

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2023 [Japanese GAAP]

August 8, 2023

Company name: Tokai Carbon Co., Ltd. Listing: Tokyo Stock Exchange Prime Market
 Securities code: 5301 URL: <https://www.tokaicarbon.co.jp/en/>
 Representative: Hajime Nagasaka, President & Chief Executive Officer
 Inquiries: Naoki Hirai, Director and General Manager, Accounting & Finance Department
 Telephone: 81-3-3746-5100
 Scheduled date to file quarterly report: August 10, 2023
 Scheduled date to commence dividend payments: September 1, 2023
 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, 2023 (January 1 to June 30, 2023)

(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, 2023	178,428	13.6	21,738	30.0	24,109	24.0	15,904	71.9
Six months ended June 30, 2022	157,070	33.8	16,717	52.7	19,448	82.7	9,253	62.1

Note: Comprehensive income: Six months ended June 30, 2023: 57,024 million yen (23.4%)
 Six months ended June 30, 2022: 46,200 million yen (93.1%)

	Quarterly Net Income per Share	Quarterly Net Income per Share Fully Diluted
	Yen	Yen
Six months ended June 30, 2023	74.60	-
Six months ended June 30, 2022	43.41	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	630,385	353,531	50.7
As of December 31, 2022	576,465	300,868	46.6

For reference: Shareholders' capital: As of June 30, 2023: 319,648 million yen
 As of December 31, 2022: 268,827 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, 2022	-	15.00	-	15.00	30.00
Fiscal year ending December 31, 2023	-	18.00			
Fiscal year ending December 31, 2023 (Forecast)			-	18.00	36.00

Note: Amendment to most recently disclosed dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2023 (January 1 to December 31, 2023)

(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	410,000	20.5	45,000	10.9	45,000	5.8	26,000	16.0	121.95

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): None

(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: None

(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, 2023	224,943,104 shares	As of December 31, 2022	224,943,104 shares
---------------------	--------------------	-------------------------	--------------------

(b) Number of treasury stock at the end of the period

As of June 30, 2023	11,726,674 shares	As of December 31, 2022	11,748,117 shares
---------------------	-------------------	-------------------------	-------------------

(c) Average number of shares during the period

Six months ended June 30, 2023	213,204,105 shares	Six months ended June 30, 2022	213,186,824 shares
--------------------------------	--------------------	--------------------------------	--------------------

* 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 Wednesday, August 9, 2023. The materials for this briefing will be posted on the corporate website on that day.

Supplemental Materials

1. Operating Results	2
(1) Operating Results for the Second Quarter of the Fiscal Year Ending December 31, 2023	2
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statements of Income for the First Six-month Period	6
Quarterly Consolidated Statements of Comprehensive Income for the First Six-month Period.....	7
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes on the Going-concern Assumption)	8
(Notes on Significant Changes in Shareholders' Equity Amount)	8
(Segment Information).....	9

1. Operating Results

(1) Operating Results for the Second Quarter of the Fiscal Year Ending December 31, 2023

During the first six months of 2023 (from January 1 to June 30), the global economy avoided a serious economic downturn regardless of the downward trend. This was due to positive factors such as the easing of supply constraints and the reopening of the Chinese economy, despite a decline in purchasing power due to inflation and high interest rates. The outlook although remains uncertain from the risk of heightened geopolitical tensions, including the intensifying conflict between the United States and China, the protracted crisis in Ukraine, and changes in monetary and fiscal policies in major countries.

Under these circumstances, in February this year, we announced the Group's rolling medium-term management plan "T-2025," which covers the three years from 2023 to 2025. Under 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 aim to achieve net sales of 484 billion yen, operating income of 69 billion yen, ROS of 14%, and EBITDA of 113 billion yen as quantitative targets in 2025. Focusing on our core graphite electrode and carbon black businesses, we are working to ensure reasonable profits by adjusting the sales prices to cope with the increases in raw materials and other costs. We are steadily improving productivity and expanding production capacity in anticipation of future demand growth. With the aim of achieving carbon neutral, we are working to reduce CO2 emissions and exploring and investigating relevant technologies on a consolidated basis, mainly through the Carbon Neutral Committee, which was established in February 2022. .

As a result, net sales for the first six months of 2023 increased 13.6% year on year to 178,428 million yen. Operating income increased 30.0% year on year to 21,738 million yen. Ordinary income increased 24.0% year on year to 24,109 million yen. Quarterly net income attributable to owners of the parent company increased 71.9% year on year to 15,904 million yen.

Results by business segment were as follows:

Graphite Electrodes

The global slowdown in the steel industry caused a decline in electric arc furnace operating rates in various regions. Sales volume of graphite electrodes decreased year on year. However, an increase in shipments of large-diameter electrodes mainly in North America resulted in higher average selling prices.

As a result, net sales for the Graphite Electrodes business increased 4.3% year on year to 30,407 million yen, and operating income increased 8.2% year on year to 3,164 million yen.

Carbon Black

Demand related to new vehicle recovered despite production adjustments by some tire manufacturers. Sales volume was at same level as the same period of the previous year. Sales and profit increased year on year due to the partial compensation of the depreciation charges on investments in environmental equipment resulting from price revisions mainly in the United States.

As a result, net sales for the Carbon Black business increased 15.9% year on year to 73,831 million yen, while operating income increased 125.1% year on year to 10,773 million yen.

Fine Carbon

Sales of components for semiconductor manufacturing equipment particularly for Solid SiC products were significantly affected by customers' inventory adjustments due to lower demand for smartphones and personal computers, as well as the prolonged impact of the U.S. policy toward China. On the other hand, shipments of products for power semiconductors and general industrial use remained firm.

As a result, net sales for the Fine Carbon business decreased 9.8% year on year to 21,373 million yen, while operating income decreased 25.7% year on year to 5,041 million yen.

Smelting & Lining

Sales volume of cathodes for aluminum electrolysis remained firm supported by demand in emerging countries amid a downward trend for both energy and primary aluminum ingot prices. Profitability was maintained by reflecting higher production costs in selling prices.

As a result, net sales for the Smelting and Lining business increased 55.9% year on year to 41,473 million yen, while operating income was 1,392 million yen (compared with operating loss of 3 million yen in the same period of the previous fiscal year).

Industrial Furnaces and Related Products

Net sales decreased year on year as sales to major customers in the energy-related industries are concentrated in the second half of the year and demand recovery in the electronic component-related industry was delayed.

As a result, net sales for the Industrial Furnaces and Related Products business decreased 35.9% year on year to 5,707 million yen, while operating income decreased 49.8% year on year to 1,263 million yen.

Other Operations

Friction materials

Sales for the main applications of mining, motorcycles, and electromagnetic equipment remained firm regardless of the impact from the slump in the Chinese construction equipment market.

As a result, net sales of friction materials increased 8.2% year on year to 4,859 million yen.

Anode materials

Sales volume increased year on year due to a recovery in sales of EVs and ESS (Energy Storage Systems) products using the Company's materials.

As a result, net sales of anode materials increased 73.2% year on year to 709 million yen.

Others

Net sales from real estate leasing and other business decreased 2.5% year on year to 66 million yen.

As a result, net sales in Other Operations, increased 13.4% year on year to 5,635 million yen, while operating income increased 64.0% year on year to 635 million yen.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of December 31, 2022)	Second quarter of the fiscal year under review (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	70,909	70,072
Notes and accounts receivable	65,197	65,707
Merchandise and finished goods	26,198	29,713
Work in progress	41,584	52,376
Raw materials and supplies	33,548	35,018
Other	9,528	9,528
Allowance for doubtful accounts	(274)	(313)
Total current assets	246,691	262,102
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	30,944	33,736
Machinery, equipment and vehicles, net	90,597	94,855
Land	8,035	9,497
Construction in progress	44,366	62,251
Other, net	8,004	9,101
Total tangible fixed assets	181,948	209,442
Intangible assets		
Goodwill	52,837	53,616
Customer-related assets	55,724	57,020
Other	10,276	12,677
Total intangible assets	118,839	123,313
Investments and other assets		
Investment securities	22,548	28,551
Net defined benefit asset	2,927	2,883
Deferred tax assets	2,210	2,885
Other	1,325	1,230
Allowance for doubtful accounts	(25)	(24)
Total investments and other assets	28,986	35,525
Total fixed assets	329,773	368,282
Total assets	576,465	630,385

(Millions of yen)

	Previous fiscal year (As of December 31, 2022)	Second quarter of the fiscal year under review (As of June 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable	28,119	21,339
Electronically recorded obligations	4,153	3,288
Short-term loans payable	10,940	15,396
Commercial papers	60,000	60,000
Current portion of loans payable	9,805	3,120
Income taxes payable	5,673	4,337
Contract liability	2,271	2,654
Provision for bonuses	3,887	2,192
Other	21,845	19,780
Total current liabilities	146,696	132,109
Long-term liabilities		
Bonds payable	55,000	55,000
Long-term loans payable	35,706	43,027
Deferred tax liabilities	24,171	30,032
Retirement benefit liability	6,567	7,216
Provision for retirement benefits for directors	105	99
Provision for executive officers' retirement benefits	58	54
Provision for environment and safety measures	315	374
Other	6,974	8,938
Total long-term liabilities	128,900	144,743
Total liabilities	275,596	276,853
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	13,811	13,825
Retained earnings	191,750	204,457
Treasury stock	(7,236)	(7,224)
Total shareholders' equity	218,761	231,494
Accumulated other comprehensive income		
Valuation difference on other securities	9,587	13,588
Deferred gains or losses on hedges	274	329
Foreign currency translation adjustments	37,681	71,704
Cumulative remeasurements of defined benefit plans	2,521	2,530
Total accumulated other comprehensive income	50,065	88,153
Non-controlling interests	32,041	33,882
Total net assets	300,868	353,531
Total liabilities and net assets	576,465	630,385

(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, 2022)	First six months of the fiscal year under review (January 1 to June 30, 2023)
Net sales	157,070	178,428
Cost of sales	115,080	127,880
Gross profit	41,990	50,547
Selling, general and administrative expenses	25,272	28,808
Operating income	16,717	21,738
Non-operating income		
Interest income	211	625
Dividend income	381	431
Share of profit of entities accounted for using equity method	158	145
Foreign exchange gains	2,973	2,111
Other	269	505
Total non-operating income	3,995	3,820
Non-operating expenses		
Interest expenses	519	717
Other	745	732
Total non-operating expenses	1,264	1,449
Ordinary income	19,448	24,109
Extraordinary income		
Gain on sales of fixed assets	26	173
Gain on sale of investment securities	29	24
Total extraordinary income	56	197
Extraordinary losses		
Loss on retirement of fixed assets	162	18
Loss on sales of fixed assets	0	0
Loss on sale of equity invested in associates	160	-
Loss on sale of investment securities	0	-
Total extraordinary losses	323	19
Quarterly net income before income taxes	19,181	24,287
Income taxes - current	4,372	4,696
Income taxes - deferred	3,107	2,004
Total income taxes	7,479	6,700
Quarterly net income	11,701	17,586
Quarterly net income attributable to non-controlling interests	2,447	1,682
Quarterly net income attributable to owners of the parent company	9,253	15,904

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, 2022)	First six months of the fiscal year under review (January 1 to June 30, 2023)
Quarterly net income	11,701	17,586
Other comprehensive income		
Valuation difference on other securities	(119)	4,003
Deferred gains or losses on hedges	36	54
Foreign currency translation adjustments	33,989	35,258
Remeasurements of defined benefit plans	525	8
Share of other comprehensive income of associates accounted for using equity method	67	112
Total other comprehensive income	34,498	39,437
Quarterly comprehensive income	46,200	57,024
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent company	41,481	53,992
Quarterly comprehensive income attributable to non- controlling interests	4,718	3,032

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not Applicable

(Notes on Significant Changes in Shareholders' Equity Amount)

Not Applicable

(Segment Information)

I First six months of the previous fiscal year (January 1 to June 30, 2022)

1. Information on net sales and amount of income (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 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.

II First six months of the fiscal year under review (January 1 to June 30, 2023)

Information on net sales and amount of income 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 Furnace and Related Products	Subtotal				
Net sales										
External sales	30,407	73,831	21,373	41,473	5,707	172,792	5,635	178,428	-	178,428
Intersegment sales/transfers	169	13	41	200	99	524	-	524	(524)	-
Total	30,577	73,844	21,414	41,674	5,807	173,317	5,635	178,952	(524)	178,428
Segment income	3,164	10,773	5,041	1,392	1,263	21,635	635	22,271	(533)	21,738

- 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 533-million-yen negative adjustment in segment income includes company-wide expenses of 654 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.