributed to performance improvements in agricultural/construction equipment and motorcycles**

Started production of paper friction plates. Through friction materials excelling in lightness and safety, enabled performance improvements in various industries.



**1994** Fine Carbon Business

**Provided cutting-edge carbon technology for space exploration initiatives**

Provided carbon-carbon composites used in Japan's Orbital Reentry Experiment (OREX).

# 1990-

Supported global industrial development through our global production



**1990** Carbon Black Business

**Responded to growing automobile tire demand in Asia**

Participated in a joint venture, THAI TOKAI CARBON PRODUCT CO., LTD. in Thailand. Entered into an agreement to provide carbon black production technology to the joint venture.



**1996** Fine Carbon Business

**Added locations to our global network, contributing to semiconductor manufacturing in each locality**

Established a local affiliate in the U.S. and provided capital to Tokai Carbon Korea Co., Ltd.



**2005** Graphite Electrodes Business

**Supported the trend toward larger EAFs around the world**

Successfully embarked on commercial production of 32-inch electrodes, the largest in the world. Swiftly provided solutions for moving to larger, high-volume/high-efficiency electric-arc furnaces.



**2017** Anode Materials Business

**Restructured the business to enable participation in the growing adoption of next-generation energy**

Responding to the accelerating sales growth for lithium-ion storage battery anode materials, separated the Anode Materials Business from the R&D Strategy Division, making it into an independent unit.



# Delivering Value for 100 Years

## Tokai Carbon in Society

Products made by the Tokai Carbon Group are used in a staggering array of applications. We offer a series of high-quality products that help industries and people's daily lives.

### Industrial Furnaces

Overall design



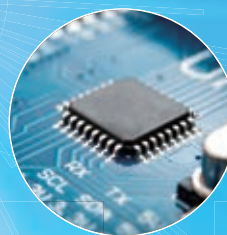
### Steel Recycling

Graphite electrodes



### Semiconductor Wafer Heat Treatment

Fine carbon materials



### Heat Treating

Heating elements



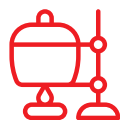
### Machine Tools

Friction materials



### Train components

Electrical brushes



**Industrial  
Furnaces**



**Manufacturing  
Plants**



**Trains**

## Graphite Electrodes

Graphite electrodes are used in electric furnaces that melt steel scrap to create new steel. Compared to blast furnaces, electric furnaces have a relatively low environmental impact and graphite electrodes are central to their operation. As Japan's top manufacturer\* of graphite electrodes, we help the world's steel recyclers maintain quality and improve productivity.

## Carbon Black

Carbon black is vital for adding strength to tires and other products. It is also used in various types of industrial rubber, as a pigment for plastics and ink, and to impart conductivity to other materials. With a steady string of technical innovations, we have held the top share\* of Japan's market for carbon black for nearly 70 years.

## Fine Carbon

Fine carbon offers excellent heat resistance and conductivity, and is used in the manufacturing of products such as semiconductors and solar panels. It is also useful for controlling CO<sub>2</sub> emissions and has other environmental benefits, as well. With our proprietary development technologies, we have assembled a line of fine carbon products that are among the very best in the world.

\* Based on research by Tokai Carbon



**Electric vehicles**  
Anode materials for  
lithium-ion storage batteries



**Front grills**  
Fine carbon materials



**Smartphone cases,  
LED lights, etc.**  
Fine carbon materials



**Plastic products**  
Graphite for molding



**Raw Materials for tires**  
Carbon black



**Semi-conductive  
layer of electrical wires**  
Carbon black



**Ink for newspapers  
and other printed matter**  
Carbon black



**Automobiles**

**Outdoor  
Applications**

**Indoor  
Applications**

## Friction Materials

Friction materials are used to control movement in items such as automobiles, trains, ships, construction and agricultural machinery, industrial robots, and wind turbines. As a comprehensive manufacturer of friction materials, we help to enable smooth motion, and contribute to safety, in various types of machinery and equipment.

## Industrial Furnaces & Related Products

Industrial furnaces are critical for heat treating ceramics, electronics components, and other products. We not only design and manufacture industrial furnaces but also make the heating elements and refractory materials needed to regulate furnace temperature. Standing out in this product group are our silicon carbide EREMA® (Electric Resistance Material) heating elements, which have earned strong support from customers throughout the world.

## Anode Materials

Our anode materials are found in the lithium-ion storage batteries used in electric vehicles and smartphones. As batteries continue to grow in capacity, we are applying the heat treating technology and facilities we have developed in our graphite electrode and other businesses to deliver the consistent quality and high added value markets are demanding.

Celebrating a hundred years in business, we are reigniting the drive with which our company began and are committed to helping realize a better society.

### As a Pioneer in the Carbon Industry

Since its very beginning, the Tokai Carbon Group has endeavored to expand the possibilities of carbon and has introduced groundbreaking products that respond to the needs of the times.

Now we have an array of product groups that meet the world's highest standards for quality and are among the leaders in their markets. Through our global network of 41 business locations across 10 countries in Asia, Europe, and North America, we supply various types of materials to customers in a wide range of industries, such as steel, automobiles, semiconductors, and electronic components. Our products play critical roles that support the conveniences of modern life.

### Redoubling Our Commitment to Ties of Reliability

Under the corporate philosophy of Ties of Reliability, the Tokai Carbon Group sees its mission as working through its business activities to strengthen ties based on the reliance placed on us by our shareholders, customers, suppliers, local communities, and employees.

In a sense, our corporate philosophy represents an

idea that resonates with CSR. This is born out in the organization of this report, which is based on our relationships with our various stakeholders.

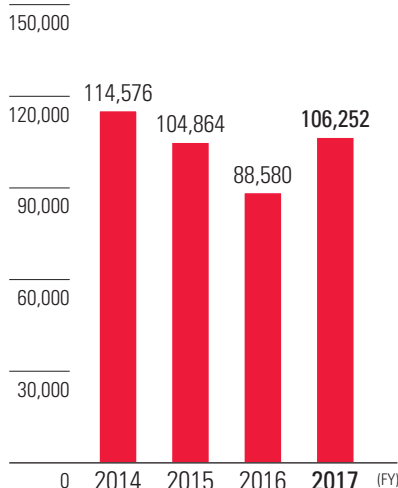
### Working to Achieve Harmony with the Environment and Society

The Tokai Carbon Group benefits the global environment by providing materials that are indispensable for enabling recycling, energy-saving, and green energy initiatives. We understand, though, that consumption of the significant amounts of resources and energy needed to make our products has negative environmental impacts. To harmonize our business activities with the needs of the global environment, we work with unshakable resolve to develop innovative technologies and devise production efficiency improvements that reduce our environmental impact.

We also devote considerable attention to coexisting and mutually prospering with local communities, which support us in many ways. Our relationships with these communities are among our highest priorities, and we strive to be a company that grows and develops together with its neighbors.

#### Net sales

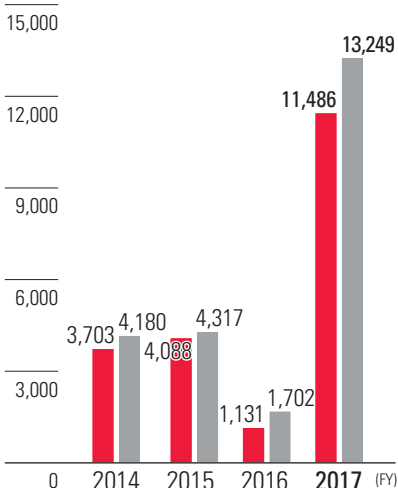
(Millions of yen)



#### Operating income/ Ordinary income

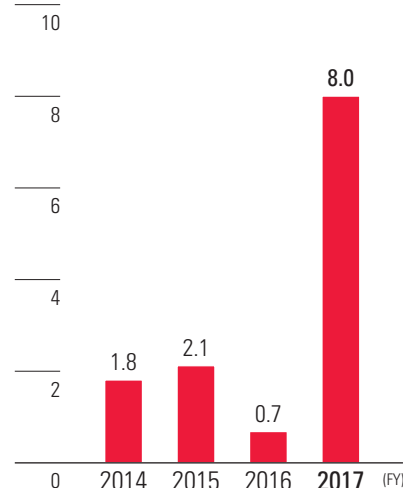
■ Operating income ■ Ordinary income

(Millions of yen)



#### ROIC

(%)





## Looking to Another Century of Continuous Evolution

In April 2018, Tokai Carbon celebrated the 100th anniversary of its founding, and we would like to express our heartfelt thanks to all of our stakeholders, without whom this would not have been possible. Throughout our history, we have experienced immensely difficult business conditions on many occasions. Under our present Mid-Term Business Plan, “T-2018,” we have fundamentally strengthened our management by instituting a thorough structural reform during the first year covered by the plan. Now, we have turned our attention to using growth strategies that employ M&A and other tools to achieve ongoing increases in corporate value.

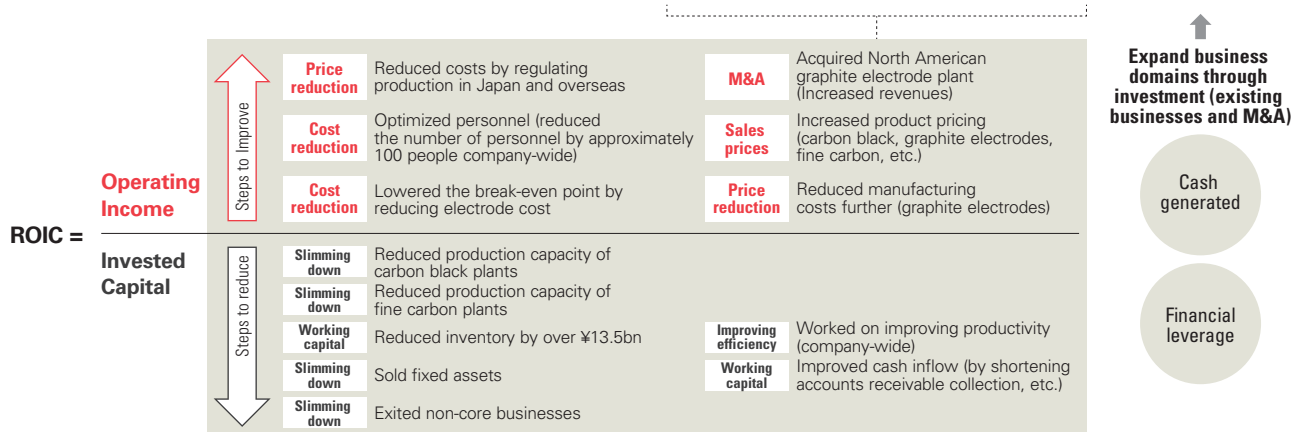
As we embark on our second century of business, we are reigniting the drive with which our company began. We are committing ourselves to continuously evolving, so that we can achieve new heights in technology and quality, help to realize a better society through our business activities, and ultimately remain a company worthy of your trust and admiration.

**Hajime Nagasaka**  
President & CEO



### Mid-Term Business Plan “T-2018” Growth Strategies

	2014	2015	2016	2017	2018 and Beyond
<b>ROIC</b>	1.8%	2.1%	0.7%	8.0%	<b>Over 36%</b>
<b>ROE</b>	2.0%	2.0%	(6.8%)	10.0%	<b>Over 34%</b>





# Carbon Products Essential for Automobiles

The automobile industry is the main market for Tokai Carbon products. We serve this market through solutions for mass production, quality consistency, environmental consciousness, and other needs of the times.

## Tokai Carbon Products & Functions

### Performance by Type

#### Automobile Industry

##### Environmental

Emission controls, higher fuel economy, reduced weight, etc.

##### Safety

Durability/ weather resistance, impact safety, etc.

##### Running

Artificial intelligence, computerization, automated controls, etc.

##### Power for EVs/PHEVs

Lithium-ion battery (LiB) anode materials

##### Greater durability and wear resistance

Carbon black for various types of rubber

##### Solutions for the transition to electric motors and for IT enhancement

Heating furnaces used to make electronic condensers and LiB cathodes

##### Reliability in semiconductor supply

Fine carbon for use in semiconductor manufacturing equipment



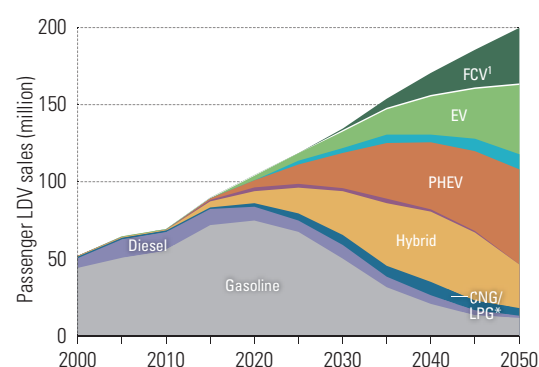
## The Continuously Expanding and Evolving Automobile Market

Led by China, where income levels are on the rise, demand in the global automobile market is forecast to continue growing, even as environmental regulations in countries throughout the world become stricter by the year.

As manufacturers of a mode of transportation, and a product to which people entrust their lives, automakers are focusing on making automobiles safe, while also reducing vehicle weight to improve fuel economy and taking steps such as incorporating the use of electric power to reduce emissions. In addition, they are working hard to harness the power of IT to enhance safety and comfort.

Automobile manufacturers have to develop products that respond to consumer needs, while also complying with regulations that differ by country and region. The challenge before them now is to do so as the overall market transitions away from gasoline- and diesel-powered vehicles and toward electric vehicles (EVs) and plug-in hybrids (PHEVs).

**Unit Sales Forecast (Global, by Vehicle Type)**



Source: Information published on July 22, 2015 by the Automobile Division of the Manufacturing Industries Bureau at Japan's Ministry of Economy, Trade and Industry

\* CNG/LPG: CNG stands for "compressed natural gas" and LPG, for "liquefied petroleum gas." Here, these acronyms are used to indicate vehicles powered by natural gas.

<sup>1</sup> FCV stands for "fuel cell vehicle."

## Helping to Improve Automobile Performance from Various Angles

Tokai Carbon products are used in many types of automobile parts and have contributed to their evolution.

Supporting the safety of automobiles at the most fundamental and critical level is carbon black, a key raw material for the manufacture of tires. Through our success in creating an industrial process for the production of carbon black in Japan, we have not only enabled dramatic increases in the strength of rubber but also played a key role in the development of tires. Carbon black is very effective in maintaining the performance of tires, and, therefore, helps to improve fuel economy. Tokai Carbon has established carbon black production facilities in Japan, China, and Thailand to provide customers in each of these countries with a local source of this product.

Among our other products contributing to better environmental performance are LiB anode materials and industrial furnaces, the latter of which are used to heat treat LiB cathodes. These batteries power electric vehicles, and, as demand rises for our LiB-related products, especially in Asia, we are rising to the challenge of meeting customer needs.

To improve the running performance of their products, automobile manufacturers are accelerating their use of artificial intelligence (AI) and internet-of-things (IoT) technologies. This has given rise to a rapid increase in demand for electronic condensers, which are key components for automatic function control and other systems, and the market for these components is now significantly larger than it was when smartphones were the chief application for them. We play a role in the manufacture of electronic condensers through our industrial furnaces, which are used in large numbers for sintering. We also contribute to the manufacturing of semiconductors found at the heart of various automobile components through our fine carbon, which is used in semiconductor manufacturing equipment and valued for its heat resistance.

By providing a wide array of carbon-based products to the automobile and related industries, we are advancing toward the development of a sustainable society, while striving to achieve our own growth objectives.





## CSR Management

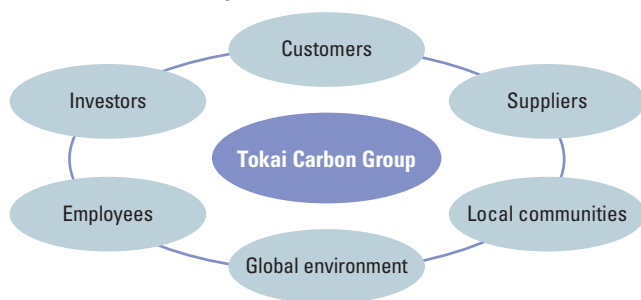
To grow sustainably together with stakeholders — Building a PDCA cycle for CSR activities

### CSR basic policy

At the Tokai Carbon Group, our business activities are founded in our corporate philosophy, Ties of Reliability.

Grounded in this belief, our CSR activities focus on compliance, the environment, and social contributions. Each member of the Tokai Carbon Group embraces and proactively engages in CSR to ensure we are able to make wide-reaching and continuous contributions to social development.

#### Tokai Carbon Group Stakeholders



### CSR management structure

Led by the head of the General Affairs Department, and with members representing the Corporate Planning, General Affairs, Human Resources, Legal Affairs, and Environment Safety Management departments, the CSR Committee, as a rule, holds meetings four times a year. The committee is responsible for discussing and making decisions on important CSR-related matters, bringing matters before and submitting reports to the Management Committee, and preparing the Company's CSR report.

The activities of the CSR committee provide a focal point for PDCA cycles we engage in to achieve prosperous coexistence with each of our stakeholders.

### Respecting human rights

In line with their basic policies, Tokai Carbon and its Group companies have been conducting human rights education activities since 1977. Led by the Group Human Rights Promotion Committee and division-specific Human Rights Promotion Committees, these activities focus on educating all employees on human rights policies and fostering enhanced awareness of their importance.

#### Basic Policies on Respecting Human Rights

1. Correctly recognize equality and other human rights issues from a corporate perspective and engage in ongoing training on a companywide basis to eliminate discrimination.
2. Establish a firm awareness of the importance of respecting basic human rights and develop employees with enriched human rights sensibilities.
3. Elevate the human rights awareness of every individual employee to promote the development of a vibrant, energetic workplace and society.

(Revised in 2002)

#### Group and division-specific human rights education committees

##### Group Human Rights Education Committee

Chair: President

Vice-Chair: Executive Officer of Human Resources

Members: General Manager of the Human Resources Department, managers of the general affairs and administrative sections of individual business divisions

Administration: Human Resources Department

##### Division-specific Human Rights Education Committees

Chairs: Division heads

Members: Managers (including acting managers) at the section-manager level and above

Administration: General affairs/administrative sections of each business division

#### Main education activities

Tokai Carbon conducts group-wide and division-specific training to instill awareness of human rights in its employees. Training focuses on reinforcing understanding of the Company's Basic Policies on Respecting Human Rights. In doing so, it uses present-day examples, including ones addressing discrimination, harassment, violations of the rights of people with disabilities, and violations of the rights of people from other countries. Human rights training is conducted for new hires and for employees newly promoted to management. In 2017, human rights training was performed 30 times for a total of approximately 1,000 participants.

Based on our awareness that human rights are the foundation of CSR, we have joined human rights organizations for businesses in Tokyo, Osaka, and Nagoya. We use our memberships in these organizations to share information on and expand our understanding of human rights to ensure that respect for human rights remains a key aspect of our corporate culture.





## For Customers

Reliably Supplying High-Quality Products to Locations across the Globe, while Striving to Enhance Customer Satisfaction through Tireless Technology Development

### Basic ideas on our business and customers

The Tokai Carbon Group makes materials and other industrial goods that are used in, or used to make, other industrial products and even consumer goods. Examples include items as diverse as automobiles, steel, electronic components, agricultural equipment, and lithium-ion batteries. We serve customers across a wide array of industries and business types. With over half of our sales coming from overseas, we supply our products to customers not only in Japan but also in other parts of Asia, and in North America and Europe, too.

Tokai Carbon products are essential to the daily operations of our customers, and many of our carbon black, graphite electrode, and other products are among the sales share leaders in their markets. One of our most basic responsibilities, therefore, is to maintain our ability to reliably provide customers with products of excellent quality. At the same time, we realize we are a part of our customers' supply chains and, therefore, work continuously to abide by relevant laws, regulations, and social norms, and strive to minimize the environmental impact of our manufacturing operations.

### Quality management

To provide the products that satisfy our customers, the Tokai Carbon Group practices strict quality management in all processes, from the design phase to raw materials procurement, manufacturing, distribution, and sales. To ensure adherence to our own strict standards, we conduct inspections at every stage from the receipt of raw materials and secondary materials to production, and shipment.

We aim to strengthen the Ties of Reliability between company and customer by continuously providing safe, reliable products.

To establish a foundation for quality management, we have obtained the ISO 9001 international quality management certification for all of our manufacturing facilities in Japan. Specifically, each plant and office has established quality management systems compliant with ISO 9001, the international quality standard, and continuously conducts activities aimed at improving customer satisfaction.

Based on these activities, we repeatedly apply the plan-do-check-act (PDCA) cycle to ensure we are maintaining the quality levels that satisfy our customers. We also regularly conduct assessments and exchange opinions regarding the effectiveness of our quality management system as part of a unified effort towards quality management by all our plants and offices.

### Pursuit of customer satisfaction

Even as we work continuously to enhance the performance and environmental characteristics of our products, customers keep raising the bar by elevating and adding performance standards they want our products to meet. To address the individual needs of customers that are difficult to address solely with existing technology, we collaborate with customers on R&D activities aimed at realizing customer requirements.

We develop a deep understanding of customer products and businesses, and constantly pursue possibilities for materials that can give rise to industrial innovation. In doing so, we are striving to fulfill customer desires and achieve even greater customer satisfaction.







## Relationship with Investors

We proactively engage in IR activities, strive to further dialogue with investors, and deepen understanding of our company.

### IR activities

In Japan, we hold earnings conferences for securities analysts and institutional investors four times a year, and conduct individual sessions as required. We also hold factory tours and other events designed to increase understanding of our business. Furthermore, our proactive approach to IR includes efforts such as having our executives meet with overseas institutional investors.

In our relations with overseas investors, we provide information equivalent to what we provide to investors in Japan. We even go as far as preparing English-language versions of all disclosures within two weeks of their release in Japanese. Timeliness is important for disclosures, and we are continuing with efforts to reduce time lags for disclosures in both Japanese and English.

### Reflecting investor feedback

Feedback from investors is communicated by the IR Department to company leadership, so that it can be used to improve our management and business activities. For example, when it was brought to our attention that the lag between our results announcements and earnings conferences was too long, we implemented earnings conference calls on the same days as our results announcements for the first and third quarters.

In addition, we make a record of all feedback received in private IR meetings and then disseminate it to executives and relevant departments.

#### IR activities (2017)

Activity	Number Held
Earnings conferences	4
One-on-one meetings with institutional investors	150
Plant tours (Chita Plant)	1
Overseas visits (2 in U.S., 2 in Europe and Asia)	4

### General Meeting of Shareholders

We ensure that the meeting notices sent to shareholders concerning the convening of the General Meeting of Shareholders, held each year in March, are created with an emphasis on easy-to-understand explanations of business results and issues facing the company. We also take special measures, including the use of video, to ensure our ability to provide frank and comprehensive answers to questions at the General Meeting of Shareholders.

### Promoting the exercise of voting rights

To ensure that shareholders unable to attend on the meeting date are able to exercise their voting rights with a sufficient understanding of motion details, we send meeting notices with ample lead time — about three weeks — and also publish notifications in advance on our website. For the General Meeting of Shareholders held on March 29, 2018, for example, we sent meeting notices out on March 5.

Furthermore, as of the General Meeting of Shareholders for FYE March 2016, we have made voting more convenient for investors by implementing an internet-based voting system. Using this system, shareholders can exercise their voting rights from a computer, mobile phone, or smartphone.

### Dividend policy

We believe that returns to shareholders are a vital management issue in terms of increasing medium- to long-term corporate value. While giving due consideration to annual earnings as well as earnings forecasts, investment plans, cash flow status, and other factors, we aim for stable and continuous dividends, using a 30% dividend payout ratio as a guideline. Our basic policy is to issue dividends twice a year — at mid-year and at year end.

In fiscal 2017, we realized dramatic recoveries in net sales and earnings as a result of structural reforms implemented in fiscal 2016. In light of these results, we declared dividends of 12 yen per share (including an interim dividend of 6 yen) for the year.

#### Total per share dividends for recent fiscal years (yen)

	2014	2015	2016	2017	2018 (Forecast)
Dividend amount	6	6	6	12	24





## Relationship with Employees

Striving to provide employees with evaluation and compensation systems that are fair, and with work environments where diverse human resources can thrive.

### Basic ideas on hiring and employment

Tokai Carbon guarantees fair employment opportunities for all individuals and considers only aptitudes and strengths in making hiring decisions. We make no distinctions based on race, geographic origin, nationality, age, gender, sexual orientation, or disability.

In hiring recent college graduates, we seek goal-oriented, self-directed individuals who welcome challenges, are problem solvers, and will cooperate with others. When it comes to mid-career hires, we look for people who have skills that respond to our overseas business development, technical development, and other business needs.

### Consolidated employment figures by region (Individuals)

	2013	2014	2015	2016	2017
Japan	1,258	1,270	1,273	1,215	1,226
N. America	26	102	114	103	249
Europe	268	252	251	244	251
Asia	364	440	454	418	416
Total	1,916	2,064	2,092	1,980	2,142

Note: The 2017 employment figure for North America rose by approximately 140 people following the November 2017 acquisition of TOKAI CARBON GE LLC.

### Labor relations

Tokai Carbon has signed a union shop agreement with the Tokai Carbon Labor Union. Union membership includes 84.6% of Tokai Carbon employees (as of the end of December 2017.)

Labor and management discuss matters concerning labor relations and business activities in meetings of the Labor Committee, Work Committee, and Expert Committee on Human Resources Systems. Working from a foundation of trust and cooperation labor and management fulfill their respective responsibilities and strive to implement policies that promote positive interaction.

When it seeks to implement organizational and employment policy changes, management consults with the union before finalizing decisions.

### Occupational safety and health

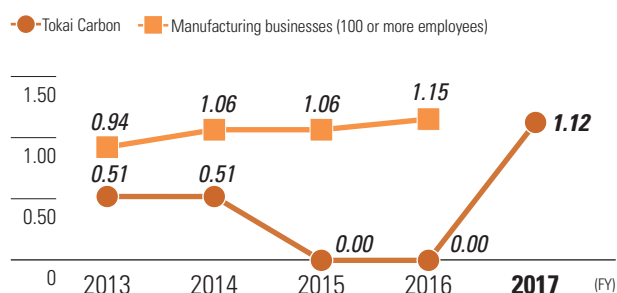
Tokai Carbon's occupational safety objective is to ensure that everyone working in its facilities is sensitive to potential dangers. Responding to occupational accidents that occurred in 2017, we are focusing on three key points in 2018. These are: 1) Identifying potential dangers before engaging in non-routine work activities; 2) Safety education for

inexperienced individuals; and 3) Safety activities undertaken together with contractors working on site.

### Occupational accidents

The rate of lost-time accidents over the most recent five years is as shown in the graph. For the years 2013 through 2016, our rate of lost-time accidents was below the average for manufacturing businesses with at least 100 employees. In 2017, we experienced two lost-time accidents.

#### Frequency rate



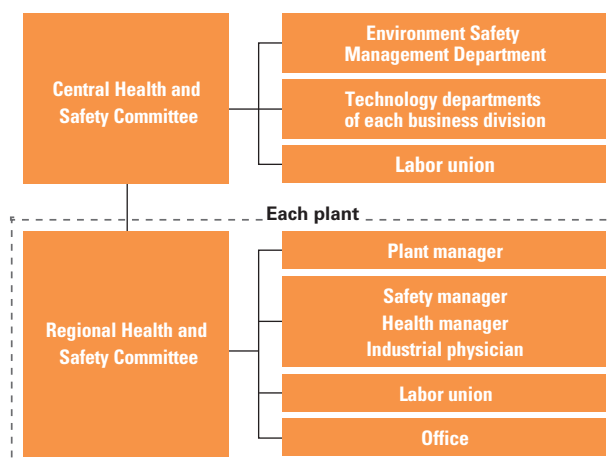
Frequency rate: The number of deaths or injuries per million working hours.  
Note: As of March 2018, the frequency rate of deaths or injuries in manufacturing businesses with at least 100 employees has yet to be published.

### Health and safety management structure

We believe a united front between labor and management is vital to eliminating labor accidents. To confirm the status of health and safety activities at each plant and to deliberate and outline core initiatives related to health and safety, we convene Central Health and Safety Committee meetings attended by representatives from labor and management.

In addition, Tokai Carbon holds monthly Regional Health and Safety Committee meetings to promote health and safety activities.

#### Tokai Carbon health and safety organization chart





## Relationship with Employees

### Health and safety initiatives

Aiming to eliminate labor accidents, Tokai Carbon continues to conduct near-miss reporting, KYT (Kiken Yokoku (Danger Identification) Training), and other safety management activities, with participation by all employees. In the event of a labor accident or a significant near-miss event (cases that do not result in a labor accident but could lead directly to a serious accident), we disseminate this information internally and to Group companies to raise awareness and prevent the occurrence of similar incidents.

To promote workplace mental health, we engage in initiatives such as holding training seminars at individual plants and conducting mental health seminars.

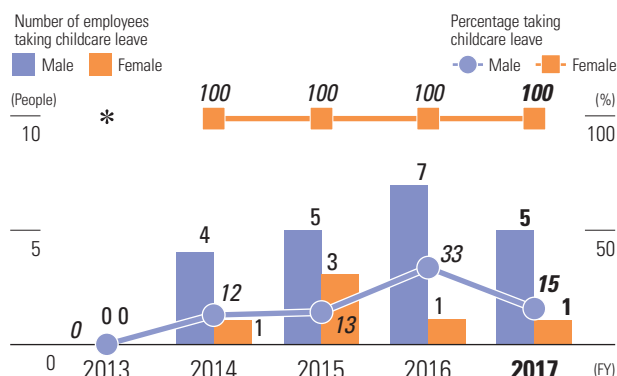
### Work-life balance

With Japan's birthrate falling and its population aging, it is essential to create conditions that allow employees to continue their careers following childbirth and as they fulfill responsibilities to care for children or other family members. Tokai Carbon has established work environments that help employees meet responsibilities at work and at home.

### Child and family care support system

Under our childcare leave system, employees can stay at home to care for a newborn until the April 1st following the child's first birthday — a maximum of two years. Furthermore, given certain circumstances such as the inability to secure a spot in a nursery school, leave can be extended to the point at which the child becomes two years of age. We also support employees with benefits such as the ability to shorten daily working hours until the time when the child enters elementary school. Our childcare leave benefits provide for more flexibility than does the legal

#### Number of employees taking childcare leave (non-consolidated)



Note: The percentage taking childcare leave is the percentage of employees who took childcare leave within the one-year period after a child was born.  
(An asterisk (\*) indicates a year when no employee gave birth to a child.)

standard, and we encourage our male employees to use them when their spouses give birth.

Employees with family (nursing) care responsibilities may take up to 93 days of leave in total and elect to work shorter hours.

### Enhanced leave system

For our annual paid leave, we have increased employee options by including a half-day leave system and a leave accrual system. Our system allows employees to take half-day leave up to 20 times per year (10 days). The leave accrual system allows employees to accumulate a maximum of 40 days of annual paid leave that expired due to lack of use during the valid period. This system also allows these days to be applied towards long-term illness or injury leave and family care leave.

We also have designated certain months for encouraging employees to use their annual paid leave.

### Health care support systems for employees

#### (1) Medical care leave wage support system

To support employees forced to miss work or take leave due to a personnel medical condition, we have established a system for providing a certain percentage of employee wages based on the employee's condition, length of time away from work, and family structure.

#### (2) Medical leave return support system

We have established a reduced workday system that allows employees returning from medical leave to work shorter workdays for a certain period of time.

We also establish work acclimation periods, preparatory periods of a certain length that allow employees to gradually return to work.

#### (3) 24-hour health and medical consultation service

To promote health maintenance, Tokai Carbon has implemented a health and medical consultation service that employees and their family members may access at any time of day. In 2017, this service was used on eight different occasions.

#### Work-life balance data (Non-consolidated, 2017)

Data Points	Results
Employees returning from childcare leave	100%
Employees taking family care leave	0
Avg. percent of annual paid leave taken	52.3%
Avg. overtime hours per month	9.9



## Promoting diversity

Japan's birthrate is falling, its population aging, and its working-age population shrinking. It is critical, therefore, to expand employment opportunities for the elderly, women, and people with disabilities. Tokai Carbon is moving forward with efforts to create working environments that are accommodating for a diversity of human resources.

## Continuous employment system

We have established a system that enables motivated and skilled elderly workers to continue their employment after the mandatory retirement age. We support a diverse range of workstyles, enabling workers to choose both fulltime and halftime positions. In 2017, we continued the employment of all 32 people who requested to stay on.

In addition to applying the accumulated skills and capabilities of elderly workers, the guidance and skills transfer to successors is included in the evaluation criteria of each employee. We also promote this effort by designating skills transfer supervisors (Meisters) to clarify roles.

## Expanding opportunities for women

Tokai Carbon is advancing an action plan to foster a corporate culture where women can thrive professionally. Our objective at this point is to reduce the male/female difference in average years of continuous employment to less than ten.

For employees early in their careers, we conduct career-development training that considers important life events such as marriage and childbirth. Management-level employees, meanwhile, participate in career-design training that focuses on improving communications between supervisors and subordinates, and on honing management skills needed for effectively enhancing employee capabilities.

In 2017, our hiring of young women, both new graduates and mid-career, for career positions had the effect of reducing the average years of continuous employment for career-track female employees. As a result, the male/female difference in average years of continuous employment came to 10.3. Although this result left us short of our goal, we did increase the number of female career-track employees by three, and we remain committed to creating work environments that women will favor.

## Expanding hiring of people with disabilities

As of June 1, 2017, people with disabilities made up 1.71% of Tokai Carbon's workforce. This figure is lower than the legally mandated rate, which we are actively working to achieve by creating working environments where people with disabilities can succeed.

## Evaluations, compensation, and human resource development

To increase our ability to create value for the global market, one of the themes of our basic philosophy, we are using personnel development to increase the capabilities of our employees. We are striving to improve our value creation on an organizational level.

## Certification and ranking system

Tokai Carbon operates a certification and ranking system that differs depending on career development track, as defined by responsibilities, department assignment, and rotation. This system allows career development tracks to be changed based on Company needs or employee preferences and opens the door to rapid promotion of outstanding individuals.

## Evaluation system

We employ a goal management system that outlines performance goals and topics to clarify target goals for each employee. Each employee participates in a meeting during which they set specific goals and are given progress evaluations to increase individual motivation, promote personnel development, and ensure performance management.

To promote understanding of the personnel evaluation system and goal management system, and to eliminate inconsistency in evaluations, we provide training for employees who become new evaluators to ensure the effective implementation of the system.

In 2017, the goal management system covered 31% (226 employees) of our workforce.

## Self-assessment

Tokai Carbon has a system under which employees — mainly general career-track employees whose professional education includes position rotations — annually assess the volume and quality of their work and express desires for current and future positions and locations. This information is communicated to the Human Resources Department by employees in personal interviews. It is used by the department as basic input for making career development and training decisions, and for assessing individual positions and workplace environments.

In 2017, the self-assessment system covered 42% (305 employees) of our workforce.



## Relationship with Employees

### Education and training

#### (1) Selective training

In 2017, we introduced overseas language training, global leadership training, and executive management training to develop candidates for future leadership positions at Tokai Carbon. Young and mid-career employees selected by the business divisions for participation in these programs underwent language training for two months in the Philippines and six months in the U.S., while also completing eight months of global leadership training. Following their

training, participants conducted presentations on their achievements for the president and business division leaders. Given the positive results of the 2017 program, we are planning to conduct it again in 2018.

#### (2) Stratified training

Tokai Carbon regularly conducts stratified training for department heads, section heads, mid-level employees, employees who have recently completed their first year with the Company, and new hires. These training programs are open to participation by employees of Group companies, as well.

#### Training program participation

Program		Focus	Participants
Selective Training	Overseas language training	Language skills	2
	Global leadership training	Logical thinking, marketing, finance, and leadership skills	4
Stratified Training	New-hire training	Human rights, business manners, English language, understanding of Company systems, etc.	5
	Training for employees with one year of experience at the Company	Basic conduct and communications	8
	Section leader training	Leadership, philosophy, human rights, HR evaluation	9



## Together with Suppliers

Tokai Carbon strives to maintain stability in costs and reliability in product supplies, while providing partners with fair opportunities to do business with us.

### Current status and basic ideas on raw material procurement

The main raw materials for the production of carbon black, one of our products, are creosote oil obtained from the tar distillation process, and FCC bottom oil and ethylene bottom oil, which are obtained from the oil remaining from the refining of petroleum. For graphite electrodes, another of our products, the main raw materials are a special needle coke from the distillation of tar or the refining of petroleum, and tar pitch.

For both carbon black and graphite electrodes, there are only a limited number of raw material suppliers, which include tar distillation companies, petroleum refineries, and petrochemical companies. That can pose a challenge in managing costs, but we must do our best to keep raw material costs as stable as possible, so that our customers and all other stakeholders can continue to rely on us.

Going forward, we will persist in our efforts to maintain close relationships with our suppliers, so that we can grow and prosper together with them, and ultimately contribute to the economy.

### Procurement initiatives

Supplies of the oils needed to make carbon black and the needle coke that is a key raw material for graphite electrodes are both tightening, even as demand for carbon black and graphite electrodes is rising.

In procuring raw materials for carbon black, we select suppliers based on careful considerations of volume, pricing, and raw material types. As for needle coke, procurement of its raw materials is still handled by individual plants. For greater stability in procurement, therefore, we are considering possibilities for creating a centralized procurement system that would cover all of our graphite electrode manufacturing facilities in Japan, Germany, and the U.S.

### Providing fair access to business opportunities

Tokai Carbon provides business opportunities on an open, fair basis to all of its suppliers inside and outside Japan. We select suppliers based on overall considerations of factors such as cost, quality, delivery times, economic rationality, and abilities to provide us with stable, steady supplies of raw materials.





# Community Contribution Activities

We strengthen Ties of Reliability with local communities through proactive communication.

## Basic ideas on contributing to communities

Through our community contribution activities, we aim for partnerships and harmony with our local communities. We strive to fulfill our responsibilities as a member of local society, and we work to strengthen Ties of Reliability and relationships with local communities through domestic and international communication.

## Main activities in fiscal 2017

### Japan

#### Participating in community-based emergency-response activities

Tokai Carbon actively participates in community emergency-response associations. This includes training to work with local communities to respond to emergency cases. Our employees participate in activities such as firefighting competitions and traffic safety support for students at railway crossings.



Participating in a firefighting competition (Chita Plant)

#### Social education

As part of our social education activities, we conduct plant tours that give students and municipality representatives a close-up look at manufacturing. We also accept interns, and send our researchers to conduct seminars for children as part of our proactive involvement in fostering future generations.



High school students visiting our Tokyo main office

#### Making our facilities available to local communities

To enhance relations with local communities, we allow local residents to use athletic fields, tennis courts, and other recreational facilities located within our plant sites.

At our Ishinomaki Plant, we have partnered with the city of Ishinomaki to make those facilities available for use as a tsunami evacuation site.



Ishinomaki Plant

### Overseas

#### Regular conference for local residents

TOKAI ERFTCARBON, located in Germany, holds periodic meetings with the local residents to disseminate information and receive feedback, mainly on environmental issues.



Sharing information with local residents (TOKAI ERFTCARBON) GmbH

#### Supporting local activities

Tokai Carbon Group companies contribute to local communities by, for example, supporting soccer teams and making charitable donations to nursery schools.



A soccer team supported by Tokai CARBON U.S.A., Inc. took top honors in league competition

#### Environmental protection activities

As part of their training, interns at TOKAI ERFTCARBON GmbH participated in cleanup activities near the plant.



Interns participating in a cleanup activity



# Environmental Conservation Activities

To protect the global environment, we are working to ascertain the environmental impact of our business activities and steadily reduce them going forward.

## Basic ideas

The Tokai Carbon Group treats protection of the global environment as one of its highest management priorities. To harmonize our business activities with environmental needs, we have implemented an environmental management system based on the ISO 14001 international standard. Toward that same end, we also qualitatively and quantitatively evaluate the environmental impacts of our business activities, focusing on production and distribution, and take various steps to reduce them. We believe these efforts will also contribute to the realization of a sustainable, recycling-oriented society.

To facilitate our environmental protection activities, we have established an environmental philosophy and environmental policy for the entire Tokai Carbon Group.

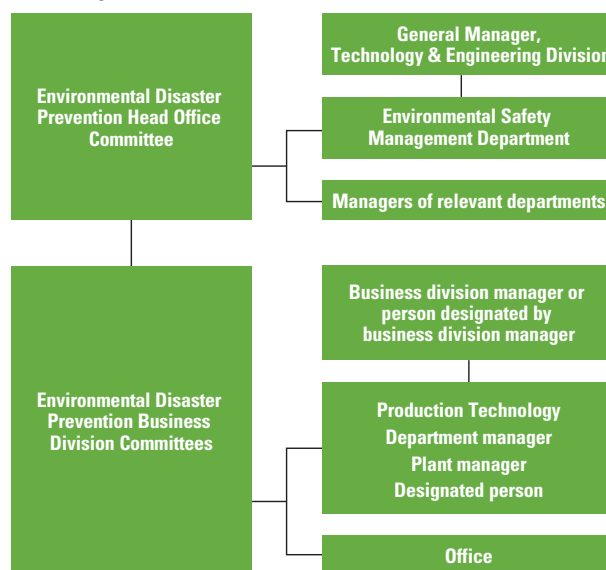
## Environmental management

### Management structure for advancing environmental disaster prevention

Tokai Carbon has established an environmental management structure consisting of the Environmental Disaster Prevention Head Office Committee and the Environmental Disaster Prevention Business Division Committees through which Group companies participate.

The Environmental Disaster Prevention Head Office Committee establishes major strategies and policies, and each business division pursues activities in line with the ISO 14001 international standard for environmental management. Moving forward, we aim to take on challenges, the achievement of which will have progressively greater benefits for the environment.

### Management structure for environmental disaster prevention



## Environmental philosophy

The Tokai Carbon Group views the protection of the global environment as one of its highest-priority management issues.

We work to achieve harmony between business activities and the environment, and conduct activities towards the realization of a sustainable, recycling-based society.

## Environmental policy

### 1. Enhance environment management system

Work to maintain and improve environment management system and conduct environmentally conscious corporate activities.

### 2. Promote effective use of resources and energy

Work to protect the global environment through resource conservation, energy conservation, minimizing industrial waste, and reducing emissions of greenhouse effect substances and toxic substances.

### 3. Comply with relevant environmental laws

Adhere to laws, ordinances, and agreements related to the environment and, as necessary, outline voluntary management standards to work towards environmental protection.

### 4. Promote environmental education activities and social contribution activities

Use environmental education to elevate environmental awareness and participate in local environmental conservation activities to protect the local environment and improve communication.

### 5. Disclose environmental information

Use IR activities to distribute environmental information related to corporate activities in order to ensure transparency.

(Established in 2011)



## ISO 14001-based environmental management system

The most fundamental organization involved in company-wide environmental disaster prevention activities uses the plan-do-check-act (PDCA) cycle to implement continuous improvements.

## Status of environmental management system certification

The ISO 14001 international standard is critical for pursuing business activities in an environmentally friendly manner. Tokai Carbon has obtained ISO 14001 certifications for all of its plants in Japan.

## Status of environmental management system audits

We are striving to enhance the effectiveness of our environmental protection activities through regular audits — internal audits performed by designated Company auditors and external audits performed by independent certification bodies.

The external audit conducted in 2017 resulted in no serious citations. As of April 30, 2018, Tokai Carbon had brought all of its production facilities into line with the updated (2015) ISO 14001 standard.

## Environmental education and awareness

To promote the Company's environmental initiatives, it is important for each employee to increase their understanding of environmental issues and act with environmental awareness.

Tokai Carbon outlines environmental education and awareness activities in our environmental policy and proactively conducts various education and awareness activities related to the environment.

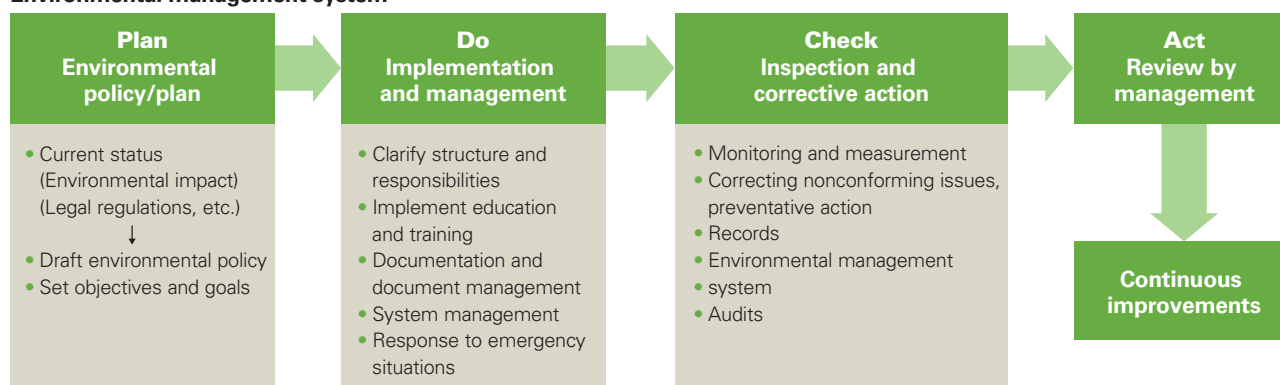
We also systematically conduct educational activities to ensure the development of credentialed environmental engineers, including the pollution prevention managers and energy management technicians, required for our business activities.

## Environmental risk assessment

Through our environmental management system, we identify risks and take steps to prevent environmental pollution. We have also established systems and procedures for minimizing the environmental impacts of any accidents that should occur. Furthermore, our risk identification and assessment initiatives cover even plants without environmental management certifications.

To ensure the efficacy of these systems and procedures, we regularly conduct emergency response education and training, and use the results to make revisions as needed.

### Environmental management system





## Environmental Conservation Activities

### Environmental objectives and performance

In advancing its environmental activities, Tokai Carbon undertakes initiatives focused on the following four targets.

#### (1) Legal compliance

We carefully confirm the requirements of relevant laws, ordinances, community treaties, and agreements and properly comply with them.

In 2017, we had no plants exceeding regulatory limits or standards, and we had no cases of environmental lawsuits or penalties.

#### (2) Zero environmental claims

Even when within standards outlined in relevant laws, ordinances, community treaties, and agreements, we appropriately respond to any incidents that could cause trouble for the local community.

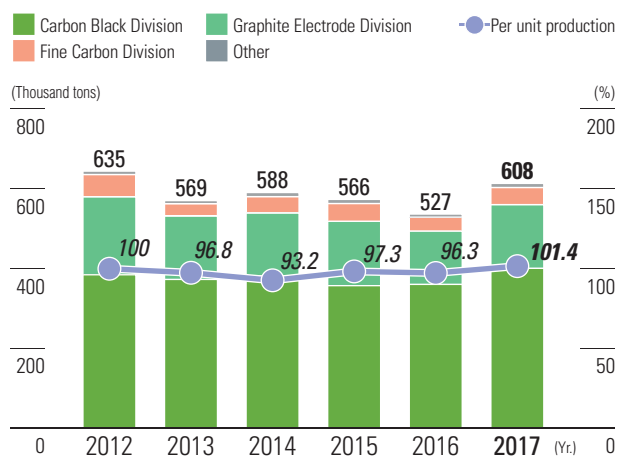
No environmental claims were made against Tokai Carbon in 2017.

#### (3) Reducing CO<sub>2</sub> emissions per unit production

Tokai Carbon has established medium-term goals for its environmental activities.

In 2017, each of our business divisions responded to improving market conditions by increasing production significantly compared to the year earlier. Reactivating less-efficient facilities to ramp up production caused a decline in our CO<sub>2</sub> emissions per unit of production.

#### CO<sub>2</sub> emissions per unit production (vs. 2012) (Non-consolidated)



#### (4) Reduction of industrial waste

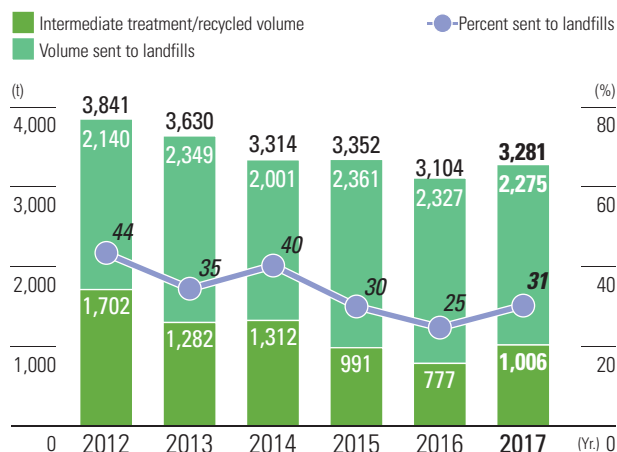
Tokai Carbon greatly increased production volumes in 2017 and this, together with factors such as a decline in transfers of valuable waste, resulted in a slight year-on-year increase in industrial waste production.

Regarding the volume of waste we consign to third parties for treatment, reuse/recycling activity is on the rise, and we continue to reduce the amount of waste we send for landfill disposal. By making even greater efforts to separate waste by type and pursuing value-added options in line with social conditions, we aim to further reduce the amounts of waste we send out for consigned treatment, or for final disposal in a landfill.

#### Industrial waste generation and treatment (Consolidated, Japan)

Item	2012 Actual (t)	2016 Actual (t)	2017 Actual (t)	Vs. 2016
Vol. consigned	3,841	3,104	3,281	+177t
Portion of above sent to landfills	1,702	777	1,006	+229t

#### Consigned treatment of industrial waste (Consolidated, Japan)





### **Working with outside organizations**

Our Graphite Electrode and Fine Carbon divisions are supporters of the Low-Carbon Society Realization Plan. Through this undertaking of the Japan Carbon Association, an organization comprised of manufacturers of carbon products, these two Tokai Carbon divisions are working with representatives of other manufacturers of carbon products to achieve the fiscal 2020 goal of reducing CO<sub>2</sub> emissions per unit production by 2.5% from fiscal 2010 levels.

### **PCB elimination initiative**

The Tokai Carbon Group has completed the process of disposing of transformers and capacitors with high concentrations of PCBs. We are continuing to properly dispose of items containing PCBs, a process we aim to complete two years ahead of the legally mandated deadline.

### **Initiatives to reduce the environmental impact of our business activities**

Each of the Group's Environmental Disaster Prevention Committees takes a leading role in establishing and working to achieve medium-term goals for improving CO<sub>2</sub> emissions per unit production, and for reducing the volumes of waste consigned to outside companies for treatment or sent for landfill disposal. The committees also advance initiatives concerning shipping, raw materials, secondary materials, and packaging and wrapping materials.

### **Activities for reducing energy consumption and environmental impacts of shipping**

We promote energy conservation and resource conservation activities, including reducing shipping distances and improving load efficiency, through partnerships with shipping and receiving companies.

Our Group company, Tokai Unyu, the main shipper for Tokai Carbon products, has adopted fuel-efficient vehicles and promotes eco-driving, shared shipping, and other environmentally friendly shipping initiatives.

### **Green procurement, green purchasing**

As a part of our environmental activities, when procuring product raw materials, parts, materials, services, etc., from suppliers, we promote the priority selection of goods and services with a lower environmental burden.

#### **1) Fuel**

To reduce CO<sub>2</sub> emissions, we have switched some of our fuel from heavy oil to gas.

#### **2) Secondary materials**

To promote the reduction of industrial waste, we are switching to materials with value after initial use and reusable secondary materials.

#### **3) Packaging and wrapping materials**

To ensure the effective use of limited resources, we are adopting simplified packaging, the use of recycled materials, and other environmentally friendly approaches to packaging and wrapping. We are also employing returnable boxes that can be used repeatedly, and reusing shock absorption materials to help promote resource conservation.

#### **4) Green purchasing**

We believe that purchasing based on a careful consideration of needs and selecting the most environmentally friendly products whenever possible are incredibly effective for building a sustainable, recycling-oriented society. With this in mind, we have created the Green Purchasing Basic Policy and Green Purchasing Procedures, and apply these uniform standards to aggressively promote green purchasing.

### **Environmental initiatives by Group companies**

Group companies in Japan set concrete medium-term environmental goals (for CO<sub>2</sub> emissions and industrial waste). These goals are consistent with those set by Tokai Carbon's business divisions and the Group companies proactively undertake environmental activities to achieve them.



## Environmental Conservation Activities

### Water Usage and Water Pollution Data\* (Tokai Carbon Co., Ltd.)

	Water use [1000m <sup>3</sup> ]	BOD emissions [kg]	COD emissions [kg]	NOx emissions [t]	SOx emissions [t]
Carbon Black Division	1,376	–	7,605	571	909
Graphite Electrode Division	1,022	–	888	73	59
Fine Carbon Division	203	442	0	19	63
Friction Materials Division	87	610	959	0	0
R&D Strategy Division	10	10	21	0	0
Total	2,698	1,062	9,473	663	1,031

\*Data-gathering period: April 2017 to March 2018

### Discharges of Nitrogen and Phosphorus into Water\*<sup>1</sup>\*<sup>2</sup> (Tokai Carbon Co., Ltd.)

	Total Nitrogen Discharges [t]	Total Phosphorus Discharges [t]
Chita Plant	0.530	0.011
Kyusyu Wakamatsu Plant	3.043	0.107
Hofu Plant	0.167	0.009
Shiga Plant	0.936	0.052
Total	4.676	0.179

\*1 Data-gathering period:  
April 2017 to March 2018

\*2 Reporting scope:  
Business locations the operations of which may impact the bodies of water (coastal waters, lakes, wetlands) specified in the Japanese Ministry of the Environment's environmental standards on water pollution, Appended Table 2 Environmental Water Quality Standards Concerning the Conservation of the Living Environment.

### Type 1 Chemical Substances\* (Tokai Carbon Co., Ltd.)

Chemical substance name	Atmospheric emissions [kg]	Water emissions [kg]	Soil emissions [kg]	Movement volume [kg]
Acenaphthene	11.0	0.0	0.0	0.0
Anthracene	15.0	0.0	0.0	0.0
Xylene	4.0	0.0	0.0	0.0
Cresol	0.0	0.0	0.0	5.6
Chromium and trivalent chromium compounds	0.0	0.0	0.0	0.0
Diphenyl ether	0.0	0.0	0.0	0.0
Styrene	0.0	0.0	0.0	0.0
Naphthalene	1.5	0.0	0.0	0.0
Lead	0.0	0.0	0.0	0.0
Nickel	0.0	0.0	0.0	0.0
Biphenyl	0.0	0.0	0.0	0.0
Phenol	0.0	0.0	0.0	4.3
Water soluble salt of peroxodisulfuric acid	0.0	0.0	0.0	0.0
Benzene	0.0	0.0	0.0	0.0
Poly (oxyethylene) = nonylphenyl ether	0.0	0.0	0.0	0.0
Formaldehyde	0.0	0.0	0.0	4.1
Manganese and other compounds	0.0	0.0	0.0	0.0
Methyl naphthalene	440.0	0.0	0.0	0.0
Molybdenum and other compounds	0.0	0.0	0.0	0.0

\*Data-gathering period: April 2017 to March 2018





# Corporate Governance

We are working to strengthen our corporate governance to enhance our corporate value over the medium to long term.

## Basic Approach to corporate governance

Tokai Carbon recognizes that enhancing medium to long-term corporate value is the most important management objective. We believe that responding to the expectations of all stakeholders, including customers and shareholders, and building favorable relationships, is essential in achieving this objective. To this end, we embrace the corporate philosophy of Strength in Trust. Through this philosophy and through the policies and values outlined in our Guidelines and Corporate Code of Ethics, we are working to develop an effective corporate governance structure.

## Corporate governance system

As a company with an Audit & Supervisory Board, Tokai Carbon focuses on enhancing the effectiveness of audits by Audit & Supervisory Board members and our internal audit functions. At the same time, we work to strengthen the management supervision functions of the Board of Directors by appointing multiple external directors and establishing voluntary committees in order to realize an appropriate corporate governance structure. Furthermore, to clarify the functions and responsibilities of corporate officers engaged in business execution, we have adopted an executive officer system and established a Managing Executives Meeting to enhance and strengthen the business execution functions of the organization.

## (a) Board of Directors

The Board of Directors is responsible for making decisions on important management matters and overseeing business execution. In principle, the Board meets monthly. As of March 29, 2018, there are seven directors, including two external directors. The Nomination Committee and Compensation Committee, for which the majority of members are external directors, have been created as voluntary advisory entities for the Board of Directors. The Risk Management & Compliance Committee, also a voluntary entity, has been established immediately under the Board of Directors.

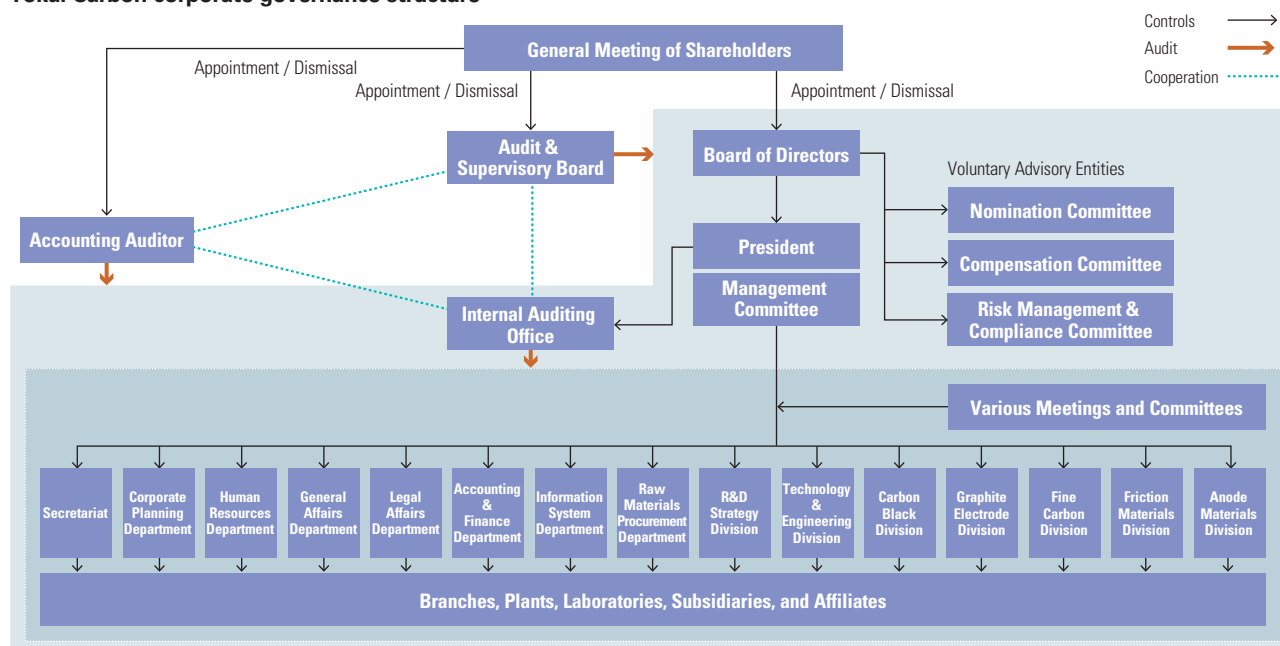
## (b) Audit & Supervisory Board members and the Audit & Supervisory Board

As a general rule, the Audit & Supervisory Board of the Company meets monthly. As of March 29, 2018, there are four Audit & Supervisory Board members, of whom two are External Audit & Supervisory Board members. Audit & Supervisory Board members perform audits based on the auditing policies and audit plan adopted by the Audit & Supervisory Board. Audit & Supervisory Board members attend Board of Directors' meetings and other important meetings, and investigate the status of business operations and assets to confirm the status of business execution by directors.

## (c) Management Committee

The Company has established the Management Committee under the Board of Directors. This committee deliberates and makes decisions on important management matters in

**Tokai Carbon corporate governance structure**



As of March 31, 2018



## Corporate Governance

accordance with basic policies adopted by the Board of Directors. The Management Committee meets once a week with participation by executive officers and Audit & Supervisory Board members. To assist the Management Committee with its work, we have also established committees to deliberate particular types of matters and report their findings to the Management Committee for higher-level consideration.

### (d) Internal audits

The Company has established the Internal Auditing Office to improve and enhance internal control systems by performing internal audits of business operations of the Company and Group companies. The Internal Auditing Office thoroughly follows up on audits performed to see that recommendations for improvement have been implemented. Important audit results are reported to the Board of Directors.

### (e) Accounting audits

Tokai Carbon undergoes audits by an auditing firm as required by the Companies Act and Financial Instruments and Exchange Act. Acting as an independent third party, the accounting auditor conducts an audit of accounts and financial statements and issues an audit report to the Company. The Company and the accounting auditor then discuss internal control and other matters and then the Company implements improvements called for by the accounting auditor.

### Economic, environmental, and social governance structure

At Tokai Carbon, the chief financial officer (CFO) and director in charge of human resources are responsible for economic, environmental, and social matters. In addition, an executive officer serves as the General Manager of the Technology and Engineering Division, which is responsible for environmental safety.

### Executive compensation policy

At Tokai Carbon, executive compensation is composed of basic compensation, which is a fixed amount, and performance-based compensation, which varies depending on achievement of performance objectives. For directors with executive responsibilities, the proportion of total compensation that is variable is designed to rise with executive rank. This is in consideration of the significance of management responsibilities borne.

Revisions and decisions regarding the executive compensation system, and the performance evaluations and compensation for individual executives, are based on deliberations by the Compensation Committee, which is

chaired by an external director and includes external officers as members.

### Establishing an internal control system

To ensure that the entire Tokai Carbon Group properly executes business operations in accordance with relevant laws, regulations and the Articles of Incorporation, the Company adopted the “Basic Policy for Establishing an Internal Control System” at its meeting of the Board of Directors in May 2006 and works to make continuous improvements to the system.

### Compliance

The Company has outlined a Basic Policy, Guidelines, and a Corporate Code of Ethics. We conduct corporate activities in accordance with these policies and based on a strong ethical viewpoint while also complying with the relevant laws, rules, and regulations.

#### (a) Compliance manual

The Compliance Manual was prepared based on the Tokai Carbon Corporate Code of Ethics and our Ethical and Compliance Conduct Standards. The manual outlines the conduct standards that all officers and employees are required to maintain as they carry out their everyday duties, and is intended to help everyone in the Company understand compliance properly.

#### (b) Internal reporting system

The Company has an internal system for reporting improprieties. This system has both internal (Legal Affairs Department and Audit & Supervisory Board Members) and external (an advising attorney) contact points. It allows employees to make reports and receive consultation by various means including telephone, fax, email, and postal mail. The Company’s Guidelines on Handling Internal Reports clearly states that, apart from cases when the system is deliberately misused, informants will not be dismissed or subjected to unfair treatment under this system.

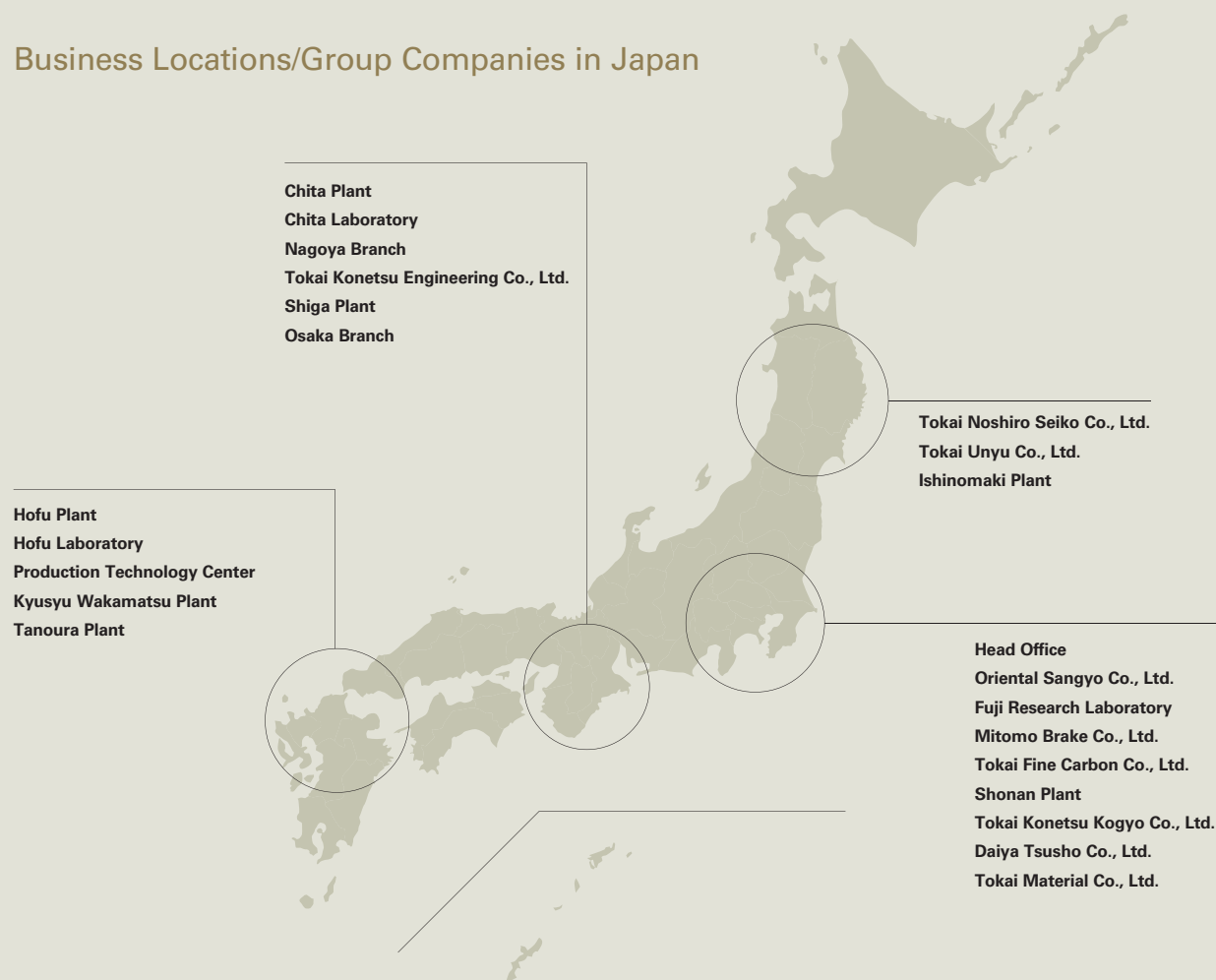
#### (c) Awareness-raising and education

Compliance training is held regularly for officers, managers, and new recruits, and is facilitated by trainers from both inside and outside the Company. In 2017, compliance training focused on Japan’s Antimonopoly Law and was conducted for roughly 50 participants. The Company also strives to raise awareness of compliance among officers and employees by distributing compliance message videos internally and informing officers and employees of related issues through the company newsletter.



## Group Offices

### | Business Locations/Group Companies in Japan



### | Group Companies Overseas





<https://www.tokaicarbon.co.jp/en/>

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