# Securities report

| | |
|---|---|
| Fiscal year 2023 | (January 1 to December 31, 2023) |

Tokai Carbon Co., Ltd.

# Securities report

1 This document has been outputted and printed by adding a table of contents and page numbers to the data contained in the securities report (pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act) that was submitted using the Electronic Disclosure for Investors' NETwork (EDINET) as stipulated in Article 27-30-2 of the Act.

2 Appended to the back of this document are the audit report that was attached to the securities report when it was filed using the aforementioned method, and the internal control report and confirmation letter that were filed at the same time as the securities report.

# Contents

## [Cover]

| | |
|---|---|
| [Document submitted] | Securities report |
| [Applicable law] | Article 24, Paragraph 1 of the Financial Instruments and Exchange Act |
| [Submitted to] | Director of the Kanto Local Finance Bureau |
| [Date submitted] | March 28, 2024 |
| [Fiscal year] | Fiscal 2023 (from January 1 to December 31, 2023) |
| [Company name] | Tokai Carbon Co., Ltd. |
| [Company name in English] | TOKAI CARBON CO., LTD. |
| [Name and title of representative] | Hajime Nagasaka, President & Chief Executive Officer |
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| [Contact person] | Akira Yamada, General Manager, General Affairs Department |
| [Place available for public inspection] | Tokai Carbon Co., Ltd. Osaka Branch |
| | (Osaka Fukoku Seimei Bldg., 2-4 Komatsubaracho, Kita-ku, Osaka-shi, Osaka) |
| | Tokai Carbon Co., Ltd. Nagoya Branch |
| | (Nagoya International Center Bldg., 1-47-1 Nagono, Nakamura-ku, Nagoya, Aichi) |
| | Tokyo Stock Exchange, Inc. |
| | (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

# Part I Company Information

## Section 1 Overview of the Company

### 1 Key Financial Data

(1) Consolidated financial data, etc.

| Fiscal year | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Fiscal year-end | | December 2019 | December 2020 | December 2021 | December 2022 | December 2023 |
| Net sales | (Million yen) | 262,028 | 201,542 | 258,874 | 340,371 | 363,946 |
| Ordinary income | (Million yen) | 52,986 | 6,262 | 24,770 | 42,521 | 41,607 |
| Net income attributable to owners of the parent company | (Million yen) | 31,994 | 1,019 | 16,105 | 22,418 | 25,468 |
| Comprehensive income | (Million yen) | 33,484 | 743 | 39,006 | 56,689 | 67,435 |
| Net assets | (Million yen) | 232,975 | 224,815 | 256,570 | 300,868 | 360,103 |
| Total assets | (Million yen) | 462,872 | 459,709 | 512,503 | 576,465 | 640,005 |
| Net assets per share | (Yen) | 993.84 | 944.16 | 1,075.19 | 1,260.95 | 1,521.89 |
| Net income per share | (Yen) | 150.10 | 4.78 | 75.55 | 105.16 | 119.45 |
| Diluted net income per share | (Yen) | - | - | - | - | - |
| Equity ratio | (%) | 45.8 | 43.8 | 44.7 | 46.6 | 50.7 |
| Return on equity | (%) | 16.0 | 0.5 | 7.5 | 9.0 | 8.6 |
| Price-to-earnings ratio | (Times) | 7.3 | 269.6 | 16.0 | 10.2 | 8.6 |
| Cash flows from operating activities | (Million yen) | 41,664 | 55,022 | 38,072 | 41,205 | 62,074 |
| Cash flows from investing activities | (Million yen) | (99,159) | (44,301) | (35,282) | (49,900) | (47,632) |
| Cash flows from financing activities | (Million yen) | 64,568 | 927 | 1,211 | (10,629) | (14,512) |
| Cash and cash equivalents at end of the period | (Million yen) | 46,443 | 57,727 | 64,435 | 49,377 | 56,459 |
| Number of employees (Average number of temporary employees; excluded) | (Persons) | 3,714<br>(457) | 4,178<br>(444) | 4,289<br>(448) | 4,378<br>(434) | 4,427<br>(382) |

(Notes) 1. Diluted net income per share amount is not shown because there were no dilutive shares.

2. The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of fiscal 2022. Key financial data for fiscal 2022 and after are those after the application of these accounting standards.

(2) Financial data, etc. for the submitting company

| Fiscal year | | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Fiscal year-end | | December 2019 | December 2020 | December 2021 | December 2022 | December 2023 |
| Net sales | (Million yen) | 84,543 | 48,915 | 58,646 | 74,570 | 78,106 |
| Ordinary income | (Million yen) | 34,687 | 4,758 | 5,926 | 21,230 | 15,068 |
| Net income | (Million yen) | 26,511 | 4,349 | 7,126 | 18,607 | 12,450 |
| Common stock | (Million yen) | 20,436 | 20,436 | 20,436 | 20,436 | 20,436 |
| Total number of shares issued | (Shares) | 224,943,104 | 224,943,104 | 224,943,104 | 224,943,104 | 224,943,104 |
| Net assets | (Million yen) | 126,699 | 121,271 | 123,897 | 136,901 | 147,601 |
| Total assets | (Million yen) | 304,689 | 305,707 | 327,488 | 336,648 | 355,271 |
| Net assets per share | (Yen) | 594.41 | 568.89 | 581.18 | 642.14 | 692.26 |
| Dividend per share<br>(Interim dividend per share) | (Yen) | 48.00<br>(24.00) | 30.00<br>(15.00) | 30.00<br>(15.00) | 30.00<br>(15.00) | 36.00<br>(18.00) |
| Net income per share | (Yen) | 124.38 | 20.40 | 33.43 | 87.28 | 58.40 |
| Diluted net income per share | (Yen) | - | - | - | - | - |
| Equity ratio | (%) | 41.6 | 39.7 | 37.8 | 40.7 | 41.5 |
| Return on equity | (%) | 22.7 | 3.5 | 5.8 | 14.3 | 8.8 |
| Price-to-earnings ratio | (Times) | 8.8 | 63.2 | 36.1 | 12.3 | 17.6 |
| Dividend payout ratio | (%) | 38.6 | 147.0 | 89.7 | 34.4 | 61.6 |
| Number of employees<br>(Average number of temporary employees; excluded) | (Persons) | 769<br>(224) | 778<br>(203) | 760<br>(203) | 763<br>(206) | 779<br>(190) |
| Total shareholder return<br>(Comparative indicator: TOPIX including dividends) | (%)<br>(%) | 91.6<br>(118.1) | 109.6<br>(126.8) | 105.4<br>(143.0) | 97.0<br>(139.5) | 96.1<br>(178.9) |
| Highest share price | (Yen) | 1,644 | 1,302 | 1,960 | 1,329 | 1,387 |
| Lowest share price | (Yen) | 922 | 666 | 1,139 | 930 | 1,018 |

(Notes) 1. Diluted net income per share is not shown as there were no dilutive shares.
2. Highest and lowest share prices until April 3, 2022 are quoted market prices on the First Section of the Tokyo Stock Exchange and from April 4, 2022 are quoted market prices on the Prime Market of the Tokyo Stock Exchange.
3. The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of fiscal 2022. Key financial data for fiscal 2022 and after are those after the application of these accounting standards.

## 2 Company History

| Date | Company history |
|---|---|
| April 1918 | Founded as Tokai Electrode Mfg. Co. Ltd. with the aim of enabling self-sufficient supply of graphite electrodes and other carbon products in Japan. Capital: ¥500,000. Headquartered in Tokyo, with plant established in Nagoya. (The plant closed in October 1987) |
| March 1935 | Established Second Tokai Denkyoku K. K. (capital: ¥3 million). Headquartered in Tokyo; began producing graphite electrodes at plant established in Ashikita, Kumamoto. (Merged with the Company in July 1936) |
| January 1936 | Established Kyushu-Wakamatsu plant in Kitakyushu, Fukuoka and began producing pitch coke. |
| February 1936 | Established Tokyoku Kougyo Co., Ltd. (now Tokai Konetsu Kogyo Co., Ltd.) for refractory brick production and research. (Converted into a wholly owned subsidiary in July 2006) |
| June 1938 | Completed Chigasaki plant in Chigasaki, Kanagawa and began producing carbon motor brushes and carbon rods. (Began producing TOKABATE (impermeable graphite) at the Chigasaki plant in April 1949; Chigasaki plant shut down in April 2013) |
| January 1941 | Began first domestic full-scale production of carbon black at Kyusyu-Wakamatsu plant. |
| May 1949 | Listed on the Tokyo, Osaka, and Nagoya Stock Exchanges. (Delisted from Osaka and Nagoya Stock Exchanges in October 2003) |
| December 1962 | Completed Chita plant in Taketoyo, Aichi and began producing carbon black. |
| June 1971 | Completed Hofu plant in Hofu, Yamaguchi and began producing graphite electrodes. |
| June 1975 | Company name changed to Tokai Carbon Co., Ltd |
| October 1975 | Established Chita Laboratory as a carbon black research facility. |
| July 1978 | Completed Ishinomaki plant in Ishinomaki, Miyagi and began producing carbon black. |
| January 1986 | Established Tanoura Laboratory as a fine carbon research facility. |
| July 1986 | Established Fuji Research Laboratory as a central research facility. |
| September 1987 | Established US subsidiary TOKAI CARBON AMERICA, INC. in New York. (Tokai Carbon U.S.A., INC. established in Oregon in February 1996; integrated with TOKAI CARBON AMERICA, INC.' s business in September that year) |
| October 1989 | Established THAI CARBON PRODUCT CO., Ltd. through a joint venture with THAI OIL CO., LTD. and other companies in Thailand. (THAI CARBON PRODUCT CO., LTD. converted into a subsidiary in June 2000; company name changed to THAI TOKAI CARBON PRODUCT COMPANY LIMITED in October that year) |
| January 1992 | Merged with Toyo Carbon Co., Ltd. (capital: ¥3,800 million) and expanded plant network, acquiring Chigasaki No.2 plant, Yamanashi plant, Shiga plant. (Yamanashi plant closed in June 1993; Chigasaki No.2 plant renamed Shonan plant in April 2013) |
| July 1994 | Established Italian subsidiary TOKAI CARBON EUROPE S.R.L. (December 2023 TOKAI CARBON ITALIA S.R.L. deregistered) in Milan. |
| August 1996 | Established TOKAI CARBON KOREA CO., LTD. through a joint venture with K.C.Tech Co., Ltd. and other companies in Korea. |
| March 1998 | Established Hofu Laboratory as a graphite electrode research facility. |
| March 1999 | Established UK subsidiary TOKAI CARBON EUROPE LTD.; Italian subsidiary and other group companies placed under its umbrella. |
| April 2001 | Shonan office established via the integration of three businesses locations in Chigasaki, Kanagawa. (Shonan office closed in April 2013) |
| June 2003 | Established subsidiary Tokai Material Co., Ltd. in Yachiyo, Chiba for the manufacture and sale of friction materials. |
| April 2004 | Established Tokai Carbon (Tianjin) Co., Ltd. in Tianjin, China via a joint venture with Sumitomo Corporation. (Operations launched in February 2006; converted into a wholly owned subsidiary following the Company's acquisition of an additional equity stake in October 2013) |
| July 2005 | Acquired a 100% stake in German graphite electrode manufacturer/seller ERFTCARBON GmbH (now TOKAI ERFTCARBON GmbH). |
| March 2006 | Established Tokai Carbon (Dalian) Co., Ltd. in Dalian, China as a joint venture for processing and selling fine carbon. (Converted into a consolidated subsidiary following the Company's acquisition of an additional equity stake in September 2013) |
| December 2006 | Acquired an 80% stake in Germany's CARBON INDUSTRIE-PRODUKTE GmbH group (now Tokai Carbon Deutschland GmbH). (Converted into a wholly owned subsidiary following the Company's acquisition of an additional equity stake in the group in July 2013) |
| April 2007 | Noshiro plant, which was separated from Tokai Fine Carbon Machining Co., Ltd., established; Tokai Noshiro Seiko Co., Ltd. established as a wholly owned consolidated subsidiary. |
| September 2007 | Established TOKAI CARBON EUROPE GmbH in Germany as European headquarters for the fine carbon business. |
| October 2010 | Established representative office in Singapore. (Representative office closed in November 2013) |
| June 2012 | Established subsidiary Tokai Carbon (Suzhou) Co., Ltd. in Suzhou, China for the manufacture and sale of friction materials. |
| January 2013 | Established Chigasaki Laboratory as a fine carbon research facility. |
| April 2013 | Transferred part of the Company's fine carbon manufacturing business and domestic sales business to Tokai Fine Carbon Machining Co., Ltd.; the latter's name changed to Tokai Fine Carbon Co., Ltd. |
| September 2013 | TOKAI KONETSU (SUZHOU) CO., LTD. established in Suzhou, China as a joint venture for the manufacture and sale of industrial furnaces through investment from Tokai Konetsu Kogyo Co., Ltd. |
| April 2014 | Acquired a 100% stake in Canadian carbon black manufacturing/sales company Cancarb Limited. |

| Date | Company history |
|---|---|
| August 2014 | Tokai Konetsu Kogyo Co., Ltd.'s Tokai Konetsu Techno Center closed; industrial furnace design/manufacturing base transferred and integrated to Tokai Konetsu Engineering Co., Ltd., Tokai Konetsu Kogyo's subsidiary. |
| March 2017 | Separated anode materials business from R&D Strategy Division and converted into an independent business division in light of accelerating growth for LIB anode materials. (In May 2020, the Anode Materials Division was abolished and its functions were reorganized into the R&D Strategy Division.) |
| November 2017 | Acquired shares of the U.S. subsidiary of SGL GE, a graphite electrodes manufacturing and sales company. Company named TOKAI CARBON GE LLC; tri-regional structure consisting of bases in Asia, North America, and Europe established. |
| May 2018 | TOKAI CARBON KOREA CO., LTD. converted into a consolidated subsidiary based on the effective control standards via the Company's acquisition of additional shares in Tokai Carbon Korea. |
| September 2018 | US carbon black manufacturer Sid Richardson Carbon, Ltd. (now Tokai Carbon CB Ltd.) and its group companies SRCG, Ltd. (TCCB US Ltd.) and New SRCG Genpar, LLC (TCCB Genpar LLC) converted into subsidiaries following the Company's acquisition of a 100% stake. |
| July 2019 | German carbon and graphite products group COBEX HoldCo GmbH (now Tokai COBEX HoldCo GmbH) and its group companies COBEX GmbH (Tokai COBEX GmbH), COBEX Polska sp. z o.o. (now Tokai COBEX Polska sp. z o.o.), and COBEX (Shanghai) Ltd. (procedures for liquidation completed in December 2020;Tokai COBEX (Beijing) Ltd. newly established in September 2020) converted into subsidiaries following the Company's acquisition of all shares in these companies, to obtain Smelting and Lining business. As of April 2022, "Smelting and Lining" was renamed to "Smelting and Lining." ("Seiren Lining Jigyo" to "Smelting & Lining Jigyo" in Japanese, no change in English translation.) |
| July 2020 | Division created for Smelting and Lining as a main business. Acquired all shares of Carbone Savoie International SAS (trade name changed to Tokai Carbon Savoie International SAS), a holding company of Carbone Savoie SAS (now Tokai COBEX Savoie SAS), a French carbon graphite product manufacturer, jointly with Tokai COBEX GmbH, a subsidiary of the Company, and made it a subsidiary. |
| July 2021 | Tokai COBEX Savoie SAS becomes a wholly owned subsidiary of Tokai COBEX GmbH through its holding company, Tokai Carbon Savoie International SAS. |
| November 2021 | An agreement was concluded with Cabot (China) Limited, a subsidiary of Cabot Corporation, to transfer interest in Tokai Carbon (Tianjin) Co., Ltd. (the transfer of interest was completed in February 2022). |
| April 2022 | Moved from the First Section of the Tokyo Stock Exchange to the Prime Market through a review of the market classification of the Tokyo Stock Exchange. |

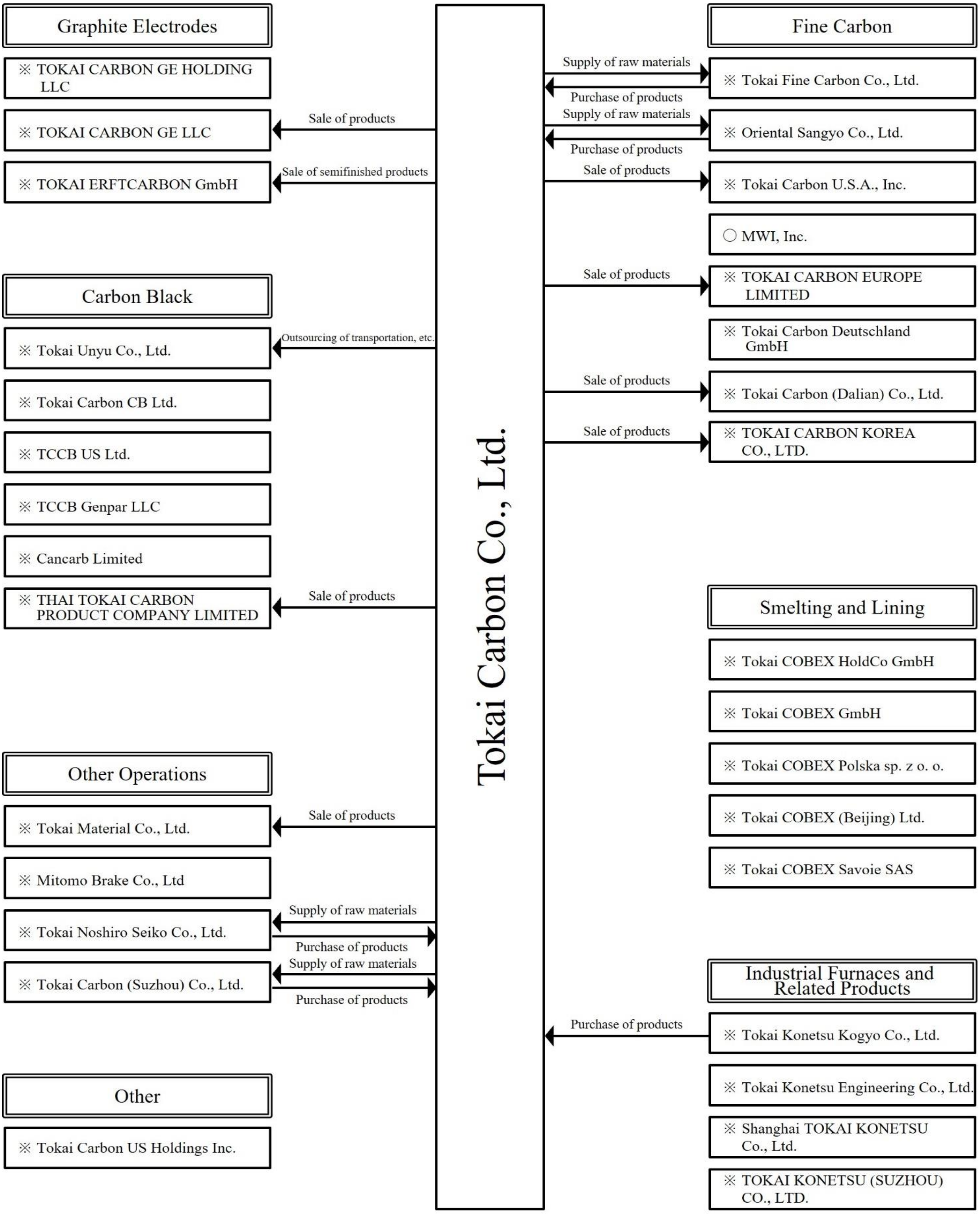
## 3 Description of Business

The Group (the Company and its affiliated companies) is comprised of the Company (Tokai Carbon Co., Ltd.) and its 30 subsidiaries and one associate. Its main business fields and the positioning of the Company and its affiliated companies within these fields are as described below.

The six business segments listed below are based on the same segment classifications shown in "Section 5. Status of Accounting, 1. Consolidated Financial Statements etc., (1) Notes to Consolidated Financial Statements."

| Business segment | Major products | | Affiliated companies (Subsidiaries and associates) |
|---|---|---|---|
| Graphite Electrodes | Graphite electrodes for electric furnaces | Japan | The Company |
| | | Overseas | TOKAI CARBON GE HOLDING LLC<br>TOKAI CARBON GE LLC<br>TOKAI ERFTCARBON GmbH |
| Carbon Black | Carbon black (for rubber products, black pigments, electric conduction) | Japan | The Company<br>Tokai Unyu Co., Ltd. |
| | | Overseas | Tokai Carbon CB Ltd.<br>TCCB US Ltd.<br>TCCB Genpar LLC<br>Cancarb Limited<br>THAI TOKAI CARBON PRODUCT COMPANY LIMITED |
| Fine Carbon | Specialty graphite materials, solid SiC, SiC coating | Japan | The Company<br>Tokai Fine Carbon Co., Ltd.<br>Oriental Sangyo Co., Ltd. |
| | | Overseas | Tokai Carbon U.S.A., Inc.<br>MWI, Inc.<br>TOKAI CARBON EUROPE LIMITED<br>Tokai Carbon Deutschland GmbH<br>Tokai Carbon (Dalian) Co., Ltd.<br>TOKAI CARBON KOREA CO., LTD. |
| Smelting and Lining | Cathodes for aluminum electrolysis, lining blocks for blast furnaces, carbon electrodes, etc. | Overseas | Tokai COBEX HoldCo GmbH<br>Tokai COBEX GmbH<br>Tokai COBEX Polska sp. z o.o.<br>Tokai COBEX (Beijing) Ltd.<br>Tokai COBEX Savoie SAS |
| Industrial Furnaces and Related Products | Industrial electric furnaces, silicon carbide heating elements | Japan | Tokai Konetsu Kogyo Co., Ltd.<br>Tokai Konetsu Engineering Co., Ltd. |
| | | Overseas | Shanghai TOKAI KONETSU Co., Ltd.<br>TOKAI KONETSU (SUZHOU) CO., LTD. |
| Other Operations | Friction materials, anode materials for secondary lithium-ion batteries | Japan | The Company<br>Tokai Material Co., Ltd.<br>Mitomo Brake Co., Ltd.<br>Tokai Noshiro Seiko Co., Ltd. |
| | | Overseas | Tokai Carbon (Suzhou) Co., Ltd. |
| Other | - | Overseas | Tokai Carbon US Holdings Inc. |

A structural diagram of the Group's business activities, as outlined above, is shown on the following page.




(Notes) 1. ※: consolidated subsidiaries, ○: associates accounted for by the equity method

2. TOKAI CARBON ITALIA S.R.L., which was a consolidated subsidiary, is excluded from the scope of consolidation due to the completion of liquidation.

## 4 Status of Subsidiaries and Associates

| Name | Location | Capital or investment (Million yen) | Main line of business | Ownership ratio of voting rights (%) | Relationship | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Concurrently serving director etc. | Lending and borrowing of funds | Business transactions | Equipment leasing |
| (Consolidated subsidiaries) | | | | | | | | |
| Tokai Unyu Co., Ltd. | Minato-ku, Tokyo | 39 | Carbon Black | 100.0 | ✓ | Borrowing | Transportation and packaging of Company products | Leasing office and part of warehouse site, building, etc. |
| Tokai Fine Carbon Co., Ltd. | Chigasaki-shi, Kanagawa | 220 | Fine Carbon | 100.0 | ✓ | Borrowing | Processing of Company products | Leasing part of offices, plant site, buildings, etc. |
| Oriental Sangyo Co., Ltd. | Kofu-shi, Yamanashi | 40 | Fine Carbon | 83.6 | ✓ | Borrowing | Processing of Company products | - |
| Tokai Konetsu Kogyo Co., Ltd. | Minato-ku, Tokyo | 1,400 | Industrial Furnaces and Related Products | 100.0 | - | Borrowing | Purchase of refract-tories etc. | - |
| Tokai Konetsu Engineering Co., Ltd. (Note) 2 | Omihachiman-shi, Shiga | 50 | Industrial Furnaces and Related Products | 100.0 (100.0) | - | Borrowing | - | Leasing part of offices, plant site, etc. |
| Tokai Material Co., Ltd. | Yachiyo-shi, Chiba | 250 | Other Operations | 100.0 | ✓ | Borrowing | Sale of Company products | Leasing part of offices, plant site, buildings, etc. |
| Mitomo Brake Co., Ltd. (Note) 2 | Ogawa-machi, Hiki-gun, Saitama | 10 | Other Operations | 67.1 (67.1) | ✓ | - | - | - |
| Tokai Noshiro Seiko Co., Ltd. | Noshiro-shi, Akita | 10 | Other Operations | 100.0 | ✓ | Borrowing | Supply of Company raw materials and purchase of products | Leasing part of plant site, buildings, etc. |
| TOKAI CARBON GE HOLDING LLC (Note) 2 | U.S.A. | USD 1,000 | Graphite Electrodes | 100.0 (100.0) | - | - | - | - |
| TOKAI CARBON GE LLC (Notes) 2, 3, 5 | U.S.A. | - | Graphite Electrodes | 100.0 (100.0) | ✓ | - | Sale of Company products | - |
| TOKAI ERFTCARBON GmbH | Germany | EUR 818,067 | Graphite Electrodes | 100.0 | ✓ | Lending | Sale of semi-finished Company products | - |
| Tokai Carbon CB Ltd. (Notes) 2, 3, 5, 6 | U.S.A. | - | Carbon Black | 100.0 (100.0) | - | - | - | - |
| TCCB US Ltd. (Notes) 2, 3, 5 | U.S.A. | - | Carbon Black | 100.0 (100.0) | - | - | - | - |
| TCCB Genpar LLC (Notes) 2, 5 | U.S.A. | - | Carbon Black | 100.0 (100.0) | ✓ | - | - | - |
| Cancarb Limited (Note) 3 | Canada | CAD 80,276,731 | Carbon Black | 100.0 | ✓ | - | - | - |
| THAI TOKAI CARBON PRODUCT COMPANY LIMITED (Note) 3 | Thailand | Thousand THB 3,300,000 | Carbon Black | 100.0 | ✓ | - | Sale of Company products | - |
| Tokai Carbon U.S.A., Inc. (Note) 3 | U.S.A. | USD 16,200,000 | Fine Carbon | 100.0 | ✓ | - | Sale of Company products | - |
| TOKAI CARBON EUROPE LIMITED | U.K. | GBP 2,500,000 | Fine Carbon | 100.0 | ✓ | - | Sale of Company products | - |
| Tokai Carbon Deutschland GmbH | Germany | EUR 52,000 | Fine Carbon | 100.0 | ✓ | - | - | - |
| Tokai Carbon (Dalian) Co., Ltd. | China | RMB 11,000,000 | Fine Carbon | 51.0 | ✓ | - | Sale of Company products | - |

| Name | Location | Capital or investment (Million yen) | Main line of business | Ownership ratio of voting rights (%) | Relationship | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Concurrently serving director etc. | Lending and borrowing of funds | Business transactions | Equipment leasing |
| TOKAI CARBON KOREA CO., LTD. (Notes) 3, 4 | Korea | KRW 5,837,500,000 | Fine Carbon | 47.4 | ✓ | - | Sale of Company products | - |
| Tokai COBEX HoldCo GmbH (Note) 3 | Germany | EUR 25,100 | Smelting and Lining | 100.0 | ✓ | - | - | - |
| Tokai COBEX GmbH (Notes) 2, 3, 6 | Germany | EUR 25,100 | Smelting and Lining | 100.0 (100.0) | ✓ | Lending | - | - |
| Tokai COBEX Polska sp. z o. o. (Note) 2, 3 | Poland | Zloty 61,048,080 | Smelting and Lining | 100.0 (100.0) | ✓ | - | - | - |
| Tokai COBEX (Beijing) Ltd. (Note) 2 | China | EUR 200,000 | Smelting and Lining | 100.0 (100.0) | - | - | - | - |
| Tokai COBEX Savoie SAS (Note) 2 | France | EUR 565,133.8 | Smelting and Lining | 100.0 (100.0) | ✓ | Lending | - | - |
| Shanghai TOKAI KONETSU Co., Ltd. (Note) 2 | China | USD 3,400,000 | Industrial Furnaces and Related Products | 100.0 (100.0) | - | - | - | - |
| TOKAI KONETSU (SUZHOU) CO., LTD. (Notes) 2, 4 | China | USD 2,250,000 | Industrial Furnaces and Related Products | 50.0 (50.0) | - | - | - | - |
| Tokai Carbon (Suzhou) Co., Ltd. | China | RMB 29,000,000 | Other Operations | 100.0 | ✓ | - | Supply of Company raw materials and purchase of products | - |
| Tokai Carbon US Holdings Inc. (Note) 3 | U.S.A. | USD 605,001,000 | Other | 100.0 | ✓ | Lending | - | - |
| (Associates Accounted for by Equity Method) MWI, Inc. (Note) 2 | U.S.A. | USD 10,429 | Fine Carbon | 40.2 (40.2) | ✓ | - | - | - |

(Notes) 1. The “Main line of business” column includes business segment information.
2. Figures in ( ) in ownership ratio of voting rights indicate indirect ownership ratio included in the total.
3. TOKAI CARBON GE LLC, Tokai Carbon CB Ltd., TCCB US Ltd., Cancarb Limited, THAI TOKAI CARBON PRODUCT COMPANY LIMITED, Tokai Carbon U.S.A., Inc., TOKAI CARBON KOREA CO., LTD., Tokai COBEX HoldCo GmbH, Tokai COBEX GmbH, Tokai COBEX Polska sp.z o. o. and Tokai Carbon US Holdings Inc. are specified subsidiaries.
4. Although the Company’s stakes in TOKAI CARBON KOREA CO., LTD. and TOKAI KONETSU (SUZHOU) CO., LTD. are 50% or below, both are treated as subsidiaries, as the Company effectively has a controlling interest in both companies.
5. The capital of TOKAI CARBON GE LLC, Tokai Carbon CB Ltd., TCCB US Ltd., and TCCB Genpar LLC is not stated because these companies are limited liability companies or limited partnerships under US laws, which do not have exactly the same concept of capital as a general company has.
6. Net sales for each of Tokai Carbon CB Ltd. and Tokai COBEX GmbH (excluding intercompany sales between consolidated companies) account for over 10% of consolidated net sales.

Principal information on profit and loss, etc.

(1) Tokai Carbon CB Ltd.

| | |
|---|---|
| (1) Net sales | ¥69,687 million |
| (2) Ordinary income | ¥6,797 million |
| (3) Net income | ¥7,383 million |
| (4) Net assets | ¥54,507 million |
| (5) Total assets | ¥95,693 million |

(2) Tokai COBEX GmbH

| | |
|---|---|
| (1) Net sales | ¥80,718 million |
| (2) Ordinary income | ¥1,959 million |

| | |
|---|---|
| (3) Net income | ¥1,872 million |
| (4) Net assets | ¥60,498 million |
| (5) Total assets | ¥86,034 million |

## 5 Employees

### (1) Status of consolidated companies

(As of December 31, 2023)

| Segment name | Number of employees |
|---|---|
| Graphite Electrodes | 646<br>(29) |
| Carbon Black | 871<br>(33) |
| Fine Carbon | 975<br>(117) |
| Smelting and Lining | 1,229<br>(2) |
| Industrial Furnaces and Related Products | 278<br>(43) |
| Other Operations | 309<br>(130) |
| Corporate (common) | 119<br>(27) |
| Total | 4,427<br>(382) |

(Note) The number of employees is that of regular employees, and the average annual number of temporary employees is indicated separately in parentheses.

### (2) Status of the company

(As of December 31, 2023)

| Number of employees | Average age | Average years of service (years) | Average annual salary (yen) |
|---|---|---|---|
| 779<br>(190) | 42.5 | 15.6 | 7,936,589 |

| Segment name | Number of employees |
|---|---|
| Graphite Electrodes | 173<br>(20) |
| Carbon Black | 224<br>(18) |
| Fine Carbon | 137<br>(26) |
| Smelting and Lining | 3<br>(0) |
| Other Operations | 123<br>(97) |
| Corporate (common) | 119<br>(27) |
| Total | 779<br>(190) |

(Notes) 1. The number of employees is that of regular employees, and the average annual number of temporary employees is indicated separately in parentheses.
2. Average annual salary includes bonuses and non-standard wages.

### (3) Status of labor union

The Tokai Carbon Labor Union (658 members) has been organized in the Company and the Company is a member of the Japanese Federation of Energy and Chemistry Workers' Union. Labor unions have been organized in some consolidated subsidiaries. There are no particular matters concerning labor-management relations which require mentioning.

(4) Employee diversity indicators

| Current fiscal year | | | | | |
|---|---|---|---|---|---|
| Name | Percentage of female employees in managerial positions (Note 1) | Percentage of male employees taking parental leave (Note 2) | Wage disparity between male and female employees (%) (Note 3) | | |
| | | | All employees | Regular employees | Non-regular employees |
| Tokai Carbon Co., Ltd. | 4.0 | 90.4 | 58.0 | 68.8 | 56.0 |
| Tokai Konetsu Kogyo Co., Ltd. | 3.7 | 50.0 | 76.8 | 79.7 | 96.7 |
| Tokai Konetsu Engineering Co., Ltd. | 0 | 0 | 68.7 | 69.3 | 58.8 |
| Tokai Fine Carbon Co., Ltd. | 0 | 100 | 71.6 | 89.0 | 80.6 |
| Oriental Sangyo Co., Ltd. | 0 | - | 80.2 | 83.7 | 77.5 |
| Tokai Noshiro Seiko Co., Ltd. | 0 | - | 92.3 | 91.4 | - |
| Tokai Material Co., Ltd. | 0 | 0 | 78.1 | 90.3 | 89.5 |
| Mitomo Brake Co., Ltd. | 0 | 0 | 98.6 | 91.5 | - |
| Tokai Unyu Co., Ltd. | 0 | - | 73.0 | 73.0 | - |

(Notes) 1. Calculated in accordance with the “Act on the Promotion of Women's Active Engagement in Professional Life” (Act No. 64 of 2015) (hereinafter referred to as the “Act on Promotion of Women's Engagement”). Calculations included employees seconded to other companies, but excluded employees seconded from other companies.

2. The percentage of employees who take childcare leave, etc. was calculated in accordance with the “Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members” (Act No. 76 of 1991), and Article 71-4, Item 1 of the “Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members” (Ordinance of the Ministry of Labour No. 25 of 1991) (hereinafter referred to as “Act on Childcare and Family Care Leave”). Calculations included employees seconded to other companies, but excluded employees seconded from other companies.

3. Regular employees: includes employees seconded to other companies, but excludes employees seconded from other companies.

Non-regular employees: includes contract employees such as temporary employees, rehired employees, and part-time employees, but excludes dispatch employees.

Non-full-time (part-time or short-term employees) employees: Average annual wages are calculated based on the number of employees converted to the prescribed working hours.

# Section 2 Status of Business

## 1 Management Policy, Business Environment and Challenges to be Addressed, etc.

Forward-looking statements in the document are based on the judgments of the Group at the end of the current consolidated fiscal year.

### (1) T-2025 progress

(Summary)

In February 2023, the Group formulated and disclosed the rolling mid-term management plan “T-2025,” which covers the three years from 2023 to 2025 and has been conducting business activities under the 3 basic policies of “Returning core businesses to a path of growth,” “Optimizing the business portfolio (selection and concentration),” and “Establishing a sustainable management base.” Focusing on our core Graphite Electrode and Carbon Black businesses, we worked to ensure reasonable profits by adjusting the sales prices to cope with the increases in raw materials and other costs. We also steadily improved productivity and expanded production capacity in anticipation of future demand growth. However, the slump in face-to-face industry markets for steel and semiconductors, as well as intensifying competition meant our performance in fiscal 2023, the first year of T-2025, fell below projections of ¥410,000 million in net sales and ¥45,000 million in operating income, resulting in net sales of ¥363,946 million and operating income of ¥38,728 million.

(Returning core businesses to a path of growth)

Graphite Electrodes made efforts to reduce costs and maintain or raise sales prices amid intensifying price competition, particularly in Europe, due to the global slowdown in the steel industry and a decline in the electric furnaces operation rate, as well as falling market prices due to an influx of low-priced Chinese graphite electrodes into the Asian market. However, these efforts have failed to reverse the deterioration in the market, and Graphite Electrodes is only halfway along its return to a path of growth. Automobile production recovered steadily having been sluggish due to supply chain disruptions such as a shortage of semiconductors. Amid this, the Carbon Black business supported the Company’s performance for the fiscal year under review with increases in both sales and profits as a result of steady efforts in environmental capital investment, etc. as well as efforts to cover cost increases in the selling price hike.

(Optimizing the business portfolio)

As part of the “Business Portfolio Management Policy” approved in November 2021, the Company appropriately analyzes and evaluates the business portfolio by setting targets and monitoring profitability and capital efficiency based on the Company's cost of capital. We also consider the consistency with the Company's long-term vision and the medium- to long-term growth. In our growth businesses, Fine Carbon and Industrial Furnaces and Related Products, we are steadily investing to increase production capacity with the aim of achieving medium- to long-term growth in anticipation of future changes in the industrial structure.

(Establishing a sustainable management base)

We are aiming to achieve carbon neutrality by 2050, and the Carbon Neutral Committee, which was established in January 2022, is at the center of our efforts. We aim to achieve a 25% reduction in $CO_2$ emissions by 2030 (compared to 2018 levels) and are working with internal and external parties to explore and investigate relevant technologies. In addition, starting in fiscal 2023, we linked executive compensation with sustainability performance. We are also working on measures to improve engagement using employee engagement surveys.

### (2) Challenges to be addressed

Aiming to realize our long-term vision for 2030, we have formulated and disclosed a new rolling mid-term management plan, T-2026 based on the three basic policies of “Strengthening the earnings power of core businesses,” “Enhancing business portfolio management,” and “Pursuing sustainability management.”

The key to “Strengthening the earnings power of core businesses” is Graphite Electrodes, which continues to be in a slump. We will implement fundamental structural reforms to improve our operating structure.

For “Enhancing business portfolio management,” we will work towards “selection and concentration” based on growth potential and return on equity of the business to realize management that is conscious of cost of capital and share price.

Regarding “Pursuing sustainability management,” we are promoting measures to achieve carbon neutrality, which is an urgent matter, while also working on management that emphasizes human capital.

Through these initiatives we aim to achieve ¥458,000 million in net sales, ¥53,000 million in operating income, and ROS of 12% in 2026.

## 2 Sustainability Policy and Initiatives

The Group's views and initiatives on sustainability are as follows.

Forward-looking statements in the document are based on the judgments of the Group at the end of the current consolidated fiscal year.

(1) Basic policy on sustainability

The Tokai Carbon Group conducts its corporate activities under the corporate philosophy of "Ties of Reliability" with its stakeholders. By formulating management strategies that fully consider ESG (Environmental, Social, and Governance) to reliably respond to the trust of stakeholders, and by working to resolve social issues through our business, we aim to sustainably increase our corporate value and contribute to the realization of a sustainable society.

(2) Governance and risk management concerning sustainability as a whole

1) Governance

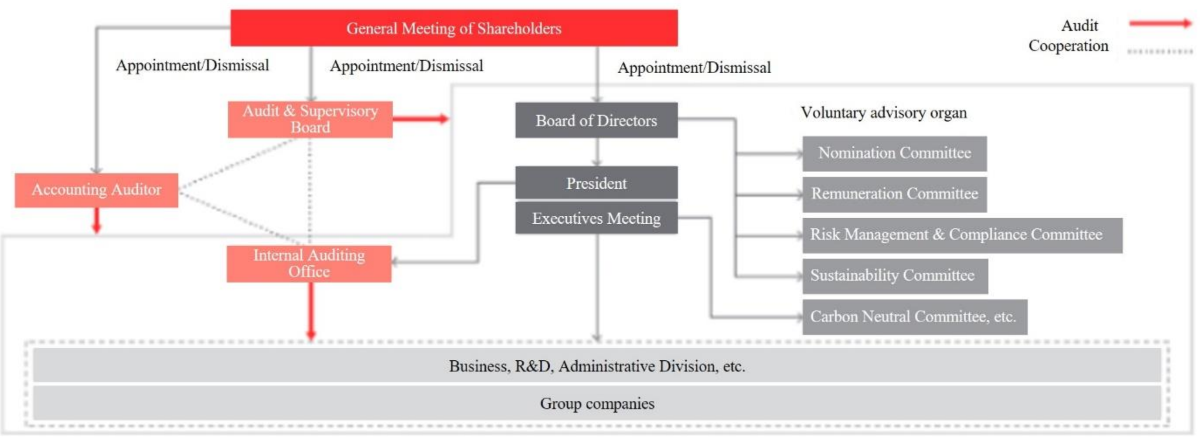
The Sustainability Committee was established in January 2022 as a voluntary advisory committee for the Board of Directors. Chaired by the President, the committee consists of the Director in charge of the General Affairs and Legal Affairs Department, the Director in charge of the Corporate Planning Department, the Director in charge of the Human Resources Department, the General Manager of the R&D Strategy Division, the General Manager of the Technology & Engineering Division, and the General Managers of the four major business divisions. The committee meets quarterly in principle. The committee discusses important sustainability issues and submits proposals and reports to the Board of Directors. It is also responsible for overseeing sustainability information disclosure, including the preparation of integrated reports.

Regarding climate change-related issues, the Carbon Neutral Project, which was launched in May 2021, was reorganized into the Carbon Neutral Committee in January 2022, with the President as its chair to strengthen our system. As the control tower for the Company's response to carbon neutrality, the committee drafts company-wide policies and plans concerning carbon neutrality, monitors the status of initiatives jointly created with external third parties through industry-government-academia collaboration, and submits proposals and reports to the Board of Directors.

2) Risk management

The Group has established the Risk Management & Compliance Committee as a voluntary advisory committee for the Board of Directors. The committee evaluates and selects material risks, including climate risks, based on the likelihood of occurrence and the financial impact if it occurs, and reports this to the Board of Directors, including the status of responses to these material risks.

Sustainability Promotion System




(3) Important sustainability items

1) Response to climate change

A. Strategy

Recognizing response to climate change as an important management issue, the Group expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD) through resolution by the Board of Directors in November 2021.

In December 2020, we carried out the first calculation of business impact using scenario analysis, which is one of the requirements of the TCFD Recommendations, to better understand the risks and opportunities of climate change for the Group and carried out a review in May 2023. We identified the impact of climate change on our business and are taking measures to address it.

(Scenario Analysis)

| | |
|---|---|
| Target Business | The Company's four main businesses that account for approximately 90% of its sales as of 2022 (Graphite Electrodes, Carbon Black, Fine Carbon, Smelting & Lining) |
| Timeline | 2030 and 2050 *2040 if there is no reference data for 2050 |

(4°C scenario) High physical risk, relatively low transition risk

| Business | Circumstance | Opportunity/ Risk | Expected financial impact on the Company | Strategy and response |
|---|---|---|---|---|
| Each of the four businesses | Suspension of production activities and disruption of supply chains due to an increase in typhoons, floods, and torrential rains | Physical risk | Although the risk of this having a significant impact on operations is limited based on BCP measures, there is a possibility that operations will be affected if events that exceed assumptions occur in the future | Implementation and periodic review of BCP measures from a medium- to long-term perspective |

(1.5°C scenario) High transition risk, relatively low physical risk

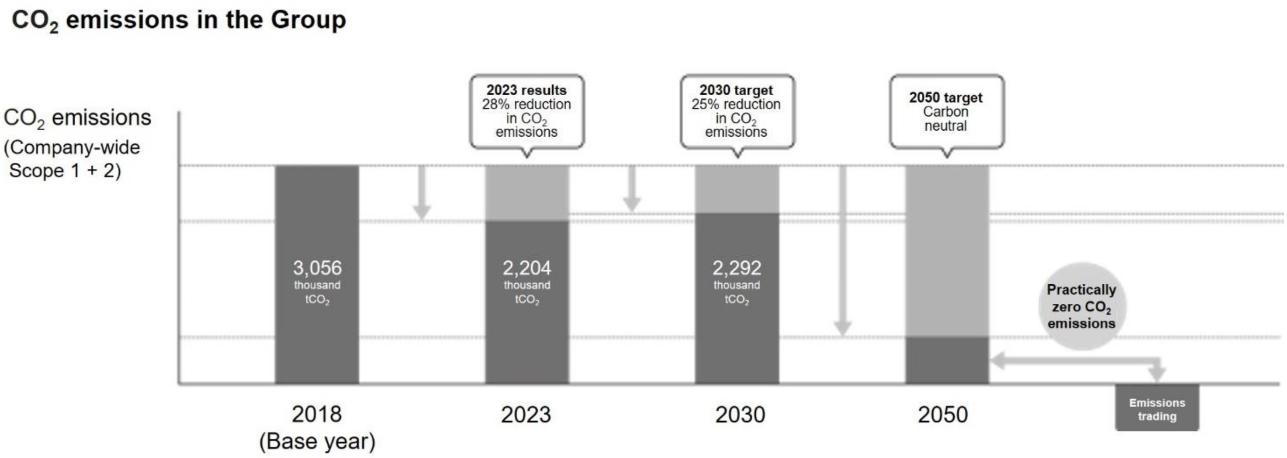
| Business | Circumstance | Opportunity/ Risk | Expected financial impact on the Company | Strategy and response |
|---|---|---|---|---|
| Each of the four businesses | Increased burden due to expanded introduction of carbon pricing | Transition risk | Most of the raw materials used in our business are derived from fossil fuels. If we include not only energy-derived CO2 emissions from the combustion of fossil fuels and the use of electricity, but also CO2 emissions from production processes, the burden of an expanded introduction of carbon pricing will be enormous. | Reduction of CO2 emissions through fuel conversion, use of renewable energy, CO2 recovery, product recycling, etc. |
| Each of the four businesses | Mandatory use of renewable energy (unavoidable) | Transition risk | Electricity accounts for a high proportion of the energy used in the production processes of our businesses, and the purchase of electricity derived from renewable energy would lead to an increase in operating costs. | ・Reduction of CO2 emissions factor due to the spread of renewable energy in society.<br>・Consider efficient procurement of renewable energy. |
| Each of the four businesses | ・Diffusion of technologies that do not use raw materials derived from fossil fuels<br>・Increased demand for low-carbon products and changes in consumer attitudes towards fossil fuel-based raw materials | Transition risk | Decreased sales due to increased pressure to use alternative raw materials for products using raw materials derived from fossil fuels. Also, increased research and development expenses to develop products using alternative raw materials. | In the CB business, promotion of the development of technologies that use raw materials other than those derived from fossil fuels, reuse used tires, and recover and reuse energy. Aim to increase the added value of products by reducing CO2 emissions during product manufacturing and to minimize risk factors by reducing the burden of carbon pricing. |

| | | | | |
|---|---|---|---|---|
| Electrodes | Increasing superiority of electric furnaces | Opportunity | Increased demand for graphite electrodes. | ・Pursuit of higher quality graphite electrode production.<br>・Stable supply taking advantage of increased demand. |

B. Indicators and Targets

(Targets)

The Group aims to achieve a 25% reduction in CO2 emissions (compared to 2018 levels) by 2030 to achieve carbon neutrality by 2050.




(Results)

The Tokai Carbon Group's GHG emissions were reduced by approximately 28% in 2023 compared to 2018 through renewable energy and a shift to fuels with a lower environmental impact. We will further accelerate research into product recycling currently under consideration as well as the development, and introduction of innovative technologies, and cooperate with customers, business partners, and industry organizations to achieve our targets.

Unit: thousand tCO2e

| | 2018 (Base year) | 2022 Results | 2023 Results* |
|---|---|---|---|
| GHG emissions (Scope 1 + 2) | 3,056 | 2,408 | 2,204 |
| Scope 1 | 2,430 | 2,018 | 1,884 |
| Scope 2 | 626 | 391 | 320 |
| Base year comparison | - | 21% reduction | 28% reduction |

*2023 results are preliminary figures. The values after obtaining third-party assurance will be published in the Integrated Report and on our website around June 2024.

[Scope]

| | |
|---|---|
| CO2 | All consolidated production sites, head office, branches, and laboratories |
| CH4, N2O | Major production sites that cover approximately 98% of consolidated CO2 emissions |

[Period covered by calculation]

January to December

[Calculation Method]

Emissions equivalent to CO2 are calculated using the global warming potentials of CO2, CH4, and N2O gases. Emissions of HFCs, PFCs, and SF6 are not included in the calculations because their amounts are very small.

Scope 1: Direct greenhouse gas emissions from corporate activities, including energy-derived GHG emissions and non-energy-derived GHG emissions (emissions from industrial processes). In principle, GHG emissions from non-energy sources are calculated based on the amounts of raw materials and secondary materials used and the balance of products and waste.

Scope 2:

• Indirect CO2 emissions associated with energy use in corporate activities.

• Uses the GHG Protocol's market-based approach. For amounts in Japan, we use emission factors for each electric power companies based on the Act on Promotion of Global Warming Countermeasures. For overseas, the emission factors published by electric power companies are used (however, for some plants, the latest emission factors published by the IEA or by the country or region are used).

2) Human capital

A. Strategy

(Policy on Human Resource Development)

The Group's corporate philosophy is “Ties of Reliability,” and its guidelines are “Integrity,” “Innovation,” “Challenge,” “Co-creation” and “Agility.” At the Group, we employ people who can resonate with our corporate philosophy and guidelines. In an era of accelerated change, we actively collaborate with our colleagues, both inside and outside the company, who have diverse values and backgrounds. By boldly undertaking reforms with a sense of speed, we cultivate people who can contribute to the realization of a sustainable society.

(Policy on Development of Internal Environment)

As we move toward our long-term vision of “contribute to a sustainable society through advanced materials and solutions,” the Group will foster a free, open-minded, and open organization and culture in which employees with diverse values and backgrounds can grow through friendly competition.

While promoting work-style reforms and realizing an appropriate personnel system and competitive compensation that attract diverse human resources, we also offer a variety of training programs based on the employee's stage, characteristics, and desires to support employee growth. We will respect the human rights of our employees to the utmost extent and will not tolerate harassment. Based on the “Tokai Carbon Declaration on Health and Productivity Management,” we will strive for management that emphasizes the health of employees and their families. We will also support employees' asset building through pension systems and employee stock ownership plans.

B. Indicators and Targets

The Group sets targets and monitors the progress of its policies on human resource development and on the development of its internal environment. The targets for fiscal 2024 and results for fiscal 2023 are as follows.

| Fiscal 2024 Targets | Fiscal 2023 Results | Scope |
|---|---|---|
| Achieve hiring of female new graduates of 30% or higher for career track positions | 40%<br>(Joined on April 1, 2023) | Non-consolidated |
| Increase the proportion of female employees in managerial positions from 2.8% in 2021 to 5.6% or higher by 2024 | 1.4 times<br>4.0% | Non-consolidated |
| Reduce occupational accident frequency rate (Frequency rate 1.20 or less) | 0.80 | Consolidated (Global) |

## 3 Risk of Business, etc.

### I. Risk Management System

In order to avoid a risk of loss from business operations, we are striving to identify and mitigate the risks, with each department in charge carrying out daily risk management in accordance with rules and regulations concerning accounting and financial management, business partner management, export management, environmental and disaster prevention management, quality management, information management, investment management, etc., and the Risk Management & Compliance Committee discusses important matters related to risk and compliance at meetings held every quarter, in principle, and based on the results of such discussions, it gives advice to related departments, etc., and makes reports and proposals to the Board of Directors and other management. Moreover, based on the Rules Concerning Management of Subsidiaries, we have established a system to report to the related departments and Audit & Supervisory Board Members of the Company on matters that may cause significant damage to the Company and the Group companies.

Of the matters relating to Status of Business and Status of Accounting stated in this Securities Report, major factors that might affect investor decisions are described below. The forward-looking statements in the following paragraphs are based on the judgments of the Group as of the submission date of this report (March 28, 2024).

### II. Individual Risk Items

(1) Risks associated with the financial, economic, and social environment

1) Natural disasters, infectious diseases, war, and terrorism

Natural disasters such as major earthquakes, tsunamis, typhoons, and floods, as well as infectious diseases, wars, and terrorist acts, are significant risks that could affect the continuation of our business. To reduce these impacts, the Group has implemented a Business Continuity Plan (BCP) and other business continuity management initiatives. These initiatives include appropriate insurance coverage and gathering information on the situation and safety in each country. However, if such initiatives fail or are insufficient, the Group's business performance may be adversely affected.

2) Climate change risks (Carbon neutral response)

Upon the adoption of the "Paris Agreement" at the 21st Conference of the Parties (COP 21) to the United Nations Framework Convention on Climate Change held in 2016, and its ratification by various countries, initiatives have been taken globally, aiming to reduce emissions of greenhouse gases, which are considered to be causing climate change and global warming. In some countries and regions, measures to reduce greenhouse gas emissions such as carbon taxes have already been introduced. The Group established the Carbon Neutral Committee in January 2022 to act as a high-level command tower for our carbon neutral efforts. While formulating company-wide policies and strategies, the committee is also working to visualize and centrally manage issues and initiatives toward achieving carbon neutrality in 2050. However, if such initiatives fail or are insufficient, the Group's business performance may be adversely affected.

3) Domestic and overseas environment surrounding the Group's business

The Group conducts business operations not only in Japan but also in Asia, Europe, and the United States, so trends in the global economy may affect the Group business performance. Uncertainties surrounding the global economy have become apparent, including the prolonged crisis in Ukraine, the worsening situation in the Middle East, a downturn in the Chinese economy, conflict between the United States and China, the spread of protectionist trade policies and confusion in the supply chain, confusion over how to respond to climate change and the U.S. presidential election. If these factors worsen further, it may adversely affect the Group's business performance.

4) Fluctuations in exchange rates

Since the Group engages in international business activities such as import of raw materials and export of products, using foreign currencies in its transactions, fluctuations in exchange rates will affect the Group's business performance. Moreover, since the revenues and expenses of the Company's overseas consolidated subsidiaries and associates accounted for by the equity method are translated into yen using the average exchange rate for the fiscal year, fluctuations in foreign exchange rates may adversely affect the Group's business performance. In the case of the Group, the appreciation of the yen against the US dollar and the euro, in particular, tends to have an unfavorable impact on the Group's business performance, while the depreciation of the yen has a favorable impact.
With regard to the exchange rate fluctuation risk, the maximum amount of loss according to the statistical method is periodically measured and monitored using VaR (Value at Risk).

5) Financing and fluctuations in interest rates

Our Group has procured the necessary funds for the Group by issuing bonds and commercial papers, in addition to borrowing from financial institutions. In procuring funds, we strive to manage cash flow and secure stable funds while keeping an eye on developments in financial markets. However, the Group's business performance may be adversely affected if the financial environment deteriorates rapidly, impairing the stability of fund-raising or forcing the Group to raise funds under significantly disadvantageous conditions.

With regard to the interest rate fluctuation risk, the maximum amount of loss according to the statistical method is periodically measured and monitored using VaR (Value at Risk).

6) Securities held by the Group

As the Group may acquire and hold equity shares of its business partners, etc. based on the judgment that such holdings will enhance the Group's corporate value over the medium- to long-term by creating and maintaining business opportunities, and by establishing, maintaining, strengthening business and collaboration relations, etc., it reviews its policy of holding the securities by regularly verifying their effects. However, since these securities include marketable securities, there is a possibility that, in the event of a decline in stock prices due to the environmental deterioration of the domestic and foreign economies, and stock markets or deterioration in the business conditions of investment destinations, loss on valuation of stocks owned may occur (see "Section 4 Status of the Submitting Company 4 Corporate Governance, etc. (5) Status of shareholdings)."

With regard to the risk of fluctuations in the prices of investment securities, the maximum amount of loss according to the statistical method is periodically measured and monitored using VaR (Value at Risk).

(2) Risks associated with the industry and business

1) Competition with other companies (quality, technology, and reduced price competitiveness)

The Group is in a severely competitive environment with various companies in each business segment, and as a result, many products are exposed to pricing pressure. The Group aims to make efforts to grasp market needs, pursue technological capabilities, thoroughly implement quality control, reduce costs and improve efficiency. However, if sufficient results are not achieved, net sales and profitability may decrease due to a declining share, falling sales prices, etc. In such situation, the Group's business performance may be adversely affected.

2) Globalization of corporate business activities

The Group positions business expansion in overseas markets as a component of its business strategy. Global business expansion entails a variety of risks, which are different from those related to domestic business, such as political instability, unanticipated changes in legislation and regulation, differences in religion and culture, and local labor relation problems, in addition to uncertainties in economy and foreign exchange rates. If the Group is unable to respond properly to such risks, the Group's business performance may be adversely affected.

3) Procurement of raw materials

The Group continues to select multiple reliable supplies and to develop new suppliers, as it is essential for the Group to obtain high-quality raw materials in a timely and stable manner. However, the Group's production and business performance may be adversely affected if supply is insufficient or interrupted due to unforeseen circumstances such as disasters, accidents, war or terrorism, or the spread of infectious diseases.

In addition, the Group's business performance may be adversely affected if the if the prices of raw materials procured soar due to tight supply and demand, speculative trading, or other factors, and these prices cannot be absorbed through internal efforts such as productivity improvements or by passing them on to sales prices.

4) Research and development

Under the Group's recognition that research and development activities are essential for the sustainable enhancement of corporate value, the Fuji Research Laboratory is leading the development of new products and technologies for the next generation. Moreover, for the products of existing businesses, each divisions' laboratories are leading the efforts to develop new products that meet customer needs, further improve quality, and drastically reduce costs. However, the Group's growth potential and profitability may decline and adversely affect its business performance if, for example, needs decline due to changes in market trends, decarbonization efforts fail, or the Group fails to promptly develop technologies that can compete with the technological innovations of other companies in the same industry.

5) Management strategy (acquisition, business alliance, and strategic investment)

As part of its growth strategy, the Group will actively engage in corporate acquisitions, business alliances, and strategic investments. Aiming for the early realization of acquisition synergies from large-scale M&As conducted in past years, we are promoting management integration by sharing production technologies, exchanging human resources, and thoroughly supervising local management. However, there is a possibility that changes in the business environment, assumptions, etc. may make it difficult to achieve the results initially assumed. If recording impairment loss of goodwill becomes necessary to reflect a decrease in expected future cash flows, for example, the Group's business performance may be adversely affected.

6) Dependence on specific industry (market fluctuations of specific products)

Most of the Group's sales are concentrated in the car, steel, and semiconductor industries. In order to reduce our dependence on specific industries, we acquired two carbon and graphite product manufacturers whose main customer industry was the aluminum industry and established the Smelting and Lining Division in July 2020 to diversify the portfolio. However, if the business in these customer industries of the Group deteriorates significantly and the diversification of the portfolio does not function well, it may result in lower net sales and profitability and adversely affect the Group's business performance.

7) Securing talented and diverse human resources

Important issues for the Group's competitiveness and future prospects are as follows: securing and developing talented and diverse personnel equipped with specialized knowledge and skills in each of the divisions, including research, development, technology, manufacturing, sales, planning and administration as well as management, and the retention rates thereof. In recent years, however, competition in securing human resources has become increasingly severe due to the mobility of human resources, and a decrease in the working population as a result of the declining birthrate and aging population. Our Group is striving to secure, develop and retain talented and diverse human resources through active recruitment of diverse human resources, development of a working environment based on flexible and diverse ways of working, a review of the Group's personnel system, and the introduction and implementation of new training systems. However, in the event that the Group is unable to hire or develop talented personnel as planned, or to keep talented personnel from leaving the Group, business execution will be constrained and the Group's business performance may be adversely affected.

(3) Other risks

1) Conflicts with laws and regulations

The Group conducts business activities in Japan and overseas, in accordance with various laws and regulations. The Group as a whole endeavors to ensure strict compliance with laws and regulations. In addition to the commercial transactions law, the antimonopoly law, the labor law, the securities laws, the intellectual property law, the environmental law, the tax law, the export and import law, the penal code, and other laws and regulations, there are various government approvals, licenses and regulations necessary for conducting business activities and investment. Future introduction of new laws and regulations or unanticipated changes of the existing laws and regulations may adversely affect the Group's business performance by imposing restrictions or adding costs, etc. to its business activities.

In addition, the Group is implementing legal and compliance education in various forms for directors and employees in Japan and overseas, recognizing that compliance is the basis for business activities. However, if the authorities judge the Group to be in violation of these laws and regulations, it may be subject to administrative punishment including surcharges, criminal charges, lawsuits, etc., and see its social evaluation decline and its business performance adversely affected.

2) Changes to accounting and tax systems

The Group's performance and financial position may be adversely affected if the accounting or tax system changes significantly in countries where the Group operates or if they are interpreted or applied unfavorably to the Group.

3) Intellectual property

Positioning intellectual property as an important management resource, the Group has set up a department that specializes in intellectual property management, striving to detect infringements of intellectual property rights by third parties and manage and protect its intellectual property rights. However, due to differences of opinion, if a third party files an infringement lawsuit seeking injunction against the use of patents, etc. or a lawsuit seeking compensation for damages, or if the Group's competitive advantage is threatened by a third party's infringement of intellectual property rights, the Group's business performance may be adversely affected by possibly seeing a large amount of costs, etc. required for the dispute or its reputation and superiority impaired.

4) Workplace injuries and accidents

The Group focuses on safety and the prevention of industrial accidents, which are fundamental to the manufacturing industry and is striving to put safety first at all of its sites. Occupational accidents are a serious risk to the health and lives of workers. The Group promotes safety activities on a global basis and incorporates specific, continuous, and voluntary activities into its Health and Safety plan at each site. We strive to improve health and safety standards by preventing occupational accidents, promoting the health of workers, and creating a comfortable work environment. The stoppage of manufacturing or accidents resulting from manufacturing facilities pose a serious risk of interfering with the Group's business activities and we conduct periodic inspections and maintenance for all manufacturing facilities to minimize potential negative factors. However, due to unforeseen circumstances or accidents, there is a possibility that the Group's business performance will be adversely affected by the suspension or reduction of operations, damage to facilities, etc., and significant restoration costs, etc.

5) Quality and product liability

The Group is taking all possible measures to ensure product quality by having acquired Quality Management System (ISO9001) certification at its major domestic production sites; having established quality control regulations, standards, and work standards; having established a quality check system; and making group-wide efforts to continuously improve quality through quality audits. The Group has insurance policies for product liability damages and damages caused by defects in certain products. However, if a material product defect or product liability lawsuit is caused by unforeseeable reasons, the Group's business performance may be adversely affected due to an expected substantial increase in costs, decline in the Group's social evaluation and resulting decrease in sales revenues.

6) DX and information security

The Group is using digital technology to transform its products, services, and business processes and to create new value. However, delays in initiatives or an inability to respond appropriately to advances in digital technologies such as the Internet of Things (IoT) and Artificial Intelligence (AI) could reduce the Group's competitiveness and have an adverse impact on the Group's business performance.

In addition, the Group has built and operates various systems and retains confidential information regarding production technology, research and development, procurement and sales in the course of its business and the importance of these is increasing. The Group strictly controls IT, information systems and telecommunications networks, and takes measures to prevent leakage and loss and to minimize the impact of security incidents. However, if a failure occurs due to external factors such as disasters or cyber attacks, or due to mam-made factors etc., it may cause the suspension of important operations and services, or incidents such as the theft or leakage of confidential information, data, or private information, which may hinder the continuation of operations, thereby adversely affecting the Group's performance.

## 4 Management's Analysis of Financial Position, Operating Results, and Cash Flows

The following section outlines the financial position, operating results, and cash flows (hereafter "operating results, etc.") for the Group (the Company and its consolidated subsidiaries and equity-method associates) for the fiscal year under review as well as management's views and analysis/points of consideration regarding the Group's operating results, etc.

### (1) Outline of operating results, etc.

#### 1) Operating results

In the current fiscal year (from January 1, 2023 to December 31, 2023), positive factors such as the easing of supply constraints and the reopening of the Chinese economy stood out at the beginning of the year. However, the global economy subsequently became more stagnant due to the continuation of high inflation and high interest rates in Europe and the United States and the slowdown of the Chinese economy. The prolonged crisis in Ukraine, the worsening situation in the Middle East, heightened geopolitical tensions such as the conflict between the United States and China, a downturn in the Chinese economy, and renewed inflation have become risk factors, and uncertainty about the future of the global economy has increased.

Under these circumstances, in February 2023, the Tokai Carbon Group, disclosed the rolling mid-term management plan "T-2025". Based on the three basic policies of "Returning core businesses to a path of growth," "Optimizing the business portfolio (Selection and Concentration)" and "Establishing a sustainable management base", we have aimed to achieve net sales of ¥484,000 million, operating income of ¥69,000 million, ROS of 14%, and EBITDA of ¥113,000 million as quantitative targets for 2025. Focusing on our core businesses of Graphite Electrodes and Carbon Black, we are working to secure appropriate profits by raising selling prices to pass on the increase in raw materials and other costs. At the same time, we are making steady progress in improving production efficiency and expanding our production capacity for the growing future demand. As part of our efforts to achieve carbon neutrality, we are working to reduce CO2 emissions on a consolidated basis, mainly through the Carbon Neutral Committee, which was established in February 2022, while also exploring and researching relevant technologies.

As a result, net sales for the fiscal year under review increased 6.9% year on year to ¥363,946 million. Operating income decreased 4.6% year on year to ¥38,728 million. Ordinary income decreased 2.2% year on year to ¥41,607 million. Net income attributable to owners of the parent company increased 13.6% year on year to ¥25,468 million.

Operating results by business segment were as follows:

Graphite Electrodes
Sales of large-diameter electrodes were strong in North America. However, valuation losses on inventories were recorded for the European plant. This was due to a higher manufacturing cost in European plant lead by the persistently high energy costs and lower operation rate while the market price deteriorated during to a slump in steel production there.
As a result, net sales for the Graphite Electrodes business increased 1.0% year on year to ¥60,235 million, and operating income decreased 90.6% year on year to ¥752 million (compared with ¥8,032 million in operating income for the previous year).

Carbon Black
Demand from new vehicles tires increased backed by the automobile production recovery, although the replacement tires demand lowered by customer adjusting the inventory which led to a lower sales volume year on year. The sales and income were, although higher year on year, due to a price hike to partially compensate the depreciation cost of environmental facilities investments mainly in United States.
As a result, net sales for the Carbon Black business increased 7.2% year on year to ¥148,423 million, while operating income increased 73.5% year on year to ¥21,303 million.

Fine Carbon
Demand for products used in the memory semiconductors market stagnated due to customers' inventory adjustments caused by declining demand for smartphones and PCs and the prolonged U.S. semiconductor regulation against China. As a result, sales of Solid SiC products used in etching equipment for memory semiconductors fell sharply. This was partially offset by firm demand for products for power semiconductors and general industrial applications, but both sales and income declined year on year.
As a result, net sales for the Fine Carbon business decreased 8.2% year on year to ¥45,319 million, while operating income decreased 28.4% year on year to ¥10,617 million.

Smelting and Lining
Operating rates of aluminum electrolytic furnace companies that use cathode blocks varied from region to region due to differences in energy costs. Shipments to emerging countries in particular remained steady. Raw material and energy costs increased sharply however profitability was maintained by reflecting the higher costs in selling prices.
As a result, net sales for the Smelting and Lining business increased 27.0% year on year to ¥82,820 million, while operating income increased 71.3% to ¥2,305 million.

Industrial Furnaces and Related Products
Net sales and operating income in the industrial furnaces and the heating element business decreased year on year due to inventory adjustments and project delays in the energy-related and electronic component-related industries, which are major customers.
As a result, net sales for the Industrial Furnaces and Related Products business decreased 4.0% year on year to ¥15,614 million, while operating income decreased 13.7% year on year to ¥3,860 million.

Other Operations
Friction materials
Sales of motorcycles remained firm mainly in North America and Europe, although sales of construction machinery and electromagnetic equipment declined due to a drop in Chinese demand.
As a result, net sales of friction materials decreased 3.9% to ¥8,995 million.

Anode materials
There was a temporary recovery in sales of EVs and ESSs (Energy Storage Systems), in which our materials are used.
As a result, net sales of anode materials increased 27.3% year on year to ¥2,404 million.

Other
Net sales from real estate leasing and other business decreased 2.8% year on year to ¥132 million.

As a result, net sales in Other Operations, increased 1.3% year on year to ¥11,532 million, while operating income increased 17.3% year on year to ¥1,299 million.

2) Financial position

(Assets)

Total assets at the end of the consolidated fiscal year under review came to ¥640,005 million, an increase of ¥63,540 million from the end of the previous consolidated fiscal year.
Current assets amounted to ¥262,890 million, an increase of ¥16,198 million from the end of the previous consolidated fiscal year, mainly due to increases in cash and deposits and inventories. Fixed assets amounted to ¥377,114 million, an increase of ¥47,341 million from the end of the previous consolidated fiscal year, mainly due to increases in tangible fixed assets and investment securities.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review came to ¥279,902 million, an increase of ¥4,305 million from the end of the previous consolidated fiscal year. Current liabilities amounted to ¥136,971 million, a decrease of ¥9,724 million from the end of the previous consolidated fiscal year, mainly due to decreases in current portion of loans payable and short-term loans payable. Long-term liabilities amounted to ¥142,930 million, an increase of ¥14,030 million from the end of the previous consolidated fiscal year, mainly due to increases in deferred tax liabilities and long-term loans payable.

(Net assets)

Total net assets at the end of the consolidated fiscal year under review came to ¥360,103 million, an increase of ¥59,234 million from the end of the previous consolidated fiscal year, mainly due to increases in foreign currency translation adjustments and retained earnings.
As a result, the Group’s equity ratio increased 4.1 points year on year to 50.7%.

3) Cash flows

At the end of the consolidated fiscal year under review, the Group’s cash and cash equivalents totaled ¥56,459 million, an increase of ¥7,081 million from the previous consolidated fiscal year. Cash flows and the major sources and uses of cash in the consolidated fiscal year under review are summarized as follows.

(Cash flows from operating activities)

Net cash provided by operating activities in the consolidated fiscal year under review increased by ¥20,868 million year on year to ¥62,074 million. This was mainly due to net income before income taxes and depreciation.

(Cash flows from investing activities)

Net cash used in investing activities in the consolidated fiscal year under review decreased by ¥2,267 million year on year to ¥47,632 million. This was mainly due expenditures on purchase of tangible fixed assets.

(Cash flows from financing activities)

Net cash used in financing activities in the consolidated fiscal year under review increased by ¥3,882 million year on year to ¥14,512 million. This was mainly due to repayments of short-term loans payable and payment of dividends.

4) Production, orders, and sales

a. Production

Production value by business segment in the fiscal year under review was as follows.

| Segment name | Amount (Million yen) | Year-on-year (%) |
|---|---|---|
| Graphite Electrodes | 64,584 | (4.4) |
| Carbon Black | 147,484 | +7.6 |
| Fine Carbon | 48,097 | (10.2) |
| Smelting and Lining | 83,296 | +27.7 |
| Industrial Furnaces and Related Products | 15,526 | (7.7) |
| Other Operations | 11,464 | +1.2 |
| Total | 370,453 | +5.4 |

(Notes) 1. Intersegment transactions are eliminated.
2. Amounts are based on selling prices.

b. Orders

Orders by business segment in the fiscal year under review were as follows.
Note that the Industrial Furnaces and Related Products carries out production on a made-to-order basis.

| Segment name | Orders (Million yen) | Year-on-year (%) | Order backlog (Million yen) | Year-on-year (%) |
|---|---|---|---|---|
| Industrial Furnaces and Related Products | 14,445 | +10.5 | 14,131 | (7.3) |
| Total | 14,445 | +10.5 | 14,131 | (7.3) |

(Note) Intersegment transactions are eliminated.

c. Sales

Sales by business segment in the fiscal year under review were as follows.

| Segment name | Amount (Million yen) | Year-on-year (%) |
|---|---|---|
| Graphite Electrodes | 60,235 | +1.0 |
| Carbon Black | 148,423 | +7.2 |
| Fine Carbon | 45,319 | (8.2) |
| Smelting and Lining | 82,820 | +27.0 |
| Industrial Furnaces and Related Products | 15,614 | (4.0) |
| Other Operations | 11,532 | +1.3 |
| Total | 363,946 | +6.9 |

(Note) Intersegment transactions are eliminated.

(2) Management's analysis and points of consideration regarding operating results, etc.

Management's views and analysis/points of consideration regarding the Group's operating results, etc. are as follows. Forward-looking statements in the document are based on the judgments of the Group at the end of the current consolidated fiscal year.

1) Management's views and analysis/points of consideration regarding operating results, etc. for the fiscal year under review

Net sales for the current fiscal year increased 6.9% year on year to ¥363,946 million due to higher selling prices in the Smelting and Lining business and Carbon Black business. The sales-cost ratio was largely unchanged from the previous fiscal year, up 0.5 points to 72.9%.

Selling, general and administrative expenses increased 12.2% year on year to ¥59,998 million due to an increase in employees' bonuses. As a result, operating income decreased 4.6% year on year to ¥38,728 million.

Non-operating income increased 32.5% year on year to ¥5,789 million due to an increase in interest income and other factors. Non-operating expenses increased 19.5% year on year to ¥2,911 million due to an increase in interest expenses and other factors.

In extraordinary income, the Company and its consolidated subsidiaries recorded a gain of ¥401 million on sales of investment securities. In extraordinary loss, the Company and its consolidated subsidiaries recorded a loss on retirement of fixed assets of ¥170 million for manufacturing facilities. As a result, net income before income taxes decreased 0.3% year on year to ¥41,998 million.

Total income taxes decreased 10.4% year on year to ¥13,243 million, while net income attributable to non-controlling interests of ¥3,285 million was recorded. As a result, net income attributable to owners of the parent company increased 13.6% year on year to ¥25,468 million.

As for total assets at the end of the fiscal year under review, current assets increased by ¥16,198 million from the end of the previous consolidated fiscal year to ¥262,890 million due to increases in cash and deposits, inventories, etc., and fixed assets increased ¥47,341 million from the end of the previous consolidated fiscal year to ¥377,114 million due to increases in tangible fixed assets, investment securities, etc.

2) Analysis of the financial resources for capital and the liquidity of funds

a. Cash flows

For details on the status of cash flows, please refer to (1) 3) Cash flows.

b. Financial Policy

The Group's basic policies are to maintain financial soundness, secure liquidity, and control financial expenses while enhancing capital-efficiency in order to achieve sustainable growth and increase shareholder value.

We aim to expand business earnings by allocating capital based on hurdle rates within the scope of an optimal capital structure that ensures sufficient financial soundness to support business growth.

Funds for the Group are raised in a consolidated procurement at the head office, and the Global Cash Management System (GCMS) is utilized to increase the efficiency of cash on hand. Cash flows from operating activities and cash on hand are the basic sources of funds. For external funding needs such as investments that exceed cash on hand, the Company will select funding methods based on market conditions, mainly from debt financing such as borrowings from financial institutions and issuance of bonds payable in the capital market.

In addition, the Company controls interest rate fluctuation risks and liquidity risks based on the monitoring and analysis of the amount of risk while controlling financial expenses.

3) Significant accounting estimates and assumptions used in such estimates

The consolidated financial statements of the Group are prepared in accordance with the generally accepted accounting principles in Japan. Significant accounting policies are stated in "Section 5 Status of Accounting 1. Consolidated Financial Statements, (1) Notes to consolidated financial statements (Significant basis for preparation of consolidated financial statements)."

In preparing the consolidated financial statements, accounting estimates are made for items that need them based on reasonable standards; however, actual results may differ from these estimates due to uncertainties specific to the estimates. Significant accounting estimates and assumptions used in the preparation of the consolidated financial statements are provided in "Section 5 Status of Accounting 1 Consolidated Financial Statements, (1) Notes to consolidated financial statements (Significant accounting estimates)."

## 5 Important Agreements for Operation, etc.

Not applicable.

## 6 Research and Development

The Company considers research and development to be one of its most important initiatives for the sustainable growth of the Company and the enhancement of its value over the medium to long term.

Therefore, the Group (the Company and its affiliated companies) actively promotes a variety of research and development activities such as new product development based on basic research, production technology research and performance enhancement of existing products, and quality improvement, which are mainly led by Fuji Laboratory, Chigasaki Laboratory, Chita Laboratory, Hofu Laboratory, and Tanoura Laboratory in collaboration with the Company's development and technology divisions. In addition, from the perspective of protecting our own technologies and products and avoiding conflicts with other companies' technologies, we have placed the Intellectual Property Department under the R&D Strategy Division, thereby supporting research and development by quickly sharing information among related departments and generating technological synergies. The contents of the research and development are regularly reported to the Board of Directors. The details and costs of research and development activities of the Group are presented in a combined form since they are difficult to be associated with specific segments.

(Major research and development activities)

Fine carbon and fine ceramics, which are positioned as growth areas in the Company, have excellent material properties and a wide variety of applications. Considering the remarkable growth in the energy-related, semiconductors, electronics and environmental areas in recent years, the Company is developing products that will meet these high-tech needs.

Tokai Konetsu Kogyo Co., Ltd. is developing high-performance industrial furnaces and silicon carbide products for electronic components and secondary batteries.

In addition, we are focusing on patent applications related to carbon neutrality, which is our long-term vision of "contributing to a sustainable society through advanced materials and solutions," and the number of patents granted is increasing.

(Amount of research and development expenditure)

Total R&D expenditure in the fiscal year under review was ¥3,605 million.

# Section 3 Facilities and Equipment

## 1 Capital Investment, etc.

With a focus on product areas that are expected to grow over the long term, the Group makes investments for environmental measures, labor-saving, rationalization, and improvement of product reliability. We implemented capital investment totaling ¥53,316 million, mainly in environmental measures, during the fiscal year under review.

In the Graphite Electrodes business, the Group implemented capital investment of ¥5,147 million, mainly at TOKAI CARBON GE LLC.

In the Carbon Black business, the Group implemented capital investment of ¥27,207 million, mainly at Tokai Carbon CB Ltd.

In the Fine Carbon business, the Group implemented capital investment of ¥10,640 million, mainly at TOKAI CARBON KOREA CO., LTD.

In the Smelting and Lining business, the Group implemented capital investment of ¥8,292 million, mainly at Tokai COBEX Polska sp. z o.o.

In the Industrial Furnaces and Related Products business, the Group implemented capital investment of ¥690 million, mainly at Tokai Konetsu Kogyo Co., Ltd.

In Other Operations business, the Group implemented capital investment of ¥476 million, mainly at the Shonan Plant of the Company.

## 2 Major Facilities and Equipment

(1) Submitting company (As of December 31, 2023)

| Plant name (Location) | Segment name | Details of facilities and equipment | Book value (Million yen) | | | | | Number of employees (people) |
|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment, and vehicles | Land (area m²) | Other (Note) 1 | Total | |
| Hofu Plant (Hofu-shi, Yamaguchi) | Graphite Electrodes | Graphite electrodes manufacturing facility | 1,159 | 4,223 | 152 (317,163) | 115 | 5,650 | 76 |
| Shiga Plant (Omihachiman-shi, Shiga) | Graphite Electrodes | Graphite electrodes manufacturing facility | 649 | 2,258 | 318 (198,302) | 268 | 3,495 | 64 |
| Ishinomaki Plant (Ishinomaki-shi, Miyagi) | Carbon Black | Carbon black manufacturing facility | 531 | 851 | 756 (82,262) | 28 | 2,168 | 41 |
| Chita Plant (Taketoyo-cho, Chita-gun, Aichi) | Carbon Black | Carbon black manufacturing facility | 944 | 1,790 | 693 (179,974) | 486 | 3,915 | 93 |
| Kyushu-Wakamatsu Plant (Wakamatsu-ku, Kitakyushu-shi) | Carbon Black | Carbon black manufacturing facility | 705 | 1,654 | 304 (32,560) | 64 | 2,729 | 39 |
| Tanoura Plant (Ashikita-machi, Ashikita-gun, Kumamoto) | Fine Carbon | Fine carbon etc. manufacturing facility | 4,127 | 2,503 | 10 (178,954) | 1,382 | 8,023 | 104 |
| Shonan Plant (Chigasaki-shi, Kanagawa) | Other Operations | Friction materials production facility | 281 | 413 | 230 (83,285) | 87 | 1,013 | 82 |

(2) Domestic subsidiaries (As of December 31, 2023)

| Company name (Location) | Segment name | Details of facilities and equipment | Book value (Million yen) | | | | | Number of employees (people) |
|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment, and vehicles | Land (area m²) | Other (Note) 1 | Total | |
| Tokai Fine Carbon Co., Ltd. (Chigasaki-shi, Kanagawa, etc.) | Fine Carbon | Fine carbon etc. manufacturing facility (Note) 2 | 878 | 865 | 142 (25,911) | 104 | 1,990 | 134 |
| Tokai Material Co., Ltd. (Yachiyo-shi, Chiba) | Other Operations | Friction materials production facility (Note) 2 | 223 | 301 | 504 (19,106) | 17 | 1,047 | 76 |
| Tokai Konetsu Engineering Co., Ltd. (Omihachiman-shi, Shiga) | Industrial Furnaces and Related Products | Industrial furnaces production facility (Note) 2 | 1,356 | 57 | 30 (18,698) | 18 | 1,462 | 54 |
| Tokai Konetsu Kogyo Co., Ltd. (Minato-ku, Tokyo, etc.) | Industrial Furnaces and Related Products | Industrial furnaces production facility | 418 | 231 | 76 (106,735) | 481 | 1,207 | 132 |

(3) Overseas subsidiaries (As of December 31, 2023)

| Company name (Location) | Segment name | Details of facilities and equipment | Book value (Million yen) | | | | | Number of employees (people) |
|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment, and vehicles | Land (area $m^2$) | Other (Note) 1 | Total | |
| TOKAI CARBON GE LLC (Charlotte, U.S.A., etc.) | Graphite Electrodes | Graphite electrodes manufacturing facility | 4,684 | 14,874 | 377 (1,272,805) | 2,816 | 22,753 | 242 |
| TOKAI ERFTCARBON GmbH (Grevenbroich, Germany) | Graphite Electrodes | Graphite electrodes manufacturing facility | 121 | 4,057 | 345 (146,861) | 2,405 | 6,930 | 231 |
| Cancarb Limited (Medicine Hat, Canada) | Carbon Black | Carbon black manufacturing facility, etc. (Note) 3 | 1,175 | 6,554 | 497 (255,900) | 969 | 9,196 | 86 |
| THAI TOKAI CARBON PRODUCT COMPANY LIMITED (Bangkok, Thailand, etc.) | Carbon Black | Carbon black manufacturing facility (Note) 4 | 50 | 1,693 | 2,812 (202,458) [83,368] | 18,113 | 22,669 | 119 |
| Tokai Carbon CB Ltd. (Fort Worth, U.S.A., etc.) | Carbon Black | Carbon black manufacturing facility (Note) 4 | 3,242 | 34,801 | 247 (584,539) [582,909] | 21,585 | 59,877 | 410 |
| TOKAI CARBON KOREA CO., LTD. (Anseong, Republic of Korea) | Fine Carbon | Fine carbon manufacturing facility | 5,103 | 6,397 | 2,425 (44,965) | 4,406 | 18,334 | 399 |
| Tokai COBEX Polska sp. z o. o. (Racibórz, Poland, etc.) | Smelting and Lining | Production facilities for cathodes for aluminum electrolysis, etc. (Note) 4 | 7,246 | 12,559 | 32 (8,120) [604,923] | 6,813 | 26,651 | 795 |
| Tokai COBEX Savoie SAS (La Lechere, France) | Smelting and Lining | Production facilities for cathodes for aluminum electrolysis, etc. | 2,738 | 9,187 | 1,009 (219,632) | 4,327 | 17,262 | 392 |
| Tokai Carbon (Dalian) Co., Ltd. (Dalian, People's Republic of China) | Fine Carbon | Fine carbon manufacturing facility (Note) 5 | 69 | 459 | - [8,000] | 989 | 1,517 | 173 |

(Notes)
1. "Other" under book value is the sum of tools, furniture and fixtures, leased assets, and construction in progress.
2. Land and buildings are primarily leased from the submitting company, and the book value is based on the amount provided by the submitting company.
3. Includes waste heat treatment facilities acquired incidentally with the acquisition of Cancarb Limited.
4. A portion of land is leased from outside the Group, and land area is indicated in parentheses.
5. Land is leased from outside the Group, and land area is indicated in parentheses.
6. There are no major facilities or equipment currently idle.

## 3 Plans for New Installation, Disposal, etc. of Facilities

(1) New installation of significant facilities, etc.

| Company name<br>Office name | Location | Segment name | Details of facilities and equipment | Estimated investment amount | | Funding method | Start and scheduled completion | |
|---|---|---|---|---|---|---|---|---|
| | | | | Total amount (Million yen) | Amount paid (Million yen) | | Start | Completion |
| Tokai Carbon CB Ltd. | Fort Worth, U.S.A., etc. | Carbon Black | Environmental protection facility | 28,282 | 26,865 | Own funds and borrowing | September 2019 | January 2024 |
| Tokai COBEX Polska sp. z o.o. | Racibórz, Poland, etc. | Smelting and Lining | Upgrades to manufacturing facility | 1,555 | 1,504 | Own funds | November 2021 | March 2024 |
| Tokai Carbon Co. Ltd.<br>Tanoura Plant | Ashikita-machi, Ashikita-gun, Kumamoto | Fine Carbon | Capacity additions at manufacturing facility | 6,523 | 3,970 | Own funds and borrowing | January 2022 | December 2024 |
| Tokai Carbon (Dalian) Co., Ltd. | Dalian, People's Republic of China | Fine Carbon | Establishment of new manufacturing facility | 1,980 | 1,162 | Own funds | January 2022 | July 2024 |
| TOKAI CARBON KOREA CO., LTD. | Anseong, Republic of Korea | Fine Carbon | Capacity additions at manufacturing facility | 3,785 | 2,580 | Own funds | April 2022 | July 2024 |
| TOKAI CARBON KOREA CO., LTD. | Anseong, Republic of Korea | Fine Carbon | Establishment of new manufacturing facility | 2,838 | 1,873 | Own funds | May 2022 | April 2024 |
| Tokai Konetsu Kogyo Co., Ltd.<br>Sendai Plant | Shibata-machi, Shibata-gun, Miyagi | Industrial Furnaces and Related Products | Expansion of manufacturing facility | 2,311 | 373 | Own funds | August 2022 | December 2024 |
| THAI TOKAI CARBON PRODUCT COMPANY LIMITED | Rayong, Thailand | Carbon Black | Establishment of new manufacturing facility | 40,887 | 17,796 | Own funds and borrowing | September 2022 | May 2026 |
| Tokai Carbon Co. Ltd.<br>Chigasaki Laboratory | Chigasaki-shi, Kanagawa | Fine Carbon | Expansion of manufacturing facility | 5,400 | 69 | Own funds and borrowing | November 2022 | December 2024 |
| THAI TOKAI CARBON PRODUCT COMPANY LIMITED | Rayong, Thailand | Carbon Black | Establishment of new manufacturing facility | 4,501 | 2,752 | Own funds | June 2023 | June 2025 |
| Tokai Carbon Co. Ltd.<br>Production Technology Center | Hofu-shi, Yamaguchi | Other Operations | Establishment of new manufacturing facility | 3,190 | 8 | Own funds and borrowing | September 2023 | December 2025 |
| Tokai COBEX Polska sp. z o.o. | Racibórz, Poland, etc. | Smelting and Lining | Upgrades to manufacturing facility | 2,028 | − | Own funds | December 2023 | May 2025 |
| Tokai Carbon Co. Ltd.<br>Chita Plant | Taketoyo-cho, Chita-gun, Aich | Carbon Black | Upgrades to manufacturing facility | 1,540 | - | Own funds and borrowing | December 2023 | May 2027 |

(2) Disposal of significant facilities, etc.

There are no scheduled disposals of significant facilities, etc.

## Section 4 Status of the Submitting Company

### 1 Status of Shares, etc.

(1) Total number of shares, etc.

1) Total number of shares

| Type | Total number of shares authorized to be issued (Shares) |
|---|---|
| Common shares | 598,764,000 |
| Total | 598,764,000 |

(Note) The Company's articles of incorporation stipulate that the total number of shares authorized to be issued is 598,764,000 shares.

2) Shares issued

| Type | Number of shares issued as of end of fiscal year (Shares) (As of December 31, 2023) | Number of shares issued as of date of submission (Shares) (March 28, 2024) | Name of listed financial instruments exchange or registered authorized financial instruments exchange association | Details |
|---|---|---|---|---|
| Common shares | 224,943,104 | 224,943,104 | Tokyo Stock Exchange (Prime Market) | Share unit: 100 shares |
| Total | 224,943,104 | 224,943,104 | - | - |

(2) Status of stock warrants

1) Stock option system

Not applicable

2) Shareholder rights plan

Not applicable

3) Status of other stock warrants, etc.

Not applicable

(3) Status of exercise, etc. of moving strike warrants

Not applicable

(4) Change in total number of shares issued and capital, etc.

| Period | Increase (decrease) in total number of shares issued (Shares) | Total number of shares issued (Shares) | Increase (decrease) in capital (Million yen) | Capital (Million yen) | Increase (decrease) in capital reserve (Million yen) | Capital reserve (Million yen) |
|---|---|---|---|---|---|---|
| January 1 - December 31, 2008 (Note) | 2,913,720 | 224,943,104 | 743 | 20,436 | 743 | 17,502 |

(Note) The increases stemmed from the exercise of stock warrants.

(5) Shareholder composition

(As of December 31, 2023)

| Category | Distribution of shares (number of shares per unit: 100 shares) | | | | | | | | Odd-lot shares (Shares) |
|---|---|---|---|---|---|---|---|---|---|
| | National and local government agencies | Financial institutions | Financial instrument trading firms | Other corporations | Foreign corporations, etc. | | Individuals, etc. | Total | |
| | | | | | Other than individuals | Individuals | | | |
| Number of shareholders (People) | - | 56 | 56 | 634 | 280 | 120 | 99,466 | 100,612 | - |
| Number of shares held (Units) | - | 871,322 | 108,602 | 126,559 | 344,949 | 705 | 795,123 | 2,247,260 | 217,104 |
| Ownership ratio (%) | - | 38.77 | 4.83 | 5.63 | 15.35 | 0.03 | 35.39 | 100 | - |

(Notes) 1. The 11,727,642 shares of treasury stock are included as 117,276 units under “Individuals, etc.” and 42 shares under “Odd-lot shares” in the table above.
2. The 10 units of shares held by the Japan Securities Depository Center are included under “Other corporations.”

(6) Major shareholders

(As of December 31, 2023)

| Name | Location | Number of shares held (Thousand shares) | Ownership ratio based on total number of shares issued (excluding treasury stock; %) |
|---|---|---|---|
| The Master Trust Bank of Japan, Ltd. (trust account) | 2-11-3, Hamamatsucho, Minato-ku, Tokyo | 43,444 | 20.38 |
| Custody Bank of Japan, Ltd. (trust account) | 1-8-12, Harumi, Chuo-ku, Tokyo | 18,005 | 8.44 |
| MUFG Bank, Ltd. | 2-7-1, Marunouchi, Chiyoda-ku, Tokyo | 5,827 | 2.73 |
| Mitsubishi UFJ Trust and Banking Corporation | 1-4-5, Marunouchi, Chiyoda-ku, Tokyo | 4,609 | 2.16 |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 1-9-2, Otemachi, Chiyoda-ku, Tokyo | 2,744 | 1.29 |
| SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo branch, Custody Department) | ONE CONGRESS STREET, SUITE 1, BOSTON, MASSACHUSETTS (3-11-1 Nihombashi, Chuo-ku, Tokyo) | 2,633 | 1.24 |
| JPMorgan Securities Japan Co., Ltd. | Tokyo Building, 2-7-3, Marunouchi, Chiyoda-ku, Tokyo | 2,566 | 1.20 |
| STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department) | 1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (Shinagawa Intercity Building A, 2-15-1 Konan, Minato-ku, Tokyo) | 2,529 | 1.19 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 2-6-4 Otemachi, Chiyoda-ku, Tokyo | 2,426 | 1.14 |
| Meiji Yasuda Life Insurance Company | 2-1-1 Marunouchi, Chiyoda-ku, Tokyo | 2,032 | 0.95 |
| Total | - | 86,820 | 40.72 |

(Notes) 1. In addition to the above, the Company holds 11,727,000 shares of treasury stock (5.21% of total shares issued).
2. All 43,444,000 shares held in The Master Trust Bank of Japan, Ltd. (trust account) are related to trust services.
3. All 18,005,000 shares held in Custody Bank of Japan, Ltd. (trust account) are related to trust services.
4. In the Change Report made available for public disclosure as of November 7, 2023, shares owned by Sumitomo Mitsui

Trust Asset Management Co., Ltd. and its joint holders as of October 31, 2023 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2023, they are not included under “Major shareholders” as shown above. The contents of the Change Report are as follows.

| Name | Location | Number of shares held (Thousand shares) | Shareholding ratio (%) |
|---|---|---|---|
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 1-1-1, Shibakoen, Minato-ku, Tokyo | 4,810 | 2.14 |
| Nikko Asset Management Co., Ltd. | 9-7-1, Akasaka, Minato-ku, Tokyo | 8,089 | 3.60 |

5. In the Change Report made available for public disclosure as of January 29, 2024, shares owned by Mitsubishi UFJ Financial Group, Inc. as of January 22, 2024 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2023, they are not included under “Major shareholders” as shown above. The contents of the Change Report are as follows.

| Name | Location | Number of shares held (Thousand shares) | Shareholding ratio (%) |
|---|---|---|---|
| MUFG Bank, Ltd. | 2-7-1, Marunouchi, Chiyoda-ku, Tokyo | 5,827 | 2.59 |
| Mitsubishi UFJ Trust and Banking Corporation | 1-4-5, Marunouchi, Chiyoda-ku, Tokyo | 9,066 | 4.03 |
| MUFG Securities EMEA plc | Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AJ, United Kingdom | 700 | 0.31 |
| Mitsubishi UFJ Asset Management Co., Ltd. | 1-9-1, Higashi-shimbashi, Minato-ku, Tokyo | 4,095 | 1.82 |

6. In the Change Report made available for public disclosure as of February 5, 2024, shares owned by Nomura Securities Co., Ltd. and its joint holders as of January 31, 2024 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2023, they are not included under “Major shareholders” as shown above. The contents of the Change Report are as follows.

| Name | Location | Number of shares held (Thousand shares) | Shareholding ratio (%) |
|---|---|---|---|
| Nomura Securities Co., Ltd. | 1-13-1, Nihombashi, Chuo-ku, Tokyo | 1,763 | 0.78 |
| NOMURA INTERNATIONAL PLC | 1 Angel Lane, London EC4R 3AB, United Kingdom | 588 | 0.26 |
| Nomura Asset Management Co., Ltd. | 2-2-1 Toyosu, Koto-ku, Tokyo | 17,642 | 7.84 |

(7) Voting rights

1) Shares issued

(As of December 31, 2023)

| Category | Number of shares (Shares) | Number of voting rights | Details |
|---|---|---|---|
| Non-voting shares | - | - | - |
| Shares with limited voting rights (Treasury stock, etc.) | - | - | - |
| Shares with limited voting rights (Other) | - | - | - |
| Shares with full voting rights (Treasury stock, etc.) | (Treasury stock) Common shares 11,727,600 | - | - |
| Shares with full voting rights (Other) | Common shares 212,998,400 | 2,129,984 | - |
| Odd-lot shares | Common shares 217,104 | - | Shares below unit number (100 shares) |
| Total number of shares issued | 224,943,104 | - | - |
| Total shareholder voting rights | - | 2,129,984 | - |

(Note) The 1,000 shares (10 voting rights) held by the Japan Securities Depository Center are included under "Shares with full voting rights (Other)."

2) Treasury stock, etc.

(As of December 31, 2023)

| Name of holder | Address of holder | Number of shares held in own name (Shares) | Number of shares held under different names (Shares) | Total number of shares held (Shares) | Ownership ratio based on total number of shares issued (%) |
|---|---|---|---|---|---|
| (Treasury stock) Tokai Carbon Co., Ltd. | 1-2-3, Kita Aoyama, Minato-ku, Tokyo | 11,727,600 | - | 11,727,600 | 5.21 |
| Total | - | 11,727,600 | - | 11,727,600 | 5.21 |

## 2 Acquisition of Treasury Stock, etc.

[Class of shares, etc.] Acquisition of common shares under the provisions of Article 155, Item 7 of the Companies Act

(1) Acquisition of shares by resolution at a General Meeting of Shareholders

Not applicable

(2) Acquisition of shares by resolution at a Board of Directors' meeting

Not applicable

(3) Acquisitions not based on resolutions at a General Meeting of Shareholders or Board of Directors' meeting

Acquisitions based on shareholder requests for repurchase of odd-lot shares under the provisions of Article 192, Paragraph 1 of the Companies Act

| Category | Number of shares (shares) | Total value (yen) |
|---|---|---|
| Treasury stock acquired in fiscal year under review | 1,903 | 2,291,647 |
| Treasury stock acquired in period prior to submission of this report | 268 | 280,416 |

(Note) Treasury stock acquired in period prior to submission of this report does not include shares acquired based on shareholder requests for repurchase of odd-lot shares between March 1, 2024 and date of submission for this report.

(4) Disposal and holding of acquired treasury stock

| Category | Fiscal year under review | | Period prior to submission of this report | |
|---|---|---|---|---|
| | Number of shares (shares) | Total value disposed (yen) | Number of shares (shares) | Total value disposed (yen) |
| Acquired treasury stock for which subscribers were solicited | - | - | - | - |
| Acquired treasury stock cancelled | - | - | - | - |
| Acquired treasury stock transferred in connection with mergers, stock swaps, stock issuances or company splits | - | - | - | - |
| Other (Sold in response to requests for sale of odd-lot shares, disposal of treasury stock as remuneration in the form of shares with a transfer restriction) | 22,378 | 13,486,772 | 20 | 13,634 |
| Treasury stock held | 11,727,642 | - | 11,727,890 | - |

(Notes) 1. "Other (Sold in response to requests for sale of odd-lot shares)" for period prior to submission of this report does not include shares acquired in response to requests for sale of odd-lot shares between March 1, 2024 and the date of submission for this report.

2. Figures for "Treasury stock held" for period prior to submission of this report do not include shares purchased/sold in response to requests for repurchase/sale of odd-lot shares between March 1, 2024 and the date of submission for this report.

## 3 Dividend Policy

The Company regards returning profits to shareholders to be one of its important management priorities in its efforts to increase corporate value over the medium and long term. Accordingly, the Company maintains its basic policy to pay dividends stably and continuously with a consolidated payout ratio of 30% as a target, while giving consideration to its operating results and forecasts, investment plans, and status of cash flows, etc. in each period.

The Company's basic policy is to distribute dividends of surplus twice a year: an interim dividend and a year-end dividend. The decision-making body for such dividends of surplus is the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend.

Based on the policy outlined above, the Company decided to pay an annual dividend of ¥36 per share (including an interim dividend of ¥18 per share) for the fiscal year under review.

The Company plans to allocate retained earnings to investments in areas that could become sources of future value, such as facility upgrades, environmental investments, growth-oriented investments, and strategic investments.

The Company's articles of incorporation stipulate that "An interim dividend may be distributed with a record date of June 30 every year by the resolution of the Board of Directors."

Dividends of surplus for the fiscal year under review are as follows.

| Date of resolution | Total amount of dividend (Million yen) | Dividend per share (Yen) |
|---|---|---|
| August 8, 2023<br>Board of Directors resolution | 3,837 | 18.0 |
| March 28, 2024<br>Resolution at Annual General Meeting of Shareholders | 3,837 | 18.0 |

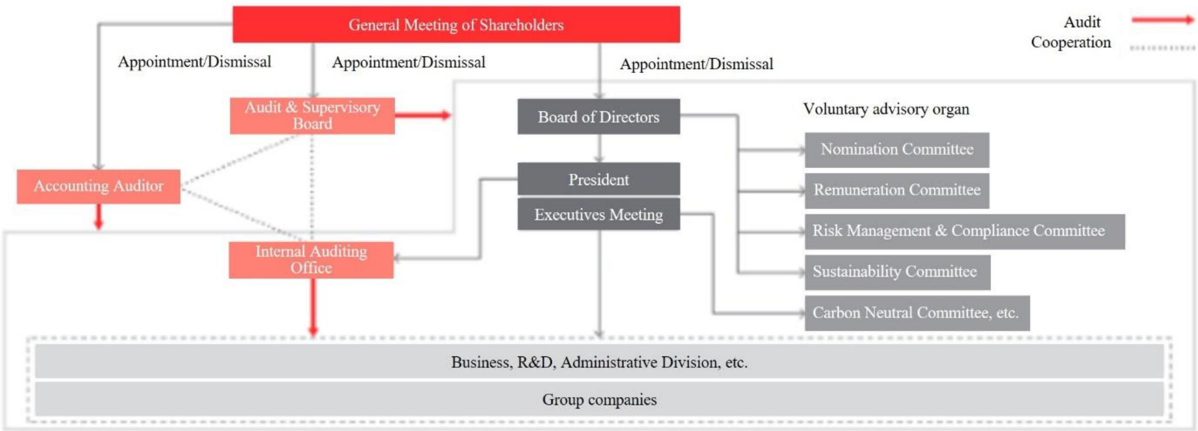
## 4 Corporate Governance, etc.

### (1) Overview of corporate governance

#### 1) Basic views on corporate governance

The Company recognizes that enhancing its corporate value over the medium to long term is the most important management objective and believes that responding to the expectations of all stakeholders, including customers and shareholders, and building favorable relationships with them, is essential in achieving this objective. To this end, the Company has adopted a basic corporate philosophy of "Ties of Reliability." Based on this philosophy and taking into account the views defined in its Guidelines and the Global Code of Conduct, the Company strives to develop an effective corporate governance structure.

The Company's corporate governance system and the members as of March 28, 2024 are as follows.




| Position | Name | Board of Directors | Executives Meeting | Remuneration Committee | Nomination Committee | Risk Management & Compliance Committee | Sustainability Committee |
|---|---|---|---|---|---|---|---|
| President & Chief Executive Officer | Hajime Nagasaka | ◎ | ◎ | ○ | ○ | | ◎ |
| Director | Masafumi Tsuji | ○ | ○ | | | | ○ |
| Director | Katsuyuki Yamaguchi | ○ | ○ | | | | ○ |
| Director | Shunji Yamamoto | ○ | ○ | | | ○ | ○ |
| Director | Tatsuhiko Yamazaki | ○ | ○ | | | | |
| Director | Takashi Masaki | ○ | ○ | | | | ○ |
| External Director | Nobumitsu Kambayashi | ○ | (Note) | ◎ | ◎ | | |
| External Director | Mayumi Asada | ○ | (Note) | ○ | ○ | | |
| External Director | Toshiro Miyazaki | ○ | (Note) | ○ | ○ | | |
| Audit & Supervisory Board Member | Yuji Serizawa | ○ | (Note) | | | (Note) | (Note) |
| Audit & Supervisory Board Member | Kanji Sugihara | ○ | (Note) | | | (Note) | (Note) |
| External Audit & Supervisory Board Member | Kaoru Ogashiwa | ○ | (Note) | | | | |
| External Audit & Supervisory Board Member | Yoshinori Matsushima | ○ | (Note) | | | | |
| Executive Officers, etc. | - | | 5 persons | | | 2 persons | 4 persons |
| Directors and Advisors of Subsidiaries | - | | 5 persons | | | 4 persons | 2 persons |

◎: Head of organization (chairperson or head of committee) ○: Member of organization

(Note) Participates as associate member/observer

2) Corporate governance system

As a company with an Audit & Supervisory Board, the Company operates under the basic stance of reinforcing audits by Audit & Supervisory Board Members and the internal audit function and makes efforts to strengthen 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. In addition, from the perspective of clarifying the functions and responsibilities of corporate officers engaged in business execution, the Company has adopted the Executive Officer System and established the Executives Meeting in an effort to enhance and strengthen business execution functions of the organization.

a. Board of Directors

The Board of Directors is responsible for determining important management matters and supervising business execution and meets monthly as a general rule. It held 21 meetings in fiscal 2023. As of the date of submission of this report, there are nine Directors, three of whom are External Directors. As voluntary advisory committees for the Board of Directors, the Company has established the Nomination Committee and the Remuneration Committee, the majority of members of which are External Directors. The Company has also established the Risk Management & Compliance Committee and the Sustainability Committee as voluntary advisory committees for the Board of Directors.

1) Knowledge and experience expected of Directors and Audit & Supervisory Board Members

Skill matrix for Directors and Audit & Supervisory Board Members in fiscal 2023

| | | Knowledge and experience expected of Directors and Audit & Supervisory Board Members | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | | Sex | Term of office (years) | Corporate management | Finance and accounting | Legal affairs and risk management | Global | Manufacturing, technology, and ICT | Sales and Marketing | Human resources and human resource development | ESG and Sustainability |
| Directors | Hajime Nagasaka | Male | 18 | ● | | | ● | | ● | ● | ● |
| | Masafumi Tsuji | Male | 7 | ● | | ● | ● | | | ● | ● |
| | Katsuyuki Yamaguchi | Male | 5 | | | | | ● | ● | | ● |
| | Shunji Yamamoto | Male | 5 | ● | | | ● | ● | | | |
| | Tatsuhiko Yamazaki | Male | 1 | ● | | | ● | ● | ● | | |
| | Takashi Masaki | Male | - | ● | | | ● | | ● | | |
| | Nobumitsu Kambayashi | Male | 8 | ● | | ● | ● | | ● | ● | |
| | Mayumi Asada | Female | 3 | | | ● | | | | ● | ● |
| | Toshiro Miyazaki | Male | 2 | ● | ● | ● | | | | ● | ● |
| Audit & Supervisory Board Members | Yuji Serizawa | Male | 1 | | | ● | ● | | | | |
| | Kanji Sugihara | Male | - | | | ● | | ● | | | |
| | Kaoru Ogashiwa | Male | 4 | | ● | ● | | | | | |
| | Yoshinori Matsushima | Male | 1 | | ● | ● | | | | | |

2) Fiscal 2023 Board of Directors agenda

2023 Board of Directors' Agenda

| Theme Classification | Agenda Topics |
|---|---|
| Governance, risk management, and subsidiary management | Analysis and evaluation of the effectiveness of Board of Directors |
| | Funding, investment and market risk management performance report |
| | Internal control system basic policies and status of initiatives, internal audit plan and report |
| | Risk Management & Compliance Committee report |
| | Large-scale investment to subsidiaries, PMI progress report |
| Personnel and organization | Director and executive personnel affairs |
| | Reorganization and revision of regulations |
| Settlement of accounts and finance | Monthly closing and financial results |
| | Securities report |
| Management strategy and sustainability | Medium-term management plan formulation and progress report |
| | Sustainability Committee, Carbon Neutral Committee report |

3) Fiscal 2023 Board of Directors attendance

| Position | Name | Attendance |
|---|---|---|
| Directors | Hajime Nagasaka | 100% (21 / 21 times) |
| | Masafumi Tsuji | 100% (21 / 21 times) |
| | Katsuyuki Yamaguchi | 100% (21 / 21 times) |
| | Shunji Yamamoto | 100% (21 / 21 times) |
| | Tatsuhiko Yamazaki | 100% (16 / 16 times) |
| | Nobumitsu Kambayashi (External / Independent) | 100% (21 / 21 times) |
| | Mayumi Asada (External / Independent) | 100% (21 / 21 times) |
| | Toshiro Miyazaki (External / Independent) | 100% (21 / 21 times) |
| Audit & Supervisory Board Members | Yuji Serizawa | 100% (16 / 16 times) |
| | Kazuyuki Kakehashi | 100% (21 / 21 times) |
| | Kaoru Ogashiwa (External / Independent) | 100% (21 / 21 times) |
| | Yoshinori Matsushima (External / Independent) | 100% (16 / 16 times) |

4) Strengthening the effectiveness of the Board of Directors

In 2016, the Company established the Nomination Committee, Remuneration Committee, Executives Meeting, Risk Management & Compliance Committee, etc. to fundamentally strengthen its governance system centered on the Board of Directors. As a result, the annual evaluation of the effectiveness of the Board of Directors confirmed that significant improvements had been made in various areas. One characteristic is that all External Directors are deepening their understanding of important matters by actively attending important meetings other than the Board of Directors meetings, and the effectiveness evaluation points out that the neutral and objective opinions from these External Directors greatly contribute to the improvement of the Board of Directors' supervisory functions.

The current governance system has generally taken root and the initial results have been appropriately maintained. In addition, the Company has been working to continuously strengthen the system, including the establishment of the Sustainability Committee in 2022. In 2023, it was evaluated that the Company has made some progress in connecting sustainability with management, such as linking executive compensation with sustainability performance.

b. Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board meets monthly as a general rule. As of the date of submission of this report, there are four Audit & Supervisory Board Members, two of whom are External Audit & Supervisory Board Members. Based on the auditing policy and the audit plan resolved by the Audit & Supervisory Board, Audit & Supervisory Board Members audit the status of execution of duties by Directors through attending Board of Directors' meetings and other important meetings and investigating the status of business operations and assets. In fiscal 2023, 18 meetings were held in total. The attendance of each Audit & Supervisory Board Member in the Audit & Supervisory Board meetings is as follows. The status of the Audit & Supervisory Board activities is described in (3) Status of audits.

Fiscal 2023 Audit & Supervisory Board attendance

| Position | Name | Attendance |
|---|---|---|
| Audit & Supervisory Board Members | ◎ Yuji Serizawa | 100% (13 / 13 times) |
| | Kazuyuki Kakehashi | 100% (18 / 18 times) |
| | Kaoru Ogashiwa (External / Independent) | 100% (18 / 18 times) |
| | Yoshinori Matsushima (External / Independent) | 100% (13 / 13 times) |

◎: Chairperson

c. Voluntary advisory committees

The status of attendance at the voluntary advisory committee meetings in fiscal 2023 is as follows.

| Position | Name | Nomination Committee | Remuneration Committee | Risk Management & Compliance Committee | Sustainability Committee |
|---|---|---|---|---|---|
| Directors | Hajime Nagasaka | 5 / 5 times | 5 / 5 times | 1 / 1 time | 4 / 4 times |
| | Masafumi Tsuji | | | 5 / 5 times | 4 / 4 times |
| | Katsuyuki Yamaguchi | | | 1 / 1 time | 4 / 4 times |
| | Shunji Yamamoto | | | 4 / 4 times | 2 / 2 times |
| | Tatsuhiko Yamazaki | | | | |
| | Nobumitsu Kambayashi (External / Independent) | 5 / 5 times | 5 / 5 times | | |
| | Mayumi Asada (External / Independent) | 5 / 5 times | 5 / 5 times | | |
| | Toshiro Miyazaki (External / Independent) | 5 / 5 times | 5 / 5 times | | |
| Audit & Supervisory Board Members | Yuji Serizawa | | | 4 / 4 times | 4 / 4 times |
| | Kazuyuki Kakehashi | | | 5 / 5 times | 4 / 4 times |
| | Kaoru Ogashiwa (External / Independent) | | | | |
| | Yoshinori Matsushima (External / Independent) | | | | |

1) Nomination Committee

(i) Roles of the Committee

The following matters are discussed and submitted to the Board of Directors.

- Details of the proposals to be submitted to the General Meeting of Shareholders regarding the appointment of Director candidates and dismissal of Directors
- Selection and removal of the Representative Director and the President
- Appointment and dismissal of Executive Officers
- Selection and removal of Executive Officers with titles
- Other matters deemed necessary regarding human resources of Directors and Executive Officers

(ii) Activities in fiscal 2023

Main agenda items

- Selection of candidates for Director and Executive Officer
- Establishment of the Nomination Committee Regulations and amendments to the Articles of Incorporation
- Revision of the skill matrix for Directors and Audit & Supervisory Board Members

2) Remuneration Committee

(i) Roles of the Committee

The following matters are discussed and submitted to the Board of Directors.

- Establishment, change, and abolition of basic policies, rules, systems, etc. related to remuneration, etc. of Directors and Executive Officers
- Details of the proposal to be submitted to the General Meeting of Shareholders regarding the remuneration limit of Directors
- Other matters deemed necessary for remuneration, etc. of Directors and Executive Officers
- Based on the delegation of the Board of Directors, the following matters will be discussed and decided.
- Details of individual evaluations and remuneration amounts for Directors and Executive Officers

(ii) Activities in fiscal 2023

Main agenda items

- Determination of bonuses for Directors and Executive Officers
- Determination of basic remuneration for Directors and Executive Officers
- Determination of the amount of monetary remuneration claims pertaining to shares with a transfer restriction
- Consideration of a proposal for a new remuneration system for Officers and amendments to the Internal Rules on Remuneration for Officers, etc.
- Establishment of the Remuneration Committee Regulations

3) Risk Management & Compliance Committee

(i) Roles of the Committee

The Committee discusses important matters related to risk and compliance, and based on the results, provides advice to relevant departments and offices, etc., as well as reports and makes proposals to the Board of Directors.

(ii) Activities in fiscal 2023

Agenda

- Build a global compliance system
- Review of approval authority related to capital investment
- Strengthen risk management system based on risk assessment
- Major risks of the Company and measures to reduce risks
- Report on the progress of consideration of alternative raw material procurement measures from China and Taiwan
- Regular reports on Risk Management & Compliance Committee management KPI

4) Sustainability Committee

(i) Roles of the Committee

The Committee discusses important matters related to sustainability, and based on the results, provides advice to related departments and offices, etc., as well as reports and makes proposals to the Board of Directors.

(ii) Activities in fiscal 2023

Agenda

- Setting materiality and sustainability targets and progress management
- Linking officers’ compensation with sustainability performance
- Response based on the results of the engagement survey

d. Executives Meeting

The Executives Meeting is established under the Board of Directors to discuss and determine important matters concerning management based on the basic policies determined by the Board of Directors. Under the Executives Meeting are various committees that complement the discussions at the Executive Meetings by submitting the results of deliberation to the Executives Meeting.

3) Status of company functions and internal control systems

Status of internal control systems

To ensure that the Group as a whole executes business operations properly in accordance with relevant laws, regulations, and the articles of incorporation, the Company resolved at a Board of Directors' meeting in May 2006 to set forth the "Basic policy for establishing an internal control system." As of the date of submission for this report, the basic policy is as described below, and the Company is continually working to improve its internal control systems in accordance with the basic policy.

Basic policy for establishing an internal control system

1. System to ensure that the execution of duties by Directors, Executive Officers and employees complies with laws and regulations and the Articles of Incorporation
    1) The Group will thoroughly execute its duties on the premise of compliance with laws and regulations, the Articles of Incorporation, and internal rules by establishing the "Corporate Philosophy," "Guidelines," and "Global Code of Conduct," appropriately operating the internal reporting system, and providing education to ensure compliance.
    2) The Board of Directors shall make decisions on important matters related to business execution and supervise the execution of duties by Directors in accordance with laws and regulations, the Articles of Incorporation, the "Board of Directors Regulations," and other internal regulations.
    3) Audit & Supervisory Board Members shall audit the execution of duties by Directors in accordance with laws and regulations, the Articles of Incorporation, "Audit & Supervisory Board Regulations" and other internal regulations.
    4) In accordance with the "Internal Auditing Regulations," the Internal Auditing Office shall conduct internal audits of the Group operations and endeavor to improve and strengthen internal control.
    5) The Company establishes the "Basic Policy for Building an Internal Control System Concerning Financial Reporting," "Internal Control Regulations for Financial Reporting," etc., and develops a system to ensure the appropriateness of the Group's financial reporting.

2. System for the storage and management of information related to the execution of duties by Directors
    1) In accordance with the internal regulations on information management, appropriately store and manage information related to the execution of duties by Directors and develop a system that enables Directors and Audit & Supervisory Board Members to efficiently browse and search.
    2) In accordance with the "Basic Policy on Information Disclosure," information to be disclosed shall be disclosed promptly, in a timely and appropriate manner.

3. Rules concerning management of risk of loss and other systems
    1) In order to avoid or reduce the risk of various losses in business operations and potential business risks, and to deal with unexpected situations such as serious disasters and accidents, the Company will establish internal regulations on methods, systems, etc., and respond appropriately.
    2) The Company will establish the Risk Management & Compliance Committee, which discusses important matters related to risk and compliance, and based on the results, provides advice to relevant offices and departments, etc., as well as reports and makes proposals to the Board of Directors.
    3) Based on the "Rules Concerning Management of Subsidiaries," the Company receives reports from subsidiaries on matters that may cause significant losses to the Group and strives to identify and manage the Group's risks.

4. System to ensure effective execution of duties by Directors
    1) The Company adopts the Executive Officers System to strengthen the decision-making and supervisory functions of the Board of Directors and to promote the efficiency of business execution. Under the decision of the Board of Directors, Executive Officers execute the specific duties based on the delegation of the Representative Director.
    2) The Company shall formulate a medium-term management plan, which is company-wide targets of the Group, and budgets for each fiscal year, and plan and implement specific measures to achieve the targets.
    3) The Company shall prepare a consolidated financial report and report its performance, analysis, etc. to the Board of Directors.
    4) The Company deliberates important matters at important meetings such as Executives Meeting, which consists of Directors and Executive Officers of the Company.
    5) The Company shall establish a voluntary Nomination Committee and Remuneration Committee and secure objectivity regarding the evaluation, appointment and remuneration of Directors and Executive Officers.

5. System to ensure appropriateness of operations of the Group
    1) The Company ensures the appropriateness of its subsidiaries' operations by periodically setting plans for the subsidiaries, reporting their financial status, making preliminary reports and discussing important matters in accordance with the "Rules Concerning Management of Subsidiaries," in order to ensure that they contribute to the implementation of business objectives and the improvement of management efficiency as a corporate entity.
    2) The Company establishes a system for promoting awareness of risk management and compliance while promoting

reinforcement of group governance by dispatching officers and employees of the Company to its subsidiaries as directors and audit & supervisory board members.

6. Matters concerning employees assisting Audit & Supervisory Board Members with their duties and matters regarding independence of such employees from Directors
   1) In the event that Audit & Supervisory Board Members request the assignment of employees to assist with their duties, the Company allocates Audit & Supervisory Board staff member(s) to assist Audit & Supervisory Board Members' operations as necessary and grants authority for investigations based on Audit & Supervisory Board Members' instructions.
   2) Concurrence of full-time Audit & Supervisory Board Members is obtained in regard to the appointment, dismissal and evaluation of Audit & Supervisory Board staff member(s).

7. System for reporting to Audit & Supervisory Board Members and other systems to ensure that audits by Audit & Supervisory Board Members are performed effectively
   1) In accordance with the internal rules, officers and employees shall promptly report to the Company and Audit & Supervisory Board Members any violation of laws and regulations or the Articles of Incorporation, as well as any matter that may cause significant damage to the Company (including matters reported by subsidiaries in accordance with the Rules Concerning Management of Subsidiaries). Officers and employees shall not receive unjust treatment for the reason of having made reports.
   2) Audit & Supervisory Board Members shall attend important meetings including Board of Directors' meetings and Executives Meetings and hear from Directors, Executive Officers, and employees on the status of execution of their duties as needed.
   3) Audit & Supervisory Board Members, the accounting audit firm, and the Internal Auditing Office promote mutual understanding and information exchange among one another.
   7) Expenses needed for the execution of duties by Audit & Supervisory Board Members are paid in response to claims made by Audit & Supervisory Board Members.

4) Outline of limited liability agreement

The Company and its non-executive Directors (External Directors) and Audit & Supervisory Board Members enter into an agreement to limit the liability of damages stipulated in Article 423, Paragraph 1 of the Companies Act pursuant to Article 427, Paragraph 1 of the said Act. The amount of liability for damages under this agreement is the amount stipulated in laws and regulations for both non-executive Directors and Audit & Supervisory Board Members. This limit is applicable only when the performance of duties of a non-executive Director or an External Audit & Supervisory Board Member is recognized to have been carried out in good faith and with no gross negligence.

5) Outline of indemnity agreement and Director and Officer liability insurance

The Company maintains an insurance policy for officers and directors ("D&O insurance policy") that covers Directors, including External Directors; Audit & Supervisory Board Members, including External Audit & Supervisory Board Members; Executive Officers; and retired Officers, to indemnify them within the scope of coverage for losses arising from claims made against the insured during the term of the D&O insurance policy as a result of the execution of duties. The insurance premiums are paid in full by the Company, with 1,000 million yen as the maximum total amount payable under the D&O insurance policy.

6) Provisions of articles of incorporation allowing exemption of responsibility of Directors and Audit & Supervisory Board Members based on resolution of Board of Directors

The Company stipulates in its articles of incorporation provisions to allow exemption of responsibilities of Directors and Audit & Supervisory Board Members based on a resolution reached by the Board of Directors in accordance with relevant laws and regulations so that Directors and Audit & Supervisory Board Members can fully demonstrate their expected roles in carrying out their duties.

7) Number of Directors

The Company's articles of incorporation stipulate that it shall have no more than 13 Directors.

8) Appointment of Directors

The articles of incorporation stipulate that Directors shall be appointed only by a resolution of a meeting of shareholders holding at least one third of the voting rights and being eligible to vote, where the motion to appoint a Director is passed by a majority of the voting rights. Moreover, the articles of incorporation further stipulate that a resolution to appoint a Director may not be decided by cumulative voting.

9) Acquisition of treasury stock

The articles of incorporation stipulate that treasury stock may be acquired by a resolution of the Board of Directors as stipulated in Article 165, Paragraph 2 of the Companies Act. The objective of this is to enable the company to acquire its own stock via market transactions in order to promote a flexible capital policy to cope with changes in the business environment.

10) Interim dividends

The articles of incorporation stipulate that the Company may pay out dividends of surplus (interim dividends) in accordance with Article 454, Paragraph 5 of the Companies Act upon a resolution of the Board of Directors. The objective of this is to provide a flexible return of profits to shareholders.

11) Requests for extraordinary resolutions during the General Meeting of Shareholders

The articles of incorporation stipulate that requests for extraordinary resolutions during the General Meeting of Shareholders as stipulated in Article 309, Paragraph 2 of the Companies Act may be passed only by a resolution of a meeting of shareholders holding at least one third of the voting rights and being eligible to vote, where the resolution is passed by a two-third majority. The objective of this is to facilitate the smooth running of the General Meeting of Shareholders by relaxing the quorum requirements for extraordinary resolutions during the General Meeting of Shareholders.

(2) Executive officers

1) List of Executive officers

The Company's executive officers include 12 males and one (1) female (percentage of female executive officers: 7.69%)

| Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|---|
| President & Chief Executive Officer | Hajime Nagasaka | January 9, 1950 | April 1972 | Joined Tokai Electrode Mfg. Co., Ltd. (currently the Company) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 169,338 |
| | | | March 2006 | Director/Executive Officer, the Company<br>Deputy General Manager, Carbon Black Division<br>General Manager, Marketing & Sales Department, Carbon Black Division | | |
| | | | March 2008 | Director/Managing Executive Officer, the Company<br>Deputy General Manager, Carbon Black Division | | |
| | | | March 2011 | Director/Senior Managing Executive Officer, the Company<br>General Manager, Carbon Black Division | | |
| | | | March 2013 | Representative Director/Senior Managing Executive Officer, the Company<br>Carbon Black Division, Graphite Electrode Division | | |
| | | | March 2014 | Representative Director/Executive Vice President, the Company<br>Carbon Black Division, Graphite | | |

| Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|---|
| | | | <br><br>February 2015 | Electrode Division and Raw Material Procurement Department<br>Representative Director/President & Chief Executive Officer, the Company (incumbent) | | |
| Director | Masafumi Tsuji | January 10, 1963 | April 1986<br>March 2015<br><br>January 2016<br><br><br>March 2017<br><br>January 2020<br><br><br><br><br><br><br>September 2022<br><br><br><br><br><br><br><br><br>March 2023<br><br><br><br>September 2023<br><br><br><br><br>March 2024 | Joined the Company<br>Executive Officer, the Company<br>General Manager, Carbon Black Division<br>Executive Officer, the Company<br>General Manager, Graphite Electrode Division<br>Director/Executive Officer, the Company<br>General Manager, Fine Carbon Division<br>Director/Executive Officer, the Company<br>Deputy Chairman, Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department<br>General Manager, Corporate Planning Department<br>Director/Executive Officer, the Company<br>Chairman, Corporate Planning Department, Subsidies and Associates Project Management Department, Strategic Investment Department, Sales Research & Planning Department and Business Incubation Department<br>General Manager, Corporate Planning Department<br>Director/Executive Officer, the Company<br>Chairman, Human Resources Department, General Affairs Department, and Legal Affairs Department<br>Director/Managing Executive Officer, the Company<br>Chairman, Human Resources Department<br>General Manager, Graphite Electrode Division<br>Director/Managing Executive Officer, the Company<br>General Manager, Graphite Electrode Division (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 64,312 |

| Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|---|
| Director<br>General Manager, R&D Strategy Division | Katsuyuki Yamaguchi | March 29, 1964 | April 1988<br>March 2018<br><br><br>March 2019<br><br><br>March 2021<br><br><br><br><br>March 2024 | Joined the Company<br>Executive Officer, the Company<br>General Manager, Technology & Engineering Division<br>Director/Executive Officer, the Company<br>General Manager, Technology & Engineering Division<br>Director/Executive Officer, the Company<br>General Manager, R&D Strategy Division<br>General Manager, Intellectual Property Department<br>Director/Executive Officer, the Company<br>General Manager, R&D Strategy Division (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 36,892 |
| Director<br>General Manager, Technology & Engineering Division | Syunji Yamamoto | March 8, 1962 | April 1985<br>June 2015<br><br><br>March 2018<br><br><br>March 2019<br><br>March 2023 | Joined the Company<br>General Manager, Production & Technology Department, Carbon Black Division, the Company<br>Executive Officer, the Company<br>Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD.<br>Director/Executive Officer, the Company<br>Director, TCCB Genpar LLC<br>Director/Executive Officer, the Company<br>General Manager, Technology & Engineering Division (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 30,083 |
| Director | Tatsuhiko Yamazaki | November 22, 1964 | April 1985<br>March 2016<br><br><br>March 2017<br><br>January 2020<br><br>March 2023 | Joined the Company<br>General Manager, Production & Technology Department, Carbon Black Division, the Company<br>General Manager, Marketing & Sales Department, Carbon Black Division<br>Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD.<br>Director/Executive Officer, the Company<br>Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD. (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 22,338 |

| Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|---|
| Director | Takashi Masaki | April 6, 1961 | April 1985<br>March 2014<br><br>March 2016<br><br>March 2017<br><br>March 2018<br><br><br>January 2020<br><br><br><br><br><br>July 2020<br><br><br><br><br>March 2024 | Joined the Company<br>General Manager, Nagoya Branch of the Company<br>General Manager, Raw Material Procurement Department<br>General Manager, Carbon Black Division, the Company<br>Executive Officer, the Company<br>General Manager, Carbon Black Division<br>Executive Officer, the Company<br>Deputy Chairman, Human Resources Department, General Affairs Department and Legal Affairs Department<br>General Manager, Human Resources Department<br>Executive Officer, the Company<br>General Manager, Smelting and Lining Division<br>[Currently General Manager, Smelting and Lining Division]<br>Director/Executive Officer, the Company<br>General Manager, Smelting and Lining Division (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 37,100 |
| Director | Nobumitsu Kambayashi | May 28, 1948 | April 1971<br>October 2002<br><br>April 2008<br><br><br><br>April 2010<br><br><br><br>October 2010<br><br><br><br><br>June 2013<br><br>March 2016<br>June 2017<br><br>June 2023 | Joined Kawasaki Heavy Industries, Ltd.<br>Director, Kawasaki Shipbuilding Corporation<br>Managing Executive Officer, Kawasaki Heavy Industries, Ltd.<br>Director/Senior Vice President, Kawasaki Shipbuilding Corporation<br>President & Representative Director, Kawasaki Shipbuilding Corporation<br>Senior Vice President (part-time), Kawasaki Heavy Industries, Ltd.<br>Senior Vice President (Representative Director), Kawasaki Heavy Industries, Ltd.<br>President, Ship & Offshore Structure Company<br>Adviser, Kawasaki Heavy Industries, Ltd.<br>Director, the Company (incumbent)<br>External Director, Inui Global Logistics Co., Ltd. (incumbent)<br>Special Adviser, Japan Ship Technology Research Association (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 26,200 |
| Director | Mayumi Asada | February 5, 1968 | October 2002<br><br>January 2014<br><br>March 2014<br><br><br>April 2020<br><br><br>March 2021 | Registered as an attorney-at-law and joined Hiranuma Takaaki Law Office<br>Representative, Marunouchi Building Aoi Law Office (incumbent)<br>Acquired Doctor's degree in Medicine at the Juntendo University Graduate School of Medicine<br>Business Director, Incorporated Educational Institution Nikaido Gakuen (incumbent)<br>Director, the Company (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 10,200 |

| Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|---|
| Director | Toshiro Miyazaki | August 21, 1949 | April 1972<br><br><br>June 2007<br><br><br>March 2008<br>March 2011<br><br>March 2019<br>March 2020<br>March 2022 | Joined Mitsui Engineering & Shipbuilding Co., Ltd. (currently MITSUI E&S Co., Ltd.)<br>Director, the same company<br>In charge of Accounting & Finance Department, IR and PR<br>Director, MODEC, Inc.<br>President & Chief Executive Officer, MODEC, Inc.<br>Chairman, MODEC, Inc.<br>Special Adviser, MODEC, Inc.<br>Director, the Company (incumbent) | One (1) year from Annual General Meeting of Shareholders held on March 28, 2024 | 4,000 |

| Position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|---|
| Audit & Supervisory Board Member (full-time) | Yuji Serizawa | December 27, 1959 | April 1984<br>March 2009<br><br>March 2012<br><br>March 2013<br><br><br>March 2014<br><br><br>March 2015<br><br><br><br>January 2016<br><br><br>March 2017<br><br><br><br><br>March 2023 | Joined the Company<br>Executive Officer, the Company<br>General Manager, Fine Carbon Division<br>Director/Executive Officer, the Company<br>General Manager, Fine Carbon Division<br>Director/Executive Officer, the Company<br>General Manager, Tanoura Laboratory<br>General Manager, Tanoura Plant<br>Executive Officer, the Company<br>General Manager, Graphite Electrode Division<br>Director/Executive Officer, the Company<br>General Manager, Graphite Electrode Division [Responsible for Raw Material Procurement Department]<br>Director/Executive Officer, the Company<br>General Manager, Corporate Strategy Division<br>Director/Executive Officer, the Company<br>Chairman, Human Resources Department, General Affairs Department, and Legal Affairs Department<br>Audit & Supervisory Board Member (full time), the Company (incumbent) | 4 years from Annual General Meeting of Shareholders held on March 30, 2023 | 66,562 |
| Audit & Supervisory Board Member (full-time) | Kanji Sugihara | November 23, 1958 | April 1984<br>March 2013<br><br><br>March 2014<br><br>March 2015<br><br><br>January 2016<br><br><br>March 2018<br><br>March 2024 | Joined the Company<br>Executive Officer, the Company<br>Assistant Officer and General Manager, Fine Carbon Division<br>Director/Executive Officer, the Company<br>General Manager, Fine Carbon Division<br>Director/Managing Executive Officer, the Company<br>General Manager, Fine Carbon Division<br>Director, the Company<br>Executive Vice President, Tokai Konetsu Kogyo Co., Ltd.<br>Executive Vice President, Tokai Konetsu Kogyo Co., Ltd.<br>Audit & Supervisory Board Member (full time), the Company (incumbent) | 4 years from Annual General Meeting of Shareholders held on March 28, 2024 | 37,100 |
| Audit & Supervisory Board Member | Kaoru Ogashiwa | January 7, 1967 | October 1990<br><br><br><br>December 1992<br><br><br>June 2005<br><br>June 2017<br><br><br>May 2019 | Joined Shin Nihon Shoken Chosa Center Keiei Kenkyusho (currently Japan Investor Relations and Investor Support, Inc.)<br>Registered as Certified Tax Accountant<br>Representative, Kaoru Ogashiwa Tax Accountant Office (incumbent)<br>Audit & Supervisory Board Member, Senkon Logistics Co., Ltd.<br>External Director and Audit & Supervisory Committee Member, Senkon Logistics Co., Ltd. (incumbent)<br>Audit & Supervisory Board Member, the Company (incumbent) | 4 years from Annual General Meeting of Shareholders held on March 30, 2022 | 700 |
| Audit & Supervisory Board Member | Yoshinori Matsushima | February 7, 1968 | November 1997<br>May 2001<br><br><br><br>May 2006<br>March 2023 | Joined Tohmatsu & Co.<br>Registered as a Certified Public Accountant<br>Representative, Matsushima Certified Public Accountant Office (incumbent)<br>Registered as Certified Tax Accountant<br>Audit & Supervisory Board Member, the Company (incumbent) | 4 years from Annual General Meeting of Shareholders held on March 30, 2023 | 100 |

| Position | Name | Date of birth | Career summary | Term of office | Number of shares held (Shares) |
|---|---|---|---|---|---|
| Total | | | | | 504,925 |

(Notes) 1. Mr. Nobumitsu Kambayashi, Ms. Mayumi Asada and Mr. Toshiro Miyazaki are External Directors.

2. Audit & Supervisory Board Members Mr. Kaoru Ogashiwa and Mr. Yoshinori Matsushima are External Audit & Supervisory Board Members.

3. The Company has designated Mr. Nobumitsu Kambayashi, Ms. Mayumi Asada and Mr. Toshiro Miyazaki, who are Directors, and Mr. Kaoru Ogashiwa and Mr. Yoshinori Matsushima, both Audit & Supervisory Board Members, as independent directors provided for in the provisions of the Tokyo Stock Exchange and has registered them accordingly with the said exchange.

4. The Company has selected one Substitute Auditor as stipulated in the Companies Act to prepare for a situation in which there is a shortfall in the number of Audit & Supervisory Board Members required by laws and regulations. The career summary for the Substitute Auditor is as follows.

| Name | Date of birth | Career summary | | Number of shares held (Shares) |
|---|---|---|---|---|
| Toshiya Onuma | January 23, 1971 | October 1997 | Joined Chuo Audit Corporation | - |
| | | April 2003 | Registered as a Certified Public Accountant | |
| | | June 2004 | Representative, Onuma Certified Public Accountant Office (incumbent) | |
| | | November 2010 | Registered as Certified Tax Accountant | |

5. The company has adopted an executive officer system. The 17 executive officers included in this system are listed below.

| Rank | Name | Responsibilities |
|---|---|---|
| * President & Chief Executive Officer | Hajime Nagasaka | |
| * Managing Executive Officer | Masafumi Tsuji | General Manager, Graphite Electrode Division |
| * Executive Officer | Katsuyuki Yamaguchi | General Manager, R&D Strategy Division |
| * Executive Officer | Syunji Yamamoto | General Manager, Technology & Engineering Division |
| * Executive Officer | Tatsuhiko Yamazaki | (Managing Director, THAI TOKAI CARBON PRODUCT COMPANY LIMITED) |
| * Executive Officer | Takashi Masaki | General Manager, Smelting and Lining Division |
| Executive Officer | Kazuhito Kataoka | Responsible for Business Incubation Department, General Manager, Business Incubation Department |
| Executive Officer | Kouji Miura | General Manager, Chita Laboratory |
| Executive Officer | Kenji Enokidani | (President & Chief Executive Officer, Tokai Carbon US Holdings Inc.) |
| Executive Officer | Takeshi Nakashima | General Manager, Friction Materials Division |
| Executive Officer | Akira Yamada | Responsible for General Affairs and Legal Affairs Department<br>General Manager, General Affairs and Legal Affairs Department |
| Executive Officer | Akihiko Sato | Responsible for Corporate Planning Department<br>General Manager of Corporate Planning Department |
| Executive Officer | Kazuyoshi Haino | General Manager, Hofu Laboratory |
| Executive Officer | Keiichiro Machihara | Deputy General Manager, Technology & Engineering Division<br>General Manager, Engineering Department<br>Engineering Advisor, CB Business Rebuilding Project |
| Executive Officer | Tsunayuki Sato | Responsible for Strategic Planning Department<br>General Manager, Strategic Planning Department |
| Executive Officer | Hideo Shin | General Manager, Fine Carbon Division |
| Executive Officer | Norikazu Kawabe | General Manager, Carbon Black Division |

*Concurrently serving directors

2) Relationship with External Directors and External Audit & Supervisory Board Members

The Company appoints three External Directors and two External Audit & Supervisory Board Members.

In selecting External Directors and External Audit & Supervisory Board Members, the Company selects candidates who bear no risk of causing conflicts of interest with general shareholders, based on the independence standards prescribed in the Guidelines for Listing set forth by Tokyo Stock Exchange, Inc. and the Independence Standards for External Directors (Note) established by the Company.

External Director Nobumitsu Kambayashi is from Kawasaki Heavy Industries, Ltd., one of the Company's business partners, however, Kawasaki Heavy Industries, Ltd. accounts for only a very small percentage of the Company's overall business transactions, and Mr. Nobumitsu Kambayashi satisfies the independence standards prescribed in the Guidelines for Listing as well as the Company's Independence Standards for External Directors and bears no risk of causing conflicts of interest with general shareholders.

External Director Mayumi Asada satisfies the independence standards prescribed in the Guidelines for Listing as well as the Company's Independence Standards for External Directors and bears no risk of causing conflicts of interest with general shareholders.

External Director Toshiro Miyazaki satisfies the independence standards prescribed in the Guidelines for Listing as well as the Company's Independence Standards for External Directors and bears no risk of causing conflicts of interest with general shareholders.

External Audit & Supervisory Board Member Kaoru Ogashiwa satisfies the independence standards prescribed in the Guidelines for Listing as well as the Company's Independence Standards for External Directors and bears no risk of causing conflicts of interest with general shareholders.

External Audit & Supervisory Board Member Yoshinori Matsushima satisfies the independence standards prescribed in the Guidelines for Listing as well as the Company's Independence Standards for External Directors and bears no risk of causing conflicts of interest with general shareholders.

At Board of Directors' meetings, External Directors and External Audit & Supervisory Board Members receive reports on the basic policy for the establishment of an internal control system as well as the status of relevant initiatives taken and their results. Moreover, External Audit & Supervisory Board Members collaborate with other Audit & Supervisory Board Members in meetings of the Audit & Supervisory Board to conduct audits from multiple perspectives through mutual coordination with internal audits and accounting audits and with the departments responsible for internal control, as noted in "Status of internal audits and audits by Audit & Supervisory Board Members."

(Note) "Independence Standards for External Directors"

With regard to the independence of External Directors and External Audit & Supervisory Board Members, in addition to the independence standards prescribed by the Tokyo Stock Exchange, the Company has established its own standards as follows, and makes a judgment after confirming that they fall under none of the following standards.

1 An executive person (Executive Director, Operating Officer, Executive Officer, Manager and other employee, including a person who was an executive person in the Group in the past) of the Group (the Company and its consolidated subsidiaries)

2 A current major shareholder of the Company (Shareholder with 10% or more of the total voting rights) or an executive person thereof

3 (1) A major business partner of the Group (entity whose transaction(s) with the Company in the most recent fiscal year exceeds 2% of the Company's consolidated net sales for the year) or an executive person thereof

(2) A business partner of the Company whose transaction(s) with the Company in the most recent fiscal year exceeds 2% of the partner's consolidated net sales for the year or an executive person thereof

4 A major lender to the Group (entity whose outstanding lending at the end of the most recent fiscal year exceeds 2% of the Company's consolidated total assets) or an executive person thereof

5 A professional service provider including a consultant, lawyer, or certified public accountant who has received money or other assets from the Company that is more than ¥10 million on average over the past three years other than the officer's remuneration. In addition, the Group is a principal business partner of the accounting firm, legal firm, or other organization to which the professional service provider belongs (whose transaction amount exceeds 2% of their annual revenue)

6 Representative partner or partner of the accounting auditor of the Company

7 An executive person of a corporation of which the Group holds 10% or more of the total voting rights

8 An entity which receives a large amount of donations or assistance (based on the criteria of ¥10 million or more annually) from the Group or an executive person thereof

9 An executive person of a corporation that has appointed an officer, etc. (Director, Accounting Advisor, Audit & Supervisory Board Member, Executive Officer or Accounting Auditor) or an employee of the Group as an officer, etc.

10 Close relatives of the persons listed in 1-9 (spouse or a relative within the second degree of kinship)

11 A person who has fallen under 2-9 in the past three years or a close relative of such person

Even in cases of falling under any of the above, if it is determined that the relevant person has substantial independence, the reason for such determination shall be explained and disclosed at the time of appointment as an External Director or Audit & Supervisory Board Member.

(3) Status of audits

1) Status of audits by Audit & Supervisory Board Members

a. Organization and Personnel

Our company's Audit & Supervisory Board consists of two Audit & Supervisory Board Members (full-time) and two External Audit & Supervisory Board Members. Mr. Yuji Serizawa, who is an Audit & Supervisory Board Member (full-time), has been engaged in the management of the Company and the Group companies for many years, and has abundant experience and knowledge mainly in the core operating divisions and administrative divisions. Mr. Kazuyuki Kakehashi has been engaged in the engineering department of the Company for many years, has been involved in the management of the Group companies, and has abundant experience and knowledge. Mr. Kaoru Ogashiwa of External Audit & Supervisory Board Member has extensive experience as a certified tax accountant and has considerable knowledge of finance and accounting. Mr. Yoshinori Matsushima has extensive experience as a certified public accountant and tax accountant, and also has considerable knowledge of finance and accounting.

b. Activities of the Audit & Supervisory Board

In principle, Audit & Supervisory Board meetings are held on a monthly basis. They are also held as needed. In fiscal 2023, a total of 18 meetings were held. The attendance of each Audit & Supervisory Board Member of Audit & Supervisory Board meetings and Board of Directors meetings is as follows.

| Position | Name | Attendance during the fiscal year | |
|---|---|---|---|
| | | Audit & Supervisory Board | Board of Directors |
| Audit & Supervisory Board Member (full-time) | Yuji Serizawa | 100% (13/13 times) | 100% (16/16 times) |
| Audit & Supervisory Board Member (full-time) | Kazuyuki Kakehashi | 100% (18/18 times) | 100% (21/21 times) |
| External Audit & Supervisory Board Member | Kaoru Ogashiwa | 100% (18/18 times) | 100% (21/21 times) |
| External Audit & Supervisory Board Member | Yoshinori Matsushima | 100% (13/13 times) | 100% (16/16 times) |

The Audit & Supervisory Board makes resolutions, consultations and reports on important matters related to audits in accordance with laws and regulations, the Articles of Incorporation, and the Audit & Supervisory Board's Regulations. The following resolutions, consultations and reports were made by the Audit & Supervisory Board in the fiscal year under review.

8 Resolutions: Auditing policies, auditing plans, assignment of duties, selection of Chairman of the Audit & Supervisory Board, Audit & Supervisory Board Members (full-time), and specified Audit & Supervisory Board Members, auditing reports by the Audit & Supervisory Board, reappointment of the Accounting Auditor, agreement on audit fees of the Accounting Auditor, etc.

31 Consultations: Accounting Auditor evaluation, agenda for regular meetings with President & Chief Executive Officer and External Directors, Audit & Supervisory Board Member remuneration, prior agreement on the Accounting Auditor's non-audit work, prior consultation on other resolution matters, etc.

30 Reports: Reports on implementation of visiting audits and inspections, reports on major auditing activities by the Audit & Supervisory Board Members (full-time) (reports on important internal meetings, dialogue with executive departments, etc.), whistle-blowing and responses thereto, etc.

c. Major Audit & Supervisory Board Member Activities

Audit & Supervisory Board Members carry out the following activities throughout the year in accordance with the division of duties discussed in the Audit & Supervisory Board.

1. Attendance at important meetings

   In addition to Audit & Supervisory Board meetings, Audit & Supervisory Board Members (full-time) attend important internal meetings such as Board of Directors meetings, Executives Meeting, the Risk Management & Compliance Committee, the Sustainability Committee, the Carbon Neutral Committee, the Strategic Conference on Development, and others, and provides necessary opinions. In addition to Audit & Supervisory Board meetings, External Audit & Supervisory Board Members attend Executives Meetings to hear the content of the deliberations and then attends the Board of Directors to state his or her opinions as necessary.

2. Dialogue with the President & Chief Executive Officer and other executive officers

   Audit & Supervisory Board Members hold regular quarterly meetings with the President & Chief Executive Officer to exchange opinions on management issues. In addition, Audit & Supervisory Board Members receive reports on the status of the execution of duties from Directors, Executive Officers, persons in charge of each department, etc. as necessary, and expresses their opinions.

3. On-site audits and inspections

   Audit & Supervisory Board Members carry out on-site audits and inspections at domestic business sites and Group companies in Japan and overseas that have been selected based on the risk approach, in an effort to ascertain the status of these sites. In this fiscal year, on-site audits and inspections were conducted at six domestic business sites, one domestic company, and six companies in five countries. The results of these audits and inspections are reported to the President & Chief Executive Officer and the directors in charge.

4. Cooperation with the Internal Auditing Department, Group companies' Audit & Supervisory Board Members, etc.

   Audit & Supervisory Board Members hold regular monthly meetings with the Internal Auditing Department to grasp the status of the Company in a timely and appropriate manner and to exchange information and opinions. Regular annual meetings are also held with Audit & Supervisory Board Members and other members of Group companies in and outside Japan to share information and exchange opinions with a view to strengthening Group governance.

5. Cooperation with the Accounting Auditor

   Audit & Supervisory Board Members hold regular meetings with the Accounting Auditor to discuss auditing plans, quarterly reviews, the selection of key audit matters (KAM), audit reports, internal control audit reports on financial reporting, etc., and to exchange opinions on important topics related to auditing as necessary. Audit & Supervisory Board Members also use the overseas network of the Accounting Auditor to exchange opinions with overseas audit firms when visiting overseas Group companies for audits.

6. Cooperation with External Directors

   Audit & Supervisory Board Members hold regular semi-annual meetings with External Directors to exchange opinions on management issues and strengthen cooperation between External Directors and Audit & Supervisory Board Members.

2) Status of internal audits

The Internal Auditing Office is in charge of internal audits of the Company.

Under a system that reports directly to the President & Chief Executive Officer, the Internal Auditing Office is independent from other business divisions, and aims to "protect the Company's assets, comply with laws and regulations, the other Code of Conduct, streamline and improve the efficiency of business, and execute business appropriately." Based on the annual plan approved by the Board of Directors, the Internal Auditing Office conducts operational audits and evaluations of the effectiveness of internal control related to the financial reporting under the Financial Instruments and Exchange Act.

The results of audits and evaluations by the Internal Auditing Office are dual-reported to the Board of Directors and the Audit & Supervisory Board Members in addition to the President and related departments from the perspective of ensuring the effectiveness of internal audits.

Furthermore, in order to improve the effectiveness and quality of internal audits, the Company is working to strengthen its internal audit system, including improving internal audit procedures and securing audit personnel.

3) Status of accounting audits

a. Name of accounting audit firm

   KPMG AZSA LLC

b. Continuous audit period

   Since 2021

c. Certified public accountants who executed audit work

   Designated Limited Liability Partner and Executive Members: Ryoichi Isashi and Takeshi Nakatani

d. Composition of the assistants assigned to audit work

   5 certified public accountants, 15 others

e. Accounting auditor selection policy and reasons

   When selecting accounting auditors, the Company's policy is to make balanced decisions taking into account factors such as quality control systems, the level of specialization and independence, the content of audit plans, implementation systems for effectively and efficiently carrying out accounting audits of the Group, audit fee estimates, and communication with Audit

& Supervisory Board Members and management. Based on this policy, the Company selected KPMG AZSA LLC as its accounting auditor, determining that KPMG AZSA LLC would provide suitable accounting audit services.

Accounting auditors for whom any of the items stipulated in Article 340, Paragraph 1 of the Companies Act are deemed applicable will be dismissed, subject to approval from all Audit & Supervisory Board Members. Also, where it is deemed that events have occurred that could hinder the suitable execution of accounting auditors' duties, or where the replacement of accounting auditors is deemed appropriate, the Audit & Supervisory Board decides on proposals to be submitted at the General Meeting of Shareholders for the dismissal or non-reappointment of accounting auditors.

f. Accounting auditor evaluation carried out by Audit & Supervisory Board and its members, and evaluation contents

In accordance with the Japan Audit & Supervisory Board Members Association's "Practical Guidelines for Audit & Supervisory Board Members Concerning Accounting Auditor Evaluations and Establishing Selection Criteria," the Audit & Supervisory Board and its members evaluated accounting auditors' capabilities for carrying out audits based on seven criteria: (1) the state of quality control at the accounting audit firm, (2) the independence, professional expertise, and composition of audit teams, (3) the appropriateness of audit fees as well as the effectiveness and efficiency of audit services, (4) communication with Audit & Supervisory Board Members, etc., (5) communication with management, etc., (6) communication with other auditors in group audits, and (7) action taken in response to risks of wrongdoing.

4) Contents of audit fees

a. Fees for certified public accountants

| Category | Previous fiscal year | | Current fiscal year | |
|---|---|---|---|---|
| | Fees based on audit attestation (Million yen) | Fees based on non-audit services (Million yen) | Fees based on audit attestation (Million yen) | Fees based on non-audit services (Million yen) |
| Submitting Company | 74 | 0 | 74 | 0 |
| Consolidated subsidiaries | 10 | - | 10 | - |
| Total | 85 | 0 | 85 | 0 |

(Previous fiscal year)

The compensation paid to KPMG AZSA LLC is stated. The non-audit services for which the Company pays compensation is applications for exemptions from surcharges for renewable energy promotion.

(Current fiscal year)

The compensation paid to KPMG AZSA LLC is stated. The non-audit services for which the Company pays compensation is applications for exemptions from surcharges for renewable energy promotion.

b. Compensation for the same network as auditing certified public accountants, etc. (excluding a.)

| Category | Previous fiscal year | | Current fiscal year | |
|---|---|---|---|---|
| | Fees based on audit attestation (Million yen) | Fees based on non-audit services (Million yen) | Fees based on audit attestation (Million yen) | Fees based on non-audit services (Million yen) |
| Submitting Company | - | 25 | - | 26 |
| Consolidated subsidiaries | 261 | 5 | 267 | 17 |
| Total | 261 | 30 | 267 | 44 |

(Previous fiscal year)

The non-audit services paid by the Company to the same network (KPMG) as the auditing certified public accountants include support services related to ESG promotion and such. Non-audit services paid by consolidated subsidiaries include tax-related services.

(Current fiscal year)

The non-audit services paid by the Company to the same network (KPMG) as the auditing certified public accountants include support services related to ESG promotion and such. Non-audit services paid by consolidated subsidiaries include tax-related services.

c. Fees based on other important audit and attestation services

Not applicable

d. Policy for determining audit fees

The Company has not set a policy for determining amounts to be paid as fees for auditing certified public accountants, etc. but gives consideration to factors such as audit periods when deciding on fee amounts.

e. Reasons why the Audit & Supervisory Board agreed to the accounting auditor’s fees, etc.

The Audit & Supervisory Board agreed to the accounting auditor’s fees, as it determined that accounting auditors’ fees, etc. were reasonable after verifying whether the contents of the auditor’s audit plans, the state of work execution by accounting auditors, and the calculation basis for its fee estimates were appropriate.

(4) Executive remuneration, etc.

1) Policy for determining the amounts of remuneration for Directors and Audit & Supervisory Board Members

The policy for determining the amount of remuneration for Directors and Executive Officers is a matter for resolution by the Board of Directors. Remuneration for Directors is set within the maximum limits approved at the General Meeting of Shareholders and with the aim of having Directors and Audit & Supervisory Board Members in charge of business execution be strongly committed to achieving high management targets and maximizing medium- to long-term corporate value by fulfilling the following requirements. The Company aims to pay remuneration commensurate with the operating performance of the Company and the performance and achievement of each individual.

・ Remuneration for encouraging commitment of Directors and Audit & Supervisory Board Members toward short- and medium- to long-term management targets
・ Remuneration guaranteeing the level of remuneration that can motivate incumbent and future candidates for Directors and Audit & Supervisory Board Members, and that is the same level as competitors
・ Remuneration that is transparent and reasonable enough to be accountable to Directors, Audit & Supervisory Board Members, shareholders and investors

The remuneration for Directors and Audit & Supervisory Board Members of the Company consists of "basic remuneration," which is the fixed portion, and "performance-linked remuneration," which varies depending on the level of achievement of performance targets and "stock remuneration." For Directors and Executive Officers who are responsible for business execution the percentage of "performance-linked remuneration" to "basic remuneration" is set higher as the level of officer rises. This is by taking into account responsibility of each Director and Audit & Supervisory Board Member and impact on the Company's performance.

In addition, in order to ensure the independency of the Company's decision-making process, the Board of Directors delegates the details of the Company's individual remuneration, etc. to the Remuneration Committee, the majority of which is made up of External Directors. The Remuneration Committee consists of four members: External Director (Chairman) Nobumitsu Kambayashi, External Director Mayumi Asada, External Director Toshiro Miyazaki, and Representative Director/President & Chief Executive Officer Hajime Nagasaka. In fiscal 2023, the Committee met five times to consider remuneration systems of Directors and Executive Officers, and to determine individual remuneration amounts based on business performance, responsibilities and the results of Directors and Executive Officers. Since the decision was made by the Renumeration Committee based on a variety of considerations including consistency with the decision-making policies, the Board of Directors has determined that these decisions have been made appropriately. Remuneration for Audit & Supervisory Board Members is set within the maximum limit approved at the General Meeting of Shareholders and is determined through discussions at Audit & Supervisory Board meetings.

(Basic remuneration)

・ The base amount will be determined by reflecting the assessment in accordance with the position.

(Performance-linked remuneration)

Performance-linked remuneration consists of short-term incentive remuneration and medium- to long-term incentive remuneration.

The base amount of short-term incentive remuneration is set according to the position, and the amount to be paid is determined within the range of 10% to 200% of the base amount according to the financial indicator and the degree of achievement of personal targets (including sustainability targets). The specific evaluation items and evaluation percentages are as follows. The financial target indicators are based on items emphasized in the Mid-Term Management Plan.

| Evaluation items | Rate of evaluation |
|---|---|
| Achievement of single-year financial targets<br>(net sales, ROS, ROIC, free cash flow) | 80% |
| Achievement of individual goals<br>(including achievement of sustainability targets) | 20% |

The standard amount of medium- to long-term incentive remuneration is set according to the position, and the amount to be paid is determined within a range of 10% to 200% of the standard amount according to the financial target indicators, the degree of improvement in the score and rating of and ESG-related evaluation organizations and the level of achievement of personal targets. The specific evaluation items and evaluation percentages are as follows. The financial target indicators are based on items emphasized in its Mid-Term Management Plan.

| Evaluation items | Rate of evaluation |
|---|---|
| Achievement of financial target for the Mid-Term Management Plan target period (3 years)<br>(Net sales, ROS, ROIC, free cash flow)<br>ESG evaluation organizations score and rating improvement rate | 80% |
| Achievement of personal targets | 20% |

In addition, since performance-linked remuneration is not suitable for a non-executive Director or Audit & Supervisory Board Member that is independent from the execution of business, only basic remuneration is paid.

The status of the indicators referred to in the company-wide performance evaluation of short-term incentive remuneration is as follows.

| Financial indicator | Target | Result |
|---|---|---|
| Sales | 410.4 billion yen | 363.9 billion yen |
| ROS | 11.0% | 10.6% |
| ROIC | 7.0% | 5.9% |
| Free cash flow | (3.65 billion yen) | (120 million yen) |

(Stock remuneration)

To provide incentives for Directors other than External Directors to continuously improve corporate value, and to promote value sharing with shareholders, the Company pays remuneration for the granting of restricted stock in the form of monetary claims of up to ¥100 million per year. The transfer restriction period shall be 30 years from the day of receiving the allotment, and the transfer restriction shall be lifted by resolution of the Board of Directors in the case of expiration of the transfer restriction period, resignation due to expiration of the term of office, death or other justifiable reasons. The amount of stock remuneration is up to 15% of basic remuneration and performance-linked remuneration based on the percentage of each individual’s contribution to business performance.

(Composition of remuneration)

The composition of remuneration by position is a remuneration system in which the President’s performance-linked remuneration (performance-linked remuneration + stock remuneration) is the highest (approximately 50%), and the performance-linked remuneration ratio to the Executive Officers (approximately 40%) is gradually reduced in order of position.

2) Total amounts of remuneration by officer classification, total amounts by type of remuneration, and number of eligible recipients

<table>
<tr><th colspan="2" rowspan="3">Officer classification</th><th rowspan="3">Total amount of remuneration (Million yen)</th><th colspan="3">Total amount of remuneration by type (Million yen)</th><th rowspan="3">Number of eligible recipients</th></tr>
<tr><th rowspan="2">Basic remuneration</th><th>Performance-linked remuneration</th><th>Non-monetary compensation</th></tr>
<tr><th>Bonus</th><th>Restricted stock remuneration</th></tr>
<tr><td colspan="2">Directors (excluding External Directors)</td><td>208</td><td>96</td><td>92</td><td>18</td><td>6</td></tr>
<tr><td colspan="2">Audit & Supervisory Board Members (excluding External Audit & Supervisory Board Members)</td><td>37</td><td>37</td><td>-</td><td>-</td><td>3</td></tr>
<tr><td rowspan="2">External Directors and Audit & Supervisory Board Members</td><td>External Directors</td><td>39</td><td>39</td><td>-</td><td>-</td><td>3</td></tr>
<tr><td>External Audit & Supervisory Board Members</td><td>14</td><td>14</td><td>-</td><td>-</td><td>3</td></tr>
<tr><td colspan="2">Total</td><td>299</td><td>188</td><td>92</td><td>18</td><td>15</td></tr>
</table>

(Notes) 1. It was resolved at the Annual General Meeting of Shareholders for fiscal 2005, held on March 30, 2006, that the maximum amount of remuneration paid to Directors shall be no more than ¥350 million per year (number of Directors capped at 13). The number of Directors as of the conclusion of the annual general meeting of shareholders is nine.

2. It was resolved at the Annual General Meeting of Shareholders for fiscal 2019, held on March 27, 2020, that the maximum amount of restricted stock remuneration shall be no more than ¥100 million per year and no more than 100,000 shares per year (External Directors shall not receive this type of remuneration). The number of Directors (excluding External Directors) as of the conclusion of the annual general meeting of shareholders is six.

3. It was resolved at the Annual General Meeting of Shareholders for fiscal 2005, held on March 30, 2006, that the maximum amount of remuneration paid to Audit & Supervisory Board Members shall be no more than ¥65 million per year (number of Audit & Supervisory Board Members capped at 4). At the conclusion of the annual general meeting of shareholders, the number of Audit & Supervisory Board Members is four.

4. The number of executives at the end of the fiscal year under review was eight Directors (three of whom were External Directors) and four Audit & Supervisory Board Members (two of whom were External Audit & Supervisory Board Members).

3) Total amount of consolidated remuneration, etc. paid to individual Directors and Audit & Supervisory Board Members

Directors and Audit & Supervisory Board Members with a consolidated total amount of remuneration of ¥100 million or more and their remuneration are as follows.

| Full name | Consolidated total amount of remuneration (Million yen) | Officer classification | Company classification | Consolidated total amount of remuneration by type (Million yen) | | |
|---|---|---|---|---|---|---|
| | | | | Fixed remuneration | Bonus | Restricted stock remuneration |
| Hajime Nagasaka | 102 | Director | Submitting Company | 54 | 39 | 9 |

(5) Status of shareholdings

1) Classification standards and approach for investment stocks

The Company classifies investment stocks into two categories: investment stocks held for pure investment purposes, and investment stocks held for purposes other than pure investment. Investment stocks held for pure investment purposes are held for the purpose of gaining profits from fluctuations in the value of such stocks or from stock-related dividends. Investment stocks held for other purposes are referred to as investment stocks held for purposes other than pure investment.

2) Investment stocks held for purposes other than pure investment

a. Method for verifying the policy and rationale for holdings as well as the results of verification carried out at Board of Directors' meetings, etc., regarding the suitability of individual stocks

The Company acquires/holds shares in business partners, etc. where it determines that doing so would help in creating further business opportunities or enhancing corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships. When holding individual stocks, the Company designates the department with administrative authority, which analyzes the profitability and purpose of holding the relevant stock(s), as well as whether the risks of holding are commensurate with the cost of capital. The Company thereafter carries out periodic verifications from a company-wide strategic perspective at Executives Meetings and Board of Directors' meetings. The Company will reduce its holdings of stocks for which there are deemed to be insufficient grounds for maintaining holdings based on verification results.

b. Number of stocks and amount recorded on balance sheet

| | Number of stocks (Stocks) | Total amount recorded on balance sheet (Million yen) |
|---|---|---|
| Unlisted stocks | 5 | 27 |
| Stocks other than unlisted stocks | 46 | 26,442 |

(Stocks for which the number of shares increased in the fiscal year under review)

| | Number of stocks (Stocks) | Total acquisition amount related to increase in shareholdings (Million yen) | Reason for the increase in the number of shares |
|---|---|---|---|
| Unlisted stocks | - | - | |
| Stocks other than unlisted stocks | 3 | 21 | Shares acquired through client's stock ownership plan and acquisition of shares for the purpose of maintaining and strengthening business relationships |

(Stocks for which the number of shares decreased in the fiscal year under review)

| | Number of stocks (Stocks) | Total proceeds from sale related to decrease in shareholdings (Million yen) |
|---|---|---|
| Unlisted stocks | - | - |
| Stocks other than unlisted stocks | 3 | 127 |

c. Information on the number of shares and amount recorded on balance sheet by stock name for specified investment stocks and deemed shareholdings

Specified investment stocks

| Stock name | Fiscal year under review<br>Number of shares (Shares)<br>Amount recorded on balance sheet (Million yen) | Previous fiscal year<br>Number of shares (Shares)<br>Amount recorded on balance sheet (Million yen) | Purpose and quantitative effect of holding, outline of business alliance, and the reason for the increase in the number of shares | Tokai Carbon shareholder |
|---|---|---|---|---|
| Mitsubishi UFJ Financial Group, Inc. | 5,494,680 | 5,494,680 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships. | Yes |
| | 6,656 | 4,884 | | |
| Bridgestone Corporation | 695,108 | 695,108 | Same as above. | No |
| | 4,059 | 3,260 | | |
| Mitsubishi Corporation | 1,087,161 | 362,387 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships.<br>The increase in number of shares is due to a stock split. | No |
| | 2,449 | 1,552 | | |
| Daido Steel Co., Ltd. | 1,448,385 | 287,914 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships.<br>The increase in the number of shares was due to the acquisition of stock through client’s stock ownership plan and a stock split. | Yes |
| | 2,174 | 1,242 | | |
| Zeon Corporation | 890,475 | 890,475 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships. | Yes |
| | 1,166 | 1,189 | | |
| Kyushu Financial Group Inc. | 1,385,504 | 1,385,504 | Same as above. | Yes |
| | 1,128 | 629 | | |
| Toyo Tire Corporation | 379,811 | 379,811 | Same as above. | Yes |
| | 896 | 568 | | |
| Fukuoka Financial Group, Inc. | 220,756 | 220,756 | Same as above. | No |
| | 734 | 663 | | |
| Toagosei Co., Ltd. | 464,951 | 464,951 | Same as above. | Yes |
| | 637 | 517 | | |
| NOK Corporation | 317,000 | 317,000 | Same as above. | Yes |
| | 596 | 372 | | |
| Mitsubishi Estate Co., Ltd. | 292,075 | 292,075 | Same as above. | Yes |
| | 567 | 499 | | |
| Tokio Marine Holdings, Inc. | 148,830 | 148,830 | Same as above. | Yes |
| | 525 | 420 | | |
| K.C.Tech Co., Ltd. | 152,996 | 152,996 | Same as above. | No |
| | 453 | 238 | | |
| Yamato Kogyo Co., Ltd. | 52,064 | 52,064 | Same as above. | No |
| | 387 | 234 | | |
| JEOL Ltd. | 62,500 | 62,500 | Same as above. | No |
| | 386 | 224 | | |
| The Yokohama Rubber Co., Ltd. | 109,298 | 109,298 | Same as above. | Yes |
| | 353 | 224 | | |
| Yamaguchi Financial Group, Inc. | 220,000 | 220,000 | Same as above. | Yes |
| | 277 | 189 | | |

| Stock name | Fiscal year under review<br>Number of shares (Shares)<br>Amount recorded on balance sheet (Million yen) | Previous fiscal year<br>Number of shares (Shares)<br>Amount recorded on balance sheet (Million yen) | Purpose and quantitative effect of holding, outline of business alliance,<br>and the reason for the increase in the number of shares | Tokai Carbon shareholder |
|---|---|---|---|---|
| Nippon Steel Corporation | 78,666 | 78,666 | Same as above. | Yes |
| | 254 | 180 | | |
| The Shiga Bank, Ltd. | 69,600 | 69,600 | Same as above. | Yes |
| | 242 | 184 | | |
| Sumitomo Rubber Industries, Ltd. | 157,455 | 157,455 | Same as above. | Yes |
| | 241 | 181 | | |
| Sumitomo Corporation | 71,973 | 71,973 | Same as above. | No |
| | 221 | 158 | | |
| Topy Industries, Ltd. | 84,291 | 80,020 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships.<br>Shares acquired through client’s stock ownership plan. | No |
| | 215 | 129 | | |
| KC Co., Ltd. | 104,525 | 104,525 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships. | Yes |
| | 212 | 188 | | |
| TYK Corporation | 485,000 | 485,000 | Same as above. | No |
| | 207 | 128 | | |
| Toyoda Gosei Co., Ltd. | 68,252 | 68,252 | Same as above. | Yes |
| | 180 | 140 | | |
| Kyoei Steel Co. | 90,000 | 90,000 | Same as above. | No |
| | 179 | 113 | | |
| Tokyo Tekko Co., Ltd. | 39,787 | 39,787 | Same as above. | Yes |
| | 164 | 56 | | |
| Osaka Steel Co., Ltd. | 55,000 | 55,000 | Same as above. | Yes |
| | 136 | 63 | | |
| Soda Nikka Co., Ltd. | 87,285 | 87,285 | Same as above. | Yes |
| | 93 | 62 | | |
| Makino Milling Machine Co., Ltd. | 14,400 | 14,400 | Same as above. | Yes |
| | 84 | 62 | | |
| The Yamanashi Chuo Bank, Ltd. | 43,787 | 43,787 | Same as above. | No |
| | 73 | 48 | | |
| Sanyo Special Steel Co., Ltd. | 26,446 | 26,446 | Same as above. | Yes |
| | 69 | 57 | | |
| Mitsubishi Kakoki Kaisha, Ltd. | 18,600 | 18,600 | Same as above. | Yes |
| | 60 | 38 | | |
| DMW Corporation | 16,200 | 16,200 | Same as above. | Yes |
| | 60 | 49 | | |
| Itochu Corporation | 9,315 | 9,315 | Same as above. | No |
| | 53 | 38 | | |
| SUMCO Corporation | 21,700 | 21,700 | Same as above. | Yes |
| | 45 | 38 | | |
| JFE Holdings Corporation | 19,988 | 19,988 | Same as above. | No |
| | 43 | 30 | | |
| The Bank of Iwate, Ltd. | 11,550 | 11,550 | Same as above. | No |
| | 28 | 22 | | |

| Stock name | Fiscal year under review<br>Number of shares (Shares)<br>Amount recorded on balance sheet (Million yen) | Previous fiscal year<br>Number of shares (Shares)<br>Amount recorded on balance sheet (Million yen) | Purpose and quantitative effect of holding, outline of business alliance, and the reason for the increase in the number of shares | Tokai Carbon shareholder |
|---|---|---|---|---|
| Aichi Steel Corporation | 9,077 | 8,572 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships.<br>Shares acquired through client's stock ownership plan. | Yes |
| | 28 | 18 | | |
| Sumitomo Riko Company Limited | 23,104 | 23,104 | Create new business opportunities and enhance corporate value over the medium- to long-term by establishing, maintaining, and strengthening business/collaborative relationships. | Yes |
| | 24 | 14 | | |
| AGC Inc. | 4,410 | 4,410 | Same as above. | No |
| | 23 | 19 | | |
| Bando Chemical Industries, Ltd. | 14,006 | 14,006 | Same as above. | No |
| | 21 | 13 | | |
| Kimura Chemical Plants Co., Ltd. | 14,500 | 14,500 | Same as above. | No |
| | 10 | 10 | | |
| ENEOS Holdings, Inc. | 15,536 | 15,536 | Same as above. | Yes |
| | 8 | 6 | | |
| Kobe Steel, Ltd. | 1,369 | 1,369 | Same as above. | No |
| | 2 | 0 | | |
| Godo Steel, Ltd. | 64 | 64 | Same as above. | No |
| | 0 | 0 | | |
| Miyoshi Oil & Fat Co., Ltd. | - | 110,000 | - | Yes |
| | - | 103 | | |
| Daiwa Securities Group Inc. | - | 1,000 | - | Yes |
| | - | 0 | | |
| Nomura Holdings, Inc. | - | 1,000 | - | No |
| | - | 0 | | |
| Nomura Holdings, Inc. | - | 1,000 | - | No |
| | - | 0 | | |

(Notes) 1. It is difficult to list the quantitative effects of holdings. However, the Company periodically verifies the rationale for its holdings based on analysis of factors such as the purpose of acquiring or holding, profitability, and whether the risks of holding are commensurate with the cost of capital.
2. "-" indicates that the Company does not hold the relevant stock.

3) Investment stocks held for the purpose of pure investment
Not applicable

4) Investment stocks for which the purpose of holding was changed from pure investment to other than pure investment during the fiscal year under review
Not applicable

5) Investment stocks for which the purpose of holding was changed from other than pure investment to pure investment during the fiscal year under review
Not applicable

# Section 5 Status of Accounting

1. Method of preparation for consolidated and non-consolidated financial statements

   (1) The Company's consolidated financial statements are prepared based on the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as "Ordinance on Consolidated Financial Statements").

   (2) The Company's financial statements are prepared based on the Ordinance on Terminology, Forms and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as "Ordinance on Financial Statements").

   The Company corresponds to a special company submitting financial statements and prepares financial statements pursuant to the provision of Article 127 of the Ordinance on Financial Statements.

2. Audit and attestation

   Pursuant to the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company receives audits from KPMG AZSA LLC in regard to the consolidated financial statements for the fiscal year from January 1 to December 31, 2023 and the financial statements for the business year from January 1 to December 31, 2023.

3. Special initiatives to ensure the appropriateness of consolidated financial statements, etc.

   The Company takes special initiatives to ensure the appropriateness of consolidated financial statements, etc. Specifically, in order to establish a system to properly identify the contents of accounting standards, etc. and to respond appropriately to changes, etc. to accounting standards, the Company is a member of the Financial Accounting Standards Foundation and also participates in seminars organized by accounting audit firms, etc. and subscribes to accounting journals.

## 1 Consolidated Financial Statements, etc.

### (1) Consolidated financial statements

#### 1) Consolidated balance sheets

(Million yen)

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 70,909 | 77,465 |
| Notes and accounts receivable | *1 65,197 | *1 65,530 |
| Merchandise and finished goods | 26,198 | 28,886 |
| Work in progress | 41,584 | 47,431 |
| Raw materials and supplies | 33,548 | 33,014 |
| Other | 9,528 | 11,463 |
| Allowance for doubtful accounts | (274) | (900) |
| Total current assets | 246,691 | 262,890 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures, net | 30,944 | 37,895 |
| Machinery, equipment and vehicles, net | 90,597 | 107,187 |
| Land | 8,035 | 12,291 |
| Construction in progress | 44,366 | 58,187 |
| Other, net | 8,004 | 8,242 |
| Total tangible fixed assets | *2 181,948 | *2 223,804 |
| Intangible fixed assets | | |
| Goodwill | 52,837 | 49,212 |
| Customer-related assets | 55,724 | 52,880 |
| Other | 10,276 | 14,958 |
| Total intangible fixed assets | 118,839 | 117,051 |
| Investments and other assets | | |
| Investment securities | *3 22,548 | *3 30,980 |
| Net defined benefit asset | 2,927 | 3,811 |
| Deferred tax assets | 2,210 | 492 |
| Other | 1,325 | 997 |
| Allowance for doubtful accounts | (25) | (22) |
| Total investments and other assets | 28,986 | 36,258 |
| Total fixed assets | 329,773 | 377,114 |
| Total assets | 576,465 | 640,005 |

(Million yen)

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 28,119 | 25,663 |
| Electronically recorded obligations | 4,153 | 3,806 |
| Short-term loans payable | *4 10,940 | *4 7,000 |
| Commercial papers | 60,000 | 60,000 |
| Current portion of loans payable | 9,805 | 3,218 |
| Income taxes payable | 5,673 | 3,983 |
| Contract liability | 2,271 | 2,550 |
| Provision for bonuses | 3,887 | 4,432 |
| Other | 21,845 | 26,315 |
| Total current liabilities | 146,696 | 136,971 |
| Long-term liabilities | | |
| Bonds payable | 55,000 | 55,000 |
| Long-term loans payable | 35,706 | 41,424 |
| Deferred tax liabilities | 24,171 | 30,251 |
| Retirement benefit liability | 6,567 | 7,720 |
| Provision for retirement benefits for directors | 105 | 101 |
| Provision for executive officers' retirement benefits | 58 | 53 |
| Provision for environment and safety measures | 315 | 461 |
| Other | 6,974 | 7,918 |
| Total long-term liabilities | 128,900 | 142,930 |
| Total liabilities | 275,596 | 279,902 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 20,436 | 20,436 |
| Capital surplus | 13,811 | 13,825 |
| Retained earnings | 191,750 | 210,183 |
| Treasury stock | (7,236) | (7,225) |
| Total shareholders' equity | 218,761 | 237,220 |
| Accumulated other comprehensive income | | |
| Valuation difference on other securities | 9,587 | 15,106 |
| Deferred gains or losses on hedges | 274 | 268 |
| Foreign currency translation adjustments | 37,681 | 69,302 |
| Cumulative remeasurements of defined benefit plans | 2,521 | 2,593 |
| Total accumulated other comprehensive income | 50,065 | 87,271 |
| Non-controlling interests | 32,041 | 35,612 |
| Total net assets | 300,868 | 360,103 |
| Total liabilities and net assets | 576,465 | 640,005 |

2) Consolidated statements of income and comprehensive income

Consolidated statements of income

(Million yen)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Net sales | *1 340,371 | *1 363,946 |
| Cost of sales | *2, *4 246,318 | *2, *4 265,218 |
| Gross profit | 94,052 | 98,727 |
| Selling, general and administrative expenses | *3, *4 53,463 | *3, *4 59,998 |
| Operating income | 40,588 | 38,728 |
| Non-operating income | | |
| Interest income | 607 | 1,264 |
| Dividend income | 737 | 851 |
| Share of profit of entities accounted for using equity method | 332 | 427 |
| Foreign exchange gains | 2,162 | 2,275 |
| Other | 529 | 969 |
| Total non-operating income | 4,368 | 5,789 |
| Non-operating expenses | | |
| Interest expenses | 1,042 | 1,565 |
| Other | 1,393 | 1,345 |
| Total non-operating expenses | 2,436 | 2,911 |
| Ordinary income | 42,521 | 41,607 |
| Extraordinary income | | |
| Gain on sale of investment securities | 544 | 401 |
| Gain on sales of fixed assets | *5 88 | *5 175 |
| Gain on liquidation of subsidiaries and associates | - | 24 |
| Total extraordinary income | 633 | 601 |
| Extraordinary losses | | |
| Loss on retirement of fixed assets | *6 624 | *6 170 |
| Loss on sale of investment securities | 0 | 39 |
| Loss on sales of fixed assets | *7 0 | *7 0 |
| Loss on sale of equity invested in associates | 160 | - |
| Accident-related loss | *8 141 | - |
| Loss on valuation of investment securities | 116 | - |
| Total extraordinary losses | 1,043 | 210 |
| Net income before income taxes | 42,111 | 41,998 |
| Income taxes - current | 8,685 | 9,206 |
| Income taxes - deferred | 6,096 | 4,036 |
| Total income taxes | 14,782 | 13,243 |
| Net income | 27,329 | 28,754 |
| Net income attributable to non-controlling interests | 4,910 | 3,285 |
| Net income attributable to owners of the parent company | 22,418 | 25,468 |

Consolidated statements of comprehensive income

(Million yen)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Net income | 27,329 | 28,754 |
| Other comprehensive income | | |
| Valuation difference on other securities | 218 | 5,525 |
| Deferred gains or losses on hedges | 316 | (6) |
| Foreign currency translation adjustments | 28,353 | 33,013 |
| Remeasurements of defined benefit plans | 716 | 71 |
| Share of other comprehensive income of entities accounted for using equity method | (244) | 76 |
| Total other comprehensive income | *1 29,360 | *1 38,680 |
| Comprehensive income | 56,689 | 67,435 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent company | 49,543 | 62,674 |
| Comprehensive income attributable to non-controlling interests | 7,145 | 4,761 |

3) Consolidated statements of changes in equity

Previous fiscal year (January 1 to December 31, 2022)

(Million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of period | 20,436 | 17,350 | 175,727 | (7,244) | 206,269 |
| Change during period | | | | | |
| Dividends of surplus | | | (6,395) | | (6,395) |
| Net income attributable to owners of the parent company | | | 22,418 | | 22,418 |
| Purchase of treasury stock | | | | (2) | (2) |
| Disposal of treasury stock | | 8 | | 10 | 19 |
| Changes in the parent company's interest due to transactions with non-controlling interests | | (3,547) | | | (3,547) |
| Net change in items other than shareholders' equity | | | | | |
| Total change during period | - | (3,538) | 16,023 | 8 | 12,492 |
| Balance at end of period | 20,436 | 13,811 | 191,750 | (7,236) | 218,761 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on other securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Cumulative remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 9,370 | (41) | 11,805 | 1,805 | 22,940 | 27,360 | 256,570 |
| Change during period | | | | | | | |
| Dividends of surplus | | | | | | | (6,395) |
| Net income attributable to owners of the parent company | | | | | | | 22,418 |
| Purchase of treasury stock | | | | | | | (2) |
| Disposal of treasury stock | | | | | | | 19 |
| Changes in the parent company's interest due to transactions with non-controlling interests | | | | | | | (3,547) |
| Net change in items other than shareholders' equity | 216 | 316 | 25,875 | 716 | 27,125 | 4,680 | 31,805 |
| Total change during period | 216 | 316 | 25,875 | 716 | 27,125 | 4,680 | 44,297 |
| Balance at end of period | 9,587 | 274 | 37,681 | 2,521 | 50,065 | 32,041 | 300,868 |

Current fiscal year (January 1 to December 31, 2023)

(Million yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of period | 20,436 | 13,811 | 191,750 | (7,236) | 218,761 |
| Change during period | | | | | |
| Dividends of surplus | | | (7,035) | | (7,035) |
| Net income attributable to owners of the parent company | | | 25,468 | | 25,468 |
| Purchase of treasury stock | | | | (2) | (2) |
| Disposal of treasury stock | | 13 | | 13 | 27 |
| Changes in the parent company's interest due to transactions with non-controlling interests | | | | | - |
| Net change in items other than shareholders' equity | | | | | |
| Total change during period | - | 13 | 18,432 | 11 | 18,458 |
| Balance at end of period | 20,436 | 13,825 | 210,183 | (7,225) | 237,220 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Valuation difference on other securities | Deferred gains or losses on hedges | Foreign currency translation adjustments | Cumulative remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 9,587 | 274 | 37,681 | 2,521 | 50,065 | 32,041 | 300,868 |
| Change during period | | | | | | | |
| Dividends of surplus | | | | | | | (7,035) |
| Net income attributable to owners of the parent company | | | | | | | 25,468 |
| Purchase of treasury stock | | | | | | | (2) |
| Disposal of treasury stock | | | | | | | 27 |
| Changes in the parent company's interest due to transactions with non-controlling interests | | | | | | | - |
| Net change in items other than shareholders' equity | 5,519 | (6) | 31,620 | 71 | 37,205 | 3,570 | 40,776 |
| Total change during period | 5,519 | (6) | 31,620 | 71 | 37,205 | 3,570 | 59,234 |
| Balance at end of period | 15,106 | 268 | 69,302 | 2,593 | 87,271 | 35,612 | 360,103 |

4) Consolidated statements of cash flows

(Million yen)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Cash flows from operating activities | | |
| Net income before income taxes | 42,111 | 41,998 |
| Depreciation | 27,460 | 29,065 |
| Loss (gain) on retirement / sales of tangible fixed assets | 535 | (4) |
| Amortization of goodwill | 7,522 | 8,155 |
| Increase (decrease) in allowance for doubtful accounts | 1 | 577 |
| Increase (decrease) in provision for bonuses | 867 | (54) |
| Increase (decrease) in provision for loss on sale of equity invested in associates | (1,137) | - |
| Increase (decrease) in retirement benefit liability | (890) | 551 |
| Decrease (increase) in retirement benefit asset | 573 | (884) |
| Interest and dividend income | (1,344) | (2,116) |
| Interest expenses | 1,042 | 1,565 |
| Foreign exchange losses (gains) | (1,593) | (2,016) |
| Share of (profit) loss of entities accounted for using equity method | (332) | (427) |
| Decrease (increase) in notes and accounts receivable - trade | (6,140) | 3,084 |
| Decrease (increase) in inventories | (24,711) | (1,285) |
| Increase (decrease) in notes and accounts payable - trade | 4,659 | (4,811) |
| Other | 80 | (564) |
| Subtotal | 48,706 | 72,831 |
| Interest and dividends received | 1,345 | 2,286 |
| Interest paid | (1,038) | (1,583) |
| Income taxes paid | (8,368) | (11,589) |
| Other | 560 | 129 |
| Cash flows from operating activities | 41,205 | 62,074 |
| Cash flows from investing activities | | |
| Payments into time deposits | (20,767) | (20,482) |
| Proceeds from withdrawal of time deposits | 15,080 | 21,991 |
| Purchase of tangible fixed assets | (43,989) | (45,362) |
| Proceeds from sales of tangible fixed assets | 188 | 274 |
| Purchase of intangible assets | (1,222) | (4,255) |
| Proceeds from sales of equity invested in subsidiaries resulting in a change in the scope of consolidation | *2 740 | - |
| Other | 69 | 201 |
| Cash flows from investing activities | (49,900) | (47,632) |

(Million yen)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | 8,875 | (4,252) |
| Net increase (decrease) in commercial papers | 10,000 | - |
| Proceeds from long-term loans payable | 7,227 | 10,000 |
| Repayments of long-term loans payable | (13,154) | (10,864) |
| Redemption of bonds payable | (10,000) | - |
| Dividends paid | (6,395) | (7,035) |
| Dividends paid to non-controlling interests | (988) | (1,190) |
| Payments for acquisition of shares of subsidiaries without change in scope of consolidation | (5,024) | - |
| Other | (1,168) | (1,169) |
| Cash flows from financing activities | (10,629) | (14,512) |
| Effect of exchange rate change on cash and cash equivalents | 4,266 | 7,152 |
| Net increase (decrease) in cash and cash equivalents | (15,057) | 7,081 |
| Cash and cash equivalents at beginning of the period | 64,435 | 49,377 |
| Cash and cash equivalents at end of the period | *1 49,377 | *1 56,459 |

Notes to Consolidated Financial Statements

(Significant basis for preparation of consolidated financial statements)

1. Matters concerning scope of consolidation

(1) Number of consolidated subsidiaries: 30

The names of consolidated subsidiaries are mentioned in "Section 1 Overview of the Company, 4 Status of Subsidiaries and Associates" and hence omitted here.

Tokai Carbon ITALIA S. R.L., which was a consolidated subsidiary, is excluded from the scope of consolidation due to the completion of liquidation.

(2) Status of non-consolidated subsidiaries

Not applicable

2. Matters concerning application of equity method

(1) Number of associates accounted for by the equity method: 1

(2) Special notes on equity method application procedures

Of the companies accounted for by the equity method, for those that have a closing date that differs from the consolidated closing date, the financial statements for each such company's fiscal year are used.

3. Matters concerning fiscal years of consolidated subsidiaries

The closing date for consolidated subsidiaries is the same as the consolidated closing date.

4. Matters concerning accounting policies

(1) Valuation standards and methods for significant assets

1) Marketable securities

Other securities

a. Securities other than shares without market value

Market value method (all valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated according to the moving-average method).

b. Shares without market value

Based on the moving average cost method

2) Inventories

The Company and its domestic consolidated subsidiaries adopt cost method based on monthly average method (values in the consolidated balance sheet are subject to the book value reduction method based on a decline in profitability) and overseas consolidated subsidiaries principally use lowest cost accounting based on first in, first out method.

3) Derivatives

Based on market value method.

(2) Depreciation/amortization method for significant depreciable/amortizable assets

1) Tangible fixed assets (excluding leased assets)

The Company and its domestic consolidated subsidiaries mainly use the declining-balance method. However, the accounting of buildings (excluding auxiliary facilities) acquired on or after April 1, 1998 and auxiliary facilities and structures acquired on or after April 1, 2016 is based on the straight-line method. Overseas consolidated subsidiaries mainly use the straight-line method.

The useful life of each of these structures is as follows:

| | |
|---|---|
| Buildings and structures | 2 to 60 years |
| Machinery, equipment and vehicles | 2 to 50 years |

2) Intangible fixed assets (excluding leased assets)

Based on straight-line method.

Client-related assets are amortized based on the straight-line method over the projected profit-making period (6 to 21 years) on the basis of which compensation is calculated.

3) Leased assets

Depreciation is calculated by using the straight-line method which considers the residual value to be zero and treats the lease term as the useful life of the asset.

(3) Standards for recognition of significant allowances

1) Allowance for doubtful accounts

To provide for losses due to uncollectible general accounts receivables, such allowance is calculated based on reasonable standards such as historical collection losses. For specific accounts receivables such as doubtful accounts receivables, a case-by-case review is conducted and an estimation of the uncollectible amount is recorded.

2) Provision for bonuses

To provide for employee bonuses, the estimated amount to be paid out in the current consolidated fiscal year is recorded under liabilities for that year.

3) Provision for retirement benefits for directors

To provide for retirement benefits of directors, the Company and its domestic subsidiaries record the required amount at the end of the consolidated fiscal year based on the internal rules for payment of directors' retirement benefits.

4) Provision for executive officers' retirement benefits

To provide for executive officers' retirement benefits, the required amount is recorded at the end of the consolidated fiscal year based on internal rules.

5) Provision for environment and safety measures

As a provision for expenses such as PCB waste disposal expenses based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, an amount that can be reasonably estimated to be incurred by the end of the consolidated fiscal year is recorded.

(4) Accounting method for retirement benefits

1) Method of attributing projected retirement benefits to periods of service

In calculating retirement benefit obligations, the benefit formula basis is applied to attribute projected retirement benefits to periods of service until the end of the current fiscal year.

2) Accounting method for actuarial gains and losses and prior service costs

Prior service costs are treated as a one-time charge in the fiscal year of their accrual.

Actuarial gains and losses are amortized on a straight-line basis over a certain period of years (10 years), which is within the average remaining service period of employees at the time of accrual, commencing from the succeeding fiscal year.

3) Accounting treatment for unrecognized actuarial gains and losses

Unrecognized actuarial gains and losses are recorded as remeasurements of defined benefit plans under accumulated other comprehensive income in the net assets section after adjusting for tax effects.

4) Adoption of simplified accounting method by small-scale companies, etc.

In calculating retirement benefit liability and retirement benefit expenses, some consolidated subsidiaries adopt the simplified method of using the amount required for voluntary retirements at the end of the fiscal year relating to retirement benefits as the retirement benefit obligation.

(5) Standards for significant revenues and expenses

The Group manufactures and sells products in Graphite Electrodes, Carbon Black, Fine Carbon, Smelting and Lining, Industrial Furnaces and Related Products, and Other Operations.

With respect to sales of products other than industrial furnaces, revenue is recognized at the amount expected to be received as consideration at the time of delivery of products, in principle, because it is determined that customers gain control over the products and performance obligations are fulfilled at the time of delivery of the products. In domestic sales, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the product is transferred to the customer is a normal period. In export sales, revenue is recognized upon transfer of risk to customers based on trade terms stipulated in Incoterms and other agreements.

With respect to industrial furnaces, as the period from the date of commencement of the contract to when performance obligations are expected to be fully satisfied is very short, revenue is recognized at the time of acceptance by customers when performance obligations are fully satisfied.

The consideration for the transaction is received within approximately four months from the time when the performance obligation is satisfied and does not include any significant financial elements.

(6) Standard for translation of significant foreign currency-denominated assets or liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the consolidated closing date, and translation adjustments are treated as profits or losses. Furthermore, assets and liabilities of overseas subsidiaries, etc., are translated into Japanese yen at the spot exchange rate on the consolidated closing date; revenue and expenses are translated into Japanese yen at the average exchange rate for the fiscal year. Translation adjustments are included under foreign currency translation adjustments account and non-controlling interests in the net assets section of the consolidated balance sheet.

(7) Significant hedge accounting method

1) Hedge accounting method

Deferred hedge accounting is adopted.

Foreign exchange forward contracts that meet the requirements for allocation treatment are accounted for by the allocation treatment.

2) Hedging instruments and hedged items

The hedging instruments and hedged items are as follows.

| | |
|---|---|
| Hedging instruments: | Foreign exchange forward contracts |
| Hedged items: | Foreign currency receivables and payables and forecasted foreign currency transactions arising from product exports |

3) Hedging policy

In accordance with the internal regulations that prescribe the authority and transaction limit for derivative transactions, foreign exchange risks pertaining to hedged items are hedged within a certain range.

4) Method for assessing hedge effectiveness

The method for assessing the effectiveness of hedges is to check whether there is a high correlation between the hedged item's market fluctuation or cash flow fluctuation and the hedging instrument's market fluctuation or cash flow fluctuation.

(8) Method and period for amortization of goodwill

Goodwill is amortized using the straight-line method over a period of 10 to 17 years. However, goodwill of immaterial value is amortized on a lump-sum basis.

(9) Scope of cash and cash equivalents in consolidated statements of cash flows

Cash and cash equivalents in consolidated statements of cash flows comprise cash on hand, deposits that can be withdrawn at any time, and short-term investments with an original maturity of three months or less that can be readily converted into cash and that are subject to only an insignificant risk of change in value.

(Significant accounting estimates)

1. Assessment of goodwill

(1) Amounts included in current fiscal year's consolidated financial statements

The balance of goodwill recorded in the consolidated balance sheets in the previous fiscal year was ¥52,837 million, of which the balance of goodwill related to Smelting and Lining was ¥31,772 million. The balance of goodwill recorded in the consolidated balance sheets in current fiscal year was ¥49,212 million, of which the balance of goodwill related to Smelting and Lining was ¥30,058 million.

(2) Information on significant accounting estimates related to the identified items

1) Method of calculating the amount included in current fiscal year's consolidated financial statements

Goodwill is amortized on a straight-line basis over the period during which the effect of impairment losses is expected to be realized. However, in the event that business performance does not progress as planned at the time of the acquisition of control and the profit or loss from operating activities continues to be negative, or if the business environment significantly deteriorates, the Company may recognize that there is an indication of impairment in the asset group including goodwill, and it would be necessary to determine whether impairment losses should be recorded. If the recognition of impairment losses is deemed necessary, the book value is reduced to the recoverable amount and the reduced amount of the book value is reported as impairment losses.

The Company has determined that there is no indication of impairment in the current fiscal year.

2) Major assumptions used in the calculation

The indication of impairment is determined by Smelting and Lining operating profit and loss performance, achievement of business plans, future business plans, etc. This business plan includes assumptions regarding the net sales and operating profit and loss of the business.

3) Impact on consolidated financial statements for the following fiscal year

These assumptions are determined by management's best estimates. However, they may be affected by changes in uncertain economic conditions in the future, etc. If it becomes necessary to review these assumptions, they may have a significant impact on goodwill amounts in the consolidated financial statements for the following fiscal year.

2. Assessment of fixed assets (excluding goodwill)

(1) Amounts included in current fiscal year's consolidated financial statements

(Million yen)

| | Previous fiscal year | Current fiscal year |
|---|---|---|
| Tangible fixed assets | 181,948 | 223,804 |
| Intangible fixed assets (excluding goodwill) | 66,001 | 67,839 |
| Impairment losses | - | - |

(2) Information on significant accounting estimates related to the identified items

1) Method of calculating the amount included in current fiscal year's consolidated financial statements

The Group uses management accounting classifications as grouping units when considering the impairment losses in fixed assets.

If any indication of impairment exists with respect to the fixed assets of the Company or any of its domestic consolidated subsidiaries, the Company will examine whether undiscounted future cash flows are below book value and determine whether impairment losses recognition is necessary. If, as a result of the determination, undiscounted future cash flows are less than book value and it is determined that recognition of impairment losses is necessary, book value is reduced to the recoverable amount and the decrease is recorded as impairment losses.

In the current fiscal year, the Company has determined that there was an indication of impairment of the fixed assets owned by TOKAI ERFTCARBON GmbH in Graphite Electrodes due to a decline in profitability. However, the recoverable amount of the asset group exceeded ¥6,978 million in book value (¥6,930 million in tangible fixed assets and ¥47 million in intangible assets), and therefore the Company did not recognize the impairment losses. The recoverable amount is measured at the higher of the value in use or the net selling price. The value in use is calculated based on certain assumptions regarding future cash flows, discount rate, etc. Fixed assets of major foreign subsidiaries are based on International Financial Reporting Standards (IFRS) or U.S. Generally Accepted Accounting Principles (US GAAP) in accordance with ASBJ PITF No.18 (revised 2019) "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements."

2) Major assumptions used in the calculation

Estimates of future cash flows are based on business plans approved by management and include assumptions about the net sales, operating income and expenses of each business.

3) Impact on consolidated financial statements for the following fiscal year

Any change in the conditions or assumptions used in the estimates may have a significant impact on fixed asset amounts.

3. Deferred tax assets recoverability

(1) Amounts included in current fiscal year's consolidated financial statements

(Million yen)

| | Previous fiscal year | Current fiscal year |
|---|---|---|
| Deferred tax assets | 2,210 | 492 |
| Deferred tax liabilities | 24,171 | 30,251 |

(2) Information on significant accounting estimates related to the identified items

1) Method of calculating the amount included in current fiscal year's consolidated financial statements

Recoverability is determined based on a reasonable estimate of future taxable income and tax planning based on the business plan and the estimated recoverable amount is recorded for deferred tax assets. In principle, deferred tax liabilities accounts for all future additional temporary differences.

2) Major assumptions used in the calculation

Future taxable income is based on business plans approved by management, which include assumptions about the net sales, operating income and expenses of each business.

3) Impact on consolidated financial statements for the following fiscal year

Factors that may affect estimates of future taxable income and changes in tax rates due to tax system revisions may have a significant impact on deferred tax assets amounts.

(Notes regarding consolidated balance sheet)

* 1 Within notes and accounts receivable, the amounts of receivables arising from contracts with customers are as follows.

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Notes receivable | ¥1,317 million | ¥943 million |
| Accounts receivable | 63,115 | 63,658 |
| Electronically recorded monetary claims | 764 | 927 |

* 2 The cumulative amount of depreciation of tangible fixed assets is as follows.

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| | ¥315,284 million | ¥345,969 million |

* 3 Items associated with associates are as follows.

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Investment securities (Shares) | ¥1,058 million | ¥1,393 million |

* 4 Overdraft agreements and loan commitment line agreements

The Company and one of the consolidated subsidiaries have overdraft facility agreements and loan commitment contracts with 12 financial institutions to facilitate the efficient procurement of working capital. At the end of the consolidated fiscal year, the balance of unexecuted loans under these agreements was as follows.

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Total value of overdraft limits and loan commitment line contracts | ¥83,366 million | ¥84,874 million |
| Executed loans | 10,940 | 7,000 |
| Unused balance | 72,426 | 77,874 |

(Notes regarding consolidated statement of income)

* 1 Revenue arising from contracts with customers

Revenue arising from contracts with customers and other revenue are not presented separately for net sales. The amount of revenue arising from contracts with customers is stated in "Notes regarding revenue recognition) 1. Breakdown of revenue from contracts with customers" in the consolidated financial statements.

*2 Inventories at the end of the fiscal year are shown after reductions in book values to reflect declines in profitability, and the following inventory valuation losses are included in the cost of sales.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| | ¥997 million | ¥2,475 million |

* 3 Major items included in selling, general and administrative expenses and their amounts were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Warehousing and shipping expenses | ¥12,934 million | ¥13,048 million |
| Salaries and allowances | 9,915 | 11,129 |
| Additions to provision for bonuses | 778 | 1,451 |
| Retirement benefit expenses | 101 | 80 |
| Depreciation | 8,278 | 9,080 |
| Amortization of goodwill | 7,522 | 8,155 |

*4 Total amount of research and development expenses included in general and administrative expenses and production costs

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| | ¥3,171 million | ¥3,605 million |

* 5 Gains on sales of fixed assets were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Buildings and structures | ¥- million | ¥40 million |
| Machinery, equipment and vehicles | 6 | 7 |
| Land | 80 | 126 |
| Other | 1 | 1 |
| Total | 88 | 175 |

* 6 Losses on retirement of fixed assets were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Buildings and structures | ¥76 million | ¥5 million |
| Machinery, equipment and vehicles | 522 | 135 |
| Other | 24 | 29 |
| Total | 624 | 170 |

* 7 Losses on sale of fixed assets were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Machinery, equipment and vehicles | ¥0 million | ¥- million |
| Other | 0 | 0 |
| Total | 0 | 0 |

* 8 Loss related to accident

Previous fiscal year (January 1 to December 31, 2022)

Restoration costs etc., incurred due to an accident at a manufacturing facility.

Current fiscal year (January 1 to December 31, 2023)

Not applicable.

(Notes regarding consolidated statements of comprehensive income)

* 1 Reclassification adjustments and tax effects related to other comprehensive income

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Valuation difference on other securities: | | |
| Gain (loss) arising during the period | ¥739 million | ¥8,255 million |
| Reclassification adjustments | (427) | (362) |
| Before tax effects | 311 | 7,893 |
| Tax effects | (93) | (2,368) |
| Valuation difference on other securities | 218 | 5,525 |
| Deferred gains or losses on hedges: | | |
| Gain (loss) arising during the period | 348 | 263 |
| Reclassification adjustments | 41 | (274) |
| Before tax effects | 389 | (11) |
| Tax effects | (73) | 4 |
| Deferred gains or losses on hedges | 316 | (6) |
| Foreign currency translation adjustments: | | |
| Gain (loss) arising during the period | 30,684 | 33,037 |
| Reclassification adjustments | (2,331) | (24) |
| Foreign currency translation adjustments | 28,353 | 33,013 |
| Remeasurements of defined benefit plans: | | |
| Gain (loss) arising during the period | 1,173 | 617 |
| Reclassification adjustments | (415) | (439) |
| Before tax effects | 757 | 178 |
| Tax effects | (41) | (106) |
| Remeasurements of defined benefit plans | 716 | 71 |
| Share of other comprehensive income of associates accounted for using equity method: | | |
| Gain (loss) arising during the period | (244) | 76 |
| Share of other comprehensive income of associates accounted for using equity method | (244) | 76 |
| Total other comprehensive income | 29,360 | 38,680 |

(Notes regarding consolidated statements of changes in equity)

Previous fiscal year (January 1 to December 31, 2022)

1. Class and number of shares issued and treasury stock

| | Number of shares at beginning of fiscal year (Thousand shares) | Increase during fiscal year (Thousand shares) | Decrease during fiscal year (Thousand shares) | Number of shares at end of fiscal year (Thousand shares) |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares | 224,943 | - | - | 224,943 |
| Total | 224,943 | - | - | 224,943 |
| Treasury stock | | | | |
| Common shares (Notes) 1, 2 | 11,762 | 1 | 15 | 11,748 |
| Total | 11,762 | 1 | 15 | 11,748 |

(Notes) 1. The increase of 1,000 common shares of treasury stock is due to the repurchase of odd-lot shares.

2. The decrease of 15,000 common shares of treasury stock is due to the sale of odd-lot shares and the disposition of treasury stock as remuneration in the form of shares with a transfer restriction.

2. Matters concerning dividends

(1) Amount of dividends paid

| Resolution | Class of shares | Total dividend (Million yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual General Meeting of Shareholders on March 30, 2022 | Common shares | 3,197 | 15.0 | December 31, 2021 | March 31, 2022 |
| Board of Directors' meeting on August 8, 2022 | Common shares | 3,197 | 15.0 | June 30, 2022 | September 1, 2022 |

(2) Dividend payments for which the record date is in the current fiscal year and the effective date is in the following fiscal year

| Resolution | Class of shares | Total dividend (Million yen) | Source of dividends | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual General Meeting of Shareholders on March 30, 2023 | Common shares | 3,197 | Retained earnings | 15.0 | December 31, 2022 | March 31, 2023 |

Current fiscal year (January 1 to December 31, 2023)

1. Class and number of shares issued and treasury stock

| | Number of shares at beginning of fiscal year (Thousand shares) | Increase during fiscal year (Thousand shares) | Decrease during fiscal year (Thousand shares) | Number of shares at end of fiscal year (Thousand shares) |
|---|---|---|---|---|
| Shares issued | | | | |
| Common shares | 224,943 | - | - | 224,943 |
| Total | 224,943 | - | - | 224,943 |
| Treasury stock | | | | |
| Common shares (Notes) 1, 2 | 11,748 | 1 | 22 | 11,727 |
| Total | 11,748 | 1 | 22 | 11,727 |

(Notes) 1. The increase of 1,000 common shares of treasury stock is due to the repurchase of odd-lot shares.

2. The decrease of 22,000 common shares of treasury stock is due to the sale of odd-lot shares and the disposition of treasury stock as remuneration in the form of shares with a transfer restriction.

2. Matters concerning dividends

(1) Amount of dividends paid

| Resolution | Class of shares | Total dividend (Million yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual General Meeting of Shareholders on March 30, 2023 | Common shares | 3,197 | 15.0 | December 31, 2022 | March 31, 2023 |
| Board of Directors' meeting on August 8, 2023 | Common shares | 3,837 | 18.0 | June 30, 2023 | September 1, 2023 |

(2) Dividend payments for which the record date is in the current fiscal year and the effective date is in the following fiscal year

| Resolution | Class of shares | Total dividend (Million yen) | Source of dividends | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual General Meeting of Shareholders on March 28, 2024 | Common shares | 3,837 | Retained earnings | 18.0 | December 31, 2023 | March 29, 2024 |

(Notes regarding consolidated statements of cash flows)

* 1 Reconciliation of balance of cash and cash equivalents at the end of the period and those on consolidated balance sheet

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Cash and deposits | ¥70,909 million | ¥77,465 million |
| Time deposits with original maturities of more than three months | (21,532) | (21,005) |
| Cash and cash equivalents | 49,377 | 56,459 |

* 2 Principal assets and liabilities of companies that are no longer consolidated subsidiaries due to the transfer of all equity interests

Previous fiscal year (January 1 to December 31, 2022)

The breakdown of assets and liabilities at the time of transfer and the relationship between the sale price and proceeds from the sale of investments in Tokai Carbon (Tianjin) Co., Ltd., which is no longer a consolidated subsidiary due to the transfer of all equity interests, are as follows.

| | |
|---|---|
| Current assets | ¥3,705 million |
| Fixed assets | 2,272 |
| Current liabilities | (389) |
| Long-term liabilities | (168) |
| Foreign currency translation adjustments | (2,331) |
| Loss on sale of investments | (1,297) |
| Proceeds from sale of investments | 1,791 |
| Cash and cash equivalents | 1,050 |
| Difference: Proceeds from sales of investments in subsidiaries and associates resulting in a change in scope of consolidation | 740 |

Current fiscal year (January 1 to December 31, 2023)

Not applicable.

(Notes regarding lease transactions)

(As lessee)

1. Finance lease transactions

Finance lease transactions without title transfer

(1) Leased assets

1) Tangible fixed assets

These are primarily land and vehicles and transport equipment. Right-of-use assets held by some of the foreign subsidiaries under IFRS 16 are included in “Other, net” on the consolidated balance sheet.

2) Intangible assets

Consists of software

(2) Depreciation and amortization methods for leased assets

As described in “4. Matters concerning accounting policies, (2) Depreciation/amortization method for significant depreciable/amortizable assets” under “Significant basis for preparation of consolidated financial statements”.

(Details on impairment losses)

There are no impairment losses on leased assets.

2. Operating lease transactions

Future minimum lease payments under non-cancellable operating lease transactions

(Million yen)

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Due within 1 year | 22 | 33 |
| Due after more than 1 year | 28 | 34 |
| Total | 51 | 68 |

(Notes regarding financial instruments)

1. Matters concerning status of financial instruments

(1) Policy for financial instruments

To raise necessary funds for the business, the Group conducts direct financing through issuance of bonds payable and commercial papers, in addition to indirect financing through bank borrowings. In order to make efficient use of funds and reduce financial costs, the Group has introduced a Cash Management System (CMS) to centrally manage borrowing and lending among Group companies. It carries out derivative transactions to hedge against risks as described below and does not engage in such transactions for speculative purposes.

(2) Description of financial instruments and associated risks

Notes and accounts receivable, which are operating receivables, are exposed to credit risk arising from customer defaults. Operating receivables denominated in foreign currencies generated from global business operations are exposed to foreign exchange fluctuation risk.

Investment securities, primarily shares held for the purpose of strengthening the business base and management base, including business with partner companies and capital tie-ups, are exposed to the risk of market price fluctuations.

Notes and accounts payable and electronically recorded obligations, which are operating payables, are due for payment within one year. Certain operating payables are denominated in foreign currencies and are exposed to foreign exchange risk.

Short-term loans payable and commercial papers consist mainly of items aimed at raising short-term working capital, while loans payable and bonds payable consist mainly of items aimed at raising funds needed for capital investment.

Derivative transactions consist of foreign exchange forward contract transactions aimed at hedging against exchange rate fluctuation risks for foreign currency-denominated operating receivables and payables. In the Tokai Carbon Group, execution and management of derivative transactions is conducted in accordance with internal rules that stipulate the trading authority and to minimize credit risks associated with counterparty default, the Group only engages in derivative transactions with financial institutions that have high credit ratings. With regard to hedge accounting, the Company's hedging instruments, hedged items, hedging policy, and method for assessing the effectiveness of hedges are as described in "4. Matters concerning accounting policies, (7) Significant hedge accounting method" under "Significant basis for preparation of consolidated financial statements."

(3) Risk management system for financial instruments

1) Management of credit risk (risk pertaining to contractual default on the part of business partners)

With respect to operating receivables, the Group regularly monitors the status of major business partners and strives to manage credit limits, credit information, internal ratings, due dates and outstanding balances for each business partner in order to avoid risks of excessive credit concentration to specific business partners, establish guarantees and collateral, and quickly identify and mitigate any concerns about collection due to deterioration in financial conditions in accordance with the credit management rules.

2) Management of market risk

The Group hedges its net position in foreign currency-denominated operating receivables and payables through use of foreign exchange forward contracts as needed. With investment securities, the Group periodically monitors their market value and the financial position of the issuing entity (trading partner) and continually reviews the status of its investment holdings, factoring in its relationship with the business partners.

With regard to the risk of fluctuations in the prices of exchange rate and investment securities, the maximum amount of loss according to the statistical method is periodically measured and monitored using VaR (Value at Risk).

3) Management of liquidity risk related with financing activities

Although operating payables and borrowing, etc. are exposed to liquidity risks, the Group manages such risks by maintaining a certain amount of cash and deposits, diversifying fund procurement methods, acquiring overdraft agreements and loan commitment line contracts from multiple financial institutions, and adjusting the balance between short- and long-term funding in consideration of the market environment, in addition to managing funds for the entire company in a timely manner through the Cash Management System (CMS).

(4) Supplementary explanation on matters concerning market value of financial instruments, etc.

Because certain variables are factored into the calculation of the market value of financial instruments, the values obtained may vary when different assumptions, etc. are employed.

2. Matters concerning market value of financial instruments, etc.

Amount recorded on the consolidated balance sheet, market value, and differences between these are as outlined below. Notes are omitted for “cash and deposits,” “notes and accounts receivable,” “notes and accounts payable,” “electronically recorded obligations,” “short-term loans payable” and “commercial papers” because they are cash, and their market values are close to the book values since they are settled in a short period.

Previous fiscal year (December 31, 2022)

| | Amount recorded on consolidated balance sheet (Million yen) | Market value (Million yen) | Difference (Million yen) |
|---|---|---|---|
| Investment securities (*1) | 21,296 | 21,296 | - |
| Total assets | 21,296 | 21,296 | - |
| Bonds payable | 55,000 | 53,577 | (1,422) |
| Loans payable (*2) | 45,512 | 44,731 | (781) |
| Total liabilities | 100,512 | 98,308 | (2,203) |
| Derivative transactions (*3) | | | |
| 1) Transactions not subject to hedge accounting | 79 | 79 | - |
| 2) Transactions subject to hedge accounting | 295 | 295 | - |
| Total derivative transactions | 374 | 374 | - |

(*1) Stocks that do not have market prices are not included in “Investment securities.” The amount recorded on the consolidated balance sheet for such financial instrument is as follows.

| Category | Previous fiscal year (Million yen) |
|---|---|
| Unlisted stocks, etc. | 1,251 |

(*2) “Loans payable” includes current portion of loans payable.

(*3) Net receivables and payables arising from derivative transactions are shown.

Current fiscal year (December 31, 2023)

| | Amount recorded on consolidated balance sheet (Million yen) | Market value (Million yen) | Difference (Million yen) |
|---|---|---|---|
| Investment securities (*1) | 29,379 | 29,379 | - |
| Total assets | 29,379 | 29,379 | - |
| Bonds payable | 55,000 | 53,733 | (1,266) |
| Loans payable (*2) | 44,642 | 44,097 | (544) |
| Total liabilities | 99,642 | 97,831 | (1,811) |
| Derivative transactions (*3) | | | |
| 1) Transactions not subject to hedge accounting | 132 | 132 | - |
| 2) Transactions subject to hedge accounting | 414 | 414 | - |
| Total derivative transactions | 547 | 547 | - |

(*1) Stocks that do not have market prices are not included in "Investment securities." The amount recorded on the consolidated balance sheet for such financial instrument is as follows.

| Category | Current fiscal year (Million yen) |
|---|---|
| Unlisted stocks, etc. | 1,600 |

(*2) "Loans payable" includes current portion of loans payable.
(*3) Net receivables and payables arising from derivative transactions are shown.

(Note 1) Redemption schedule after the consolidated closing date for monetary claims

Previous fiscal year (December 31, 2022)

| | Due within 1 year (Million yen) | Due after 1 to 5 years (Million yen) | Due after 5 to 10 years (Million yen) | Due after more than 10 years (Million yen) |
|---|---|---|---|---|
| Cash and deposits | 70,909 | - | - | - |
| Notes and accounts receivable | 65,197 | - | - | - |
| Total | 136,106 | - | - | - |

Current fiscal year (December 31, 2023)

| | Due within 1 year (Million yen) | Due after 1 to 5 years (Million yen) | Due after 5 to 10 years (Million yen) | Due after more than 10 years (Million yen) |
|---|---|---|---|---|
| Cash and deposits | 77,465 | - | - | - |
| Notes and accounts receivable | 65,530 | - | - | - |
| Total | 142,995 | - | - | - |

(Note 2) Repayment schedule after the consolidated closing date for bonds payable, loans payable, and other interest-bearing debt

Previous fiscal year (December 31, 2022)

| | Due within 1 year (Million yen) | Due after 1 to 2 years (Million yen) | Due after 2 to 3 years (Million yen) | Due after 3 to 4 years (Million yen) | Due after 4 to 5 years (Million yen) | Due after more than 5 years (Million yen) |
|---|---|---|---|---|---|---|
| Short-term loans payable | 10,940 | - | - | - | - | - |
| Commercial papers | 60,000 | - | - | - | - | - |
| Bonds payable | - | - | - | 10,000 | - | 45,000 |
| Long-term loans payable | 9,805 | 1,494 | 6,537 | 1,530 | 1,144 | 25,000 |
| Total | 80,745 | 1,494 | 6,537 | 11,530 | 1,144 | 70,000 |

Current fiscal year (December 31, 2023)

| | Due within 1 year (Million yen) | Due after 1 to 2 years (Million yen) | Due after 2 to 3 years (Million yen) | Due after 3 to 4 years (Million yen) | Due after 4 to 5 years (Million yen) | Due after more than 5 years (Million yen) |
|---|---|---|---|---|---|---|
| Short-term loans payable | 7,000 | - | - | - | - | - |
| Commercial papers | 60,000 | - | - | - | - | - |
| Bonds payable | - | - | 10,000 | - | - | 45,000 |
| Long-term loans payable | 3,218 | 8,277 | 3,262 | 2,874 | 1,054 | 25,955 |
| Total | 70,218 | 8,277 | 13,262 | 2,874 | 1,054 | 70,955 |

3. Matters concerning the breakdown of the fair value of financial instruments by their level

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of the inputs to fair value measurement.

Level 1 fair value: Among the observable inputs to fair value measurement, fair value measured based on the quoted prices of assets or liabilities subject to the measurement of such fair value in active markets.

Level 2 fair value: Among the observable inputs to fair value measurement, fair value measured using inputs to fair value measurement other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs to fair value measurement.

When multiple inputs that have a significant impact on the fair value measurement are used, the fair value is classified into the lowest priority level in the fair value measurement among the levels to which these inputs belong.

(1) Financial instruments recorded on consolidated balance sheets in fair value

Previous fiscal year (December 31, 2022)

| | Fair value (Million yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | | | | |
| Shares | 21,296 | - | - | 21,296 |
| Derivative transactions | | | | |
| Currency-related | - | 374 | - | 374 |
| Total assets | 21,296 | 374 | - | 21,671 |

Current fiscal year (December 31, 2023)

| | Fair value (Million yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities<br>Other securities<br>Shares | 29,379 | - | - | 29,379 |
| Derivative transactions<br>Currency-related | - | 547 | - | 547 |
| Total assets | 29,379 | 547 | - | 29,926 |

(2) Financial instruments other than financial instruments recorded on consolidated balance sheets in fair value

Previous fiscal year (December 31, 2022)

| Category | Fair value (Million yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Bonds payable | - | 53,577 | - | 53,577 |
| Long-term loans payable | - | 44,731 | - | 44,731 |
| Total liabilities | - | 98,308 | - | 98,308 |

Current fiscal year (December 31, 2023)

| Category | Fair value (Million yen) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Bonds payable | - | 53,733 | - | 53,733 |
| Long-term loans payable | - | 44,097 | - | 44,097 |
| Total liabilities | - | 97,831 | - | 97,831 |

Note: Explanation of the valuation techniques used in the fair value measurement and the inputs to fair value measurement.

Investment securities

All investment securities are listed stocks and valued using quoted prices. Since listed stocks are traded in an active market, the fair value is classified as a Level 1 fair value.

Derivative transactions

Since derivative transactions are over-the-counter transactions and there is no published quoted price, they are measured based on prices, etc. provided by the financial institutions with which the Company does business, and they are classified as Level 2 fair value.

Bonds payable

The fair value of bonds payable issued by the Company is measured based on present value as calculated by discounting the sum of principal and interest by an interest rate factoring in credit risk and the remaining maturity for the relevant bonds, and they are classified as Level 2 fair value.

Long-term loans payable

Among long-term loans payable, items based on variable interest rates reflect market rates at short intervals, and the credit standing of the Company involved therein has not changed significantly. As such, book value is considered to be almost equal to market value, and the book value is stated for these items. For items based on fixed interest rates, figures are based on present value as calculated by discounting the sum of principal and interest of loans classified by agreements by an interest rate factoring in credit risk and the remaining maturity for the relevant debts, and they are classified as Level 2 fair value.

(Notes regarding marketable securities)

1. Other securities

Previous fiscal year (December 31, 2022)

| | Type | Amount recorded on consolidated balance sheet (Million yen) | Acquisition cost (Million yen) | Difference (Million yen) |
|---|---|---|---|---|
| Amount recorded on consolidated balance sheet above acquisition cost | (1) Shares | 19,324 | 5,521 | 13,802 |
| | (2) Bonds | - | - | - |
| | (3) Other | - | - | - |
| | Subtotal | 19,324 | 5,521 | 13,802 |
| Amount recorded on consolidated balance sheet not above acquisition cost | (1) Shares | 1,972 | 2,271 | (299) |
| | (2) Bonds | - | - | - |
| | (3) Other | - | - | - |
| | Subtotal | 1,972 | 2,271 | (299) |
| Total | | 21,296 | 7,793 | 13,503 |

(Note) Unlisted stocks (¥193 million recorded on the consolidated balance sheet) have no market prices. As such, they are not included in “Other securities” in the above table.

Current fiscal year (December 31, 2023)

| | Type | Amount recorded on consolidated balance sheet (Million yen) | Acquisition cost (Million yen) | Difference (Million yen) |
|---|---|---|---|---|
| Amount recorded on consolidated balance sheet above acquisition cost | (1) Shares | 28,212 | 6,622 | 21,590 |
| | (2) Bonds | - | - | - |
| | (3) Other | - | - | - |
| | Subtotal | 28,212 | 6,622 | 21,590 |
| Amount recorded on consolidated balance sheet not above acquisition cost | (1) Shares | 1,166 | 1,360 | (193) |
| | (2) Bonds | - | - | - |
| | (3) Other | - | - | - |
| | Subtotal | 1,166 | 1,360 | (193) |
| Total | | 29,379 | 7,982 | 21,396 |

(Note) Unlisted stocks (¥207 million recorded on the consolidated balance sheet) have no market prices. As such, they are not included in “Other securities” in the above table.

2. Other securities sold

Previous fiscal year (January 1 to December 31, 2022)

| Type | Sale price (Million yen) | Total gain on sale (Million yen) | Total loss on sale (Million yen) |
|---|---|---|---|
| Shares | 612 | 544 | - |
| Other | 0 | - | (0) |

Current fiscal year (January 1 to December 31, 2023)

| Type | Sale price (Million yen) | Total gain on sale (Million yen) | Total loss on sale (Million yen) |
|---|---|---|---|
| Shares | 540 | 378 | (39) |
| Other | 26 | 22 | - |

3. Securities for which impairment losses recognized

Previous fiscal year (January 1 to December 31, 2022)

The Company recorded an impairment loss of ¥116 million for marketable securities (¥116 million for shares in other securities). With respect to impairment loss, if the market value at the end of the fiscal year falls by 50% or more compared to acquisition cost, impairment loss is recorded for the whole amount. If it falls by 30% to 50%, impairment loss is recorded for the amount deemed necessary considering the recoverability and other factors.

Current fiscal year (January 1 to December 31, 2023)
Not applicable.

(Notes regarding derivative transactions)

1. Derivative transactions not subject to hedge accounting

Currency-related transactions

Previous fiscal year (December 31, 2022)

| Category | Type of transaction | Contract amount (Million yen) | Amount due after more than 1 year (Million yen) | Fair value (Million yen) | Valuation gain/loss (Million yen) |
|---|---|---|---|---|---|
| Non-market transactions | Foreign exchange forward contract transactions | | | | |
| | Sold | | | | |
| | USD | 5,284 | - | (6) | (6) |
| | EUR | 2,822 | - | 84 | 84 |
| | Purchased | | | | |
| | JPY | 400 | - | 1 | 1 |
| Total | | 8,507 | - | 79 | 79 |

(Note) Method for calculating fair value
Fair value is calculated based on prices, etc. provided by financial institutions, etc. with which the Company does business.

Current fiscal year (December 31, 2023)

| Category | Type of transaction | Contract amount (Million yen) | Amount due after more than 1 year (Million yen) | Fair value (Million yen) | Valuation gain/loss (Million yen) |
|---|---|---|---|---|---|
| Non-market transactions | Foreign exchange forward contract transactions | | | | |
| | Sold | | | | |
| | USD | 4,590 | 340 | 92 | 92 |
| | EUR | 1,791 | 471 | 32 | 32 |
| | CNY | 237 | - | 1 | 1 |
| | Purchased | | | | |
| | JPY | 319 | - | 6 | 6 |
| Total | | 6,937 | 811 | 132 | 132 |

(Note) Method for calculating fair value
Fair value is calculated based on prices, etc. provided by financial institutions, etc. with which the Company does business.

2. Derivative transactions subject to hedge accounting

Currency-related transactions

Previous fiscal year (December 31, 2022)

| Hedge accounting method | Type of transaction | Major hedged items | Contract amount (Million yen) | Amount due after more than 1 year (Million yen) | Fair value (Million yen) |
|---|---|---|---|---|---|
| Principle treatment method | Foreign exchange forward contract transactions<br>Sold<br>EUR | Forecast foreign currency transactions | 7,957 | - | 295 |
| Total | | | 7,957 | - | 295 |

(Note) Method for calculating fair value

Fair value is calculated based on prices, etc. provided by financial institutions, etc. with which the Company does business.

Current fiscal year (December 31, 2023)

| Hedge accounting method | Type of transaction | Major hedged items | Contract amount (Million yen) | Amount due after more than 1 year (Million yen) | Fair value (Million yen) |
|---|---|---|---|---|---|
| Principle treatment method | Foreign exchange forward contract transactions<br>Sold<br>EUR | Forecast foreign currency transactions | 5,656 | - | 414 |
| Total | | | 5,656 | - | 414 |

(Note) Method for calculating fair value

Fair value is calculated based on prices, etc. provided by financial institutions, etc. with which the Company does business.

(Notes regarding retirement benefits)

1. Overview of adopted retirement benefit program

The Company and some of its consolidated subsidiaries have adopted a retirement benefit program comprised of a defined benefit plan (defined benefit corporate pension plan), a lump-sum retirement allowance plan, a defined contribution plan, or a combination of these.
Some consolidated subsidiaries employ a simplified method for calculating retirement benefit obligations.

2. Defined benefit plan

(1) Reconciliation of beginning and ending balance of retirement benefit obligations (excluding plans using simplified method as stated in (3) below)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Retirement benefit obligation at beginning of period | ¥13,885 million | ¥13,011 million |
| Service cost | 602 | 590 |
| Interest cost | 197 | 333 |
| Actuarial differences | (2,127) | 673 |
| Retirement benefits paid | (453) | (558) |
| Foreign currency translation gains (losses) | 906 | 675 |
| Retirement benefit obligation at end of period | 13,011 | 14,725 |

(2) Reconciliation of beginning and ending balance of pension assets (excluding plans using a simplified method as stated in (3) below)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Pension assets at beginning of period | ¥11,150 million | ¥10,483 million |
| Expected return on plan assets | 67 | 91 |
| Actuarial differences | (1,143) | 1,137 |
| Employer contributions | 404 | 412 |
| Retirement benefits paid | (299) | (338) |
| Foreign currency translation gains (losses) | 304 | 130 |
| Pension assets at end of period | 10,483 | 11,917 |

(3) Reconciliation of beginning and ending balance of retirement benefit liability for plans to which a simplified accounting method is applied

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Retirement benefit liability at beginning of period | ¥1,104 million | ¥1,111 million |
| Retirement benefit expenses | 102 | 116 |
| Retirement benefits paid | (94) | (128) |
| Retirement benefit liability at end of period | 1,111 | 1,100 |

(4) Reconciliation of balance of retirement benefit obligations and pension assets at end of fiscal year and retirement benefit liability and asset recorded on consolidated balance sheet

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Retirement benefit obligation for funded plans | ¥8,266 million | ¥8,945 million |
| Pension assets | (10,483) | (11,917) |
| | (2,216) | (2,971) |
| Retirement benefit obligation for unfunded plans | 5,856 | 6,879 |
| Net liability and asset recorded on consolidated balance sheet | 3,640 | 3,908 |
| | | |
| Retirement benefit liability | 6,567 | 7,720 |
| Net defined benefit asset | (2,927) | (3,811) |
| Net liability and asset recorded on consolidated balance sheet | 3,640 | 3,908 |

(Note) Figures include plans to which a simplified accounting method is applied.

(5) Retirement benefit expenses and breakdown

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Service cost | ¥602 million | ¥590 million |
| Interest cost | 197 | 333 |
| Expected return on plan assets | (67) | (91) |
| Amortization of actuarial differences | (415) | (439) |
| Retirement benefit expenses calculated by simplified method | 102 | 116 |
| Retirement benefit expenses related to defined benefit plans | 419 | 508 |

(6) Remeasurements of defined benefit plans

The breakdown of items (prior to tax effect deduction) recorded as remeasurements of defined benefit plans is shown below.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Actuarial differences | ¥757 million | ¥178 million |
| Total | 757 | 178 |

(7) Cumulative remeasurements of defined benefit plans

The breakdown of items (prior to tax effect deduction) recorded as cumulative remeasurements of defined benefit plans is shown below.

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Unrecognized actuarial differences | ¥3,311 million | ¥3,489 million |
| Total | 3,311 | 3,489 |

(8) Matters concerning pension assets

1) Breakdown of major pension assets

Weightings within the total amount of pension assets for major categories are as follows.

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Bonds | 41% | 39% |
| Stock | 41 | 43 |
| General accounts | 17 | 15 |
| Other | 1 | 2 |
| Total | 100 | 100 |

2) Method for setting long-term expected rate of return

The current and projected allocation of pension assets and the current and future long-term rates of return for the diverse assets that comprise the pool of pension assets are considered when determining the long-term expected rate of return on pension assets.

(9) Matters concerning basis for actuarial calculations

Major assumptions in actuarial calculations are as follows:

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Discount rate | 0.5 ~ 6.9% | 0.5 ~ 4.9% |
| Long-term expected rate of return | 0.0 ~ 3.8% | 0.0 ~ 3.8% |

3. Defined contribution plan

Contributions required by defined contribution plans of consolidated subsidiaries totaled ¥853 million in the previous fiscal year and ¥1,119 million for the current fiscal year.

4. Multi-employer plan

There is no required contribution to the multi-employer employee pension plan, which is accounted for in the same manner as the defined contribution plan.

(Notes regarding tax effect accounting)

1. Breakdown of deferred tax assets and liabilities by major cause

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Deferred tax assets | | |
| Retirement benefit liability | ¥2,775 million | ¥3,165 million |
| Excess depreciation and amortization | 4,171 | 4,681 |
| Tax credits carryforward | 1,398 | 2,932 |
| Tax loss carryforward (Note) 2 | 9,777 | 8,885 |
| Other | 3,701 | 4,282 |
| Deferred tax assets (subtotal) | 21,823 | 23,947 |
| Valuation allowance for tax loss carryforward (Note) 2 | - | (3,792) |
| Valuation allowance for total deductible temporary difference | (2,070) | (2,307) |
| Valuation allowance (subtotal) (Note) 1 | (2,070) | (6,100) |
| Total deferred tax assets | 19,753 | 17,847 |
| Amount offset by deferred tax liabilities | (17,543) | (17,354) |
| Net deferred tax assets | 2,210 | 492 |
| Deferred tax liabilities | | |
| Valuation difference on other securities | (3,911) | (6,279) |
| Valuation difference on consolidated subsidiaries | (13,600) | (12,872) |
| Reserve for reduction entry of fixed assets | (2,124) | (2,254) |
| Retained earnings of overseas subsidiaries | (4,722) | (5,390) |
| Shortfall of depreciation | (9,878) | (12,208) |
| Net defined benefit asset | (2,482) | (3,095) |
| Redemption of shares of subsidiaries and associates | (3,124) | (3,124) |
| Other | (1,870) | (2,379) |
| Total deferred tax liabilities | (41,714) | (47,605) |
| Amount offset by deferred tax assets | 17,543 | 17,354 |
| Net deferred tax liabilities | (24,171) | (30,251) |

(Notes) 1. Valuation allowance increased by ¥4,029 million. The main reason for this increase is an increase in valuation allowance related to loss carried forward from a review of the recoverability of deferred tax assets in TOKAI ERFTCARBON GmbH, a consolidated subsidiary.

2. Tax loss carryforwards and their deferred tax assets by expiration period

Previous fiscal year (December 31, 2022)

| | Due within 1 year | Due after 1 to 2 years | Due after 2 to 3 years | Due after 3 to 4 years | Due after 4 to 5 years | Due after more than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carryforward (a) | - | - | - | - | - | 9,777 | ¥9,777 million |
| Valuation allowance | - | - | - | - | - | - | - |
| Deferred tax assets | - | - | - | - | - | 9,777 | (b) 9,777 |

(a) Tax loss carryforward was calculated by multiplying statutory tax rate.

(b) The ¥9,777 million in deferred tax assets was recognized for tax loss carryforwards of ¥9,777 million (amount multiplied by the statutory tax rate). The ¥9,777 million in deferred tax assets stemmed mainly from recognizing the full amount of tax loss carryforwards for our Company which totaled ¥4,970 million (amount multiplied by the statutory tax rate), for consolidated subsidiary TOKAI ERFTCARBON GmbH which totaled ¥1,792 million (amount multiplied by the statutory tax rate), and for consolidated subsidiary TOKAI CARBON US HOLDINGS INC. which totaled ¥1,230 million (amount multiplied by the statutory tax rate). No valuation allowance was recognized for the tax loss carryforwards, which was recognized as the relevant deferred tax assets, because these were determined to be recoverable based on expected future taxable income.

Current fiscal year (December 31, 2023)

| | Due within 1 year | Due after 1 to 2 years | Due after 2 to 3 years | Due after 3 to 4 years | Due after 4 to 5 years | Due after more than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carryforward (c) | - | - | - | - | - | 8,885 | ¥8,885 million |
| Valuation allowance | - | - | - | - | - | (3,792) | (3,792) |
| Deferred tax assets | - | - | - | - | - | 5,092 | (d) 5,092 |

(c) Tax loss carryforward was calculated by multiplying statutory tax rate.

(d) The ¥5,092 million in deferred tax assets was recognized for tax loss carryforwards of ¥8,885 million (amount multiplied by the statutory tax rate). The ¥5,092 million in deferred tax assets stemmed mainly from recognizing the full amount of tax loss carryforwards for our Company which totaled ¥3,732 million (amount multiplied by the statutory tax rate). No valuation allowance was recognized for the tax loss carryforwards, which was recognized as the relevant deferred tax assets, because these were determined to be recoverable based on expected future taxable income.

2. Breakdown of items that caused significant differences between the statutory tax rate and the effective income tax rate after application of tax effect accounting

| | Previous fiscal year (December 31, 2022) | Current fiscal year (December 31, 2023) |
|---|---|---|
| Statutory tax rate | 30.0% | 30.0% |
| (Adjustment) | | |
| Entertainment expenses and other permanently non-deductible expenses | 1.1 | 0.5 |
| Dividend income and other permanently non-taxable income | (0.7) | (0.1) |
| Amortization of goodwill | 5.4 | 5.8 |
| Increase (decrease) in valuation allowance | (0.8) | 9.1 |
| Difference in tax rates applied at overseas subsidiaries | (5.5) | (8.6) |
| Tax credits | (0.1) | (8.0) |
| Retained earnings of overseas subsidiaries | 2.7 | 1.9 |
| Foreign withholding tax | 0.5 | 0.4 |
| Unrecognized tax effect of unrealized gains | 1.2 | - |
| Other | 1.5 | 0.5 |
| Effective tax rate after application of tax effect accounting | 35.1 | 31.5 |

(Notes regarding asset retirement obligations)

The end of previous fiscal year (December 31, 2022)
Disclosure omitted due to lack of materiality.

The end of current fiscal year (December 31, 2023)
Disclosure omitted due to lack of materiality.

(Notes regarding real estate for lease)

Previous fiscal year (January 1 to December 31, 2022)
Disclosure omitted due to lack of materiality.

Current fiscal year (January 1 to December 31, 2023)
Disclosure omitted due to lack of materiality.

(Notes regarding revenue recognition)

1. Breakdown of revenue from contracts with customers

Previous fiscal year (January 1 to December 31, 2022)

(Million yen)

| | Reportable segment | | | | | | Other Operations (Note) | Total |
|---|---|---|---|---|---|---|---|---|
| | Graphite Electrodes | Carbon Black | Fine Carbon | Smelting and Lining | Industrial Furnaces and Related Products | Total | | |
| Japan | 8,486 | 35,352 | 5,209 | 46 | 10,379 | 59,473 | 10,077 | 69,550 |
| Asia | 1,713 | 30,745 | 22,326 | 18,273 | 5,460 | 78,520 | 823 | 79,343 |
| North America | 33,678 | 67,404 | 18,580 | 9,616 | 171 | 129,451 | - | 129,451 |
| Europe | 13,218 | 2,831 | 3,138 | 12,493 | 183 | 31,865 | 436 | 32,302 |
| Middle East and Other | 2,533 | 2,150 | 139 | 24,772 | 76 | 29,673 | 49 | 29,723 |
| External sales | 59,630 | 138,484 | 49,393 | 65,203 | 16,272 | 328,984 | 11,387 | 340,371 |

(Note) "Other Operations" is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.

Current fiscal year (January 1 to December 31, 2023)

(Million yen)

| | Reportable segment | | | | | | Other Operations (Note) | Total |
|---|---|---|---|---|---|---|---|---|
| | Graphite Electrodes | Carbon Black | Fine Carbon | Smelting and Lining | Industrial Furnaces and Related Products | Total | | |
| Japan | 7,337 | 41,439 | 6,994 | - | 8,866 | 64,637 | 10,209 | 74,847 |
| Asia | 1,616 | 30,124 | 23,909 | 17,558 | 5,867 | 79,077 | 728 | 79,805 |
| North America | 35,212 | 72,448 | 9,819 | 14,190 | 619 | 132,290 | - | 132,290 |
| Europe | 15,180 | 2,850 | 4,447 | 16,099 | 156 | 38,734 | 520 | 39,255 |
| Middle East and Other | 890 | 1,560 | 147 | 34,971 | 104 | 37,674 | 73 | 37,748 |
| External sales | 60,235 | 148,423 | 45,319 | 82,820 | 15,614 | 352,414 | 11,532 | 363,946 |

(Note) "Other Operations" is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.

2. Information that serves as the basis for understanding revenue from contracts with customers

Please refer to "Notes to Consolidated Financial Statements (Significant basis for preparation of consolidated financial statements) 4. Matters concerning accounting policies (5) Standards for significant revenues and expenses."

3. Information regarding the relationship between fulfillment of performance obligations based on contracts with customers and cash flows arising from such contracts, and information on the amount and timing of revenue expected to be recognized after the current fiscal year from contracts with customers existing at the end of the current fiscal year

(1) Balance of contract assets and contract liabilities

Disclosure of contract assets and contract liabilities is omitted because their balances are not significant, and no significant changes have occurred.

(2) Transaction price allocated to the remaining performance obligations

Disclosure of transaction prices allocated to the remaining performance obligations is omitted by applying the practical expedient as there are no significant contracts with expected contract term longer than a year. There are no significant amounts of consideration arising from contracts with customers that are not included in the transaction prices.

(Segment information, etc.)

Segment information

1. Overview of reportable segments

The Company's reportable segments are those components of the Company for which discrete financial information is available and that are subject to regular reviews by the Board of Directors to determine the allocation of managerial resources and to evaluate business performance.

The Company establishes product-specific divisions at the head office, and each division carries out business activities by formulating comprehensive domestic and overseas strategies for the products that it handles.

Accordingly, the Company is composed of product-specific segments based on divisions, and its five reportable segments are the Graphite Electrodes business, Carbon Black business, Fine Carbon business, Smelting and Lining business, and Industrial Furnaces and Related Products business.

The major products of each reportable segment are as follows.

| Reportable Segments | Major Products |
|---|---|
| Graphite Electrodes | Graphite electrodes for electric furnaces |
| Carbon Black | Carbon black (for rubber products, black pigment, electric conduction) |
| Fine Carbon | Specialty graphite materials, solid SiC, SiC coating |
| Smelting and Lining | Cathodes for aluminum electrolysis, lining blocks for blast furnaces, carbon electrodes, etc. |
| Industrial Furnaces and Related Products | Industrial electric furnaces, silicon carbide heating elements |

2. Methods for calculating the amounts of net sales, operating income or loss, assets and other account items for each reportable segment

The accounting methods adopted for reportable business segments are the same as those outlined in "Significant basis for preparation of consolidated financial statements."

Figures shown as income for reportable segments are based on operating income.

Figures for intersegment sales/transfers are based on prevailing market prices.

3. Information on the amounts of net sales, operating income or loss, assets, and other account items for each reportable segment

Previous fiscal year (January 1 to December 31, 2022)

(Million yen)

| | Reportable Segment | | | | | | Other Operations (Note) 1 | Total | Adjustments (Note) 2 | Amount recorded in consolidated financial statements (Note) 3 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Graphite Electrode | Carbon Black | Fine Carbon | Smelting and Lining | Industrial Furnaces and Related Products | Total | | | | |
| Net sales | | | | | | | | | | |
| External sales | 59,630 | 138,484 | 49,393 | 65,203 | 16,272 | 328,984 | 11,387 | 340,371 | - | 340,371 |
| Intersegment sales/transfers | 310 | 60 | 155 | 409 | 479 | 1,415 | 34 | 1,449 | (1,449) | - |
| Total | 59,940 | 138,545 | 49,549 | 65,612 | 16,751 | 330,399 | 11,421 | 341,820 | (1,449) | 340,371 |
| Segment income | 8,032 | 12,282 | 14,825 | 1,345 | 4,475 | 40,960 | 1,108 | 42,069 | (1,480) | 40,588 |
| Segment assets | 95,430 | 165,576 | 108,382 | 161,035 | 26,774 | 557,198 | 10,365 | 567,564 | 8,900 | 576,465 |
| Other items | | | | | | | | | | |
| Depreciation and amortization | 4,930 | 7,557 | 4,754 | 8,889 | 322 | 26,453 | 480 | 26,934 | 525 | 27,460 |
| Investment in equity method associates | - | - | 1,058 | - | - | 1,058 | - | 1,058 | - | 1,058 |
| Increase in tangible and intangible fixed assets | 6,238 | 26,162 | 7,027 | 6,461 | 978 | 46,868 | 684 | 47,552 | 598 | 48,150 |

(Notes) 1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.

2. The adjustment amounts are as follows.

(1) The (¥1,480 million) adjustment in segment income includes company-wide expenses of (¥1,322 million) that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.

(2) The adjustment of segment assets, which is ¥8,900 million, includes ¥18,296 million of company-wide assets that are not allocated to each reportable segment. The main components of company-wide assets are surplus funds (e.g., cash and deposits) and investment securities.

(3) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥598 million, is the amount of capital expenditure of the company-wide assets that is not allocated to each reportable segment.

3. Segment income is adjusted with operating income as reported in the consolidated financial statements.

Current fiscal year (January 1 to December 31, 2023)

(Million yen)

| | Reportable Segment | | | | | | Other Operations (Note) 1 | Total | Adjustments (Note) 2 | Amount recorded in consolidated financial statements (Note) 3 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Graphite Electrode | Carbon Black | Fine Carbon | Smelting and Lining | Industrial Furnaces and Related Products | Total | | | | |
| Net sales | | | | | | | | | | |
| External sales | 60,235 | 148,423 | 45,319 | 82,820 | 15,614 | 352,414 | 11,532 | 363,946 | - | 363,946 |
| Intersegment sales/transfers | 394 | 21 | 126 | 475 | 332 | 1,350 | - | 1,350 | (1,350) | - |
| Total | 60,630 | 148,445 | 45,445 | 83,296 | 15,947 | 353,764 | 11,532 | 365,297 | (1,350) | 363,946 |
| Segment income | 752 | 21,303 | 10,617 | 2,305 | 3,860 | 38,838 | 1,299 | 40,138 | (1,409) | 38,728 |
| Segment assets | 97,456 | 202,831 | 121,291 | 171,051 | 28,853 | 621,486 | 10,738 | 632,224 | 7,780 | 640,005 |
| Other items | | | | | | | | | | |
| Depreciation and amortization | 5,070 | 7,287 | 5,282 | 10,083 | 350 | 28,073 | 483 | 28,556 | 508 | 29,065 |
| Investment in equity method associates | - | - | 1,393 | - | - | 1,393 | - | 1,393 | - | 1,393 |
| Increase in tangible and intangible fixed assets | 5,147 | 27,207 | 10,640 | 8,292 | 690 | 51,979 | 476 | 52,455 | 860 | 53,316 |

(Notes) 1. The Other Operations segment is a business segment that is not included among reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.

2. The adjustment amounts are as follows.

(1) The (¥1,409 million) adjustment in segment income includes company-wide expenses of (¥1,532 million) that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.

(2) The adjustment of segment assets, which is ¥7,780 million, includes ¥27,837 million of company-wide assets that are not allocated to each reportable segment. The main components of company-wide assets are surplus funds (e.g., cash and deposits) and investment securities.

(3) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥860 million, is the amount of capital expenditure of the company-wide assets that is not allocated to each reportable segment.

3. Segment income is adjusted with operating income as reported in the consolidated financial statements.

Related Information

Previous fiscal year (January 1 to December 31, 2022)

1. Information by product and service

Because the same information is disclosed in the segment information, this entry is omitted here.

2. Information by region

(1) Net sales

(Million yen)

| US | Japan | Asia | Europe | Other regions | Total |
|---|---|---|---|---|---|
| 117,909 | 69,550 | 79,343 | 32,302 | 41,266 | 340,371 |

(Note) Net sales are based on customer locations and are classified into countries or regions.

(2) Tangible fixed assets

(Million yen)

| US | Japan | Poland | Thailand | Other regions | Total |
|---|---|---|---|---|---|
| 69,002 | 33,674 | 21,361 | 13,014 | 44,894 | 181,948 |

3. Information by major customer

Within external sales, there is no individual customer that accounts for 10% or more of net sales as shown on the consolidated statement of income. Therefore, this entry is omitted here.

Current fiscal year (January 1 to December 31, 2023)

1. Information by product and service

Because the same information is disclosed in the segment information, this entry is omitted here.

2. Information by region

(1) Net sales

(Million yen)

| US | Japan | Asia | Europe | Other regions | Total |
|---|---|---|---|---|---|
| 115,972 | 74,847 | 79,805 | 39,255 | 54,066 | 363,946 |

(Note) Net sales are based on customer locations and are classified into countries or regions.

(2) Tangible fixed assets

(Million yen)

| US | Japan | Poland | Thailand | Other regions | Total |
|---|---|---|---|---|---|
| 83,335 | 36,773 | 26,651 | 22,669 | 54,374 | 223,804 |

(Change in Presentation Method)

The tangible fixed assets “Thailand”, which was included in “Asia” in the previous fiscal year, is reported separately from the current fiscal year due to an increase in the materiality of the amount. “2. Information by region (2) Tangible fixed assets” for the previous fiscal year has been reclassified to reflect this change in presentation.

As a result, 28,900 million yen in “Asia” and 29,008 million yen in “Other regions” have been reclassified as 13,014 million yen in “Thailand” and 44,894 million yen in “Other regions” for the previous fiscal year.

3. Information by major customer

Within external sales, there is no individual customer that accounts for 10% or more of net sales as shown on the consolidated statement of income. Therefore, this entry is omitted here.

[Information on impairment loss of non-current assets for each reportable segment]

Previous fiscal year (January 1 to December 31, 2022)

Not applicable

Current fiscal year (January 1 to December 31, 2023)

Not applicable

[Information regarding goodwill amortization and unamortized balance by reportable segment]

Previous fiscal year (January 1 to December 31, 2022)

(Million yen)

| | Reportable Segment | | | | | | Eliminations /unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| | Graphite Electrodes | Carbon Black | Fine Carbon | Smelting and Lining | Industrial Furnaces and Related Products | Total | | |
| Amount amortized | 586 | 652 | 1,690 | 4,593 | - | 7,522 | - | 7,522 |
| Balance at end of period | 2,862 | 5,210 | 12,991 | 31,772 | - | 52,837 | - | 52,837 |

Current fiscal year (January 1 to December 31, 2023)

(Million yen)

| | Reportable Segment | | | | | | Eliminations /unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| | Graphite Electrodes | Carbon Black | Fine Carbon | Smelting and Lining | Industrial Furnaces and Related Products | Total | | |
| Amount amortized | 627 | 680 | 1,789 | 5,058 | - | 8,155 | - | 8,155 |
| Balance at end of period | 2,426 | 4,953 | 11,772 | 30,058 | - | 49,212 | - | 49,212 |

[Information regarding profit on negative goodwill by reportable segment]

Previous fiscal year (January 1 to December 31, 2022)

Not applicable

Current fiscal year (January 1 to December 31, 2023)

Not applicable

[Information regarding related parties]

Previous fiscal year (January 1 to December 31, 2022)

Not applicable

Current fiscal year (January 1 to December 31, 2023)

Not applicable

(Per-share information)

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Net assets per share | 1,260.95 yen | 1,521.89 yen |
| Net income per share | 105.16 yen | 119.45 yen |

(Notes) 1. Diluted net income per share is not shown due to the absence of dilutive shares.
2. The basis for calculating net income per share is as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Current fiscal year (January 1 to December 31, 2023) |
|---|---|---|
| Net income attributable to owners of the parent (million yen) | 22,418 | 25,468 |
| Amount not attributable to common shareholders (million yen) | - | - |
| Net income attributable to owners of the parent related to common shares (million yen) | 22,418 | 25,468 |
| Average number of common shares during period (thousands of shares) | 213,190 | 213,209 |

(Significant subsequent events)

Not applicable

5) Consolidated Supplementary Schedules

Schedule of Bonds Payable

| Company name | Name | Date of issue | Balance at beginning of period (Million yen) | Balance at end of period (Million yen) | Interest rate (%) | Collateral | Maturity |
|---|---|---|---|---|---|---|---|
| Tokai Carbon Co., Ltd. | 1st Unsecured Bonds with Deferred Interest Payments and Premature Redemption (Subordinated) | December 10, 2019 | 25,000 | 25,000 | 0.82 (Note 1) | None | December 10, 2049 |
| Tokai Carbon Co., Ltd. | 2nd Unsecured Bonds with Deferred Interest Payments and Premature Redemption (Subordinated) | June 30, 2020 | 20,000 | 20,000 | 1.77 (Note 2) | None | June 30, 2050 |
| Tokai Carbon Co., Ltd. | 2nd Unsecured Bonds | June 23, 2021 | 10,000 | 10,000 | 0.12 | None | June 23, 2026 |
| Total | - | - | 55,000 | 55,000 | - | - | - |

(Notes) 1. Fixed interest rate from the day after December 10, 2019 to December 10, 2024; variable interest rate from the day after December 10, 2024 (interest rate shall step up on the day after December 10, 2024).

2. Fixed interest rate from the day after June 30, 2020 to June 30, 2030; variable interest rate from the day after June 30, 2030 (interest rate shall step up on the day after June 30, 2030).

3. Bonds due for redemption within five years of the consolidated closing date are as follows.

| Due within 1 year (Million yen) | Due after 1 to 2 years (Million yen) | Due after 2 to 3 years (Million yen) | Due after 3 to 4 years (Million yen) | Due after 4 to 5 years (Million yen) |
|---|---|---|---|---|
| - | - | 10,000 | - | - |

Schedule of Loans Payable

| Category | Balance at beginning of period (Million yen) | Balance at end of period (Million yen) | Average interest rate (%) | Repayment date |
|---|---|---|---|---|
| Short-term loans payable | 10,940 | 7,000 | 0.2 | - |
| Current portion of long-term loans payable | 9,805 | 3,218 | 0.4 | - |
| Current portion of lease obligations | 970 | 1,121 | - | - |
| Commercial paper | 60,000 | 60,000 | 0.0 | - |
| Long-term loans payable (excluding current portion) | 35,706 | 41,424 | 0.8 | 2025 to 2049 |
| Lease obligations (excluding current portion) | 3,511 | 3,515 | - | 2025 to 2097 |
| Other interest-bearing debt (long-term) | 664 | 671 | 0.9 | - |
| Total | 121,599 | 116,951 | - | - |

(Notes) 1. The average interest rate represents the weighted-average rate. This rate was calculated based on interest rates and balances at the end of the fiscal year.

2. The average interest rate for lease obligations is not shown, as the amount of lease obligations is recorded on the consolidated balance sheet as the amount before deducting the interest equivalent amount included in the entire lease fee.

3. The redemption schedule for long-term loans payable and lease obligations (excluding current portion) for the five years subsequent to the consolidated closing date is as follows.

| Category | Due after 1 to 2 years (Million yen) | Due after 2 to 3 years (Million yen) | Due after 3 to 4 years (Million yen) | Due after 4 to 5 years (Million yen) |
|---|---|---|---|---|
| Long-term loans payable | 8,277 | 3,262 | 2,874 | 1,054 |
| Lease obligations | 702 | 587 | 471 | 350 |

Schedule of Asset Retirement Obligations

In accordance with Article 92-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the schedule of asset retirement obligations is not disclosed because the amounts of asset retirement obligations as of the beginning and end of the current fiscal year were not larger than 1% of total liabilities and net assets at the beginning and end of the current fiscal year.

(2) Others

Quarterly information for the current fiscal year

| Cumulative period | | 1st Quarter | 2nd Quarter | 3rd Quarter | Current fiscal year |
|---|---|---|---|---|---|
| Net sales | (Million yen) | 86,530 | 178,428 | 267,675 | 363,946 |
| Net income before income taxes | (Million yen) | 11,977 | 24,287 | 33,109 | 41,998 |
| Net income attributable to owners of the parent company | (Million yen) | 7,964 | 15,904 | 21,375 | 25,468 |
| Net income per share | (Yen) | 37.36 | 74.60 | 100.26 | 119.45 |

| Each quarter | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|---|
| Quarterly net income per share | (Yen) | 37.36 | 37.24 | 25.66 | 19.20 |

## 2 Financial Statements, etc.

### (1) Financial Statements

#### 1) Balance sheet

(Million yen)

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,204 | 3,523 |
| Notes receivable | 162 | 53 |
| Accounts receivable | *1 26,696 | *1 28,551 |
| Merchandise and finished goods | 5,355 | 6,796 |
| Work in progress | 10,211 | 10,205 |
| Raw materials and supplies | 6,161 | 5,962 |
| Other | *1 8,831 | *1 8,636 |
| Allowance for doubtful accounts | (20) | (23) |
| Total current assets | 66,603 | 63,706 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings | *2 6,296 | *2 8,480 |
| Structures | *2 2,091 | *2 2,254 |
| Machinery and equipment | *2 14,541 | *2 14,356 |
| Vehicles and transport equipment | 24 | 20 |
| Tools, furniture and fixtures | 659 | 727 |
| Land | 4,415 | 4,415 |
| Construction in progress | 1,565 | 2,040 |
| Total tangible fixed assets | 29,593 | 32,295 |
| Intangible fixed assets | | |
| Software | 973 | 1,517 |
| Other | 13 | 13 |
| Total intangible fixed assets | 987 | 1,531 |
| Investments and other assets | | |
| Investment securities | 19,100 | 26,470 |
| Shares of subsidiaries and associates | 214,672 | 225,209 |
| Equity invested in associates | 3,699 | 3,699 |
| Prepaid pension cost | 1,729 | 1,933 |
| Other | 280 | 441 |
| Allowance for doubtful accounts | (18) | (16) |
| Total investments and other assets | 239,463 | 257,737 |
| Total fixed assets | 270,045 | 291,565 |
| Total assets | 336,648 | 355,271 |

(Million yen)

| | Previous fiscal year (As of December 31, 2022) | Fiscal year under review (As of December 31, 2023) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Electronically recorded obligations | *1 3,092 | *1 2,812 |
| Accounts payable | *1 10,366 | *1 10,587 |
| Short-term loans payable | *3 6,000 | *3 7,000 |
| Short-term loans payable from subsidiaries and associates | 12,798 | 15,198 |
| Commercial paper | 60,000 | 60,000 |
| Current portion of loans payable | 9,574 | 3,120 |
| Accounts payable-other | *1 2,373 | *1 3,055 |
| Income taxes payable | 148 | 528 |
| Provision for bonuses | 190 | 171 |
| Other | 3,028 | 3,537 |
| Total current liabilities | 107,572 | 106,011 |
| Long-term liabilities | | |
| Bonds payable | 55,000 | 55,000 |
| Long-term loans payable | 35,250 | 40,840 |
| Deferred tax liabilities | 1,277 | 5,141 |
| Provision for executive officers' retirement benefits | 58 | 53 |
| Provision for environment and safety measures | 3 | 39 |
| Other | 584 | 584 |
| Total long-term liabilities | 92,174 | 101,658 |
| Total liabilities | 199,747 | 207,670 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 20,436 | 20,436 |
| Capital surplus | | |
| Capital reserve | 17,502 | 17,502 |
| Other capital surplus | 26 | 40 |
| Total capital surplus | 17,529 | 17,543 |
| Retained earnings | | |
| Legal retained earnings | 2,864 | 2,864 |
| Other retained earnings | | |
| Reserve for reduction entry of fixed assets | 1,097 | 1,077 |
| General reserve | 34,368 | 34,368 |
| Retained earnings carried forward | 59,719 | 65,154 |
| Total retained earnings | 98,050 | 103,465 |
| Treasury stock | (7,236) | (7,225) |
| Total shareholders' equity | 128,778 | 134,218 |
| Valuation and translation adjustments | | |
| Valuation difference on other securities | 8,122 | 13,382 |
| Total valuation and translation adjustments | 8,122 | 13,382 |
| Total net assets | 136,901 | 147,601 |
| Total liabilities and net assets | 336,648 | 355,271 |

2) Statements of income

(Million yen)

| | Previous fiscal year (January 1 to December 31, 2022) | Fiscal year under review (January 1 to December 31, 2023) |
|---|---|---|
| Net sales | *1 74,570 | *1 78,106 |
| Cost of sales | *1 58,656 | *1 61,820 |
| Gross profit | 15,914 | 16,286 |
| Selling, general and administrative expenses | *1, *2 9,473 | *1, *2 10,241 |
| Operating income | 6,440 | 6,045 |
| Non-operating income | | |
| Interest and dividend income | *1 13,291 | *1 7,875 |
| Foreign exchange gains | 1,630 | 1,490 |
| Other | *1 1,324 | *1 1,145 |
| Total non-operating income | 16,246 | 10,511 |
| Non-operating expenses | | |
| Interest expenses | *1 925 | *1 946 |
| Rental equipment expenses | 228 | 209 |
| Other | *1 303 | *1 331 |
| Total non-operating expenses | 1,456 | 1,488 |
| Ordinary income | 21,230 | 15,068 |
| Extraordinary income | | |
| Gain on sale of investment securities | 539 | 1 |
| Gain on sales of fixed assets | *3 80 | *3 1 |
| Total extraordinary income | 619 | 2 |
| Extraordinary losses | | |
| Loss on sale of investment securities | 0 | 39 |
| Loss on retirement of fixed assets | *4 123 | *4 34 |
| Loss on sale of equity invested in associates | 160 | - |
| Accident-related loss | *5 141 | - |
| Loss on valuation of investment securities | 116 | - |
| Loss on sales of fixed assets | *6 0 | - |
| Total extraordinary losses | 542 | 73 |
| Net income before income taxes | 21,306 | 14,996 |
| Income taxes - current | 263 | 936 |
| Income taxes - deferred | 2,436 | 1,609 |
| Total income taxes | 2,699 | 2,546 |
| Net income | 18,607 | 12,450 |

3) Statement of changes in equity

Previous fiscal year (January 1 to December 31, 2022)

(Million yen)

| | Shareholders' equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | | | | |
| | | | | | | Other retained earnings | | | | | |
| | Capital stock | Capital Reserve | Other capital surplus | Total capital surplus | Legal retained earnings | Reserve for reduction entry of fixed assets | General reserve | Retained earnings carried forward | Total retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of period | 20,436 | 17,502 | 17 | 17,520 | 2,864 | 1,118 | 34,368 | 47,487 | 85,838 | (7,244) | 116,550 |
| Change during period | | | | | | | | | | | |
| Dividends of surplus | | | | | | | | (6,395) | (6,395) | | (6,395) |
| Net income | | | | | | | | 18,607 | 18,607 | | 18,607 |
| Reversal of reserve for reduction entry of fixed assets | | | | | | (20) | | 20 | - | | - |
| Purchase of treasury stock | | | | | | | | | | (2) | (2) |
| Disposal of treasury stock | | | 8 | 8 | | | | | | 10 | 19 |
| Net change in items other than shareholders' equity | | | | | | | | | | | |
| Total change in items during period | - | - | 8 | 8 | - | (20) | - | 12,232 | 12,211 | 8 | 12,228 |
| Balance at end of period | 20,436 | 17,502 | 26 | 17,529 | 2,864 | 1,097 | 34,368 | 59,719 | 98,050 | (7,236) | 128,778 |

| | Valuation and translation adjustments | | |
|---|---|---|---|
| | Valuation difference on other securities | Total valuation and translation adjustments | Total net assets |
| Balance at beginning of period | 7,346 | 7,346 | 123,897 |
| Change during period | | | |
| Dividends of surplus | | | (6,395) |
| Net income | | | 18,607 |
| Reversal of reserve for reduction entry of fixed assets | | | - |
| Purchase of treasury stock | | | (2) |
| Disposal of treasury stock | | | 19 |
| Net change in items other than shareholders' equity | 776 | 776 | 776 |
| Total change in items during period | 776 | 776 | 13,004 |
| Balance at end of period | 8,122 | 8,122 | 136,901 |

Current fiscal year (January 1 to December 31, 2023)

(Million yen)

| | Shareholders' equity | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | | Retained earnings | | | | | Treasury stock | Total shareholders' equity |
| | | Capital Reserve | Other capital surplus | Total capital surplus | Legal retained earnings | Other retained earnings | | | Total retained earnings | | |
| | | | | | | Reserve for reduction entry of fixed assets | General reserve | Retained earnings carried forward | | | |
| Balance at beginning of period | 20,436 | 17,502 | 26 | 17,529 | 2,864 | 1,097 | 34,368 | 59,719 | 98,050 | (7,236) | 128,778 |
| Change during period | | | | | | | | | | | |
| Dividends of surplus | | | | | | | | (7,035) | (7,035) | | (7,035) |
| Net income | | | | | | | | 12,450 | 12,450 | | 12,450 |
| Reversal of reserve for reduction entry of fixed assets | | | | | | (20) | | 20 | - | | - |
| Purchase of treasury stock | | | | | | | | | | (2) | (2) |
| Disposal of treasury stock | | | 13 | 13 | | | | | | 13 | 27 |
| Net change in items other than shareholders' equity | | | | | | | | | | | |
| Total change in items during period | - | - | 13 | 13 | - | (20) | - | 5,435 | 5,414 | 11 | 5,439 |
| Balance at end of period | 20,436 | 17,502 | 40 | 17,543 | 2,864 | 1,077 | 34,368 | 65,154 | 103,465 | (7,225) | 134,218 |

| | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|
| | Valuation difference on other securities | Total valuation and translation adjustments | |
| Balance at beginning of period | 8,122 | 8,122 | 136,901 |
| Change during period | | | |
| Dividends of surplus | | | (7,035) |
| Net income | | | 12,450 |
| Reversal of reserve for reduction entry of fixed assets | | | - |
| Purchase of treasury stock | | | (2) |
| Disposal of treasury stock | | | 27 |
| Net change in items other than shareholders' equity | 5,259 | 5,259 | 5,259 |
| Total change in items during period | 5,259 | 5,259 | 10,699 |
| Balance at end of period | 13,382 | 13,382 | 147,601 |

Notes to Financial Statements

(Significant accounting policies)

1. Basis and method of valuation of assets

(1) Valuation standards and methods for marketable securities

a. Shares of subsidiaries

Based on the moving average cost method.

b. Other securities

Securities other than shares without market value

Market value method (all valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated according to the moving average method).

Shares without market value

Based on the moving average cost method.

(2) Valuation standards and methods for derivatives

Based on market value method.

(3) Valuation standards and methods for inventories

Merchandise, finished goods, semi-finished products, raw materials, work in progress, supplies:

The Company employs the cost method based on monthly average method (values in the balance sheet are subject to the book value reduction based on a decline in profitability).

2. Depreciation methods for fixed assets

(1) Tangible fixed assets (excluding leased assets)

Based on declining-balance method. However, the accounting of buildings (excluding auxiliary facilities) acquired on or after April 1, 1998 and auxiliary facilities and structures acquired on or after April 1, 2016 is based on the straight-line method.

The useful life of each of these structures is as follows:

| | |
|---|---|
| Buildings | 3 to 50 years |
| Structures | 2 to 60 years |
| Machinery and equipment | 2 to 22 years |

(2) Intangible fixed assets (excluding leased assets)

Based on straight-line method.

Software for internal use is amortized on a straight-line basis over the period of internal use (5 years).

(3) Leased assets

Depreciation is calculated by using the straight-line method which considers the residual value to be zero and treats the lease term as the useful life of the asset.

3. Standards for recognition of allowances

(1) Allowance for doubtful accounts

To provide for losses due to uncollectible general accounts receivables, such allowance is calculated based on reasonable standards such as historical collection losses. For specific accounts receivables such as doubtful accounts receivables, a case-by-case review is conducted and an estimation of the uncollectible amount is recorded.

(2) Provision for bonuses

To provide for bonuses to employees, a reserve is recorded based on the estimated amount to be paid out in the fiscal year under review.

(3) Provision for retirement benefits

To provide for retirement benefits to employees, a provision is recorded based on the estimated retirement benefit obligations and pension assets as of the end of the fiscal year under review.

Actuarial gains and losses are amortized on a straight-line basis over a certain period of years (10 years), which is within the average remaining service period of employees, commencing from the succeeding fiscal year.

Prior service costs are treated as a one-time charge in the fiscal year of their accrual.

(4) Provision for executive officers' retirement benefits

To provide for executive officers' retirement benefits, the required amount is recorded at the end of the fiscal year based on internal rules.

(5) Provision for environment and safety measures

As a provision for expenses such as PCB waste disposal expenses based on the Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes, an amount that can be reasonably estimated to be incurred by the end of the fiscal year is recorded.

4. Standards for revenues and expenses

The Company manufactures and sells products in Graphite Electrodes, Carbon Black, Fine Carbon, and Other Operations.

With respect to sales of products, revenue is recognized at the amount expected to be received as consideration at the time of delivery of products, in principle, because it is determined that customers gain control over the products and performance obligations are fulfilled at the time of delivery of the products. In domestic sales, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the product is transferred to the customer is a normal period. In export sales, revenue is recognized upon transfer of risk to customers based on trade terms stipulated in Incoterms and other agreements.

The consideration for the transaction is received within approximately four months from the time when the performance obligation is satisfied and does not include any significant financial elements.

5. Other significant basis for preparation of financial statements

(1) Standard for translation of foreign currency-denominated assets or liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate at the end of the fiscal year under review, and translation adjustments are treated as profits or losses.

(2) Hedge accounting method

1) Hedge accounting method

Deferred hedge accounting is adopted. Foreign exchange forward contracts that meet the requirements for allocation treatment are accounted for by the allocation treatment.

2) Hedging instruments and hedged items

The hedging instruments and hedged items are as follows.

| | |
|---|---|
| Hedging instruments | Foreign exchange forward contracts |
| Hedged items | Foreign currency receivables and payables and forecasted foreign currency transactions |

3) Hedging policy

In accordance with the internal regulations that prescribe the authority and transaction limit for derivative transactions, foreign exchange risks pertaining to hedged items are hedged within a certain range.

4) Method for assessing hedge effectiveness

The method for assessing the effectiveness of hedges is to check whether there is a high correlation between the hedged item's market fluctuation or cash flow fluctuation and the hedging instrument's market fluctuation or cash flow fluctuation.

(3) Accounting for retirement benefits

The accounting method for unrecognized actuarial differences on retirement benefits is different from the method used in the consolidated financial statements.

(4) Accounting method for deferred assets

For bond issuance costs, the full amount is recorded as expenses at the time of expenditure.

(Significant accounting estimates)

1. Assessment of shares of subsidiaries and associates

(1) Amounts included in the current fiscal year's financial statements

The balance of shares of subsidiaries and associates recorded in the balance sheet of the previous fiscal year is ¥214,672 million, of which the book value of Tokai COBEX HoldCo GmbH shares is ¥108,687 million. In addition, the balance of shares of subsidiaries and associates recorded in the balance sheet of this fiscal year is ¥225,209 million, of which book value of Tokai COBEX HoldCo GmbH shares is ¥108,687 million.

(2) Information on significant accounting estimates related to the identified items

1) Method of calculating the amount included in the current fiscal year's financial statements

For shares of subsidiaries and associates without market value, the actual value shall be the net assets per share or the value reflecting excess earning power in the net assets per share. If the actual value has significantly decreased, the recognition of loss on valuation is required unless there is sufficient evidence of performance recoverability.

The fiscal year under review does not recognize a valuation loss because the actual value of shares of subsidiaries and associate has not decreased significantly.

2) Major assumptions used in the calculation

The calculation of the actual value reflecting the excess earning power and the determination of whether the recoverability is supported by sufficient evidence are based on the business plan of the subsidiaries and associates that takes into account assumptions regarding the net sales of the business, operating income and loss, etc.

3) Impact on financial statements of the following fiscal year

The financial results of the subsidiaries and associates may be affected by uncertain economic and business conditions in the future, and if it becomes necessary to review the above major assumptions, it may have a significant impact on the amount of shares of subsidiaries and associates on the financial statements of the following fiscal year.

2. Assessment of fixed assets

(1) Amounts included in the current fiscal year's financial statements

(Million yen)

| | Previous fiscal year | Fiscal year under review |
|---|---|---|
| Tangible fixed assets | 29,593 | 32,295 |
| Intangible assets | 987 | 1,531 |
| Impairment losses | – | – |

(2) Information on significant accounting estimates related to the identified items

The same as described in "Notes (Significant accounting estimates) 2. Assessment of fixed assets (excluding goodwill)" of the consolidated financial statements.

3. Deferred tax assets recoverability

(1) Amounts included in the current fiscal year's financial statements

(Million yen)

| | Previous fiscal year | Fiscal year under review |
|---|---|---|
| Deferred tax assets | – | – |
| Deferred tax assets (amount before offsetting with deferred tax liabilities) | 6,123 | 4,565 |

(2) Information on significant accounting estimates related to the identified items

The same as described in "Notes (Significant accounting estimates) 3. Deferred tax assets recoverability" of the consolidated financial statements.

(Notes regarding balance sheet)

* 1 Monetary claims and monetary liabilities in subsidiaries and associates (excluding those shown separately)

| | Previous fiscal year (December 31, 2022) | Fiscal year under review (December 31, 2023) |
|---|---|---|
| Short-term monetary claims | ¥11,443 million | ¥13,089 million |
| Short-term monetary debts | 1,149 | 1,093 |

* 2 Reduction entry amount

Reduction entry amounts for national subsidies, etc. and gain on insurance claims are deducted from each asset's acquisition price.

| | Previous fiscal year (December 31, 2022) | | Fiscal year under review (December 31, 2023) | |
|---|---|---|---|---|
| | | (Current portion) | | (Current portion) |
| Buildings | ¥194 million | ( ¥- million ) | ¥192 million | ( ¥-2 million ) |
| Structures | 19 | ( - ) | 19 | ( - ) |
| Machinery and equipment | 791 | ( -7 ) | 791 | ( - ) |
| Total | 1,005 | ( -7 ) | 1,003 | ( -2 ) |

* 3 Overdraft facility agreements and loan commitment line agreements

The Company has overdraft facility agreements and loan commitment contracts with nine financial institutions to facilitate the efficient procurement of working capital. At the end of the fiscal year, the balance of unexecuted loans under these agreements was as follows.

| | Previous fiscal year (December 31, 2022) | Fiscal year under review (December 31, 2023) |
|---|---|---|
| Total value of overdraft limits and loan commitment line contracts | ¥66,000 million | ¥66,000 million |
| Executed loans | 6,000 | 7,000 |
| Unused balance | 60,000 | 59,000 |

4 Guarantee obligations

Guarantees are provided for the issuance of letters of guarantee by banks mainly in connection with performance guarantees for orders received and refund guarantees for advances received.

Previous fiscal year (December 31, 2022)

| Surety | Amount (million yen) | Content of guaranteed obligations |
|---|---|---|
| TOKAI CARBON GE LLC | 544<br>(4,105,000 USD) | Accounts payable |
| THAI TOKAI CARBON PRODUCT COMPANY LIMITED | 4,940<br>(THB 1,300,000,000) | Bank loans |
| Tokai COBEX GmbH | 1,268<br>(7,364,000 EUR, 1,008,000 USD, etc.) | Bank guarantees |
| Total | 6,753 | |

Current fiscal year (December 31, 2023)

| Surety | Amount (million yen) | Content of guaranteed obligations |
|---|---|---|
| Tokai COBEX GmbH | 1,212<br>(5,728,000 EUR, 8,500,000 CNY, etc.) | Bank guarantees |
| Total | 1,212 | |

(Notes regarding statements of income)

* 1 Transaction with subsidiaries and associates

| | Previous fiscal year (January 1 to December 31, 2022) | Fiscal year under review (January 1 to December 31, 2023) |
|---|---|---|
| Operating transactions | | |
| Net sales | ¥18,560 million | ¥16,904 million |
| Purchase amount | 4,097 | 5,417 |
| Transactions other than operating transactions | 14,205 | 8,231 |

* 2 Selling expenses accounted for around 23% of selling, general and administrative expenses in the previous fiscal year and around 18% in the current fiscal year, while general and administrative expenses accounted for around 77% in the previous fiscal year and 82% in the current fiscal year.

Major items included in selling, general and administrative expenses and their amounts are as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Fiscal year under review (January 1 to December 31, 2023) |
|---|---|---|
| Warehousing and shipping expenses | ¥2,005 million | ¥1,806 million |
| Sales commission | 154 | 81 |
| Additions to allowance for doubtful accounts | 5 | 3 |
| Salaries and allowances | 2,358 | 2,584 |
| Additions to provision for bonuses | 60 | 52 |
| Retirement benefit expenses | (16) | 14 |
| Additions to provision for executive officers' retirement benefits | 8 | 9 |
| Amount paid to subcontractors | 282 | 314 |
| Depreciation | 188 | 212 |
| Rent expenses | 449 | 436 |
| Research and development expenses | 1,632 | 1,725 |

* 3 Gains on sales of fixed assets were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Fiscal year under review (January 1 to December 31, 2023) |
|---|---|---|
| Machinery and equipment | ¥- million | ¥1 million |
| Land | 80 | - |
| Total | 80 | 1 |

* 4 Losses on retirement of fixed assets were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Fiscal year under review (January 1 to December 31, 2023) |
|---|---|---|
| Buildings | ¥24 million | ¥2 million |
| Structures | 48 | 1 |
| Machinery and equipment | 27 | 4 |
| Other | 23 | 25 |
| Total | 123 | 34 |

* 5 Loss related to accidents

Previous fiscal year (January 1 to December 31, 2022)

Expenses include restoration costs etc., incurred due to an accident at a manufacturing facility.

Current fiscal year (January 1, to December 31, 2023)

Not applicable

* 6 Loss on sales of fixed assets were as follows.

| | Previous fiscal year (January 1 to December 31, 2022) | Fiscal year under review (January 1 to December 31, 2023) |
|---|---|---|
| Other | ¥0 million | ¥- million |
| Total | 0 | - |

(Notes regarding marketable securities)

Shares of subsidiaries

Previous fiscal year (December 31, 2022)

| Category | Amount recorded on balance sheet (Million yen) | Market value (Million yen) | Difference (Million yen) |
|---|---|---|---|
| Shares of subsidiaries | 13,377 | 55,223 | 41,846 |
| Total | 13,377 | 55,223 | 41,846 |

(Note) Shares etc. with no market value recorded on balance sheet not included above

(Million yen)

| Category | Previous fiscal year (December 31, 2022) |
|---|---|
| Shares of subsidiaries | 201,294 |

Current fiscal year (December 31, 2023)

| Category | Amount recorded on balance sheet (Million yen) | Market value (Million yen) | Difference (Million yen) |
|---|---|---|---|
| Shares of subsidiaries | 13,377 | 68,051 | 54,674 |
| Total | 13,377 | 68,051 | 54,674 |

(Note) Shares etc. with no market value recorded on balance sheet not included above

(Million yen)

| Category | Fiscal year under review (December 31, 2023) |
|---|---|
| Shares of subsidiaries | 211,832 |

(Notes regarding tax effect accounting)

1. Breakdown of deferred tax assets and liabilities by major cause

| | Previous fiscal year (December 31, 2022) | Fiscal year under review (December 31, 2023) |
|---|---|---|
| Deferred tax assets | | |
| Denial of valuation loss on shares of subsidiaries and associates, etc. | ¥930 million | ¥930 million |
| Excess depreciation | 1,496 | 1,304 |
| Denial of impairment loss | 206 | 206 |
| Redemption of shares of subsidiaries and associates | 558 | 558 |
| Denial of loss on valuation of investment securities | 139 | 139 |
| Denial of accrued enterprise tax | 34 | 123 |
| Tax loss carryforward | 4,970 | 3,732 |
| Other | 688 | 480 |
| Deferred tax assets (subtotal) | 9,024 | 7,475 |
| Valuation allowance for tax loss carryforward | - | - |
| Valuation allowance for total deductible temporary difference | (2,901) | (2,910) |
| Valuation allowance (subtotal) | (2,901) | (2,910) |
| Total deferred tax assets | 6,123 | 4,565 |
| Deferred tax liabilities | | |
| Redemption of shares of subsidiaries and associates | (3,124) | (3,124) |
| Valuation difference on other securities | (3,281) | (5,535) |
| Reserve for reduction entry of fixed assets | (470) | (461) |
| Prepaid pension cost | (518) | (579) |
| Other | (5) | (5) |
| Total deferred tax liabilities | (7,400) | (9,706) |
| Net deferred tax liabilities | (1,277) | (5,141) |

(Change in Presentation Method)

"Denial of accrued enterprise tax," which was included in "Other" of "Deferred tax assets" of the previous fiscal year, is separately presented from the current fiscal year because its monetary significance has increased. In addition, "Tax credits carryforward," which was separately presented in "Deferred tax assets" of the previous fiscal year, is included in "Other" from this fiscal year because its monetary significance has decreased. In order to reflect this change in presentation, the notes of the previous fiscal year have been reclassified.

As a result, ¥191 million in "Tax credits carryforward" and ¥531 million in "Other" as shown under "Deferred tax assets" for the previous fiscal year, have been reclassified as ¥34 million in "Denial of accrued enterprise tax" and ¥688 million in "Other."

2. Breakdown of items that caused significant differences between the statutory tax rate and the effective tax rate after application of tax effect accounting

| | Previous fiscal year (December 31, 2022) | Fiscal year under review (December 31, 2023) |
|---|---|---|
| Statutory tax rate | 30.0% | 30.0% |
| (Adjustments) | | |
| Entertainment expenses and other permanently non-deductible expenses | 0.5 | 0.9 |
| Dividend income and other permanently non-taxable income | (16.8) | (13.1) |
| Withholding tax on dividend income from overseas subsidiaries | 0.8 | 0.9 |
| Experimentation and research expenses tax credits | - | (1.1) |
| Other | (1.8) | (0.7) |
| Effective tax rate after application of tax effect accounting | 12.7 | 17.0 |

(Change in Presentation Method)

"Valuation allowance," which was separately presented in the previous fiscal year, is included in "Other" from this fiscal year because its monetary significance has decreased. To reflect this change in presentation, the notes to the previous fiscal year have been reclassified.

As a result, (1.5%) in "Valuation allowance" and (0.3%) in "Other," which were presented in the previous fiscal year, have been reclassified to (1.8%) in "Other."

(Revenue Recognition)

Information that provides the basis for understanding revenue arising from customer contracts can be found in "Notes to Financial Statements (Significant accounting policies) 4. Standards for revenues and expenses."

(Significant Subsequent Events)

Not applicable

4) Supplementary Schedules

Schedule of Tangible Fixed Assets

(Million yen)

| Category | Assets | Balance at beginning of period | Increase during period | Decrease during period | Amount amortized | Balance at end of period | Cumulative amount of depreciation |
|---|---|---|---|---|---|---|---|
| Tangible fixed assets | Buildings | 6,296 | 2,660 | 3 | 472 | 8,480 | 20,314 |
| | Structures | 2,091 | 426 | 13 | 249 | 2,254 | 11,656 |
| | Machinery and equipment | 14,541 | 3,738 | 47 | 3,875 | 14,356 | 93,979 |
| | Vehicles and transport equipment | 24 | 14 | 0 | 18 | 20 | 310 |
| | Tools, furniture and fixtures | 659 | 576 | 22 | 485 | 727 | 4,624 |
| | Land | 4,415 | - | - | - | 4,415 | - |
| | Construction in progress | 1,565 | 7,914 | 7,439 | - | 2,040 | - |
| | Total | 29,593 | 15,330 | 7,527 | 5,101 | 32,295 | 130,886 |
| Intangible assets | Software | 973 | 925 | - | 381 | 1,517 | - |
| | Other | 13 | - | - | 0 | 13 | - |
| | Total | 987 | 925 | - | 381 | 1,531 | - |

(Notes) The significant item within the increase for tangible fixed assets during the period was as follows:

| | | | |
|---|---|---|---|
| Buildings | Tanoura Plant | Fine carbon etc. manufacturing facility | ¥2,422 million |

Schedule of Provisions

(Million yen)

| Item | Balance at beginning of period | Increase during period | Decrease during period | Balance at end of period |
|---|---|---|---|---|
| Allowance for doubtful accounts | 39 | 3 | 1 | 40 |
| Provision for bonuses | 190 | 171 | 190 | 171 |
| Provision for executive officers' retirement benefits | 58 | 9 | 15 | 53 |
| Provision for environment and safety measures | 3 | 54 | 18 | 39 |

(2) Principal Assets and Liabilities

Because the consolidated financial statements have been compiled, this entry is omitted here.

(3) Other

Not applicable

## Section 6 Outline of Stock-related Administration of Submitting Company

| | |
|---|---|
| Fiscal year | From January 1 to December 31 |
| Annual General Meeting of Shareholders | In March |
| Record date | December 31 |
| Record date for dividends of surplus | June 30<br>December 31 |
| Number of shares constituting one unit | 100 shares (Note) 1 |
| Purchase and additional purchase of odd-lot shares | |
| Handling office | (Special Account)<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo<br>Stock Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation |
| Shareholder Registry Administrator | (Special Account)<br>1-4-5, Marunouchi, Chiyoda-ku, Tokyo<br>Mitsubishi UFJ Trust and Banking Corporation |
| Agency | - |
| Commission for purchase and additional purchase | Commissions are set at 85% of the amount obtained based on the number of odd-lot shares purchased or additionally purchased, after calculating a per-unit amount using the formula shown below<br>(Formula) As outlined below based on the total amount obtained by multiplying the per-share purchase price by the number of shares constituting one unit<br>Equal to or less than ¥1 million 1.150%<br>More than ¥1 million and equal to or less than ¥5 million 0.900%<br>More than ¥5 million and equal to or less than ¥10 million 0.700%<br>More than ¥10 million and equal to or less than ¥30 million 0.575%<br>More than ¥30 million and equal to or less than ¥50 million 0.375%<br>(Fractions of less than one yen rounded down)<br>However, commissions set at ¥2,500 where the calculated amount per-unit is below ¥2,500, and ¥272,500 where the calculated amount per-unit is above ¥50 million. |
| Method of public notice | Electronic public notice<br>URL for public notice: https://www.tokaicarbon.co.jp/en/<br>However if public notice cannot be provided electronically due to the occurrence of an accident or other unavoidable circumstances, public notice shall be published in the Nihon Keizai Shimbun. |
| Shareholder benefits | Shareholder special benefit program (Note) 2 |

(Notes) 1. In accordance with the Company's articles of incorporation, shareholders' rights with respect to odd-lot shares consist only of: the right to make a claim under the provisions of Article 166, Paragraph 1 of the Companies Act; rights specified in each Item of Article 189, Paragraph 2 of the Companies Act; the right to receive share subscription or allotment of stock acquisition rights in accordance with the number of shares held by the shareholder; and the right to make a request for the sale of odd-lot shares.

2. The benefits outlined below are offered to shareholders who are recorded in the shareholder registry as of December 31 each year and hold at least 100 common shares of the Company over a minimum specified period, as well as other shareholders who hold at least 1,000 shares.

* Shareholders can receive items of their choice from the Company's original catalog, with eligibility depending on the number of shares held and the length of their continuous holding period.

| Number of shares held | Continuous holding period | | |
|---|---|---|---|
| | Less than 1 year | At least 1 year, but less than 3 years | At least 3 years |
| At least 100 shares, but less than 500 shares | - | Items with value of ¥2,000 | Items with value of ¥3,000 |
| At least 500 shares, but less than 1,000 shares | - | Items with value of ¥3,000 | Items with value of ¥5,000 |
| At least 1,000 shares | Items with value of ¥3,000 | Items with value of ¥5,000 | Items with value of ¥8,000 |

# Section 7 Reference Information on Submitting Company

## 1 Information on Parent of Submitting Company, etc.

The Company does not have a parent company, etc. as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

## 2 Other Reference Information

From the beginning of the current fiscal year until the filing date of this Securities report, the Company has filed the following documents.

(1) Securities report, appendices and confirmation letter

Fiscal year (Fiscal 2022) (January 1 to December 31, 2022), filed to the Director-General of the Kanto Local Finance Bureau on March 30, 2023

(2) Internal control report and appendices

Fiscal year (Fiscal 2022) (January 1 to December 31, 2022), filed to the Director-General of the Kanto Local Finance Bureau on March 30, 2023

(3) Quarterly reports and confirmation letter

(1st quarter of fiscal 2023) (January 1 to March 31, 2023), filed to the Director-General of the Kanto Local Finance Bureau on May 12, 2023

(2nd quarter of fiscal 2023) (April 1 to June 30, 2023), filed to the Director-General of the Kanto Local Finance Bureau on August 10, 2023

(3rd quarter of fiscal 2023) (July 1 to September 30, 2023), filed to the Director-General of the Kanto Local Finance Bureau on November 10, 2023

(4) Extraordinary report

Extraordinary report based on Article 19, Paragraph 2, Item 9-2 (Results of Exercise of Voting Rights at General Meeting of Shareholders) of the Cabinet Office Order on Disclosure of Corporate Affairs, filed to the Director-General of the Kanto Local Finance Bureau on April 3, 2023

(5) Shelf registration statement (share certificates, bonds payable certificates, etc.) and appendices

Filed to the Director-General of the Kanto Local Finance Bureau on January 31, 2024

Filed to the Director-General of the Kanto Local Finance Bureau on February 13, 2024

(6) Shelf registration supplements (share certificates, bonds payable certificates, etc.) and appendices

Filed to the Director-General of the Kanto Local Finance Bureau on February 22, 2024

# Part 2　Information on Submitting Company's Surety Company, etc.

Not applicable

# Independent Auditor's Audit Report and Internal Control Audit Report

March 28, 2024

Tokai Carbon Co., Ltd.
To: The Board of Directors

KPMG AZSA LLC
Tokyo Office

| | | |
|---|---|---|
| Designated Limited Liability Partner and Executive Member | Certified public accountant | Ryoichi Isashi |
| Designated Limited Liability Partner and Executive Member | Certified public accountant | Takeshi Nakatani |

<Audit of consolidated financial statements>

Audit Opinion

To provide an audit attestation as stipulated in Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Tokai Carbon Co., Ltd. included in the "Status of Accounting" section, which consist of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, significant basis for preparation of consolidated financial statements, other notes, and consolidated supplementary schedules for the fiscal year from January 1 to December 31, 2023. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tokai Carbon Co., Ltd. and its consolidated subsidiaries as of December 31, 2023, and their operating results and cash flows for the consolidated fiscal year ended on that day in conformity with the generally accepted accounting principles as fair and valid in Japan.

Basis for the Audit Opinion

We conducted our audit in accordance with auditing standards that are generally accepted as fair and valid in Japan. Our responsibility under auditing standards is described in "Auditor's Responsibility for Auditing Consolidated Financial Statements." We are independent of the Company and its consolidated subsidiaries and fulfill our other ethical responsibilities as an auditor in accordance with provisions of the Code of Professional Ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

The key audit matters are what the auditor considers to be of particular professional importance in the audit of current fiscal year's consolidated financial statements. The key audit matters are the response to the audit process and the formation of an audit opinion on the consolidated financial statements as a whole, and we do not express an opinion on this matter individually.

<table>
<tr><td colspan="2">Appropriateness of Judgment on Indication of Goodwill Impairment for Smelting and Lining</td></tr>
<tr><th>Contents and reasons for decision<br>of key audit matters</th><th>Audit response</th></tr>
<tr><td>The ¥49,212 million of goodwill recorded in Consolidated Balance Sheets of Tokai Carbon Co., Ltd. includes ¥30,058 million of goodwill related to Smelting and Lining as described in Note "(Significant Accounting Estimates) 1. Assessment of goodwill." This amount accounts for 4.7% of consolidated total assets.<br>Goodwill is amortized on a straight-line basis over a period of time during which the goodwill's effect is expected to be reasonably estimated. However, if an asset group, including impairment losses, is deemed to have an indication of impairment, it is necessary to determine whether or it is necessary to recognize the impairment. As a result, if the recognition of the impairment losses is judged to be necessary, the book value is reduced to the recoverable amount, and the reduction of the book value is recorded as the impairment losses.<br><br>Tokai Carbon Co., Ltd. believes there are no signs of impairment in the asset group, including goodwill in Smelting and Lining. Whether an asset qualifies as an indication of impairment is determined mainly by whether profit or loss or cash flow arising from operating activities is continuously negative or whether it qualifies as a significant deterioration in the business environment. These decisions are based on Smelting and Lining operating income and expenses, the achievement of business plans, and future business plans. As described in the note "(Significant Accounting Estimates) 1. Assessment of goodwill," the business plan contains assumptions regarding the net sales and operating income and expenses of the business. These assumptions are subject to uncertainty and therefore require management's judgment in determining the indication of impairment.<br><br>Accordingly, we believe that the appropriateness of our determination of goodwill's indication of impairment losses related to Smelting and Lining is particularly important for the Company's consolidated audit of financial statements in current fiscal year and falls under the category of "Key Audit Matters."</td><td>We conducted the following audit procedures to evaluate the appropriateness of our assessment of goodwill's indication of impairment losses related to Smelting and Lining.<br><br>(1) Assessment of internal control<br><br>The effectiveness of the development and operation of the internal control in relation to the indication of impairment of the asset group including goodwill was evaluated. The assessment focused specifically on the Smelting and Lining in which the control's operating results and business plan performance and business plan performance information needed to determine signs of impairment were collected to validate future business plans.<br><br>(2) Evaluation of appropriateness of judgments regarding indication of impairment<br><br>With regard to the appropriateness of the Company's judgment as to whether there is an indication of impairment, the following procedures were mainly implemented.<br><br>・ Internal materials of the Company such as Board of Directors materials related to the business plan were inspected.<br><br>・ Compared and analyzed business plans and achievements, and asked questions to the department in charge about the achievement status of past business plans to confirm whether there were any changes in the management environment.<br><br>・ Asked the department in charge whether the business plan was formulated based on rational assumptions and examined the feasibility of the business plan.<br><br>・ The appropriateness of assumptions regarding future market growth in net sales was examined, including comparisons with available external information.<br><br>・ The gross profit rate and selling, general and administrative expenses estimates were compared with past performance. At the same time, questions were asked to the department in charge about the forecast of future trends, and the validity of the estimates were examined.</td></tr>
</table>

| Appropriateness of Judgment on the Necessity of Recognition of Impairment Loss on TOKAI ERFTCARBON GmbH's Fixed Assets | |
|---|---|
| Contents and reasons for decision of key audit matters | Audit response |
| Tangible fixed assets of ¥223,804 million and intangible assets (excluding goodwill) of ¥67,839 million recorded on the Consolidated Balance Sheets of Tokai Carbon Co., Ltd. for the consolidated fiscal year under review include ¥6,978 million of fixed assets (tangible fixed assets ¥6,930 million and intangible assets ¥47 million) of TOKAI ERFTCARBON GmbH, a subsidiary which belongs to the Graphite Electrodes business, as described in Note "(Significant Accounting Estimates) 2. Valuation of fixed assets (excluding goodwill)." This amount accounts for 1.1% of consolidated total assets.<br><br>TOKAI ERFTCARBON GmbH applies the International Financial Reporting Standards and cash-generating units, including fixed assets, are tested for impairment whenever there are indications of impairment. As a result, if the recoverable amount is less than the book value, the book value is reduced to the recoverable amount and the reduced amount of the book value is recognized as impairment losses. The recoverable amount is calculated as the higher of the value in use and the fair value less costs of disposal.<br><br>Regarding the fixed assets owned by TOKAI ERFTCARBON GmbH which belongs to the Graphite Electrodes business, the Company has conducted an impairment test in the current fiscal year based on the judgment that there are indications of impairment due to a decline in profitability. As a result of the impairment test, the recoverable amount based on the value in use was sufficiently higher than the book value, thus impairment losses were not recognized.<br><br>The value in use is calculated based on certain assumptions about future cash flows, discount rate, etc. formulated by the management. Future cash flows used to measure value in use are based on the business plan approved by management, and major assumptions such as future net sales and operating income and losses are subject to uncertainty. In addition, the selection of calculation methods for discount rates and input data to be used in the measurement of value in use requires expertise in valuation.<br><br>Accordingly, we believe that the appropriateness of judgment on the necessity of recognition of impairment loss on fixed assets of TOKAI ERFTCARBON GmbH, a subsidiary, is particularly important for the Company's consolidated audit of financial statements in current fiscal year and falls under the category of "Key Audit Matters." | In order to evaluate the appropriateness of judgment on the necessity of recognition of impairment loss on TOKAI ERFTCARBON GmbH's fixed assets, we gave instructions to the auditor of TOKAI ERFTCARBON GmbH and communicated the status of implementation in a timely manner. We also received a report on the results of the audit procedures, including the following, and evaluated whether sufficient appropriate audit evidence had been obtained.<br><br>• We compared and analyzed the business plan and results, and asked the management about the achievement status of past business plans.<br><br>• Regarding net sales and operating expenses, which are major assumptions included in the business plan that serves as the basis for future cash flows, we asked the departments in charge about their future trends. For net sales, we compared them with available external information on the growth of the graphite electrode market. For operating expenses, we conducted a trend analysis based on past performance and examined their reasonableness.<br><br>• Using an evaluation expert from the network firm to which the auditor of TOKAI ERFTCARBON GmbH belongs, the reasonableness of the discount rate was evaluated by comparing with the discount rate independently estimated by the expert based on external information, etc. |

Other Information

The other information comprises the information included in the Securities Report but does not include the consolidated financial statements, financial statements, and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to streamlining and operating the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and Audit & Supervisory Board for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the generally accepted accounting principles in Japan. Responsibilities include those for designing and operating an internal control system as management deems necessary in order to prepare and properly present consolidated financial statements that are free from material misstatement due to fraud or error.

In preparing consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the same based on the going concern assumption as well as for disclosing matters concerning a going concern if it is necessary to do so based on accounting standards generally accepted as fair and valid in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of their duties in the development and operation of the financial reporting process.

Auditor's Responsibility for Auditing Consolidated Financial Statements

Our responsibility is to express an opinion on the consolidated financial statements in the audit report from an independent standpoint based on the audit by the auditor, after obtaining reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement due to fraud or error. A misstatement is deemed material if it may arise from fraud or error, and it is reasonably expected, either individually or in aggregate, to affect the decision making of the users of the consolidated financial statements.

We shall, in accordance with auditing standards generally accepted as fair and valid in Japan, make professional judgments throughout the auditing process and, with professional skepticism, shall:

・ Identify and assess the risk of material misstatement due to fraud or error. Moreover, we shall plan and implement audit procedures to address material misstatement risks. Audit procedures shall be selected and applied at the discretion of the Auditor. Furthermore, sufficient and appropriate audit evidence shall be obtained for the basis of the audit opinion.

・ The purpose of auditing the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in conducting risk assessment, we shall examine internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

・ Assess the appropriateness of accounting policies adopted by management and the methods of their application as well as the reasonableness of accounting estimates made by management and the appropriateness of any related notes.

・ Determine whether it is appropriate for management to prepare consolidated financial statements based on going concern assumptions, and based on the audit evidence obtained, whether there are significant uncertainties regarding the events or circumstances that may raise significant doubt about the going concern assumptions. An audit report shall be required to draw attention to the notes to the consolidated financial statements if significant uncertainties are recognized concerning the going concern assumptions, or the expression of an opinion, with exceptions, on the consolidated financial statements shall be required if the notes to significant uncertainties in the consolidated financial statements are not appropriate. Our conclusions are based on audit evidence obtained up to the date of the audit report, but future events and circumstances may prevent the company from continuing as a going concern.

・ Evaluate the presentation, composition, and content of the consolidated financial statements, including the related notes, and whether the consolidated financial statements appropriately present the transactions and accounting events on which they are based, as well as whether the presentation and notes to the consolidated financial statements conform to accounting standards generally accepted as fair and valid in Japan.

・Obtain sufficient and appropriate audit evidence on the financial information of the Company and its consolidated subsidiaries for the purpose of expressing an opinion on the consolidated financial statements. We are responsible for directing, supervising and implementing the audit on the consolidated financial statements. An Auditor is solely responsible for the audit opinion.

We shall report to the Audit & Supervisory Board Members and the Audit & Supervisory Board on the scope and timing of the planned audit, material audit findings, including material defects in internal control identified during the audit process, and other matters required by the audit standards.

We shall report to the Audit & Supervisory Board Members and the Audit & Supervisory Board on compliance with the provisions of the Code of Professional Ethics in Japan on independence, matters reasonably considered to affect the independence of the auditors, and if measures are taken to remove any impediments or safeguards are applied to mitigate any impediments to an acceptable level, the details thereof.

From the matters communicated with the Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Audit of internal control>

Audit Opinion

To provide an attestation as stipulated in Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act, we have audited the internal control report of Tokai Carbon Co., Ltd. as of December 31, 2023.
In our opinion, the internal control report referred to above, in which Tokai Carbon Co., Ltd. states that the internal control over financial reporting as of December 31, 2023, is effective, presents fairly, in all material respects, the assessment results of internal control over financial reporting in conformity with evaluation standards for internal control over financial reporting generally accepted as fair and valid in Japan.

Basis for the Audit Opinion

We conducted our internal control audit in accordance with the auditing standards for internal control over financial reporting generally accepted as fair and valid in Japan. Our responsibility under the auditing standards for internal control over financial reporting is described in "Auditor's Responsibility for Auditing Internal Control." We are independent of the Company and its consolidated subsidiaries and fulfill our other ethical responsibilities as an auditor in accordance with provisions of the Code of Professional Ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Audit & Supervisory Board Members and Audit & Supervisory Board for the Internal Control Report

Management is responsible for the development and operation of internal control over financial reporting, and for the preparation and fair presentation of the internal control report in accordance with evaluation standards for internal control over financial reporting generally accepted as fair and valid in Japan.
Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing and verifying the development and operation of internal control over financial reporting.
There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility for Auditing Internal Control

Our responsibility is to express an opinion on the internal control report in the internal control audit report from an independent standpoint based on the audit on internal control by the auditor, after obtaining reasonable assurance about whether the internal control report is free of material misstatement.

We shall, in accordance with the auditing standards for internal control over financial reporting generally accepted as fair and valid in Japan, make professional judgments throughout the auditing process and, with professional skepticism, shall:

- Implement audit procedures to obtain audit evidence about the assessment results of internal control over financial reporting in the internal control report. The internal control audit procedures shall be selected and applied at our discretion, based on the significance of effects on the reliability of financial reporting.
- Examine the overall presentation of the internal control report, including the scope and procedures of assessment pertaining to internal control over financial reporting, and statements by management on the results of the assessment.
- Obtain sufficient and appropriate audit evidence about the assessment results of internal control over financial reporting in the internal control report. We are responsible for directing, supervising and implementing the audit on the internal control report. An Auditor is solely responsible for the audit opinion.

We shall report to the Audit & Supervisory Board Members and the Audit & Supervisory Board on the scope and timing of the planned audit on internal control, the results of the audit on internal control, material defects in internal control that are identified to be disclosed, the results of correcting the same, and other matters required by the auditing standards for internal control.

We shall report to the Audit & Supervisory Board Members and the Audit & Supervisory Board on compliance with the provisions of the Code of Professional Ethics in Japan on independence, matters reasonably considered to affect the independence of the auditors, and if measures are taken to remove any impediments or safeguards are applied to mitigate any impediments to an acceptable level, the details thereof.

<Information related to remuneration>

The amounts of fees based on audit attestation and fees based on non-audit services of the Company and its subsidiaries for the audit firm and persons who belong to the same network as the audit firm are stated in Corporate Governance, etc. (3) Status of audits under "Status of the Submitting Company."

Conflict of interest

Our firm and executive members have no interest in the Company and its consolidated subsidiaries for which disclosure is required under the provisions of the Certified Public Accountants Act.

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(Notes) 1. The original copy of the above audit report is kept separately by the Company (the company filing this securities report).

2. XBRL data is excluded from the scope of audit.

# Independent Auditor's Audit Report

March 28, 2024

Tokai Carbon Co., Ltd.
To: The Board of Directors

KPMG AZSA LLC
Tokyo Office

| | | |
|---|---|---|
| Designated Limited Liability Partner and Executive Member | Certified public accountant | Ryoichi Isashi |
| Designated Limited Liability Partner and Executive Member | Certified public accountant | Takeshi Nakatani |

Audit Opinion

To provide an audit attestation as stipulated in Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the financial statements of Tokai Carbon Co., Ltd. included in the "Status of Accounting" section, which consist of the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity, important accounting policies, other notes, and non-consolidated supplementary schedules for the fiscal year from January 1 to December 31, 2023.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tokai Carbon Co., Ltd. as of December 31, 2023 and its operating results for the fiscal year ended on that day in conformity with the generally accepted accounting principles as fair and valid in Japan.

Basis for the Audit Opinion

We conducted our audit in accordance with auditing standards that are generally accepted as fair and valid in Japan. Our responsibility under auditing standards is described in "Auditor's Responsibility for Auditing Non-consolidated Financial Statements." We are independent of the Company and fulfill our other ethical responsibilities as an auditor in accordance with provisions of the Code of Professional Ethics in Japan. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

The key audit matters are what the auditor considers to be of particular professional importance in the audit of the fiscal year's financial statements. The key audit matters are the response to the audit process and the formation of the audit opinion on the financial statements as a whole, and we do not express an opinion on this matter individually.

<table>
<tr><td colspan="2">Appropriateness of judgment regarding the necessity of recording a valuation loss for shares of subsidiaries and associates Cobex HoldCo GmbH</td></tr>
<tr><td>Contents and reasons for decision<br>of key audit matters</td><td>Audit response</td></tr>
<tr><td>¥225,209 million in shares of subsidiaries and associates, which is included in the Balance sheet of Tokai Carbon Co., Ltd., includes ¥108,687 million in investment in Tokai COBEX HoldCo GmbH, a non-listed subsidiary, as described in Note "(Significant Accounting Estimates) 1. Assessment of shares of subsidiaries and associates."<br><br>Shares without market prices acquired through investments in non-listed subsidiaries shall be valued at acquisition cost on the balance sheet. However, in cases where the actual value has declined significantly due to deterioration in the financial position of the issuing corporation, it is necessary to recognize a valuation loss unless there is sufficient evidence of recoverability.<br><br>Tokai Carbon Co., Ltd. does not recognize a valuation loss because the real value of net assets COBEX HoldCo GmbH, which reflects excess earning power, has not declined significantly. The calculation of the real value reflecting the excess profitability and the determination of whether the recoverability is supported by sufficient evidence are based on the business plan of Tokai Cobex HoldCo GmbH and takes into account changes in the market environment and long-term business strategies. The performance of Tokai Cobex HoldCo GmbH may be affected by uncertain economic and business conditions in the future, and the judgment of management has a significant impact on the calculation of the actual value reflecting excess profitability.<br><br>Accordingly, we believe that the appropriateness of our determination regarding the necessity of recording a valuation loss on the investment in our subsidiary, Tokai Cobex HoldCo GmbH, is particularly important in the audit of financial statements in current fiscal year and falls under the category of "Key Audit Matters."</td><td>In order to evaluate our judgment as to whether or not to record a loss on valuation of investments in our subsidiary, Tokai Cobex HoldCo GmbH, we have primarily conducted the following audit procedures.<br><br>(1) Assessment of internal control<br><br>The effectiveness of the development and operation of internal control related to the determination of the necessity of recording the valuation loss of shares of subsidiaries and associates was evaluated. The assessment focused specifically on the control in which the adequacy of the business plan underlying the assessment of excess of the assessment of excess profitability is verified.<br><br>(2) Assessment of shares of subsidiaries and associates<br><br>In order to examine the appropriateness of the valuation of the Tokai COBEX HoldCo GmbH shares, the following procedures were mainly implemented regarding the excess profitability of the company considered in estimating the real value.<br><br>・ Internal materials of the Company such as Board of Directors materials related to the business plan were inspected.<br><br>・ Compared and analyzed business plans and achievements, and asked questions to the department in charge about the achievement status of past business plans to confirm whether there were any changes in the management environment.<br><br>・ Asked the department in charge whether the business plan was formulated based on rational assumptions and examined the feasibility of the business plan.<br><br>・ The appropriateness of assumptions regarding future market growth in net sales was examined, including comparisons with available external information.<br><br>・ The gross profit rate and selling, general and administrative expenses estimates were compared with past performance. At the same time, questions were asked to the department in charge about the forecast of future trends, and the validity of the estimates was examined.</td></tr>
</table>

Other Information

The other information comprises the information included in the Securities Report but does not include the consolidated financial statements, financial statements, and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to streamlining and operating the reporting process for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and Audit & Supervisory Board for Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance with the generally accepted accounting principles in Japan. Responsibilities include those for designing and operating an internal control system as management deems necessary in order to prepare and properly present non-consolidated financial statements that are free from material misstatement due to fraud or error.

In preparing non-consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare non-consolidated financial statements based on the going concern assumption as well as for disclosing matters concerning a going concern if it is necessary to do so based on accounting standards generally accepted as fair and valid in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of their duties in the development and operation of the financial reporting process.

Auditor's Responsibility for Auditing Non-consolidated Financial Statements

Our responsibility is to express an opinion on the non-consolidated financial statements in the audit report from an independent standpoint based on the audit by the auditor, after obtaining reasonable assurance about whether the non-consolidated financial statements as a whole are free of material misstatement due to fraud or error. A misstatement is deemed material if it may arise from fraud or error, and it is reasonably expected, either individually or in aggregate, to affect the decision making of the users of the non-consolidated financial statements.

We shall, in accordance with auditing standards generally accepted as fair and valid in Japan, make professional judgments throughout the auditing process and, with professional skepticism, shall:

- Identify and assess the risk of material misstatement due to fraud or error. Moreover, we shall plan and implement audit procedures to address material misstatement risks. Audit procedures shall be selected and applied at the discretion of the Auditor. Furthermore, sufficient and appropriate audit evidence shall be obtained for the basis of the audit opinion.
- The purpose of auditing the non-consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in conducting risk assessment, we shall examine internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Assess the appropriateness of accounting policies adopted by management and the methods of their application as well as the reasonableness of accounting estimates made by management and the appropriateness of any related notes
- Determine whether it is appropriate for management to prepare non-consolidated financial statements based on going concern assumptions, and based on the audit evidence obtained, whether there are significant uncertainties regarding the events or circumstances that may raise significant doubt about the going concern assumptions. An audit report shall be required to draw attention to the notes to the non-consolidated financial statements if significant uncertainties are recognized concerning the going concern assumptions, or the expression of an opinion, with exceptions, on the non-consolidated financial statements shall be required if the notes to significant uncertainties in the non-consolidated financial statements are not appropriate. Our conclusions are based on audit evidence obtained up to the date of the audit report, but future events and circumstances may prevent the company from continuing as a going concern.
- Evaluate the presentation, composition, and content of the non-consolidated financial statements, including the related notes, and whether the non-consolidated financial statements appropriately present the transactions and accounting events on which they are based, as well as whether the presentation and notes to the non-consolidated financial statements conform to accounting standards generally accepted as fair and valid in Japan.

We shall report to the Audit & Supervisory Board Members and the Audit & Supervisory Board on the scope and timing of the planned audit, material audit findings, including material defects in internal control identified during the audit process, and other matters required by the audit standards.

We shall report to the Audit & Supervisory Board Members and the Audit & Supervisory Board on compliance with the provisions of the Code of Professional Ethics in Japan on independence, matters reasonably considered to affect the independence of the auditors, and if measures are taken to remove any impediments or safeguards are applied to mitigate any impediments to an acceptable level, the details thereof.

From the matters communicated with the Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Information related to remuneration>

Information related to remuneration is included in the audit report of the consolidated financial statements.

Conflict of interest

Our firm and the executive members have no interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

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(Notes) 1. The original copy of the above audit report is kept separately by the Company (the company filing this securities report).

2. XBRL data is excluded from the scope of audit.