

# Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2022 [Japanese GAAP]

August 8, 2022

Company name: Tokai Carbon Co., Ltd. Listing: Tokyo Stock Exchange Prime Market  
 Securities code: 5301 URL: <https://www.tokaicarbon.co.jp/en/>  
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 Scheduled date to file quarterly report: August 10, 2022  
 Scheduled date to commence dividend payments: September 1, 2022  
 Preparation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results briefing: Yes (Conference call for analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted)

## 1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2022 (January 1 to June 30, 2022)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Quarterly Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2022	157,070	33.8	16,717	52.7	19,448	82.7	9,253	62.1
Six months ended June 30, 2021	117,380	25.2	10,945	88.1	10,646	106.2	5,708	164.4

Note: Comprehensive income: Six months ended June 30, 2022: 46,200 million yen (93.1%)  
 Six months ended June 30, 2021: 23,929 million yen (-%)

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
Six months ended June 30, 2022	43.41	-
Six months ended June 30, 2021	26.78	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	559,400	293,578	47.2
As of December 31, 2021	512,503	256,570	44.7

For reference: Shareholders' capital: As of June 30, 2022: 263,963 million yen  
 As of December 31, 2021: 229,210 million yen

## 2. Dividends

	Annual Dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2021	-	15.00	-	15.00	30.00
Fiscal year ending December 31, 2022	-	15.00			
Fiscal year ending December 31, 2022 (Forecast)			-	15.00	30.00

Note: Amendment to most recently disclosed dividend forecast: None

## 3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2022 (January 1 to December 31, 2022)

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	305,000	17.8	35,000	42.0	34,000	37.3	20,000	24.2	93.82

Note: Amendment to most recently disclosed consolidated earnings forecast: None

\* Notes:

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries accompanying changes in the scope of consolidation): Yes

Newly included: -

Excluded: 1 company (Tokai Carbon (Tianjin) Co., Ltd.)

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policy and changes and restatements of accounting estimates

(a) Changes in accounting policy accompanying the revision of accounting standards: Yes

(b) Changes in accounting policy other than those listed in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares issued (common stock)

(a) Number of shares issued at the end of the period (including treasury stock)

As of June 30, 2022	224,943,104 shares	As of December 31, 2021	224,943,104 shares
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(b) Number of treasury stock at the end of the period

As of June 30, 2022	11,747,825 shares	As of December 31, 2021	11,762,569 shares
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(c) Average number of shares during the period

Six months ended June 30, 2022	213,186,824 shares	Six months ended June 30, 2021	213,175,798 shares
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\* The financial results are not subject to audit by certified public accountants or audit firms.

\* Appropriate use of earnings forecasts and other pertinent information

(Cautionary statement on forward-looking statements)

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors.

(How to obtain the supplemental material on quarterly financial results)

Tokai Carbon has scheduled a briefing on financial results in the form of a telephone meeting for analysts and institutional investors on Tuesday, August 9, 2022. The materials for this briefing will be posted on the corporate website on that day.

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## 1. Operating Results

### (1) Operating Results for the Second Quarter of the Fiscal Year Ending December 31, 2022

During the first six months of 2022 (from January 1, 2022 to June 30, 2022) the global economy simultaneously experienced a significant slowdown in the pace of economic recovery and an increase in inflation, contrary to expectations at the beginning of the year. Although lockdowns occurred in major Chinese cities, the balance between anti-infection measures and economic activities progressed in countries around the world. On the other hand, uncertainty of the global economy is increasing again due to the global inflation and the resulting monetary tightening have become major downward factors driven by the supply chain disruption triggered by Russia's invasion of Ukraine.

Under these circumstances, in February this year, Tokai Carbon Group announced the rolling medium-term management plan "T-2024", for the three-year period from 2022 to 2024. Based on the three basic policies of "returning core businesses to a path of growth," "optimizing the business portfolio (selection and concentration)," and "strengthening the consolidated governance structure," we aim to achieve quantitative targets of 356 billion yen in net sales, 57 billion yen in operating income, 16% in ROS, and 91 billion yen in EBITDA by 2024. Focusing on our core businesses of graphite electrodes and carbon black, we are working to secure appropriate profits by passing through the rising costs to selling prices. At the same time, we are expanding our production capacity for the growing future demand. Also, along with our selection and concentration strategy, in February 2022 we completed the transfer of Tokai Carbon (Tianjin) Co., Ltd., our Chinese carbon black plant and in May 2022, we acquired an additional 350,000 shares in Tokai Carbon Korea Co., Ltd., a consolidated subsidiaries company (increasing percentage of voting rights from 44.4% to 47.4%).

In February this year, we disclosed our new long-term vision for 2030, "Contributing to the realization of a sustainable society with advanced materials and solutions." Along with this vision, Sustainability Committee to discuss important issues related to sustainability and the Carbon Neutral Committee to serve as a control tower for addressing carbon neutral issues were established.

As a result, net sales for the first six months of 2022 increased 33.8% year on year to 157,070 million yen. Operating income increased 52.7% year on year to 16,717 million yen. Ordinary income increased 82.7% year on year to 19,448 million yen. Quarterly net income attributable to owners of the parent company increased 62.1% year on year to 9,253 million yen.

Results by business segment were as follows:

#### Graphite Electrodes

Global demand for graphite electrodes continued to be strong, and inquiries to the Company increased mainly in Europe and the United States. Although there are concerns about the impact of the crisis in Ukraine and global inflation, both factory operational rates and sales volumes are recovering, and sales prices rebounded from the previous year's bottom.

As a result, net sales for the Graphite Electrodes business increased 62.1% year on year to 29,164 million yen, while operating income increased significantly to 2,925 million yen (compared with 123 million yen in operating income for the same period of the previous year).

#### Carbon Black

Although automobile production declined significantly from the same period of the previous year due to a shortage of semiconductors and other factors, demand in replacement tires was robust, particularly for truck and bus applications in North America. Despite a decrease in overall sales volume year on year due to the sale of the China-based business, sales and profit increased due to measures such as passing on the increase in raw material oil prices to selling prices.

As a result, net sales for the Carbon Black business increased 37.7% year on year to 63,729 million yen, while operating income increased 9.9% year on year to 4,785 million yen.

#### Fine Carbon

Production and shipments for semiconductors and solar power generation remained steady, and shipments for general industries recovered. Demand for solid SiC (silicon carbide) products, a high-value-added product, remained strong worldwide.

As a result, net sales for the Fine Carbon business increased 26.9% year on year to 23,695 million yen, while operating income increased 48.9% year on year to 6,787 million yen.

#### Smelting & Lining

Although primary aluminum metal prices declined from a historical high, it remained at a high level, and sales of cathodes for aluminum electrolysis, particularly in emerging countries, remained firm. Carbon electrodes sales were also strong backed by the brisk demand for metallic silicon. At the same time, earnings are currently under pressure due to goodwill depreciation and higher raw material costs. However, we are working to recover earnings by passing on higher costs to selling prices.

As a result, the net sales for the Smelting and Lining business increased by 21.5% year on year to 26,606 million yen, and the operating loss was 3 million yen (compared with 302 million yen in operating income in the same period of the previous year).

#### Industrial Furnaces and Related Products

In net sales of industrial furnaces, demand from energy-related and IT-related industries, which are our main customers, was strong. Demand for heating elements and other products was also strong in the electronic components industry.

As a result, net sales for the Industrial Furnaces and Related Products business increased 36.2% year on year to 8,904 million yen, while operating income increased 28.9% year on year to 2,518 million yen.

#### Other Operations

##### *Friction materials*

Although there were negative factors such as a slowdown in demand related to construction machinery and the impact of the lockdown in China, demand for agricultural machinery, motorcycles and electromagnetic equipment for each use was strong.

As a result, net sales of friction materials increased 2.0% year on year to 4,493 million yen.

##### *Anode materials*

Competition intensified due to the rise of emerging markets in anode materials, and sales volume decreased.

As a result, net sales of anode materials decreased 73.5% year on year to 409 million yen.

##### *Others*

Net sales from real estate leasing and other business increased 0.5% year on year to 68 million yen.

As a result, net sales for Other Operations decreased 17.4% to 4,970 million yen, while operating income increased 11.4% to 387 million yen.

## 2. Quarterly Consolidated Financial Statements and Notes

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of December 31, 2021)	Second quarter of the fiscal year under review (As of June 30, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	78,858	70,567
Notes and accounts receivable	56,668	65,504
Merchandise and finished goods	20,169	23,996
Work in progress	29,362	36,223
Raw materials and supplies	22,947	32,386
Other	7,377	9,981
Allowance for doubtful accounts	(234)	(268)
Total current assets	215,149	238,391
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	29,783	30,786
Machinery, equipment and vehicles, net	84,239	90,014
Land	7,724	8,100
Construction in progress	15,085	26,497
Other, net	7,332	8,567
Total tangible fixed assets	144,165	163,966
Intangible assets		
Goodwill	55,553	57,384
Customer-related assets	57,880	59,943
Other	9,914	10,432
Total intangible assets	123,349	127,760
Investments and other assets		
Investment securities	21,802	21,831
Net defined benefit asset	3,500	3,456
Deferred tax assets	3,620	2,757
Other	958	1,280
Allowance for doubtful accounts	(43)	(42)
Total investments and other assets	29,838	29,283
Total fixed assets	297,353	321,009
Total assets	512,503	559,400

(Millions of yen)

	Previous fiscal year (As of December 31, 2021)	Second quarter of the fiscal year under review (As of June 30, 2022)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	22,294	25,659
Electronically recorded obligations	3,934	3,574
Short-term loans payable	2,000	4,000
Commercial papers	50,000	60,000
Current portion of loans payable	12,710	11,155
Income taxes payable	5,913	5,696
Provision for bonuses	2,777	1,869
Current portion of bonds payable	10,000	10,000
Provision for loss on sale of equity invested in associates	1,137	-
Other	19,650	21,534
<b>Total current liabilities</b>	<b>130,418</b>	<b>143,491</b>
Long-term liabilities		
Bonds payable	55,000	55,000
Long-term loans payable	38,539	30,499
Deferred tax liabilities	18,499	22,555
Retirement benefit liability	7,340	7,367
Provision for retirement benefits for directors	90	98
Provision for executive officers' retirement benefits	58	54
Provision for environment and safety measures	284	297
Other	5,701	6,459
<b>Total long-term liabilities</b>	<b>125,514</b>	<b>122,331</b>
<b>Total liabilities</b>	<b>255,932</b>	<b>265,822</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	17,350	13,811
Retained earnings	175,727	181,783
Treasury stock	(7,244)	(7,236)
<b>Total shareholders' equity</b>	<b>206,269</b>	<b>208,795</b>
Accumulated other comprehensive income		
Valuation difference on other securities	9,370	9,248
Deferred gains or losses on hedges	(41)	(5)
Foreign currency translation adjustments	11,805	43,593
Cumulative remeasurements of defined benefit plans	1,805	2,331
<b>Total accumulated other comprehensive income</b>	<b>22,940</b>	<b>55,168</b>
Non-controlling interests	27,360	29,614
<b>Total net assets</b>	<b>256,570</b>	<b>293,578</b>
<b>Total liabilities and net assets</b>	<b>512,503</b>	<b>559,400</b>

## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

## Quarterly Consolidated Statements of Income

First Six-month Period

(Millions of yen)

	First six months of the previous fiscal year (January 1 to June 30, 2021)	First six months of the fiscal year under review (January 1 to June 30, 2022)
Net sales	117,380	157,070
Cost of sales	84,004	115,080
Gross profit	33,376	41,990
Selling, general and administrative expenses	22,430	25,272
Operating income	10,945	16,717
Non-operating income		
Interest income	119	211
Dividend income	275	381
Share of profit of entities accounted for using equity method	24	158
Foreign exchange gains	336	2,973
Other	441	269
Total non-operating income	1,197	3,995
Non-operating expenses		
Interest expenses	553	519
Other	942	745
Total non-operating expenses	1,496	1,264
Ordinary income	10,646	19,448
Extraordinary income		
Gain on sale of investment securities	47	29
Gain on sales of fixed assets	151	26
Total extraordinary income	198	56
Extraordinary losses		
Loss on retirement of fixed assets	37	162
Loss on sale of equity invested in associates	-	160
Loss on sale of investment securities	-	0
Loss on sales of fixed assets	0	0
Loss on liquidation of subsidiaries and associates	24	-
Total extraordinary losses	62	323
Quarterly net income before income taxes	10,782	19,181
Income taxes - current	3,593	4,372
Income taxes - deferred	(497)	3,107
Total income taxes	3,096	7,479
Quarterly net income	7,685	11,701
Quarterly net income attributable to non-controlling interests	1,977	2,447
Quarterly net income attributable to owners of the parent company	5,708	9,253

Quarterly Consolidated Statements of Comprehensive Income

First Six-month Period

(Millions of yen)

	First six months of the previous fiscal year (January 1 to June 30, 2021)	First six months of the fiscal year under review (January 1 to June 30, 2022)
Quarterly net income	7,685	11,701
Other comprehensive income		
Valuation difference on other securities	1,986	(119)
Deferred gains or losses on hedges	166	36
Foreign currency translation adjustments	14,011	33,989
Remeasurements of defined benefit plans	(15)	525
Share of other comprehensive income of associates accounted for using equity method	94	67
Total other comprehensive income	16,243	34,498
Quarterly comprehensive income	23,929	46,200
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent company	21,240	41,481
Quarterly comprehensive income attributable to non- controlling interests	2,688	4,718

### (3) Notes to Quarterly Consolidated Financial Statements

#### (Notes on the Going-concern Assumption)

Not Applicable

#### (Notes on Significant Changes in Shareholders' Equity Amount)

The Company acquired additional shares of Tokai Carbon Korea Co., Ltd., a consolidated subsidiary, as of May 11, 2022. As a result, during the first six months of the consolidated period, capital surplus decreased by 3,547 million yen and capital surplus at the end of the second quarter of the consolidated period was 13,811 million yen.

#### (Changes in Accounting Policy)

##### (Application of accounting standards for revenue recognition)

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as, "Revenue Recognition Accounting Standard") etc. has been applied from the beginning of the first three months of the consolidated period. With the application of the Revenue Recognition Accounting Standard, revenue is recognized at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

Moreover, revenue is recognized at the time of shipment if the period from the time of shipment to the time when control over the goods or products is transferred to the customer is a normal period in total sales of the goods or products by applying the alternative treatment set forth in Paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition.

The application of the Revenue Recognition Accounting Standard, etc. is in accordance with the transitional treatment provided in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. However, the application of the Revenue Recognition Accounting Standard, etc. does not have any impact on the profit or loss and the beginning retained earnings of the first six months of the consolidated period.

##### (Application of accounting standard for fair value measurement)

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as, "Fair Value Measurement Accounting Standard") etc. has been applied from the beginning of the first three months of the consolidated period. In accordance with the transitional treatment set forth in Paragraph 19 of Fair Value Measurement Accounting Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy set forth in the Fair Value Measurement Accounting Standard, etc. will be applied in the future. Moreover, there is no impact on the quarterly consolidated financial statements.

#### (Additional Information)

There is no significant change in the assumed information reported in "(Additional Information)" in the Securities Report for the previous fiscal year, regarding the effects of COVID-19 infections, including the estimation of the spread and timing of full containment.

## (Segment Information)

## I First six months of the previous fiscal year (January 1 to June 30, 2021)

## Information on net sales and amount of income or loss by reportable segment

(Millions of yen)

	Reportable segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the quarterly consolidated statements of income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	17,986	46,264	18,677	21,893	6,539	111,361	6,019	117,380	-	117,380
Intersegment sales/transfers	55	42	38	12	245	394	-	394	(394)	-
Total	18,042	46,306	18,716	21,905	6,784	111,756	6,019	117,775	(394)	117,380
Segment income	123	4,353	4,557	302	1,953	11,290	348	11,638	(692)	10,945

- Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
2. The 692-million-yen negative adjustment in segment income includes company-wide expenses of 656 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to the reportable segments.
3. Segment income is reconciled to the operating income reported in the Quarterly Consolidated Statements of Income.

## II First six months of the fiscal year under review (January 1 to June 30, 2022)

## 1. Information on net sales and amount of income or loss by reportable segment

(Millions of yen)

	Reportable segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the quarterly consolidated statements of income (Note 3)
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	29,164	63,729	23,695	26,606	8,904	152,100	4,970	157,070	-	157,070
Intersegment sales/transfers	160	32	66	164	216	640	-	640	(640)	-
Total	29,324	63,761	23,762	26,771	9,121	152,740	4,970	157,711	(640)	157,070
Segment income (loss)	2,925	4,785	6,787	(3)	2,518	17,012	387	17,399	(681)	16,717

- Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the friction materials business, anode materials business, real estate leasing business, and other businesses.
2. The 681-million-yen negative adjustment in segment income (loss) includes company-wide expenses of 641 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to the reportable segments.
3. Segment income (loss) is reconciled to the operating income reported in the Quarterly Consolidated Statements of Income.

## 2. Information on assets by reportable segment

During the first three months of the fiscal year under review, as a result of the transfer of all equity interests of the Tokai Carbon (Tianjin) Co., Ltd. and the exclusion from the scope of consolidation, the amount of assets of reportable segments at the end of the second quarter of the of the fiscal year under review decreased by 5,977 million yen in the Carbon Black segment compared with the end of the previous fiscal year.

## 3. Changes in reportable segment, etc.

During the first six months of the fiscal year under review, the name of the reportable segment was changed from "Smelting and Lining" to "Smelting and Lining." ("Seiren Lining Jigyo" to "Smelting & Lining Jigyo")

in Japanese, no change in English translation.) This change is a change in segment name and has no impact on segment information.

Moreover, as a result of this change, segment information for the first six months of the previous fiscal year is also presented under the new name.

(Business Combination, etc.)

Common control transactions, etc.

Additional acquisition of shares of consolidated subsidiary

(1) Outline of transaction

(i) Name and business of the company involved in the combination

Company involved in the combination

Tokai Carbon Korea Co., Ltd. (consolidated subsidiary of the Company)

Description of business

Manufacturing and sale of carbon graphite products and CVD-SiC coated products

(ii) Date of business combination

May 11, 2022

(iii) Legal form of business combination

Acquisition of shares from non-controlling interests

(iv) Name of the Company after business combination

There is no change.

(v) Other information related to the outline of transaction

In order to stabilize the management of Tokai Carbon Korea Co., Ltd. and enhance the corporate value of the Tokai Carbon Group, the Company acquired additional 350,000 shares of Tokai Carbon Korea Co., Ltd. from KC Co., Ltd., the second largest shareholder after the Company.

(2) Implemented accounting method

Based on the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019), the Company accounts for this transaction as a transaction with non-controlling interests under common control.

(3) Matters set forth in the case of additional acquisition of shares of subsidiaries

Breakdown by acquisition cost of the acquired company and type of consideration

Consideration for acquisition	Cash	5,024 million yen
<hr/>		
Acquisition cost		5,024 million yen

(4) Matters related to change in ownership interest of the Company due to the transaction with non-controlling interests

(i) Major fluctuation factors in capital surplus

Additional acquisition of shares of a subsidiary

(ii) Decrease in capital surplus due to the transaction with non-controlling interests

3,547 million yen