

# Q&A regarding Bond-Type Class Shares

February 13, 2024

This material has been prepared solely for the benefit of the holders of shares of common stock of TOKAI CARBON CO., LTD. (the "Company") in evaluating the proposal of the Company for a partial amendment to the Articles of Incorporation scheduled to be submitted to the Company's Annual General Meeting of Shareholders for the fiscal year 2023 (the "General Meeting of Shareholders") planned to be held on March 28, 2024 and not for the purpose of soliciting investment or engaging in any other similar activities in Japan or any foreign country. This material does not constitute an offer of securities in the United States. The securities referred to herein have not been, and will not be, registered under the U.S. Securities Act of 1933, and may not be offered or sold in the United States absent registration thereunder or an applicable exemption from registration requirements. In this case, no offering of securities will be made in the United States.



**TOKAI CARBON GROUP**

## Q&A regarding Bond-Type Class Shares: Purpose of Amendment to the Articles of Incorporation

Question	Answer
1. What is the purpose of Amendment to the Articles of Incorporation?	<ul style="list-style-type: none"> <li>■ In accordance with the basic policies of the Rolling Mid-Term Management Plan T-2026 announced today, in order to secure a wide range of financing options for the Company to maintain its financial soundness and liquidity while carrying out optimal and flexible financial strategies and capital policies for the implementation of investments and various measures to support business growth, the Board of Directors proposes to amend the Articles of Incorporation to add the provision for the Bond-Type Class Shares.</li> </ul>
2. What is the expected role of Hybrid Financing in the financial strategy and its position in the capital structure?	<ul style="list-style-type: none"> <li>■ Hybrid Financing is considered to be an option that contributes to securing an appropriate capital and debt structure that balances capital efficiency and financial soundness at a valid cost, by limiting the dilution of voting rights and the impact on ROE and EPS caused by the issue of common shares of the Company (the "Common Shares") (※1), while at the same time obtaining equity credit for rating purposes.</li> <li>■ As the cost of capital for Bond-Type Class Shares is limited to amounts corresponding to the annual dividend rate to be determined at the time of issuance, and the cost of capital for the Bond-Type Class Shares is lower than that for Common Shares. Therefore, the Company believes that the issuance of the Bond-Type Class Shares is a funding and capital raising method that takes into account the interests of the Company's existing shareholders.</li> </ul>
3. What are the characteristics of Bond-Type Class Shares?	<ul style="list-style-type: none"> <li>■ Bond-Type Class Shares are treated as shares under the Companies Act, but the issuance thereof is a hybrid financing method with an intermediate characteristic between shares and bonds.</li> <li>■ Bond-Type Class Shares do not have voting rights and are not convertible into Common Shares, and a fixed preferred dividend is paid for a fixed period of time. In addition, Bond-Type Class Shares have priority over Common Shares in terms of the order of distribution of dividends and residual assets, and are non-participating, meaning that no dividend is paid more than the amount of the preferred dividend to be determined at the time of issuance.</li> <li>■ The Company plans to apply for listing of Bond-Type Class Shares (in addition to Common Shares) on the Prime Market of the Tokyo Stock Exchange, with the intention of providing investment opportunities to a wide range of investors.</li> </ul>
4. What is product nature similar to that of hybrid bonds?	<ul style="list-style-type: none"> <li>■ As with hybrid bonds, the Company expects that the Bond-Type Class Shares obtain the equity credit from a rating agency (R&amp;I) for 50% of the amount raised.</li> <li>■ Dividends are fixed for approximately five years from the issuance, and in principle, the Company may acquire the Bond-Type Class Shares in exchange for cash, which is equivalent to the Issue Price plus accrued dividends and other adjustments, starting from five years after the issuance.</li> </ul>

※1 Assuming that the relevant amounts of the Bond-Type Class Shares (i.e., the paid-in amount and preferred dividends) are deducted from the net assets and net income when calculating ROE and EPS for Common Shares.

## Q&A regarding Bond-Type Class Shares: Characteristics

Question	Answer
5. What is the difference between the Bond-Type Class Shares and hybrid bonds?	<ul style="list-style-type: none"> <li>■ The Bond-Type Class Shares differ from hybrid bonds in that they can increase equity capital for accounting purposes.</li> <li>■ In addition, the Bond-Type Class Shares can be considered for investment by a wide range of investors through their listing on the Tokyo Stock Exchange (eligible for NISA).</li> </ul>
6. Will there be any disadvantages to common shareholders?	<ul style="list-style-type: none"> <li>■ The Bond-Type Class Shares have no voting rights and are not convertible into Common Shares, so there will be no dilution of voting rights.</li> <li>■ The Bond-Type Class Shares are “non-participating”, meaning that no dividend is paid more than the amount of the preferred dividend to be determined at the time of issuance, and only common shareholders have the right to participate in dividends other than the preferred dividend.</li> <li>■ The impact of the issuance of the Bond-Type Class Shares on ROE, EPS, etc. for Common Shares may be limited as compared to a capital increase through the issuance of Common Shares. (※<sup>1</sup>)</li> </ul>
7. Is there any possibility that the Bond-Type Class Shares could be used as a takeover protection measure?	<ul style="list-style-type: none"> <li>■ The Bond-Type Class Shares are class shares that do not have voting rights and are not convertible into Common Shares. Accordingly, they are not suitable for takeover protection measures and the Company does not expect to use them as such.</li> <li>■ The Company does not expect to allot the Bond-Type Class Shares to common shareholders by gratis allotment or otherwise.</li> </ul>
8. What form of issuance is envisaged?	<ul style="list-style-type: none"> <li>■ The specific timing of the issuance has not yet been determined at this time, but it is envisaged that, if issued, the shares will be offered to a wide range of investors, including retail investors, through a public offering in Japan.</li> </ul>
9. What is the planned timing and amount of Series 1 Bond-Type Class Shares?	<ul style="list-style-type: none"> <li>■ Specific timing of the issuance have not yet been determined at this time.</li> <li>■ The Company will consider the optimal timing and amount of the issuance with the aim of raising funds in a flexible manner, taking into consideration the Company’s basic financial strategy of maintaining a sound financial base.</li> <li>■ In the shelf registration with respect to the Series 1 Bond-Type Class Shares submitted on February 13, 2024, the issue amount is set at a maximum of 50 billion yen.</li> </ul>

※<sup>1</sup> Assuming that the relevant amounts of the Bond-Type Class Shares (i.e., the paid-in amount and preferred dividends) are deducted from the net assets and net income when calculating ROE and EPS for Common Shares.

## Q&A regarding Bond-Type Class Shares: Regarding the Series 1 Bond-Type Class Shares

Question	Answer
10. The Company has set up multiple series, but how exactly does the Company plan to issue the Bond-Type Class Shares?	<ul style="list-style-type: none"> <li>■ Although the specific timing of the issuance has not been determined at this time, the setup of multiple series are intended to secure a wide range of future issues.</li> <li>■ When issuing, the Company plans to target a wide range of investors for each series and set appropriate issuance and conditions based on a method similar to the book-building method.</li> </ul>
11. Why is the range of annual dividend rate set at 2% to 4%?	<ul style="list-style-type: none"> <li>■ The range of annual dividend rate is provided as a reference for common shareholders in deciding whether to approve or disapprove the proposed amendment to the Articles of Incorporation based on the current market environment and other factors, and has been set after comprehensively considering the market price of similar hybrid bonds and other factors.</li> </ul>
12. Why would the Company consider listing on the Tokyo Stock Exchange?	<ul style="list-style-type: none"> <li>■ The Company believes that listing on the Tokyo Stock Exchange is an important way to raise awareness and provide trading opportunities for a wide range of investors.</li> </ul>
13. Does the issuance of the Series 1 Bond-Type Class Shares affect the dividend policy for Common Shares?	<ul style="list-style-type: none"> <li>■ The Company considers the shareholder return to be a material management issue in increasing corporate value over the medium to long term, and continues to base its shareholder return on stable and continuous dividends. Therefore, the Company does not expect its dividend policy for Common Shares to be affected by the Series 1 Bond-Type Class Shares if and when issued.</li> </ul>
14. How does the Company consider the feature and issuance of the second and subsequent series?	<ul style="list-style-type: none"> <li>■ The second and subsequent series are expected to have the same feature as the Series 1 Bond-Type Class Shares, meaning that no voting rights and not convertible into Common Shares, and therefore they will cause no dilution of voting rights.</li> <li>■ As with the Series 1 Bond-Type Class Shares, the Company expects that the second and subsequent series would be considered to be issued within the range of up to 10 million shares, based on its funding needs and other factors.</li> </ul>
15. Does the Company plan to acquire (call) the Bond-Type Class Shares for cash in five years?	<ul style="list-style-type: none"> <li>■ The Company will determine whether to acquire (call) the Bond-Type Class Shares (if and when issued) for cash five years after the date of issuance or later, taking into consideration the business and financial conditions and market environment and other factors at that time.</li> <li>■ The Company is well aware that market practice in Hybrid Financing is that many investors expect calls to be made from five years after the date of issuance by the timing of the dividend step-up.</li> </ul>



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