

# Securities report

Fiscal year  
2020

(January 1, 2020 to December 31, 2020)

Tokai Carbon Co., Ltd.

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# Securities report

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- 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.

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### Audit Report

### Internal Control Report

### Confirmation Letter

## [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 30, 2021
[Fiscal year]	Fiscal 2020 (from January 1, 2020 to December 31, 2020)
[Company name]	Tokai Carbon Co., Ltd.
[Company name in English]	TOKAI CARBON CO.,LTD.
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[Address of head office]	2-3, Kita Aoyama 1-chome, Minato-ku, Tokyo
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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., 47-1 Nagono, 1-chome, Nakamura-ku, Nagoya, Aichi) Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

## Part 1 Company Information

### Section 1 Overview of the Company

#### 1 Key Financial Data

(1) Consolidated financial data, etc.

Fiscal year		2016	2017	2018	2019	2020
Fiscal year-end		December 2016	December 2017	December 2018	December 2019	December 2020
Net sales	(Million yen)	88,580	106,252	231,302	262,028	201,542
Ordinary income	(Million yen)	1,702	12,855	72,991	52,986	6,262
Net income (loss) attributable to owners of the parent company	(Million yen)	(7,929)	12,346	73,393	31,994	1,019
Comprehensive income	(Million yen)	(10,647)	17,616	65,354	33,484	743
Net assets	(Million yen)	112,989	127,130	207,833	232,975	224,815
Total assets	(Million yen)	158,824	184,730	329,868	462,872	459,709
Net assets per share	(Yen)	520.69	592.83	877.96	993.84	944.16
Net income (loss) per share	(Yen)	(37.20)	57.92	344.32	150.10	4.78
Diluted net income per share	(Yen)	-	-	-	-	-
Equity ratio	(%)	69.9	68.4	56.7	45.8	43.8
Return on equity	(%)	(6.8)	10.4	46.8	16.0	0.5
Price-to-earnings ratio	(Times)	(10.2)	24.1	3.6	7.3	269.6
Net cash provided by (used in) operating activities	(Million yen)	17,505	10,543	44,109	41,664	55,022
Cash flows from investing activities	(Million yen)	(3,622)	(14,039)	(53,849)	(99,159)	(44,301)
Cash flows from financing activities	(Million yen)	(7,613)	(4,534)	29,677	64,568	927
Cash and cash equivalents at end of period	(Million yen)	28,521	22,145	41,124	46,443	57,727
Number of employees (Average number of temporary employees; excluded)	(Number)	1,980 (454)	2,142 (442)	2,944 (453)	3,714 (457)	4,178 (444)

(Notes) 1. Figures for net sales do not include consumption tax, etc.

- Diluted net income per share is not shown for fiscal 2017, 2018, 2019, or 2020, as there were no dilutive shares in these periods.
- Diluted net income per share is not shown for fiscal 2016, as a net loss per share was recorded for this period and there were no dilutive shares.
- Provisional accounting treatments for the business combination with TOKAI CARBON GE HOLDING LLC were finalized in fiscal 2018. Key financial data for fiscal 2017 are amounts reflecting the significant revision of the initial allocation amount of the acquisition cost due to finalization of provisional accounting treatments.
- Provisional accounting treatments for the business combinations with Tokai Carbon Korea Co., Ltd. and Tokai Carbon CB Ltd. were finalized in fiscal 2019. Key financial data for fiscal 2018 are amounts reflecting the significant revision of the initial allocation amount of the acquisition cost due to finalization of provisional accounting treatments.
- The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other standards from the beginning of fiscal 2019. These accounting standards have been applied retrospectively to key financial data for fiscal 2018.

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

Fiscal year		2016	2017	2018	2019	2020
Fiscal year-end		December 2016	December 2017	December 2018	December 2019	December 2020
Net sales	(Million yen)	46,125	51,751	87,807	84,543	48,915
Ordinary income	(Million yen)	157	6,836	29,652	34,687	4,758
Net income (loss)	(Million yen)	(10,849)	8,225	21,487	26,511	4,349
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)	85,002	93,469	107,167	126,699	121,271
Total assets	(Million yen)	122,384	134,865	200,726	304,689	305,707
Net assets per share	(Yen)	398.77	438.50	502.77	594.41	568.89
Dividend per share (Interim dividend per share)	(Yen)	6.00 (3.00)	12.00 (6.00)	24.00 (12.00)	48.00 (24.00)	30.00 (15.00)
Net income (loss) per share	(Yen)	(50.90)	38.59	100.81	124.38	20.40
Diluted net income per share	(Yen)	-	-	-	-	-
Equity ratio	(%)	69.5	69.3	53.4	41.6	39.7
Return on equity	(%)	(11.9)	9.2	21.4	22.7	3.5
Price-to-earnings ratio	(Times)	(7.4)	36.1	12.4	8.8	63.2
Dividend payout ratio	(%)	(11.8)	31.1	23.8	38.6	147.0
Number of employees (Average number of temporary employees; excluded)	(Number)	676 (252)	693 (236)	729 (236)	769 (224)	778 (203)
Total shareholder return (Comparative indicator: TOPIX including dividends)	(%) (%)	112.3 (100.3)	413.2 (122.6)	377.2 (103.0)	346.5 (121.7)	412.3 (130.7)
Highest share price	(Yen)	409	1,428	2,373	1,644	1,302
Lowest share price	(Yen)	236	366	1,164	922	666

(Notes) 1. Figures for net sales do not include consumption tax, etc.

2. Diluted net income per share is not shown for fiscal 2017, 2018, 2019, or 2020, as there were no dilutive shares in these periods.

3. Diluted net income per share is not shown for fiscal 2016, as a net loss per share was recorded for this period and there were no dilutive shares.

4. Highest and lowest share prices are quoted market prices on the First Section of the Tokyo Stock Exchange.

5. The Company has adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and other standards from the beginning of fiscal 2019. These accounting standards have been applied retrospectively to key financial data for fiscal 2018.

## 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 CO., LTD. in October that year)
January 1992	Merged with Toyo Carbon Co., Ltd. (capital: ¥3.8 billion) 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. (now TOKAI CARBON ITALIA S.R.L.) 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.
January 2008	Established fine carbon sales company Tokai Carbon (Shanghai) Co., Ltd. in Shanghai, China. (Closed in August 2015)
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.

Date	Company history
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.
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 an 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 manufacturer 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; Tokai COBEX (Beijing) Ltd. newly established in December 2020) converted into subsidiaries following the Company's acquisition of all shares in these companies, to obtain Smelting and Lining business.
July 2020	Division created for Smelting and Lining as a main business. Acquired all shares of Carbon Savoie International SAS (now Tokai Carbon Savoie International SAS), a holding company of Carbon Savoie SAS (trade name changed to Tokai Carbon Savoie SAS, and on January 29, 2021, to 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.



### 3 Description of Business

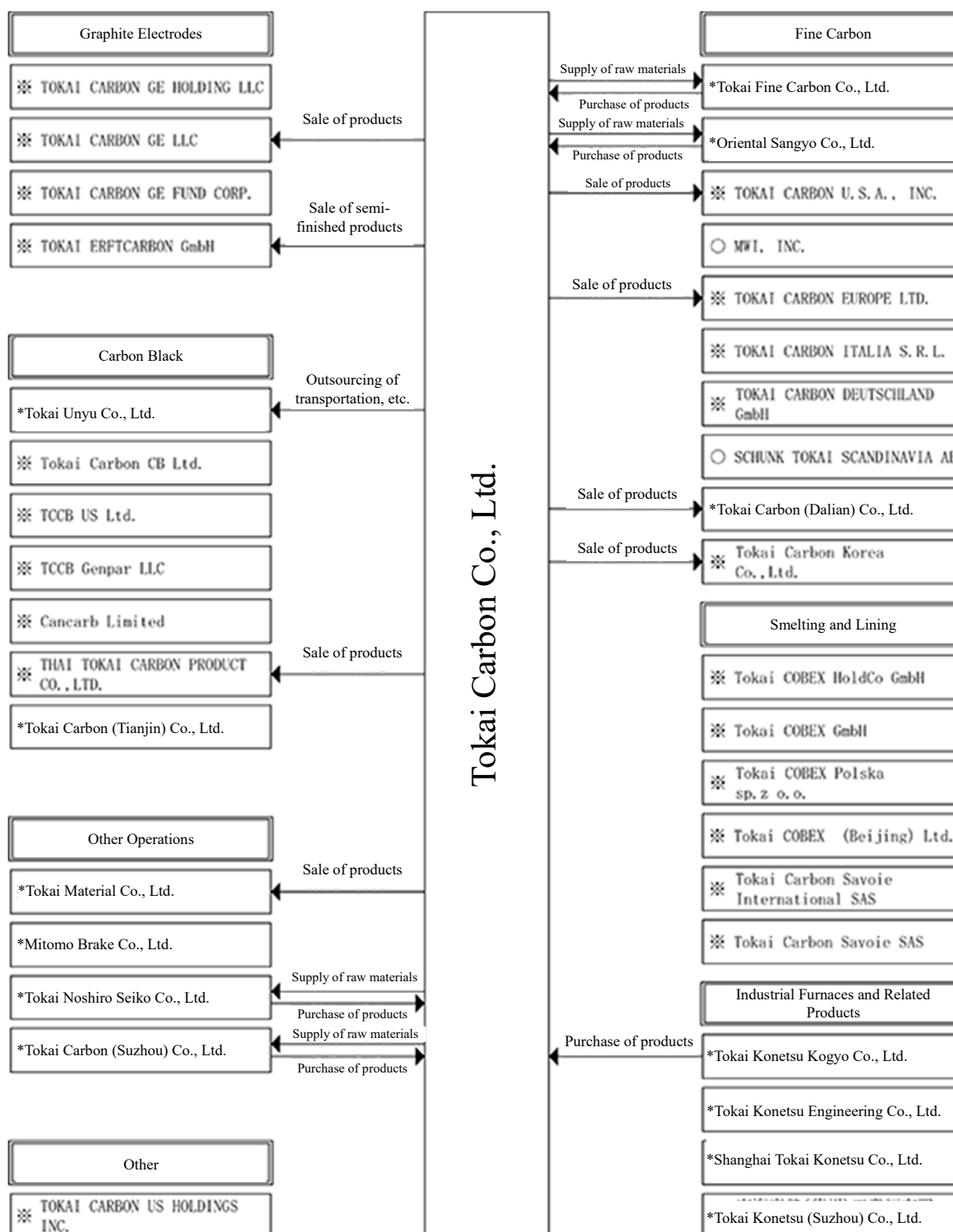
The Group (the Company and its affiliated companies) is comprised of the Company (Tokai Carbon Co., Ltd.) and its 34 subsidiaries and two affiliates. Its main business fields and the positioning of the Company and its affiliated companies within these fields are as described below.

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

Business segment	Main products		Subsidiaries and affiliates
Graphite Electrodes	Graphite electrodes for electric furnaces	Japan	The Company
		Overseas	TOKAI CARBON GE HOLDING LLC TOKAI CARBON GE LLC TOKAI CARBON GE FUND CORP. TOKAI ERFTCARBON GmbH
Carbon Black	Carbon black (for rubber products, black pigment, electric conduction)	Japan	The Company Tokai Unyu Co., Ltd.
		Overseas	Tokai Carbon CB Ltd. TCCB US Ltd. TCCB Genpar LLC Cancarb Limited THAI TOKAI CARBON PRODUCT CO.,LTD. Tokai Carbon (Tianjin) Co., Ltd.
Fine Carbon	Specialty graphite materials, solid SiC, SiC coating	Japan	The Company Tokai Fine Carbon Co., Ltd. Oriental Sangyo Co., Ltd.
		Overseas	TOKAI CARBON U.S.A.,INC. MWI,INC. TOKAI CARBON EUROPE LTD. TOKAI CARBON ITALIA S.R.L. TOKAI CARBON DEUTSCHLAND GmbH SCHUNK TOKAI SCANDINAVIA AB Tokai Carbon (Dalian) Co., Ltd. Tokai Carbon Korea Co., Ltd.
Smelting and Lining	Cathodes for aluminum smelters, lining blocks for blast furnaces, carbon electrodes, etc.	Overseas	Tokai COBEX HoldCo GmbH Tokai COBEX GmbH Tokai COBEX Polska sp. z o.o. TOKAI COBEX (Beijing) Ltd. Tokai Carbon Savoie International SAS Tokai Carbon Savoie SAS (Notes)
Industrial Furnaces and Related Products	Industrial electric furnaces, silicon carbide heating elements	Japan	Tokai Konetsu Kogyo Co., Ltd. Tokai Konetsu Engineering Co., Ltd.
		Overseas	Shanghai Tokai Konetsu Co., Ltd. Tokai Konetsu (Suzhou) Co., Ltd.
Other Operations	Friction materials, anode materials for secondary lithium-ion batteries	Japan	The Company Tokai Material Co., Ltd. Mitomo Brake Co., Ltd. Tokai Noshiro Seiko Co., Ltd.
		Overseas	Tokai Carbon (Suzhou) Co., Ltd.
Other	-	Overseas	TOKAI CARBON US HOLDINGS INC.

(Notes) The trade name was changed to Tokai COBEX Savoie SAS on January 29, 2021.

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



- (Notes) 1. \*: consolidated subsidiaries, ○: affiliates accounted for by the equity method
2. Tokai Carbon Savoie International SAS and its group company, Tokai Carbon Savoie SAS, are included in the scope of consolidation, as all of their shares were acquired jointly with the Company's consolidated subsidiary, Tokai COBEX GmbH, on July 17, 2020.
  3. TOKAI COBEX (Beijing) Ltd. is included in the scope of consolidation because it was newly established on July 3, 2020 through investment by Tokai COBEX GmbH, a consolidated subsidiary of the Company.
  4. TOKAI CARBON EUROPE GmbH, which was a consolidated subsidiary in the past, is excluded from the scope of consolidation because it was dissolved as a result of an absorption-type merger in the current fiscal year, in which TOKAI CARBON DEUTSCHLAND GmbH, also a consolidated subsidiary, was the surviving company.
  5. Tokai COBEX (Shanghai) Ltd., previously a consolidated subsidiary, is excluded from the scope of consolidation due to the completion of its liquidation during the fiscal year under review.

#### 4 Status of subsidiaries and affiliates

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 plant site, building, 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 refractories etc.	-
Tokai Konetsu Engineering Co., Ltd. (Note) 2	Omihachiman-shi, Shiga	50	Industrial Furnaces and Related Products	100.0 (100.0)	-	-	-	Leasing part of plant site
Tokai Material Co., Ltd.	Yachiyo-shi, Chiba	250	Other Operations	100.0	✓	Borrowing Lending	Consignment of sales	Leasing part of plant site, building, 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 the Company raw materials and purchase of products	Leasing part of plant site, building, etc.
TOKAI CARBON GE HOLDING LLC (Note) 2	Charlotte U.S.A.	USD 1,000	Graphite Electrodes	100.0 (100.0)	✓	-	-	-
TOKAI CARBON GE LLC (Notes) 2, 3, 5	Charlotte U.S.A.	-	Graphite Electrodes	100.0 (100.0)	✓	-	Sale of Company products	-
TOKAI CARBON GE FUND CORP. (Note) 2	Charlotte U.S.A.	USD 100	Graphite Electrodes	100.0 (100.0)	-	-	-	-
TOKAI ERFTCARBON GmbH	Grevenbroich Germany	EUR 818,067	Graphite Electrodes	100.0	✓	Borrowing	Sale of semi-finished Company products	-
Tokai Carbon CB Ltd. (Notes) 2, 3, 5, 7	Fort Worth U.S.A.	-	Carbon Black	100.0 (100.0)	-	-	-	-
TCCB US Ltd. (Notes) 2, 3, 5	Fort Worth U.S.A.	-	Carbon Black	100.0 (100.0)	-	-	-	-
TCCB Genpar LLC (Notes) 2, 5	Fort Worth U.S.A.	-	Carbon Black	100.0 (100.0)	✓	-	-	-
Cancarb Limited (Note) 3	Medicine Hat Canada	CAD 102,276,731	Carbon Black	100.0	✓	-	-	-
THAI TOKAI CARBON PRODUCT CO.,LTD. (Note) 3	Bangkok Thailand	THB 800,000,000	Carbon Black	100.0	✓	-	Sale of Company products	-
Tokai Carbon (Tianjin) Co., Ltd. (Note) 3	Tianjin People's Republic of China	USD 146,000,000	Carbon Black	100.0	✓	Lending	-	-
TOKAI CARBON U.S.A.,INC.	Hillsboro U.S.A.	USD 16,200,000	Fine Carbon	100.0	✓	-	Sale of Company products	-
TOKAI CARBON EUROPE LTD.	West Midlands U.K.	GBP 2,500,000	Fine Carbon	100.0	✓	-	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 ITALIA S.R.L. (Note) 2	Milan Italy	EUR 240,000	Fine Carbon	100.0 (100.0)	✓	-	-	-
TOKAI CARBON DEUTSCHLAND GmbH	Buchholz-Mendt Germany	EUR 52,000	Fine Carbon	100.0	✓	-	-	-
Tokai Carbon (Dalian) Co., Ltd.	Dalian, People's Republic of China	RMB 11,000,000	Fine Carbon	51.0	✓	-	Sale of Company products	-
Tokai Carbon Korea Co., Ltd. (Notes) 4, 7	Anseong Republic of Korea	1,000 KRW 5,837,500	Fine Carbon	44.4	✓	-	Sale of Company products	-
Tokai COBEX HoldCo GmbH	Wiesbaden Germany	EUR 25,000	Smelting and Lining	100.0	✓	-	-	-
Tokai COBEX GmbH (Notes) 2, 7	Wiesbaden Germany	EUR 25,000	Smelting and Lining	100.0 (100.0)	✓	Borrowing	-	-
Tokai COBEX Polska sp. z o.o. (Note) 2	Racibórz Poland	Zloty 61,048,080	Smelting and Lining	100.0 (100.0)	✓	-	-	-
Tokai COBEX (Beijing) Ltd. (Note) 2	Beijing, People's Republic of China	EUR 200,000	Smelting and Lining	100.0 (100.0)	-	-	-	-
Tokai Carbon Savoie International SAS (Note) 2	La Lechere France	EUR 733,949	Smelting and Lining	100.0 (30.0)	-	-	-	-
Tokai Carbon Savoie SAS (Notes) 2, 3, 6	La Lechere France	EUR 56,975,603	Smelting and Lining	100.0 (30.0)	-	-	-	-
Shanghai Tokai Konetsu Co., Ltd. (Note) 2	Shanghai People's Republic of China	USD 3,400,000	Industrial Furnaces and Related Products	100.0 (100.0)	-	-	-	-
Tokai Konetsu (Suzhou) Co., Ltd. (Notes) 2, 4	Suzhou People's Republic of China	USD 2,250,000	Industrial Furnaces and Related Products	50.0 (50.0)	-	-	-	-
Tokai Carbon (Suzhou) Co., Ltd.	Suzhou People's Republic of China	RMB 29,000,000	Other Operations	100.0	✓	-	Supply of the Company raw materials and purchase of products	-
TOKAI CARBON US HOLDINGS INC. (Note) 3	Hillsboro U.S.A.	USD 505,001,000	Other Operations	100.0	✓	-	-	-
(Affiliates Accounted for by Equity Method)								
MWI, INC. (Note) 2	Rochester U.S.A.	USD 10,429	Fine Carbon	40.0 (40.0)	✓	-	-	-
SCHUNK TOKAI SCANDINAVIA AB (Note) 2	Trollhättan Sweden	SEK 200,000	Fine Carbon	50.0 (50.0)	✓	-	-	-

- (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 CO. LTD., Tokai Carbon (Tianjin) Co., Ltd., Tokai Carbon Savoie SAS 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 below 50%, 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. The trade name was changed to Tokai COBEX Savoie SAS on January 29, 2021.
7. Net sales for each of Tokai Carbon CB Ltd., Tokai Carbon Korea Co., Ltd. and Tokai COBEX GmbH (excluding inter-company 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	¥31,083 million
(2) Ordinary income	¥788 million
(3) Net income	¥370 million
(4) Net assets	¥34,648 million
(5) Total assets	¥40,032 million

(2) Tokai Carbon Korea Co., Ltd.

(1) Net sales	¥20,698 million
(2) Ordinary income	¥5,569 million
(3) Net income	¥4,197 million
(4) Net assets	¥39,444 million
(5) Total assets	¥47,183 million

(3) Tokai COBEX GmbH

(1) Net sales	¥33,146 million
(2) Ordinary income	¥7,965 million
(3) Net income	¥6,962 million
(4) Net assets	¥39,716 million
(5) Total assets	¥51,853 million

## 5 Employees

### (1) Status of consolidated companies (as of December 31, 2020)

Segment name	Number of employees
Graphite Electrodes	549 (40)
Carbon Black	931 (37)
Fine Carbon	870 (122)
Smelting and Lining	1,107 (13)
Industrial Furnaces and Related Products	261 (45)
Other Operations	334 (171)
Corporate (common)	126 (14)
Total	4,178 (444)

- (Notes) 1. The number of employees is that of regular employees, and the average annual number of temporary employees is indicated in parentheses.
2. The number of employees was 464 higher than at the end of the previous consolidated fiscal year, but this owed mainly to the fact that Tokai Carbon Savoie International SAS and one of its group companies became subsidiaries on July 17, 2020.

### (2) Status of the Company (as of December 31, 2020)

Number of employees	Average age	Average years of service (years)	Average annual salary (yen)
778 (203)	41.0	14.6	6,695,312

Segment name	Number of employees
Graphite Electrodes	186 (28)
Carbon Black	214 (23)
Fine Carbon	125 (27)
Smelting and Lining	3 (0)
Other Operations	124 (109)
Corporate (common)	126 (14)
Total	778 (203)

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

### (3) Status of labor union

Major union organizations in the Group (the Company and its consolidated subsidiaries) are Tokai Carbon Labor Union (member affiliated with the Japanese Federation of Energy and Chemistry Workers' Union; 672 members) and Tokai Konetsu Labor Union (member affiliated with the Chemical and General Workers' Union Confederation; 96 members). There are no particular matters concerning labor-management relations which require mentioning.

## 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-2022 progress (Summary)

The Group has engaged in its business activities under the mid-term management plan "T-2022" (2020-2022) announced in February of last year; however, due to the spread of COVID-19, demand in the iron & steel and tire industries, the main customer industries of our core Graphite Electrodes and Carbon Black businesses, temporarily decreased significantly, causing us to experience an inevitable decline in earnings.

In accordance with T-2022's basic policy ((1) Strengthening the revenue base, (2) Expanding opportunities for growth, and (3) Building a consolidated governance structure), the Group endeavored to curb company-wide capital investment, reduce inventories, improve productivity, and reduce expenses, in addition to pursuing opportunities for growth through investments in strategic fields, such as the acquisition of a carbon graphite product manufacturer in France, and built the ESG business foundation that it had been working on since 2019; however, for the results of 2020, the first year of T-2022, net sales and operating income were ¥201,542 million and ¥7,858 million, respectively, significantly lower than the initial projections of ¥251,200 million and ¥28,200 million, respectively.

#### (Strengthening the revenue base)

In addition to sustained efforts to secure superiority through quality improvement, improve productivity, and reduce costs and inventories, we have promoted a variety of measures aimed at strengthening the revenue base, including price strategies for improving profitability and the replacement of aging facilities. Since April, when global economic activities stagnated due to the COVID-19 pandemic, we have implemented, as emergency measures, cash-flow improvement measures such as curbing capital investment, further reducing inventories, and cutting costs.

#### (Expanding opportunities for growth)

In order to pursue growth opportunities, we acquired Carbon Savoie International SAS (now Tokai Carbon Savoie International SAS) in France in July of last year, and created the Smelting and Lining Division together with COBEX HoldCo GmbH (now Tokai COBEX HoldCo GmbH), a German carbon graphite manufacturer that we had acquired earlier. The creation of this Division is also an answer to the long-standing challenge of optimizing the Company's business portfolio, which relies on the Graphite Electrodes and Carbon Black businesses. By bringing the two leading companies in this industry under its umbrella, the Company will pursue synergies not only between the two companies, but also with its existing businesses in areas such as graphite electrodes, fine carbon, and anode materials.

#### (Building a consolidated governance structure)

Aiming to complete the PMI related to large-scale M&As, while reinforcing the supervisory function over the local management team, we have taken measures such as strengthening the global production system and promoting technology and personnel exchanges (despite the limitations due to the COVID-19 pandemic) in order to realize acquisition synergies at an early date.

With regard to the establishment of the ESG business foundation, which has been a priority measure since T-2021, we have made efforts to achieve the newly established and disclosed KPIs, as well as prepared various regulations, such as the Global Policy on Human Rights, endeavoring to expand the disclosure of such sustainability information. As a result of these efforts, the Company's stock was selected as a component stock of the FTSE4Good Index Series and the FTSE Blossom Japan for the first time in June of last year.

#### (Other)

The Tanoura Plant was damaged by water and fire due to the heavy rain in July 2020 that occurred mainly in the Kyushu region; however, as a result of the Group's concerted efforts for restoration, its production activities resumed in August of last year and the Plant was restored in November of the same year, with minimal impact on the supply chain.

(2) Issues to be addressed

The medium-term management plan of the Company has adopted the so-called rolling plan to review its content every year since T-2021 disclosed in February 2018. Therefore, T-2023 would conventionally have been disclosed at the time of announcing financial results for the fiscal year ended December 31, 2020. However, T-2023 will be disclosed in May 2021 to assess the impact of the COVID-19 pandemic which is not showing any sign of ending at the moment.

For the rolling plan, the Company will need to fully consider not only the effect of the COVID-19 pandemic but also the inauguration of President Biden and the trend of de-carbonization suddenly accelerated by Prime Minister Suga's declaration to go carbon neutral by 2050. Both of them are themes with high potential to substantially change the framework of global economy and society in the future.

As the pioneer in the carbon industry with "Carbon" in the company name as its calling over 100 years, Tokai Carbon will re-examine its missions and long-term visions in T-2023 from the perspectives as to what path it should take looking 30 years ahead and how it can contribute to society by grasping growth opportunities and creating customers in the changing society. In addition, having been building an ESG management base aiming to further improve corporate value, we consider T-2023 will be a start for new challenges of incorporating ESG in management strategies of the Company.

Specifically, we will engage in selection and concentration of businesses again by formulating a management strategy of the Company taking also into account the perspectives of decarbonization and coexistence with COVID-19 as well as restructuring the business portfolio. Moreover, a substantial issue is also to improve the profitability of main businesses including the Graphite Electrode, Carbon Black and Smelting and Lining businesses as well as return them to a growth path. We will also continue strengthening the consolidated governance structure, which is very important for Tokai Carbon with its overseas sales ratio of over 70%.



## 2 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 improve 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 30, 2021).

### II. Individual Risk Items

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

##### 1) Epidemic of infectious disease (COVID-19)

Although the vaccination against COVID-19 started from the end of last year, it is uncertain when the outbreak will be brought to an end. Under such circumstances, our Group is striving to continue its business, while giving top priority to the health and safety of its employees, their families and business partners, introducing telecommuting and restricting domestic and overseas business trips, in response to requests from the national and local governments. Going forward, the situation is expected to improve through the development and dissemination of effective therapeutic drugs and vaccines; however, if the impact of the COVID-19 pandemic worsens or is prolonged due to delays in vaccination or the spread of variants, etc., there is a possibility that the Group's business performance will be adversely affected.

##### 2) Climate change risk (Response to decarbonization)

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 Japan as well, with the 2050 Carbon Neutrality Declaration by Prime Minister Suga, decarbonization has become an unavoidable issue for companies. Our Group plans to deal with decarbonization in T-2023, which is to be disclosed in May; 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. The biggest immediate cause of concern is the COVID-19 pandemic; if the situation worsens contrary to expectations, it may adversely affect the Group's business performance because uncertainties surrounding the global economy have become apparent, including conflict between the United States and China, division within the United States, the spread of protectionist trade policies, confusion over how to respond to climate change, economic stagnation in emerging and resource-rich countries that cannot escape the impacts of the COVID-19 pandemic, and political turmoil in some regions.

##### 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 affiliates 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**  
Our Group has procured the necessary funds for the Group by issuing corporate bonds and commercial papers, and securitizing accounts receivable, 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) **Material procurement**  
The Group procures raw materials from a large number of suppliers in Japan and abroad, strives to secure raw materials in a stable manner and at an optimal price, develops close relationships with suppliers and appropriately responds to changes in demand. However, if higher raw material procurement prices arising from future global economic trends cannot be properly passed on through the selling prices, the Group's business performance may be adversely affected. On the other hand, if the commodity prices of raw materials fall, there is a possibility of losses such as loss on valuation of inventories. Furthermore, harm to suppliers' business activities and supply chains due to natural disasters and other factors could adversely affect the Group's production activities.

- 7) **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 same 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**  
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 reduce costs, improve efficiency, pursue technological capabilities and grasp market needs. 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, and the spread of COVID-19. If the Group is unable to respond properly to such risks, the Group's business performance may be adversely affected.
- 3) **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, the Chita Laboratory and the Hofu Laboratory 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.

- 4) 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 recent years, we are promoting management integration by sharing production technologies, exchanging human resources, and thoroughly supervising local management among others. 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.
  - 5) Dependence on a specific industry  
About 70% of the Group's sales are concentrated in the tire and steel 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 diversification of portfolio does not function well, it may result in lower net sales and profitability and adversely affect the Group's business performance.
  - 6) Securing talented human resources  
Important issues for the Group's competitiveness and future prospects are as follows: securing and developing talented 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, mass retirement of the baby boomer generation, 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 human resources through recruitment based on appropriate personnel plans, 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, the Group's business performance may be adversely affected.
- (3) Other risks
- 1) Regulatory restrictions and litigations  
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 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 declined and its business performance adversely affected.
  - 2) Environmental regulations  
The Group responds to various environmental laws and regulations related to air pollution, water pollution, soil and groundwater contamination, waste disposal, energy conservation, countermeasures against global warming, etc. in Japan and overseas.  
If stricter regulations are introduced for them, the operation and interpretation of laws and regulations are tightened, or the authorities judge that the Group is in violation of these laws and regulations, the Group's business performance may be adversely affected by seeing its business activities become difficult to continue or its expenses for legal compliance increase. Moreover, if new regulations regarding CO2 emissions and the use of fossil fuels are introduced in the future, there is a possibility that the Group's business activities will be restricted, or its expenses related to business activities will increase.
  - 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) Disaster and accident

The Group focuses on safety and the prevention of industrial accidents, which are fundamental to the manufacturing industry; conducts periodic inspections and maintenance for all manufacturing facilities to minimize potential negative factors such as the stoppage of manufacturing facilities and accidents resulting therefrom; and engages in business continuity management, including the formulation of a Business Continuity Plan (BCP) in preparation for emergencies such as large-scale natural disasters. However, in the event of a large-scale earthquake, tsunami, typhoon, flood, or other natural disaster, fire, explosion, shutdown of infrastructure, terrorist attack, political instability, or other man-made disaster or other unforeseen event occurring in Japan or overseas in the future, there is a possibility that the Group's business performance will be adversely affected due to 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) Information security

The Group retains confidential information regarding production technology, research and development, procurement and sales in the course of its business. It is strengthening information security by establishing a strict management system for such information, developing and enhancing regulations on the handling of information, disseminating them to employees, etc. and thoroughly implementing such regulations, and sophisticating its technical measures. However, if, with respect to such information, there is destruction or falsification of important data, information leakage or outflow, or system failure as a result of unauthorized use by a third party due to theft or loss, violation of laws and regulations, cyber attacks exceeding expectations, or other unforeseen circumstances, the Group's business performance may be adversely affected.

### 3 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 affiliates) 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

During the consolidated fiscal year under review (January 1 to December 31, 2020), the global economy saw a substantial decline due to the spread of the novel coronavirus (COVID-19), mainly in the second quarter of the year. Countries, including China, which succeeded in suppressing COVID-19 and resumed its economic activities earlier than other countries, are continuously struggling to maintain and expand social and economic activities amid efforts to prevent the spread of COVID-19. Meanwhile, vaccination programs have started one after another since December. However, as COVID-19 was spreading again in many countries and regions, including Japan, toward the end of the last year, it is difficult to foresee the end of the COVID-19 pandemic and a full recovery of the global economy.

The Tokai Carbon Group has conducted business activities in accordance with the basic policies of the medium-term management plan "T-2022" ((1) strengthening the revenue base, (2) expanding opportunities for growth, and (3) building a consolidated governance structure) announced in February last year. It has invested in strategic areas, including the acquisition of Carbone Savoie International SAS (current Tokai Carbon Savoie International SAS), a French carbon and graphite products manufacturer. Earnings declined primarily because demand in our main businesses of Graphite Electrodes and Carbon Black from respective end-users in the steel and tire industries temporarily decreased substantially under the above management environment. This occurred although the Group tried to reduce inventories, improve productivity and reduce expenses among others, in addition to building the ESG management base, a task it had engaged in since 2019.

As a result, net sales for the fiscal year under review fell 23.1% year on year to ¥201,542 million. Operating income declined 85.5% year on year to ¥7,858 million. Ordinary income declined 88.2% year on year to ¥6,262 million. Net income attributable to owners of the parent company declined 96.8% year on year to ¥1,019 million.

Operating results by business segment were as follows:

##### Graphite Electrodes

Steel production in 2020 was almost at the same level as in the previous year, primarily due to a substantial recovery in China which took economic stimulus measures, despite the decline in the first half of the year as a result of the spread of COVID-19 among others. On the other hand, our sales volume of graphite electrodes declined year on year due to the adjustment of graphite electrode inventory by customers. Moreover, operating income also declined year on year due to the recording of ¥3,666 million as an evaluation loss (a decrease in the book value) of inventories in the fourth quarter with the deterioration of the graphite electrode market.

As a result, net sales for the Graphite Electrodes business decreased 58.5% year on year to ¥37,879 million, while operating loss was ¥5,766 million (operating income of ¥39,388 million in the previous year).

##### Carbon Black

Production activities of end-users in the tire and automobile parts industries substantially stagnated in the first half of the year, due to the spread of COVID-19. Our sales volume declined year on year, despite the general recovery trend from the second half of the year. Moreover, due mainly to declines in sales prices and higher cost rates associated with production adjustments, operating income decreased year on year.

As a result, net sales for the Carbon Black business were down 30.5% year on year to ¥70,754 million, while operating income fell 62.5% year on year to ¥3,192 million.

#### Fine Carbon

While shipments to the semiconductor and solar power generation markets were steady, those for general industry applications decreased due to the production adjustment by customers as a result of the spread of COVID-19. On the other hand, shipments of solid SiC (silicon carbide) products, which are high value-added products, increased due to robust global demand.

As a result, net sales for the Fine Carbon business rose 4.6% year on year to ¥31,775 million, while operating income increased by 8.8% year on year to ¥6,647 million.

#### Smelting and Lining

Following the conversion of Tokai COBEX HoldCo GmbH (the former COBEX HoldCo GmbH), a German carbon and graphite products manufacturer, and its group companies into consolidated subsidiaries on July 26, 2019, the Company established the Smelting and Lining Division as a new business segment. In addition, the Company converted Tokai Carbon Savoie International SAS (the former Carbone Savoie International SAS), a French carbon and graphite products manufacturer, and its group companies into consolidated subsidiaries on July 17, 2020, and added them to this segment. This segment mainly deals with cathodes for smelting aluminum, furnace linings, and carbon electrodes.

The aluminum market saw sluggish prices as it was affected by the global economic slowdown. But shipments of the main product, aluminum smelting cathodes, increased in the second half of the year due to a rise in the aluminum market prices as a result of a recovery in the Chinese economy and in automobile production. Shipments of furnace linings, which are used for linings of blast furnaces, remained solid due to strong demand for replacing them in China.

As a result, net sales for the Smelting and Lining business increased 148.4% year on year to ¥36,421 million, while operating income was ¥1,161 million (operating loss of ¥1,600 million in the previous year) after deducting ¥9,696 million for amortization related to a valuation difference arising from the allocation of acquisition cost and amortization of goodwill among others.

#### Industrial Furnaces and Related Products

Net sales of industrial furnaces increased year on year due to the steady building up of capital expenditures for major buyers in the IT-related sectors industries. Net sales of heating elements and other products decreased year on year, resulting from falling demand for products for the electronic components industry and the Chinese glass industry, due to the global economic slowdown associated with the spread of COVID-19.

As a result, net sales for the Industrial Furnaces and Related Products business rose 9.8% year on year to ¥13,873 million, while operating income increased by 16.6% year on year to ¥3,765 million.

#### Other Operations

##### Friction materials

In addition to a decrease in sales due to the exit from the four-wheel automotive business, the spread of COVID-19 affected the markets for construction machinery, agricultural machinery and two-wheeled vehicles. On the other hand, sales in China, mainly for construction machinery, increased as the Chinese government succeeded in suppressing COVID-19 and economic stimulus measures.

As a result, net sales of friction materials fell by 13.0% year on year to ¥6,510 million.

##### Anode materials

Sales volume increased year on year as demand for environmental vehicles increased mainly in Europe, although competition was intensified with rising new players entering the anode materials market.

As a result, net sales of anode materials increased by 14.3% year on year to ¥4,186 million.

##### Other

Net sales for real estate leasing and other businesses fell 2.6% year-on-year to ¥141 million.

As a result, net sales for Other Operations decreased by 4.0% year on year to ¥10,837 million, while operating income was ¥298 million (operating loss of ¥21 million in the previous year).

2) Financial position

(Assets)

Total assets at the end of the consolidated fiscal year under review came to ¥459,709 million, a decrease of ¥3,162 million from the end of the previous consolidated fiscal year.

Current assets amounted to ¥177,678 million, a decrease of ¥18,768 million from the end of the previous consolidated fiscal year, mainly due to decreases in inventories and accounts receivable. Fixed assets amounted to ¥282,031 million, an increase of ¥15,605 million from the end of the previous consolidated fiscal year, mainly due to increases in tangible fixed assets, despite decreases in goodwill and investment securities among others.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review came to ¥234,894 million, an increase of ¥4,997 million from the end of the previous consolidated fiscal year.

Current liabilities amounted to ¥92,656 million, a decrease of ¥24,884 million from the end of the previous consolidated fiscal year, mainly due to a decrease in short-term loans payable. Fixed liabilities amounted to ¥142,237 million, an increase of ¥29,882 million from the end of the previous consolidated fiscal year, mainly due to increases in bonds payable and long-term loans payable.

(Net assets)

Total net assets at the end of the consolidated fiscal year under review came to ¥224,815 million, a decrease of ¥8,160 million from the end of the previous consolidated fiscal year, mainly due to a decrease in retained earnings.

As a result, the Group's equity ratio decreased 2.0 points year on year to 43.8%.

3) Cash flows

At the end of the consolidated fiscal year under review, the Group's cash and cash equivalents totaled ¥57,727 million, an increase of ¥11,284 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)

Operating activities provided net cash of ¥55,022 million, an increase of ¥13,358 million from the previous consolidated fiscal year. This was mainly due to an increase in proceeds resulting from a decrease in inventories, although there was a decrease in proceeds primarily resulting from lower net income before income taxes.

(Cash flows from investing activities)

Investing activities used net cash of ¥44,301 million, a decrease of ¥54,858 million from the previous consolidated fiscal year. This was mainly due to a decrease in expenditures on purchase of shares of subsidiaries resulting in a change in the scope of consolidation.

(Cash flows from financing activities)

Financing activities provided net cash of ¥927 million, a decrease of ¥63,641 million from the end of the previous consolidated fiscal year. This was mainly due to a decrease in short-term loans payable.

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	39,044	(60.7)
Carbon Black	72,710	(27.5)
Fine Carbon	32,238	0.5
Smelting and Lining	31,852	138.0
Industrial Furnaces and Related Products	13,061	(3.2)
Total for reportable segments	188,908	(26.9)
Other Operations	10,743	(4.0)
Total	199,651	(26.0)

(Notes) 1. Figures exclude intersegment transactions.

2. Amounts are based on selling prices.

3. The above amounts do not include consumption tax, etc.

4. The decline in the Graphite Electrodes business was mainly due to inventory adjustments of graphite electrodes by customers.

5. The increase in the Smelting and Lining business was mainly due to making Tokai COBEX HoldCo GmbH, etc. consolidated subsidiaries in the third quarter of the previous fiscal year and Tokai Carbon Savoie International SAS, etc. consolidated subsidiaries in the current fiscal year.

b. Orders

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

Note that the Industrial Furnaces and Related Products business 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	12,823	(24.9)	16,303	(6.3)
Total	12,823	(24.9)	16,303	(6.3)

(Notes) 1. Figures exclude intersegment transactions.

2. The above amounts do not include consumption tax, etc.

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	37,879	(58.5)
Carbon Black	70,754	(30.5)
Fine Carbon	31,775	4.6
Smelting and Lining	36,421	148.4
Industrial Furnaces and Related Products	13,873	9.8
Total for reportable segments	190,704	(23.9)
Other Operations	10,837	(4.0)
Total	201,542	(23.1)

(Notes) 1. Figures exclude intersegment transactions.



2. The above amounts do not include consumption tax, etc.
  3. The decline in the Graphite Electrodes business was mainly due to inventory adjustments of graphite electrodes by customers.
  4. The increase in the Smelting and Lining business was mainly due to making Tokai COBEX HoldCo GmbH, etc. consolidated subsidiaries in the third quarter of the previous fiscal year and Tokai Carbon Savoie International SAS, etc. consolidated subsidiaries in the current fiscal year.
- (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 consolidated fiscal year declined 23.1% year-on-year to ¥201,542 million due to a decrease in sales volume and sales prices for the Graphite Electrodes and Carbon Black businesses, among other factors. The sales-cost ratio increased 10.8 points to 75.4%, mainly due to an increase in fixed costs resulting from a decline in selling prices and production volumes, and the recording of loss on valuation of inventories upon a decline in profitability in the Graphite Electrodes business. Selling, general and administrative expenses were up 8.3% year-on-year to ¥41,696 million, mainly due to an increase in the amortization related to a valuation difference arising from the allocation of acquisition cost and amortization of goodwill. As a result, operating income fell 85.5% year-on-year to ¥7,858 million.  
Non-operating income declined 6.1% year-on-year to ¥1,636 million due to decreases in interest and dividend income. Non-operating expenses were up 4.3% year-on-year to ¥3,232 million, primarily due to an increase in interest on corporate bonds. As for extraordinary income, we recorded the receipt of ¥1,067 million in insurance claim income due to the heavy rain disaster at Tanoura Plant in July 2020 as well as ¥769 million in gain on sales of fixed assets. As for extraordinary losses, we recorded a loss of ¥1,337 million due to the heavy rain disaster at Tanoura Plant in July 2020 and an impairment loss of ¥643 million for idle real estate (company housing). As a result, net income before income taxes declined 88.1% year-on-year to ¥6,116 million.  
Total income taxes fell 86.7% year-on-year to ¥2,283 million, and net income attributable to non-controlling interests of ¥2,813 million was recorded. As a result, net income attributable to owners of the parent company declined 96.8% year-on-year to ¥1,019 million.  
Moreover, as for total assets at the end of the fiscal year under review, current assets decreased by ¥18,768 million year-on-year to ¥177,678 million due to a decrease in inventories as a result of group-wide inventory reduction measures, while fixed assets increased by ¥15,605 million year-on-year to ¥282,031 million due to an increase in tangible fixed assets resulting from the acquisition of subsidiaries.  
As a result of the above factors, ROA (ordinary-income-to-assets ratio) stood at 1.4% for the fiscal year under review, down 12.0 points from the end of the previous fiscal year.
  - 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 3) Cash flow under (1) Outline of operating results, etc.
    - b. Financial policy  
The Group uses direct financing instruments such as corporate bonds and commercial papers in addition to borrowings from financial institutions to control interest costs and diversify risks, while taking into account a balance between its financial position and working capital and capital expenditures, which are necessary to maintain its medium- to long-term growth.

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 as fair and valid in Japan. Significant accounting policies are stated in "Section 5 Status of Accounting 1. Consolidated Financial Statements, (1) Notes to consolidated financial statements (Significant basic matters 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 as follows:

Assumed information on the effects of COVID-19 infections is provided in "Section 5. Status of Accounting 1. Consolidated Financial Statements, (1) Notes to consolidated financial statements (Additional information)".

(Impairment loss on fixed assets)

If the recoverable amount of a fixed asset or asset group, with an indication of impairment, is less than its book value, the Group has reduced the book value to the recoverable amount, and recorded the decrease as an impairment loss. We believe that our assessment of the indications of impairment, the recognition of impairment losses and the estimation of the recoverable amount are reasonable; however, we may record an impairment loss in the event of a change in the conditions or assumptions used in the estimation.

(Recoverability of deferred tax assets)

In recording deferred tax assets, the Group reasonably estimates future taxable income, evaluates recoverability and records an estimated recoverable amount. Since the recoverability of deferred tax assets is based on the estimated future taxable income, future tax expenses may be affected if there are any factors that affect the estimated taxable income.

#### 4 Important agreements for operation, etc.

(Borrowing of large amount of funds)

At a meeting of the Board of Directors held on December 24, 2019, the Company resolved to conclude the following five agreements in order to refinance the bridge loan of ¥20 billion (out of ¥70 billion, ¥50 billion to be covered by hybrid financing) in connection with the acquisition of Tokai COBEX GmbH, and concluded them.

- 1) Loan agreement (MUFG Bank): ¥2 billion (Contract date: January 27, 2020)
- 2) Loan agreement (MUFG Bank): ¥3 billion (Contract date: January 27, 2020)
- 3) Loan agreement (MUFG Bank): ¥5 billion (Contract date: January 27, 2020)
- 4) Loan agreement (Sumitomo Mitsui Banking Corporation): ¥5 billion (Contract date: January 23, 2020)
- 5) Special overdraft facility agreement (Mizuho Bank): ¥5 billion (Contract date: January 23, 2020)

(Note) 1)-3) are agreements concluded with the same financial institution on the same day, with differences in the repayment period and method.

(Acquisitions of companies, etc. through share acquisitions)

At an extraordinary meeting of the Board of Directors held on April 10, 2020, the Company resolved to acquire and convert into a subsidiary Carbon Savoie International SAS (hereinafter, "CSI"), a holding company of Carbon Savoie SAS (hereinafter, "CS"), a carbon graphite product manufacturer in France, jointly with Tokai COBEX GmbH (hereinafter, "TCX"), a subsidiary of the Company (hereinafter, the "Case"); concluded an agreement for the transfer of shares on July 17, 2020; and completed all procedures. Further, in association with this, the Company changed the trade names of CSI and CS to Tokai Carbon Savoie International SAS and Tokai Carbon Savoie SAS, respectively (Note).

##### (1) Purpose of share acquisition

In the three-year mid-term management plan "T-2022" announced in February 2020, the Company lays out a growth policy of utilizing strategic investments in the existing and peripheral businesses.

Based in France, CS, a company under CSI, has a history and tradition of more than 120 years. The company offers high-performance, high-quality graphitized cathodes and specialty graphite materials backed by its advanced technology and good customer relations based on trust and achievements.

In the aluminum market—the end market for CS's core business of cathodes for aluminum smelting—steady expansion is expected in the long-term, due to factors such as demand for further weight reduction in transportation equipment (including automobiles and aircraft), a rise in the volume of aluminum used in construction materials amid ongoing urbanization, a shift toward use of aluminum in beverage containers, and demand for aluminum as a replacement for copper in the electronics industry. Accordingly, demand for cathodes for aluminum smelting is also likely to be steady.

In the specialty graphite materials business, we are mainly engaged in the production of materials for heat exchangers and heat resistant applications, with steady growth in demand expected for the end-user markets.

The Company believes that this transaction will grow its Smelting and Lining as well as Fine Carbon businesses, not only by improving its profitability but also by diversifying its portfolio, which in turn will lead to further enhancement of the Company's corporate value.

##### (2) Overview of the seller

1) Name	Alandia Industries
2) Location	29 rue Auguste Vacquerie 75116 Paris
3) Name and title of representative	Nicolas de Germay, CEO
4) Business Details	Distressed investment
5) Established	2010

(3) Overview of the acquired company

1) Overview of Tokai Carbon Savoie International SAS (formerly Carbone Savoie International SAS)

1) Name	Tokai Carbon Savoie International SAS			
2) Location	244, rue des Epicéas, Notre-Dame de Briançon, 73260 La Léchère			
3) Name and title of representative	Joseph Bertin, President			
4) Business Details	Management and control of subsidiaries			
5) Capital (Note 1)	733,949 euros (¥90 million)			
6) Established	2016			
7) Major shareholders and shareholding ratio	Alandia Industries (61.9%)			
8) Acquired company's business scale (Note 1) (Note 2) (Unit: million euros)	Fiscal period	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	As of December 31, 2019
	Consolidated net assets	75.8 (¥9.3 billion)	114.4 (¥14.0 billion)	136.2 (¥16.6 billion)
	Consolidated total assets	-	-	187.0 (¥22.8 billion)
	Consolidated net sales	93.3 (¥11.4 billion)	118.8 (¥14.5 billion)	127.8 (¥15.6 billion)
	Consolidated EBITDA	2.9 (¥0.4 billion)	14.6 (¥1.8 billion)	25.6 (¥3.1 billion)
	Consolidated EBIT	-4.3 (¥-0.5 billion)	6.9 (¥0.8 billion)	17.3 (¥2.1 billion)
	Consolidated net income	2.7 (¥0.3 billion)	38.7 (¥4.7 billion)	21.8 (¥2.7 billion)

(Note 1) The above figures are calculated at the exchange rate of EUR1 = JPY122.14 (MUFG Bank's closing telegraphic transfer middle rate for customers on July 17, 2020).

(Note 2) The figure for business scale is the consolidated value of Tokai Carbon Savoie International SAS and Tokai Carbon Savoie SAS (Note). Therefore, the figure for the business scale of Tokai Carbon Savoie SAS (Note) is omitted.

2) Overview of Tokai Carbon Savoie SAS (Note) (formerly Carbone Savoie SAS)

1) Name	Tokai Carbon Savoie SAS (Note)
2) Location	244, rue des Epicéas, Notre-Dame de Briançon, 73260 La Léchère
3) Name and title of representative	Tokai Carbon Savoie International SAS, President
4) Business Details	Production, sales and R&D of cathodes for smelting aluminum, specialty graphite products and carbon/graphite powder
5) Capital (Note 3)	56,975,603.3 euros (¥6,959 million)
6) Established	1897
7) Major shareholders and shareholding ratio	Tokai Carbon Savoie International SAS (100.0%)

(Note 3) The above figures are calculated at the exchange rate of EUR1 = JPY122.14 (MUFG Bank's closing telegraphic transfer middle rate for customers on July 17, 2020).

(4) Overview of Tokai COBEX GmbH

1) Name	Tokai COBEX GmbH
2) Location	Gustav-Stresemann-Ring 12-16, 65189 Wiesbaden, Germany
3) Name and title of representative	Frank Goede, Managing Director Andrzej Hotlos, Managing Director
4) Business Details	Manufacture, sale, and R&D for cathodes for aluminum smelters, lining blocks for blast furnaces, carbon electrodes, etc.
5) Capital (Note 4)	25,000 euros (¥3 million)

(Note 4) The above figures are calculated at the exchange rate of EUR1 = JPY122.14 (MUFG Bank's closing telegraphic transfer middle rate for customers on July 17, 2020).

- (5) Schedule for share acquisition  
July 17, 2020

- (6) Number of shares to be acquired, acquisition price, and shareholdings after the acquisition

1) Number of shares held before the transaction	The Company	0 shares (Number of voting rights: 0 units) (Ratio of voting rights held: 0.0%)
	Tokai COBEX GmbH	0 shares (Number of voting rights: 0 units) (Ratio of voting rights held: 0.0%)
2) Number of shares acquired	The Company	513,810 shares (Number of voting rights: 513,810 units)
	Tokai COBEX GmbH	220,139 shares (Number of voting rights: 220,139 units)
3) Acquisition price (Note 5)	¥20.3 billion (The Company: ¥14.2 billion, Tokai COBEX GmbH: ¥6.1 billion)	
4) Equity interest after the transaction	The Company	70.0%
	Tokai COBEX GmbH	30.0%

(Note) 5 The above figures are calculated at the exchange rate of EUR1 = JPY122.14 (MUFG Bank's closing telegraphic transfer middle rate for customers on July 17, 2020).

- (7) Method of share acquisition

To finance this share acquisition, in addition to using the Group's own funds, the Company issued hybrid bonds (subordinated bonds) through public offering on June 30, 2020 in order to raise funds for the acquisition of shares. These bonds are a form of hybrid financing that combines the characteristics of both equity and debt, with 50% of the amount raised certified as equity by Rating and Investment Information, Inc.

(Note) Tokai Carbon Savoie SAS changed its trade name to Tokai COBEX Savoie SAS on January 29, 2021.

## 5 Research and development

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 Research Laboratory, Chita Laboratory, and Hofu Laboratory, in collaboration with the Company's development and technology divisions.

The content and amount 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. engages in R&D activities for industrial furnaces and silicon carbide heating elements, and is developing products for the manufacturing industry in areas related to electronic components and secondary batteries.

(Amount of research and development expenditure)

Total R&D expenditure in the fiscal year under review was ¥2,682 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. It implemented capital investment totaling ¥28,873 million, mainly in environmental measures, during the fiscal year under review.

In the Graphite Electrodes business, it implemented capital investment of ¥9,021 million, mainly for the Hofu Plant of the Company.

In the Carbon Black business, the Group implemented capital investment of ¥9,001 million, mainly at Tokai Carbon CB Ltd.

In the Fine Carbon business, the Group implemented capital investment of ¥3,721 million, mainly at Tokai Carbon Korea Co., Ltd.

In the Smelting and Lining business, the Group implemented capital investment of ¥5,594 million, mainly at Tokai COBEX Polska sp. z o.o.

In the Industrial Furnaces and Related Products business, the Group implemented capital investment of ¥632 million, mainly at Tokai Konetsu Engineering Co., Ltd.

In Other Operations business, the Group implemented capital investment of ¥362 million, mainly at the Company and Tokai Material Co., Ltd.

## 2 Major facilities and equipment

### (1) Submitting Company

(as of December 31, 2020)

Office name (Location)	Segment name	Details of facilities and equipment	Book value (Million yen)						Number of employees (people)
			Buildings and structures	Machinery, equipment, and vehicles	Furnaces	Land (area m <sup>2</sup> )	Other (Note 1)	Total	
Hofu Plant (Hofu-shi, Yamaguchi)	Graphite Electrodes	Graphite electrodes manufacturing facility	1,108	3,647	1,225	152 (317,328)	1,564	7,698	88
Shiga Plant (Omihachiman-shi, Shiga)	Graphite Electrodes	Graphite electrodes manufacturing facility	571	907	263	324 (202,001)	240	2,308	67
Ishinomaki Plant (Ishinomaki-shi, Miyagi)	Carbon Black	Carbon black manufacturing facility	635	645	1	756 (82,262)	69	2,107	38
Chita Plant (Taketoyo-cho, Chita-gun, Aichi)	Carbon Black	Carbon black manufacturing facility	1,159	2,171	39	693 (179,974)	334	4,397	88
Kyusyu Wakamatsu Plant (Wakamatsu-ku, Kitakyushu- shi)	Carbon Black	Carbon black manufacturing facility	714	1,263	12	304 (32,560)	170	2,466	42
Tanoura Plant (Ashikita-machi, Ashikita- gun, Kumamoto)	Fine Carbon	Fine carbon etc. manufacturing facility	1,557	478	197	10 (179,374)	753	2,997	103

### (2) Domestic Subsidiaries

(as of December 31, 2020)

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	Furnaces	Land (area m <sup>2</sup> )	Other (Note 1)	Total	
Tokai Fine Carbon Co., Ltd. (Chigasaki-shi, Kanagawa, etc.)	Fine Carbon	Fine carbon etc. manufacturing facility (Note) 2	651	437	1	158 (24,526)	87	1,337	118
Tokai Material Co., Ltd. (Yachiyo-shi, Chiba, etc.)	Other Operations	Friction materials production facility (Note) 2	257	241	-	504 (19,106)	20	1,023	91



## (3) Overseas Subsidiaries

(as of December 31, 2020)

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	Furnaces	Land (area m <sup>2</sup> )	Other (Note 1)	Total	
TOKAI CARBON GE LLC (Charlotte, U.S.A., etc.)	Graphite Electrodes	Graphite electrodes manufacturing facility	2,897	8,503	-	275 (1,272,805)	3,331	15,008	168
TOKAI ERFTCARBON GmbH (Grevenbroich Germany)	Graphite Electrodes	Graphite electrodes manufacturing facility	114	2,285	-	279 (146,861)	1,305	3,985	195
Cancarb Limited (Medicine Hat Canada)	Carbon Black	Carbon black manufacturing facility, etc. (Note 3)	221	3,161	-	374 (255,900)	3,948	7,706	76
THAI TOKAI CARBON PRODUCT CO.,LTD. (Bangkok, Thailand, etc.)	Carbon Black	Carbon black manufacturing facility (Note) 4	47	1,198	-	- [83,368]	418	1,664	112
Tokai Carbon (Tianjin) Co., Ltd. (People's Republic of China)	Carbon Black	Carbon black manufacturing facility (Note) 4	1,087	890	37	- [184,765]	10	2,026	120
Tokai Carbon CB Ltd. (Fort Worth, U.S.A., etc.)	Carbon Black	Carbon black manufacturing facility (Note) 5	2,463	13,405	-	180 (584,539) [582,909]	7,324	23,374	373
Tokai Carbon Korea Co.,Ltd. (Anseong, Republic of Korea)	Fine Carbon	Fine carbon manufacturing facility	3,110	4,457	1,234	1,053 (32,256)	1,419	11,276	400
Tokai COBEX Polska sp. z o.o. (Racibórz, Poland and others)	Smelting and Lining	Production facilities for cathode electrodes for aluminum smelting, etc. (Note) 5	2,517	2,766	1,261	27 (8,120) [604,345]	9,044	15,617	700
Tokai Carbon Savoie SAS (Note) 6	Smelting and Lining	Production facilities for cathode electrodes for aluminum smelting, etc. (Note) 5	2,111	3,027	3,796	815 (219,632) [1,980]	1,154	10,905	360

- (Notes) 1. "Other" under book value is the sum of tools, furniture and fixtures, leased assets, and construction in progress. The amount does not include consumption tax.
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. Land is leased from outside the Group, and land area is indicated in parentheses.
5. A portion of land is leased from outside the Group, and land area is indicated in parentheses.
6. The trade name was changed to Tokai COBEX Savoie SAS on January 29, 2021.
7. There are no major facilities or equipment currently idle.

### 3 Planned new installation, disposal, etc. of facilities

#### (1) New installation of significant facilities, etc.

Company name Office name	Location	Segment name	Details of facilities and equipment	Estimated investment amount		Start and scheduled completion	Funding method	
				Total amount (Million yen)	Amount paid (Million yen)		Start	Completion
Tokai Carbon Co., Ltd. Hofu Plant	Hofu-shi, Yamaguchi	Graphite Electrodes	Capacity additions at manufacturing facility	4,860	2,673	Own funds and borrowing	March 2018	April 2021
Tokai Carbon Co., Ltd. Shiga Plant	Omihachiman-shi, Shiga	Graphite Electrodes	Upgrades to manufacturing facility	1,120	29	Own funds and borrowing	April 2019	November 2021
TOKAI CARBON GE LLC	Charlotte, U.S.A., etc.	Graphite Electrodes	Expansion of manufacturing facility	3,415	2,146	Own funds	September 2019	May 2021
Cancarb Limited	Medicine Hat Canada	Carbon Black	Expansion of manufacturing facility	2,978	2,551	Own funds	November 2018	February 2021
Tokai Carbon CB Ltd.	Fort Worth, U.S.A., etc.	Carbon Black	Environmental protection facility	4,812	3,781	Own funds	December 2018	June 2021
Tokai Carbon CB Ltd.	Fort Worth, U.S.A., etc.	Carbon Black	Environmental protection facility	9,108	260	Own funds	September 2019	December 2022
Tokai Carbon Korea Co., Ltd.	Anseong Republic of Korea	Fine Carbon	Expansion of manufacturing facility	1,500	635	Own funds	September 2020	July 2021
Tokai COBEX Polska sp. z o.o.	Racibórz, Poland, etc.	Smelting and Lining	Capacity additions at manufacturing facility	9,102	4,058	Own funds	January 2019	June 2021

#### (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

(Notes) 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, 2020)	Number of shares issued as of date of submission (Shares) (March 30, 2021)	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 (First Section)	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 to December 31, 2008 (Note)	2,913,720	224,943,104	743	20,436	743	17,502

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

## (5) Shareholder composition

(as of December 31, 2020)

(as of December 31, 2020)

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	-	61	39	598	278	48	72,936	73,960	-
Number of shares held (Units)	-	937,529	157,923	215,255	221,816	325	714,673	2,247,521	191,004
Ownership ratio (%)	-	41.71	7.03	9.58	9.87	0.01	31.8	100	-

(Notes) 1. The 11,771,256 shares of treasury stock are included as 117,712 units under “Individuals, etc.” and 56 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, 2020)

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)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	25,726	12.07
Custody Bank of Japan, Ltd. (trust account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	15,006	7.04
MUFG Bank, Ltd.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	7,958	3.73
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo	7,686	3.61
Mitsubishi Corporation	3-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	6,748	3.17
Mitsubishi UFJ Trust and Banking Corporation	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo	6,290	2.95
The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corp. Retirement Benefit Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	5,900	2.77
Custody Bank of Japan, Ltd. (trust account 9)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	3,149	1.48
Custody Bank of Japan, Ltd. (trust account 5)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	3,102	1.46
Custody Bank of Japan, Ltd. (trust account 6)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	2,801	1.31
Total	-	84,370	39.58

(Notes) 1. In addition to the above, the Company holds 11,771,000 shares of treasury stock (5.23% of total shares issued).

2. All 25,726,000 shares held in The Master Trust Bank of Japan, Ltd. (trust account) are related to trust services.

3. All 15,006,000 shares held in Custody Bank of Japan, Ltd. (trust account) are related to trust services.

4. All 5,900,000 shares held in The Master Trust Bank of Japan, Ltd. (Mitsubishi Chemical Corp. Retirement Benefit Trust Account) are for retirement benefit trusts.

5. All 3,149,000 shares held in Custody Bank of Japan, Ltd. (trust account 9) are related to trust services.

6. All 3,102,000 shares held in Custody Bank of Japan, Ltd. (trust account 5) are related to trust services.
7. All 2,801,000 shares held in Custody Bank of Japan, Ltd. (trust account 6) are related to trust services.
8. In the Change Report made available for public disclosure as of November 20, 2020, shares owned by Mizuho Securities Co., Ltd. and its joint holders as of November 13, 2020 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2020, 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 (%)
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	318	0.14
Asset Management One Co., Ltd.	8-2 Marunouchi 1-chome, Chiyoda-ku, Tokyo	8,225	3.66

9. In the Change Report made available for public disclosure as of December 4, 2020, shares owned by Nomura Securities Co., Ltd. and its joint holders as of November 30, 2020 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2020, 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.	13-1, Nihombashi 1-chome, Chuo-ku, Tokyo	1	0.00
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	900	0.40
Nomura Asset Management Co., Ltd.	2-2-1 Toyosu, Koto-ku, Tokyo	19,299	8.58

10. In the Change Report made available for public disclosure as of January 8, 2021, shares owned by Mitsubishi UFJ Financial Group, Inc. as of December 28, 2020 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2020, 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.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	7,958	3.54
Mitsubishi UFJ Trust and Banking Corporation	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo	10,762	4.78
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo	5,919	2.63
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1-9-2 Otemachi, Chiyoda-ku, Tokyo, Japan	2,506	1.11

11. In the Change Report made available for public disclosure as of January 7, 2021, shares owned by Sumitomo Mitsui Trust Bank, Limited and its joint holders as of December 31, 2020 are indicated below. However, since the Company cannot confirm the numbers for substantial shareholdings as of December 31, 2020, 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, Shibakoen 1-chome, Minato-ku, Tokyo	7,865	3.50
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo	8,285	3.68

(7) Voting rights  
1) Shares issued

(as of December 31, 2020)

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 11,771,200	-	-
Shares with full voting rights (Other)	Common shares 212,980,900	2,129,809	-
Odd-lot shares	Common shares 191,004	-	Shares below unit number (100 shares)
Total number of shares issued	224,943,104	-	-
Total shareholder voting rights	-	2,129,809	-

(Notes) 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, 2020)

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.	2-3, Kita Aoyama 1-chome, Minato-ku, Tokyo	11,771,200	-	11,771,200	5.23
Total	-	11,771,200	-	11,771,200	5.23

## 2 Acquisition of Treasury Stock, etc.

[Class of shares, etc.] Acquisition of shares of common stock 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	1,473	1,544,129
Treasury stock acquired in period prior to submission of this report	396	585,047

(Notes) 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, 2021 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 of (Yen) (Yen)	Number of shares (Shares)	Total value disposed of (Yen) (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)	21,204	13,685,490	-	-
Treasury stock held	11,771,256	-	11,771,652	-

- (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, 2021 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, 2021 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 ¥30 per share (including an interim dividend of ¥15 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 4, 2020 Board of Directors resolution	3,197	15.0
March 30, 2021 Resolution at Annual General Meeting of Shareholders	3,197	15.0

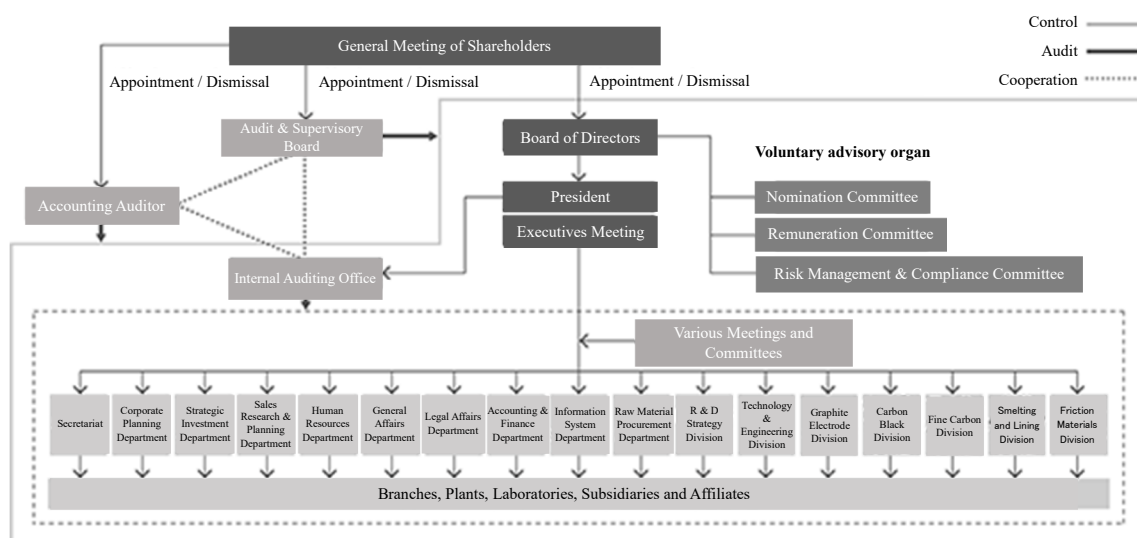


## 4 Corporate Governance, etc.

### (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 “Strength in Trust.” Based on this philosophy and taking into account the views defined in its Guidelines and the Tokai Carbon Code of Ethics, the Company strives to develop an effective corporate governance structure. The Company’s corporate governance system is structured as described below.



#### 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 19 meetings in fiscal 2020. As of the date of submission of this report, there are nine Directors, three of whom are External Directors. The Company has established the Nomination Committee and the Remuneration Committee, the majority of members of which are External Directors, as voluntary advisory organs of the Board of Directors. It has also established the Risk Management & Compliance Committee as a voluntary committee under the Board of Directors.

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

The Audit & Supervisory Board of the Company 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 perform audits of 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.

##### c. Executives Meeting

The Executives Meeting was 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 reporting the results of deliberation at the Executives Meeting.

As of March 30, 2021, the Company's corporate governance system is comprised of personnel as described below.

(Position)	(Name)	Board of Directors	Executives Meeting	Remuneration Committee	Nomination Committee	Risk Management & Compliance Committee
President & Chief Executive Officer	Hajime Nagasaka	◎	◎	○	○	
Directors	Yuji Serizawa	○	○			◎
Directors	Masafumi Tsuji	○	○			○
Directors	Katsuyuki Yamaguchi	○	○			
Directors	Shunji Yamamoto	○				
Directors	Hirofumi Masuda	○	○			
External Director	Nobumitsu Kambayashi	○		◎	◎	
External Director	Junichi Tanahashi	○		○	○	
External Director	Mayumi Asada	○		○	○	
Audit & Supervisory Board Member	Masanao Hosoya	○	(Notes)			(Notes)
Audit & Supervisory Board Member	Kazuyuki Kakehashi	○	(Notes)			(Notes)
Audit & Supervisory Board Member	Kaoru Ogashiwa	○				
Audit & Supervisory Board Member	Motokazu Hiura	○				
Executive Officers, etc.	-		3			2
Subsidiary Directors, Business Directors, Advisors, etc.	-		5			2

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

(Notes) Participates as associate member/observer

### 3) Status of Company functions and internal control systems

#### a. 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 complies with laws, regulations and the articles of incorporation

- 1) The Board of Directors sets forth basic policies, including the Corporate Philosophy, the Guidelines, and the Tokai Carbon Code of Ethics, and ensures the execution of duties in compliance with laws and regulations.
- 2) The Board of Directors determines the execution of important business operations in accordance with laws, regulations and the articles of incorporation, and supervises the execution of duties by Directors.
- 3) Internal audits are performed to address compliance matters and provide advice.
- 4) Education, audits and guidance are provided to ensure compliance.
- 5) An internal reporting system is properly operated to promptly detect and correct any organizational or personal violation of law, etc. and to contribute to reinforcing compliance management.
- 6) Based on the Tokai Carbon Code of Ethics, the Company severs any relations with antisocial forces, organizations, or individuals that threaten the order and safety of civil society, and organizationally takes a resolute stance against and rejects any unjust or illegal demands from such parties.

2. System concerning storage and management of information associated with the execution of duties by Directors
  - 1) Information associated with the execution of duties by Directors is recorded on paper or by electromagnetic means (hereinafter referred to as “documents, etc.”), stored and managed in accordance with the Document Handling Rules and the Electronic Information Management Rules.
  - 2) A system is put in place where Directors and Audit & Supervisory Board Members are able to inspect and search documents, etc. containing information associated with the execution of duties by Directors in an efficient manner.
  - 3) When important decisions are made, such facts are timely and appropriately disclosed in accordance with the Basic Policy for Information Disclosure.
3. Rules concerning management of risk of loss and other systems
  - 1) In the event of a serious disaster, accident or any other unforeseeable situation, the Company and its group companies respond promptly and appropriately to the crisis in accordance with the Emergency Countermeasures Guidelines.
  - 2) In order to avoid the risk of loss from business operations, 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. are formulated, enforced and properly operated.
  - 3) To mitigate and avoid other latent business risks, each responsible department performs risk management on a day-to-day basis. In addition, the Risk Management & Compliance Committee, which meets quarterly in principle, discusses important matters concerning risk management and compliance; provides advice to relevant offices and departments, etc. based on the results of such discussions; reports and makes proposals to the Board of Directors and the management; and makes efforts to identify risks and improve the operating environment.
  - 4) The Tokai Carbon Group companies promptly report matters that might cause significant damage to the Company and its group companies to the Company and the Audit & Supervisory Board Members of the Company in accordance with the Rules Concerning Management of Subsidiaries set forth by the Company.
4. System to ensure effective execution of duties by Directors
  - 1) The Company adopts the Executive Officers System to clarify the roles, etc. of Directors and Executive Officers and promote execution of business operations with agility and speed.
  - 2) A three-year mid-term management plan is formulated as a company-wide target to be shared by Directors and employees, and budgets are set for each business year for implementing specific steps. A General Planning Meeting is held to confirm targets and policies set.
  - 3) Financial reports are prepared monthly, quarterly, and annually, and the results, analyses, etc. are reported quarterly to the Board of Directors.
  - 4) Important matters are deliberated at important meetings including Executives Meeting and General Planning Meeting comprised of Directors, Executive Officers responsible for business operations, and other members.
5. System to ensure that execution of duties by employees complies with laws, regulations and the articles of incorporation
  - 1) The Company widely promotes awareness about its Corporate Philosophy, the Guidelines, the Tokai Carbon Code of Ethics and its Ethics and Compliance Standards.
  - 2) Training and education concerning legal compliance are promoted.
  - 3) Internal audits are properly conducted to address compliance matters and provide advice.
  - 4) An internal reporting system is properly operated to promptly detect and correct any organizational or personal violation of law, etc. and to contribute to reinforcing compliance management.
  - 5) Based on the Tokai Carbon Code of Ethics, the Company severs any relations with antisocial forces, organizations, or individuals that threaten the order and safety of civil society, and organizationally takes a resolute stance against and rejects any unjust or illegal demands from such parties.
6. System to ensure appropriateness of operations of the corporate entity consisting of the Company and subsidiaries
  - 1) The Company and its group companies are managed based on the group-wide philosophy and action guidelines, and the appropriateness of their operations is ensured by periodically setting plans for the Group companies, 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 group companies as directors and audit & supervisory board members.
  - 3) The Tokai Carbon Group companies set out management objectives common within the group based on the mid-term management plan formulated by the Company and set budgets each business year for realizing specific objectives.

7. Matters concerning employees assisting Audit & Supervisory Board Members with their duties and matters regarding independence of such employees from Directors, in the event that Audit & Supervisory Board Members request the assignment of such employees
  - 1) In the event that Audit & Supervisory Board Members request the assignment of employees to assist with their duties, the Company considers, as necessary, appointing Audit & Supervisory Board staff member(s) to assist the duties of Audit & Supervisory Board Members and reinforcing the existing internal auditing functions.
  - 2) When appointing Audit & Supervisory Board staff member(s), such staff members are granted the authority over examinations performed based on instructions from Audit & Supervisory Board Members.
  - 3) 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).
8. System for reporting by Directors and employees to Audit & Supervisory Board Members, other systems concerning reporting to Audit & Supervisory Board Members, and system to ensure that audits by Audit & Supervisory Board Members are performed effectively
  - 1) If detecting a fact that might cause material damage to the Company, Directors immediately report the matter to Audit & Supervisory Board Members.
  - 2) Directors and employees of the Tokai Carbon Group companies promptly report matters that must be reported as stipulated in the Rules on Management of Subsidiaries, etc. to the Company and the Audit & Supervisory Board Members of the Company based on the aforesaid Rules, etc.
  - 3) Directors and employees of the Tokai Carbon Group companies shall not receive unjust treatment for the reason of having made reports to the Audit & Supervisory Board Members of the Company.
  - 4) Audit & Supervisory Board Members attend Board of Directors' meetings in accordance with relevant laws and regulations as well as attend important meetings including Executives Meeting and hear from Directors and employees on the status of execution of their duties as needed.
  - 5) Audit & Supervisory Board Members inspect approval documents and other important reports, etc.
  - 6) Audit & Supervisory Board Members, the accounting audit firm, and the Internal Auditing Office promote mutual understanding and information exchange among one another.
  - 7) Expenses arising in connection with the execution of duties by Audit & Supervisory Board Members are paid in response to claims made by Audit & Supervisory Board Members except when the expenses are considered unnecessary for executing the duties of the said Audit & Supervisory Board Members.
9. System to ensure the reliability of financial reporting
 

The Company establishes and operates a system in accordance with the Basic Policy for Internal Control System Concerning Financial Reporting and the Internal Control Regulations for Financial Reporting, continually evaluates whether the mechanism functions appropriately, makes necessary corrections, and thereby ensures the reliability of financial reporting of the Company and its group companies.
- 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 one (1) billion 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 surplus funds as dividends (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) 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 March 2006  March 2007  March 2008  March 2009  March 2010 March 2011 March 2012 March 2013 March 2014 February 2015	Joined Tokai Electrode Mfg. Co., Ltd. (currently the Company) Director/Executive Officer, the Company Deputy General Manager, Carbon Black Division General Manager, Marketing & Sales Department, Carbon Black Division Director/Executive Officer, the Company Deputy General Manager, Carbon Black Division General Manager, Marketing & Sales Department, Carbon Black Division General Manager, Purchasing Department, Carbon Black Division Director/Managing Executive Officer, the Company Deputy General Manager, Carbon Black Division General Manager, Marketing & Sales Department, Carbon Black Division General Manager, Purchasing Department, Carbon Black Division General Manager, Osaka Branch Director/Managing Executive Officer, the Company Deputy General Manager, Carbon Black Division General Manager, Purchasing Department, Carbon Black Division General Manager, Osaka Branch Director/Managing Executive Officer, the Company General Manager, Carbon Black Division Director/Senior Managing Executive Officer, the Company General Manager, Carbon Black Division Director/Senior Managing Executive Officer, the Company Representative Director/Senior Managing Executive Officer, the Company General Manager, Osaka Branch General Manager, Nagoya Branch Representative Director/Executive Vice President, the Company Representative Director/President & Chief Executive Officer, the Company (incumbent)	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	129,398
Directors	Yuji Serizawa	December 27, 1959	April 1984 March 2006  March 2007  March 2008 March 2009 March 2012 March 2013 March 2014 February 2015	Joined the Company Executive Officer, the Company Deputy General Manager, Fine Carbon Division General Manager, Carbon Ceramics Sales Department, Fine Carbon Division General Manager, Electronic & Functional Material Sales Department, Fine Carbon Division Executive Officer, the Company Deputy General Manager, Fine Carbon Division General Manager, Sales Department, Fine Carbon Division Executive Officer, the Company Deputy General Manager, Fine Carbon Division Executive Officer, the Company General Manager, Fine Carbon Division Director/Executive Officer, the Company General Manager, Fine Carbon Division Director/Executive Officer, the Company General Manager, Tanoura Laboratory General Manager, Tanoura Plant Executive Officer, the Company General Manager, Graphite Electrode Division Executive Officer, the Company General Manager, Graphite Electrode Division [Responsible for Raw Material	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	56,537

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (Shares)
			March 2015	Procurement Department] Director/Executive Officer, the Company General Manager, Graphite Electrode Division [Responsible for Raw Material Procurement Department]		
			January 2016	Director/Executive Officer, the Company General Manager, Corporate Strategy Division		
			March 2017	Director/Executive Officer, the Company Responsible for Human Resources Department, General Affairs Department, and Legal Affairs Department (incumbent)		

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (Shares)
Director/General Manager, Corporate Planning Department	Masafumi Tsuji	January 10, 1963	April 1986	Joined the Company	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	51,337
			March 2007	General Manager, Human Resources Department, Corporate Strategy Division, the Company		
			March 2010	General Manager, Corporate Planning Department, Corporate Strategy Division, the Company		
			March 2014	Business Director, the Company		
			March 2015	General Manager, Carbon Black Division		
			March 2015	Executive Officer, the Company		
			January 2016	General Manager, Carbon Black Division		
			January 2016	Executive Officer, the Company		
			January 2017	General Manager, Graphite Electrode Division		
			January 2017	Executive Officer, the Company		
			January 2017	General Manager, Fine Carbon Division		
			March 2017	Director/Executive Officer, the Company		
			January 2020	General Manager, Fine Carbon Division		
			January 2020	Director/Executive Officer, the Company		
			February 2020	Deputy Chairman, Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department		
			February 2020	General Manager, Corporate Planning Department		
			February 2020	Director/Executive Officer, the Company		
			February 2020	Deputy Chairman, Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department		
			February 2020	General Manager, Corporate Planning Department		
			February 2020	General Manager, Sales Research & Planning Department		
			March 2020	Director/Executive Officer, the Company		
			March 2020	Responsible for Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department		
			March 2020	General Manager, Corporate Planning Department		
			March 2020	General Manager, Sales Research & Planning Department		
			March 2020	Director/Executive Officer, the Company		
			March 2020	Responsible for Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department		
			March 2020	General Manager, Corporate Planning Department		
			March 2020	General Manager, Sales Research & Planning Department		
			April 2020	Director/Executive Officer, the Company		
			April 2020	Responsible for Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department		
			April 2020	General Manager, Corporate Planning Department (incumbent)		
			April 1988	Joined the Company	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	21,780
			September 2015	General Manager, Engineering Department, Technology & Engineering Division, the Company		
			December 2016	Business Director, the Company		
			December 2016	General Manager, Technology & Engineering Division		
			March 2018	Executive Officer, the Company		
			March 2018	General Manager, Technology & Engineering Division		
			March 2019	Director/Executive Officer, the Company		
			March 2019	General Manager, Technology & Engineering Division		
			June 2019	Director/Executive Officer, the Company		
			June 2019	General Manager, Technology & Engineering Division		
Director/General Manager, R&D Strategy Division, the Company General Manager, Intellectual Property Department	Katsuyuki Yamaguchi	March 29, 1964	June 2019	General Manager, Environment & Safety Department		
			March 2020	Director/Executive Officer, the Company		
			March 2020	General Manager, Technology & Engineering Division		
			March 2021	Director/Executive Officer, the Company		
			March 2021	General Manager, R&D Strategy Division		
			March 2021	General Manager, Intellectual Property Department (incumbent)		
			March 2021	General Manager, Intellectual Property Department (incumbent)		
			March 2021	General Manager, Intellectual Property Department (incumbent)		
			March 2021	General Manager, Intellectual Property Department (incumbent)		
			March 2021	General Manager, Intellectual Property Department (incumbent)		
Directors	Shunji Yamamoto	March 8, 1962	April 1985	Joined the Company	One (1) year from Annual General Meeting of Shareholders held on March	9,500
			March 2013	General Manager, Kyushu-Wakamatsu Plant, the Company		
			June 2015	General Manager, Production & Technology Department, Carbon Black Division, the Company		



Position	Name	Date of birth	Career summary		Term of office	Number of shares held (Shares)
			March 2016	Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD.	30, 2021	
			March 2018	Executive Officer, the Company		
			March 2019	Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD.		
				Director/Executive Officer, the Company		
				Director, TCCB Genpar LLC (incumbent)		

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (Shares)
Director/General Manager, Carbon Black Division	Hirofumi Masuda	November 3, 1961	<p>April 1985 August 2012</p> <p>March 2015</p> <p>March 2016</p> <p>March 2017</p> <p>March 2019</p> <p>January 2020</p> <p>March 2020</p>	<p>Joined the Company</p> <p>General Manager, Sales Department, Graphite Electrode Division, the Company</p> <p>General Manager, Osaka Branch</p> <p>General Manager, Nagoya Branch</p> <p>General Manager, Marketing &amp; Sales Department, Carbon Black Division</p> <p>Deputy Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD.</p> <p>Executive Officer, the Company</p> <p>Managing Director, THAI TOKAI CARBON PRODUCT CO., LTD.</p> <p>Executive Officer, the Company</p> <p>General Manager, Carbon Black Division</p> <p>Director/Executive Officer, the Company</p> <p>General Manager, Carbon Black Division (incumbent)</p>	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	32,980
Directors	Nobumitsu Kambayashi	May 28, 1948	<p>April 1971 October 2002</p> <p>June 2005</p> <p>April 2008</p> <p>June 2009</p> <p>April 2010</p> <p>October 2010</p> <p>April 2013</p> <p>June 2013</p> <p>June 2015</p> <p>March 2016</p> <p>June 2017</p>	<p>Joined Kawasaki Heavy Industries, Ltd.</p> <p>Director, Kawasaki Shipbuilding Corporation</p> <p>Managing Director, Kawasaki Shipbuilding Corporation</p> <p>Managing Executive Officer, Kawasaki Heavy Industries, Ltd.</p> <p>Director/Senior Vice President, Kawasaki Shipbuilding Corporation</p> <p>Senior Vice President, Kawasaki Heavy Industries, Ltd.</p> <p>President &amp; Representative Director, Kawasaki Shipbuilding Corporation</p> <p>Senior Vice President (part-time), Kawasaki Heavy Industries, Ltd.</p> <p>Senior Vice President (Representative Director), Kawasaki Heavy Industries, Ltd.</p> <p>President, Ship &amp; Offshore Structure Company</p> <p>Director, Kawasaki Heavy Industries, Ltd.</p> <p>Adviser, Kawasaki Heavy Industries, Ltd.</p> <p>Chairman, Japan Ship Technology Research Association (incumbent)</p> <p>Director, the Company (incumbent)</p> <p>Director, Inui Global Logistics Co., Ltd. (incumbent)</p>	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	13,900
Directors	Junichi Tanahashi	May 7, 1948	<p>April 1981</p> <p>July 1984</p> <p>July 1986</p> <p>June 1989</p> <p>April 2005</p> <p>May 2005</p> <p>December 2009</p> <p>May 2014</p> <p>June 2015</p> <p>March 2020</p> <p>May 2020</p>	<p>Joined Nippon Chemical Industrial Co., Ltd.</p> <p>Director, Nippon Chemical Industrial Co., Ltd.</p> <p>Managing Director, Kawasaki Shipbuilding Corporation</p> <p>President, Nippon Chemical Industrial Co., Ltd.</p> <p>Chairman, Nippon Chemical Industrial Co., Ltd.</p> <p>Advisor, Japan Inorganic Chemical Industry Association (incumbent)</p> <p>Outside Director, Fuji Chemical Co., Ltd. (incumbent)</p> <p>Vice Chairman, The Association of Powder Process Industry and Engineering, JAPAN</p> <p>Chairman, Nippon Chemical Industrial Co., Ltd. (incumbent)</p> <p>Director, the Company (incumbent)</p> <p>Inspector, The Association of Powder Process Industry and Engineering, JAPAN (incumbent)</p>	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	-

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (Shares)
Director	Mayumi Asada	February 5, 1968	October 2002	Registered as an attorney-at-law and joined Hiranuma Takaaki Law Office	One (1) year from Annual General Meeting of Shareholders held on March 30, 2021	-
			July 2013	Member of the committee for medical dispute settlement, the Tokyo Metropolitan Medical Association (incumbent)		
			January 2014	Representative, Marunouchi Building Aoi Law Office (incumbent)		
			March 2014	Acquired Doctor's degree in Medicine at the Juntendo University Graduate School of Medicine		
			April 2015	Member of the council for disclosure and personal information protection, Meguro-ku (incumbent)		
			June 2017	Member of the external audit committee for medical safety at Juntendo University Hospital (incumbent)		
			April 2018	Reconciliation officer at Tokyo Family Court (incumbent)		
			April 2020	Business Director, Incorporated Educational Institution Nikaido Gakuen (incumbent)		
			March 2021	Director, the Company (incumbent)		
Audit & Supervisory Board Member (full-time)	Masanao Hosoya	August 27, 1955	April 1979	Joined The Mitsubishi Bank, Ltd. (currently MUFG Bank, Ltd.)	4 years from Annual General Meeting of Shareholders held on March 28, 2019	36,000
			January 2008	Adviser, the Company		
			March 2008	Executive Officer, the Company		
			March 2009	Executive Officer, the Company		
				General Manager, Corporate Administration Division		
			March 2010	Director/Executive Officer, the Company		
				General Manager in charge of Corporate Administration Division		
			March 2015	Director/Managing Executive Officer, the Company		
				General Manager, Corporate Administration Division		
			March 2017	Director/Managing Executive Officer, the Company		
				Responsible for Accounting & Finance Department and Information System Department (incumbent)		
			January 2019	Director/Managing Executive Officer, the Company		
				Responsible for Accounting & Finance Department and Information System Department (incumbent)		
			March 2019	Audit & Supervisory Board Member (full-time), the Company (incumbent)		
Audit & Supervisory Board Member (full-time)	Kazuyuki Kakehashi	December 7, 1951	April 1975	Joined Toyo Carbon Co., Ltd. (currently the Company)	4 years from Annual General Meeting of Shareholders held on March 27, 2020	18,800
			March 2001	General Manager, Production & Technology Department, Fine Carbon Division, the Company		
			March 2004	General Manager, Tanoura Plant, the Company		
			March 2009	General Manager, Shonan Office		
				General Manager, Chigasaki Plant		
				Industrialization Group Manager, R&D Strategy Division, the Company		
			August 2009	Assistant to General Manager, Fine Carbon Division		
			September 2009	Assistant to General Manager, R&D Strategy Division, the Company		
			March 2010	General Manager, R&D Planning Department, R&D Strategy Division, the Company		
			August 2010	Director, Tokai Konetsu Kogyo Co., Ltd.		
			March 2015	Managing Executive Officer, Tokai Konetsu Kogyo Co., Ltd.		
			March 2016	Audit & Supervisory Board Member, the Company		
			November 2018	Audit & Supervisory Board Member (full-time), the Company		
			March 2019	Audit & Supervisory Board Member, the Company		
			May 2019	Audit & Supervisory Board Member (full-time), the Company (incumbent)		

Position	Name	Date of birth	Career summary		Term of office	Number of shares held (Shares)
Audit & Supervisory Board Member	Kaoru Ogashiwa	January 7, 1967	October 1990 December 1992 June 2005 June 2017 May 2019	Joined Shin Nihon Shoken Chosa Center Keiei Kenkyusho (currently Japan Investor Relations and Investor Support, Inc.) Registered as Certified Tax Accountant Auditor, Senkon Logistics Co., Ltd. Outside Director and Auditor, the Company (incumbent) Audit & Supervisory Board Member, the Company (incumbent)	Because Mr. Ogashiwa was appointed upon the resignation of his predecessor, his term of office runs until the scheduled end to his predecessor's term (4 years from Annual General Meeting of Shareholders held on March 29, 2018), as stipulated in the Company's articles of incorporation.	-
Audit & Supervisory Board Member	Motokazu Hiura	February 15, 1955	April 1977 April 2014 April 2015 March 2019 April 2020	Joined Dainichiseika Color & Chemicals Mfg. Co., Ltd. General Manager, Finance & Accounting Department, Dainichiseika Color & Chemicals Mfg. Co., Ltd. General Manager, Corporate Finance & Accounting Division, Dainichiseika Color & Chemicals Mfg. Co., Ltd. Retired from the company Audit & Supervisory Board Member, the Company (incumbent)	Because Mr. Hiura was appointed upon the resignation of his predecessor, his term of office runs until the scheduled end to his predecessor's term (4 years from Annual General Meeting of Shareholders held on March 28, 2019), as stipulated in the Company's articles of incorporation.	-
Total						370,232

- (Notes) 1. Directors Mr. Nobumitsu Kambayashi, Mr. Junichi Tanahashi and Ms. Mayumi Asada are External Directors.  
2. Audit & Supervisory Board Members Mr. Kaoru Ogashiwa and Mr. Motokazu Hiura are External Audit & Supervisory Board Members.  
3. The Company has designated Mr. Nobumitsu Kambayashi, Mr. Junichi Tanahashi and Ms. Mayumi Asada, Directors, and Messrs. Kaoru Ogashiwa and Motokazu Hiura, both Audit & Supervisory Board Members, as independent officers 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 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 candidate for Substitute Auditor is as follows.

Name	Date of birth	Career summary		Number of shares held (Shares)
Yoshinori Matsushima	February 7, 1968	November 1997 May 2001 May 2006	Joined Tohmatsu & Co. [currently Deloitte Touche Tohmatsu LLC] Registered as a Certified Public Accountant, and established Matsushima Certified Public Accountant Office (incumbent) Registered as Certified Tax Accountant	-

5. The Company has adopted an Executive Officer System. The 14 executive officers included in this system are listed below.

Position	Name	Significant concurrent position
* President & Chief Executive Officer	Hajime Nagasaka	Responsible for Human Resources Department, General Affairs Department, and Legal Affairs Department
* Executive Officer	Yuji Serizawa	

* Executive Officer	Masafumi Tsuji	Responsible for Corporate Planning Department, Strategic Investment Department, and Sales Research & Planning Department
* Executive Officer	Katsuyuki Yamaguchi	General Manager, Corporate Planning Department
* Executive Officer	Shunji Yamamoto	General Manager, R&D Strategy Division General Manager, Intellectual Property Department
* Executive Officer	Hirofumi Masuda	(Director, TCCB Genpar LLC)
Executive Officer	Hiroshi Takahashi	General Manager, Carbon Black Division
Executive Officer	Takashi Masaki	Representative Business Director, President, Tokai Carbon Korea Co., Ltd.
Executive Officer	Kazuhiro Kataoka	General Manager, Smelting and Lining Division
Executive Officer	Koji Miura	General Manager, Hofu Laboratory General Manager, Hofu Plant
Executive Officer	Kenji Enokidani	General Manager, Chita Laboratory
Executive Officer	Takeshi Nakashima	General Manager, Graphite Electrode Division
Executive Officer	Akira Yamada	(Strategic Integration Officer, Tokai COBEX GmbH)
Executive Officer	Akihiko Satoh	General Manager, General Affairs Department General Manager, Legal Affairs Department Responsible for Accounting & Finance Department and Information System Department, and General Manager, Accounting & Finance Department

\* 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.

Although External Director Nobumitsu Kambayashi is from Kawasaki Heavy Industries, Ltd., one of the Company's business partners, 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 Junichi Tanahashi 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 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.

Although External Audit & Supervisory Board Member Motokazu Hiura is from Dainichiseika Color & Chemicals Mfg. Co., Ltd., one of the Company's business partners, Dainichiseika Color & Chemicals Mfg. Co., Ltd. accounts for only a very small percentage of the Company's overall business transactions, and Mr. Motokazu Hiura 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 establishing 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 internal audits and audits by Audit & Supervisory Board Members

The Company has established an Internal Auditing Office to serve as an internal auditing department. Ten staff members have been appointed to the Internal Auditing Office, which is in charge of improving and enhancing the internal control systems by performing internal audits on business operations of the Company and its group companies. The Internal Auditing Office ensures it follows up on audits performed to see that recommendations for improvement have been implemented. Important audit results are reported to the Board of Directors.

The Company's Audit & Supervisory Board is comprised of four members (two full-time Audit & Supervisory Board Members and two External Directors) and is chaired by a full-time Audit & Supervisory Board Member. The two External Audit & Supervisory Board Members are independent officers as prescribed by Tokyo Stock Exchange, Inc. Full-time Audit & Supervisory Board Member Masanao Hosoya has served as a Managing Executive Officer responsible for the Company's Accounting & Finance Department and has considerable knowledge of finance and accounting. External Audit & Supervisory Board Member Kaoru Ogashiwa has vast experience as a certified tax accountant and specialized knowledge regarding accounting.

Audit & Supervisory Board Members provide independent supervision and oversight regarding the status of execution of duties by Directors through attending important meetings such as Board of Directors' meetings and Executives meetings, viewing important documents, interviewing Directors about the status of execution of their duties, and carrying out visiting audits of group companies and business locations, in accordance with the auditing policy, audit approach, audit plan, and division of duties stipulated at the start of the fiscal period. They also confirm the status and quality of audits carried out by accounting auditors by accompanying accounting auditors on visiting audits of business locations and attending interviews with management.

Audit & Supervisory Board meetings are, in principle, held once each month, and 14 meetings were held in fiscal 2020. All Audit & Supervisory Board Members attended all such meetings to discuss and resolve important matters concerning audits, and share details regarding audit implementation. The main matters to be considered include the election of Audit & Supervisory Board Members, etc., the election, dismissal or non-reappointment of Accounting Auditors, remuneration of Accounting Auditors, audit policies and plans, preparation of audit reports, and reports on the status of the execution of duties by Audit & Supervisory Board Members (full-time).

In addition, the Audit & Supervisory Board has engaged in opinion exchange meetings with the Representative Director and External Directors. It has also held information liaison meetings with group subsidiaries' Audit & Supervisory Board Members in the interests of strengthening/enhancing internal control.

The Audit & Supervisory Board periodically holds meetings with the Internal Auditing Office, and provides advice and engages in close exchanges of information concerning internal audit results and recommendations. Also, full-time Audit & Supervisory Board Members participate in exchanges of information with risk management and compliance departments, and express necessary opinions.

2) Status of accounting audits

- a. Name of accounting audit firm  
Deloitte Touche Tohmatsu LLC

- b. Continuous audit period  
Since 1982

- c. Certified public accountants who executed audit work  
Designated Limited Liability Partner and Executive Members: Seibei Kyoshima and Yoshiki Okutsu

- d. Composition of the assistants assigned to audit work  
9 certified public accountants, 8 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 Deloitte Touche Tohmatsu LLC as its accounting auditor, determining that Deloitte Touche Tohmatsu 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
- 3) Change of the audit firm
- At the 2020 General Meeting of Shareholders held on March 30, 2021, the election of the Accounting Auditor was resolved as follows.
- Fiscal 2020 (Consolidated and non-consolidated) Deloitte Touche Tohmatsu LLC  
Fiscal 2021 (Consolidated and non-consolidated) KPMG AZSA LLC
- The matters included in the Extraordinary Report are as follows:
- a. Name of the new certified public accountant, etc. pertaining to the change
    - (a) Name of the elected certified public accountant, etc.  
KPMG AZSA LLC
    - (b) Name of the retiring certified public accountant, etc.  
Deloitte Touche Tohmatsu LLC
  - b. Date of the change  
March 30, 2021
  - c. Date on which the retiring certified public accountant, etc. assumed the position as certified public accountant, etc.  
1982
  - d. Matters concerning the opinion, etc. on audit reports prepared by the retiring certified public accountant, etc. during the last three years  
Not applicable
  - e. The decision to make the change or the grounds and the particulars that led to the change  
The term of office of the Company's Accounting Auditor, Deloitte Touche Tohmatsu LLC, expired at the conclusion of the 2020 Annual General Meeting of Shareholders held on March 30, 2021. The Audit & Supervisory Board has received proposals from multiple audit firms, including the current Accounting Auditor, considering the number of years the current Accounting Auditor has been conducting audits, and has reviewed the details of the proposals. By electing KPMG AZSA LLC, in addition to the possibility of implementing an audit in a new way, the Company believes the firm is considered to have a system in place to ensure the implementation of financial audits. This has been decided while taking into consideration various factors including its size, expertise, independence, quality control system, and global audit system.
  - f. Opinion on the grounds and the particulars that led to the change set forth in e. above
    - (a) Opinions of the retiring certified public accountant, etc.  
We have received a reply that there is no particular opinion.
    - (b) Opinion of the Audit & Supervisory Board  
It was deemed appropriate.



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	95	2	86	3
Consolidated subsidiaries	10	-	10	-
Total	106	2	96	3

The non-audit services for which the Company pays compensation are preparation of comfort letters and applications for exemptions from surcharges for renewable energy promotion.

b. Compensation for the same network as 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	-	6	-	14
Consolidated subsidiaries	70	21	148	59
Total	70	28	148	74

The non-audit services for the Company and 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 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

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 mid-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 the same level as competitors
- Remuneration guaranteeing the transparency and reasonableness in carrying out the responsibility of providing explanations 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. For Directors who are responsible for business execution, the standard amount of “basic remuneration,” which is the fixed portion, and the percentage of “performance-linked remuneration” to “basic remuneration” are 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.

The performance-linked remuneration consists of “bonus,” which is paid based on the level of achievement of financial performance each year, and “mid-to-long-term incentive” (performance cash) which is paid based on the magnitude of achievement of the three-year financial performance targets and on the evaluation of important initiatives taken that are unlikely to be clearly reflected in short-term financial results. Our target financial indicators are net sales, ROS, and ROIC, all of which are positioned as key indicators in our mid-term management plan as well. Because performance-linked remuneration is not suitable for non-executive Directors and Audit & Supervisory Board Members who are independent from business execution, only fixed remuneration is paid to such Directors and Audit & Supervisory Board Members.

Financial indicator	Target	Result
Net sales	¥251,204 million	¥201,542 million
ROS	11.3%	3.9%
ROIC	5.7%	1.6%

Regarding performance evaluations and remuneration for Directors, the Company has adopted a mechanism whereby remuneration is set within the maximum limit approved at the General Meeting of Shareholders, with the degree of achievement of financial targets and various initiatives deliberated by the Remuneration Committee, which is chaired by an External Director. It is a highly transparent remuneration system that incorporates objective viewpoints. At the Board of Directors’ meeting held on March 27, 2020, the Company resolved to entrust decisions on remuneration to the Remuneration Committee. The Remuneration Committee held four meetings regarding Executive remuneration during the fiscal year under review: on February 3, 2020, March 16, 2020, March 27, 2020, and July 20, 2020. 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.

In addition, 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 shares with a transfer restriction as 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 Board of Directors determines the specific timing and distribution of payments.

- 2) Total amounts of remuneration paid to Directors and Audit & Supervisory Board Members, total amounts by type of remuneration, and number of eligible recipients

Officer classification	Total amount of remuneration (Million yen)	Total amount of remuneration by type (Million yen)			Number of eligible recipients
		Fixed remuneration	Performance-linked remuneration	Remuneration in the form of shares with a transfer restriction	
Directors (excluding External Directors)	158	107	43	7	7
Audit & Supervisory Board Member (excluding External Audit & Supervisory Board Members)	37	37	-	-	2
External Directors and Audit & Supervisory Board Members	41	41	-	-	6

- (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).
2. 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).
3. Figures for eligible recipients and total remuneration amount include two Directors (one of whom was an External Director) who retired at the conclusion of the 2019 Annual General Meeting of Shareholders held on March 27, 2020, as well as one External Audit & Supervisory Board Member who retired due to death on April 14, 2020. The number of executives at the end of the fiscal year under review was eight Directors (two 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  
There is no data to disclose, as no Director or Audit & Supervisory Board Member received consolidated remuneration in excess of ¥100 million for the fiscal year under review.

(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 (Stock)	Total amount recorded on balance sheet (Million yen)
Unlisted stocks	5	27
Stocks other than unlisted stocks	56	13,682

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

	Number of stocks (Stock)	Total acquisition price related to increase in shareholdings (Million yen)	Reason for increase in shareholdings
Unlisted stocks	-	-	
Stocks other than unlisted stocks	3	11	Shares acquired through client's stock ownership plan

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

	Number of stocks (Stock)	Total proceeds from sale related to decrease in shareholdings (Million yen)
Unlisted stocks	1	0
Stocks other than unlisted stocks	1	7

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	Previous fiscal year	Objectives of holding, quantitative effect of holding, and reason for increase in the number of shares	Tokai Carbon shareholder
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded on balance sheet (Million yen)	Amount recorded on balance sheet (Million yen)		
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.	✓
	2,506	3,259		
Bridgestone Corporation	695,108	695,108	Same as above	X
	2,352	2,829		
Mitsubishi Corporation	472,987	472,987	Same as above	✓
	1,201	1,371		
Daido Steel Co., Ltd.	169,455	167,742	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships. Shares acquired through client's stock ownership plan.	✓
	729	806		
Toyo Tire Corporation	379,811	379,811	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships.	X
	595	598		
Kyushu Financial Group Inc.	1,385,504	1,385,504	Same as above	✓
	586	653		
Toagosei Co., Ltd.	464,951	464,951	Same as above	✓
	563	590		
Mitsubishi Estate Co., Ltd.	292,075	292,075	Same as above	✓
	483	610		
K.C.Tech Co., Ltd.	152,996	152,996	Same as above	X
	447	337		
Fukuoka Financial Group, Inc.	220,756	220,756	Same as above	✓
	404	464		
NOK Corporation	317,000	317,000	Same as above	✓
	351	520		
JEOL Ltd.	62,500	62,500	Same as above	✓
	304	207		
KC Co., Ltd.	104,525	104,525	Same as above	✓
	275	184		
Tokio Marine Holdings, Inc.	49,610	49,610	Same as above	✓
	263	303		
Toyoda Gosei Co., Ltd.	68,252	68,252	Same as above	✓
	204	187		
TYK Corporation	485,000	485,000	Same as above	✓
	170	165		
The Yokohama Rubber Co., Ltd.	109,298	109,298	Same as above	✓
	167	232		
The Shiga Bank, Ltd.	69,600	69,600	Same as above	✓
	146	193		
Zeon Corporation	97,175	97,175	Same as above	X
	143	132		
Yamato Kogyo Co., Ltd.	52,064	52,064	Same as above	X
	143	142		
Sumitomo Rubber Industries, Ltd.	157,455	157,455	Same as above	✓
	139	210		

Stock name	Fiscal year under review	Previous fiscal year	Objectives of holding, quantitative effect of holding, and reason for increase in the number of shares	Tokai Carbon shareholder
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded on balance sheet (Million yen)	Amount recorded on balance sheet (Million yen)		
Miyoshi Oil & Fat Co., Ltd.	110,000	110,000	Same as above	✓
	134	139		
Kyoei Steel Ltd.	90,000	90,000	Same as above	X
	128	192		

Name	Fiscal year under review	Previous fiscal year	Objectives of holding, quantitative effect of holding, and reason for increase in the number of shares	Tokai Carbon shareholder
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded on balance sheet (Million yen)	Amount recorded on balance sheet (Million yen)		
Yamaguchi Financial Group, Inc.	220,000	220,000	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships.	✓
	127	163		
Nippon Steel Corporation	78,666	78,666	Same as above	X
	104	130		
Sumitomo Corporation	71,973	71,973	Same as above	✓
	98	116		
Nippon Carbide Industries Co., Inc.	70,000	70,000	Same as above	✓
	89	104		
Topy Industries, Ltd.	72,229	69,405	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships. Shares acquired through client's stock ownership plan.	X
	85	140		
Tokyo Tekko Co., Ltd.	39,787	39,787	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships.	✓
	81	62		
Osaka Steel Co., Ltd.	55,000	55,000	Same as above	✓
	67	81		
DMW Corporation	16,200	16,200	Same as above	✓
	63	37		
Mitsubishi Kakoki Kaisha, Ltd.	18,600	18,600	Same as above	✓
	54	36		
Makino Milling Machine Co., Ltd.	14,400	14,400	Same as above	✓
	53	72		
SUMCO Corporation	21,700	21,700	Same as above	X
	49	39		
Soda Nikka Co., Ltd.	87,285	87,285	Same as above	✓
	47	56		
Sanyo Special Steel Co., Ltd.	26,446	26,446	Same as above	X
	33	41		
The Yamanashi Chuo Bank, Ltd.	43,787	43,787	Same as above	✓
	33	51		
Mitsubishi Heavy Industries, Ltd.	10,000	10,000	Same as above	✓
	31	42		
Kajima Corporation	21,381	21,381	Same as above	✓
	29	31		
Itochu Corporation	9,315	9,315	Same as above	X
	27	23		
The Bank of Iwate, Ltd.	11,550	11,550	Same as above	✓
	23	33		
Aichi Steel Corporation	7,527	7,042	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships. Shares acquired through client's stock ownership plan.	X
	20	26		
JFE Holdings, Inc.	19,988	19,988	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships.	X
	19	28		
Hitachi	6,473	6,473	Same as above	X

Name	Fiscal year under review	Previous fiscal year	Objectives of holding, quantitative effect of holding, and reason for increase in the number of shares	Tokai Carbon shareholder
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded on balance sheet (Million yen)	Amount recorded on balance sheet (Million yen)		
Construction Machinery Co., Ltd.	18	21		
AGC Inc.	4,410	4,410	Same as above	✓
	15	17		
Sumitomo Riko Company Limited	23,104	23,104	Same as above	X
	14	22		
Shinsho Corporation	7,100	7,100	Same as above	X
	13	20		
Kimura Chemical Plants Co., Ltd.	14,500	14,500	Same as above	X
	9	10		
Bando Chemical Industries, Ltd.	14,006	14,006	Same as above	X
	9	12		



Name	Fiscal year under review	Previous fiscal year	Objectives of holding, quantitative effect of holding, and reason for increase in the number of shares	Tokai Carbon shareholder
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded on balance sheet (Million yen)	Amount recorded on balance sheet (Million yen)		
Nachi-Fujikoshi Corp.	1,620	1,620	Create new business opportunities and enhance corporate value over the medium-to-long term by establishing, maintaining, and strengthening business/collaborative relationships.	X
	6	7		
ENEOS Holdings, Inc.	15,536	15,536	Same as above	X
	5	7		
Takasago Thermal Engineering Co., Ltd.	1,000	1,000	Same as above	X
	1	1		
Kobe Steel, Ltd.	1,369	1,369	Same as above	X
	0	0		
Nomura Holdings, Inc.	1,000	1,000	Same as above	✓
	0	0		
Daiwa Securities Group Inc.	1,000	1,000	Same as above	✓
	0	0		
Godo Steel, Ltd.	64	64	Same as above	X
	0	0		
Howa Machinery, Ltd.	-	13,557	Same as above	X
	-	11		

(Note) 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.

- 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 the Company Submitting Financial Statement under special provision and prepares financial statements pursuant to the provision of Article 127 of the Ordinance on Financial Statements.
2.    Audit certificate  
Pursuant to the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company receives audits from Deloitte Touche Tohmatsu LLC in regard to the consolidated financial statements for the fiscal year from January 1, 2020 to December 31, 2020 and the financial statements for the business year from January 1, 2020 to December 31, 2020.
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 the accounting audit firm, etc. and subscribes to accounting journals.

# 1 Consolidated Financial Statements, etc.

## (1) Consolidated financial statements

### 1) Consolidated Balance Sheet

(Millions of yen)

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	52,695	67,174
Notes and accounts receivable	*5 50,648	*5 41,438
Merchandise and finished goods	20,227	14,890
Work in progress	35,116	30,638
Raw materials and supplies	31,036	18,269
Other	6,971	5,490
Allowance for doubtful accounts	(248)	(224)
Total current assets	196,446	177,678
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	23,092	25,150
Machinery, equipment, and vehicles, net	42,139	51,515
Furnaces, net	4,700	8,354
Land	7,315	7,604
Construction in progress	17,792	24,672
Other, net	6,302	7,709
Total tangible fixed assets	*1 101,343	*1 125,007
Intangible fixed assets		
Software	1,728	2,015
Goodwill	64,543	60,316
Customer-related assets	67,494	62,438
Other	8,200	8,579
Total intangible fixed assets	141,966	133,349
Investments and other assets		
Investment securities	*2 18,842	*2 17,492
Net defined benefit asset	2,633	2,729
Deferred tax assets	997	2,611
Other	693	890
Allowance for doubtful accounts	(50)	(50)
Total investments and other assets	23,115	23,674
Total fixed assets	266,425	282,031
Total assets	462,872	459,709

(Millions of yen)

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable	*5 24,857	*5 15,500
Electronically recorded obligations	*5 4,078	*5 3,147
Short-term borrowings	*3 37,530	*3 3,065
Commercial paper	30,000	40,000
Current portion of long-term debt	833	8,813
Income taxes payable	3,658	3,094
Consumption taxes payable	359	289
Accrued expenses	2,813	2,880
Reserve for bonuses	1,550	1,754
Other	*5 11,859	*5 14,108
Total current liabilities	117,541	92,656
Fixed liabilities		
Corporate bonds	35,000	55,000
Long-term debt	44,666	51,764
Deferred tax liabilities	21,431	21,409
Net defined benefit liability	6,246	7,544
Reserve for directors' retirement benefits	86	82
Reserve for executive officers' retirement benefits	66	73
Provision for environment and safety measures	296	431
Other	4,561	5,932
Total fixed liabilities	112,355	142,237
Total liabilities	229,896	234,894
Net assets		
Shareholders' capital		
Common stock	20,436	20,436
Additional paid-in capital	17,333	17,338
Retained earnings	173,310	166,017
Treasury stock	(7,260)	(7,248)
Total shareholders' capital	203,819	196,543
Other accumulated comprehensive income		
Net unrealized gains/losses on other securities	8,415	7,436
Deferred gains or losses on hedges	34	(70)
Foreign currency translation adjustments	(1,671)	(3,529)
Cumulative remeasurements of defined benefit plans	1,239	887
Total other accumulated comprehensive income	8,019	4,723
Non-controlling interests	21,137	23,548
Total net assets	232,975	224,815
Total liabilities and net assets	462,872	459,709

2) Consolidated Statement of Operations and Comprehensive Income  
Consolidated Statement of Operations

(Millions of yen)

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Net sales	262,028	201,542
Cost of sales	*1, *4 169,188	*1, *4 151,987
Gross profit	92,840	49,555
Selling, general and administrative expenses		
Selling expenses	*2 10,418	*2 9,852
General and administrative expenses	*3, *4 28,076	*3, *4 31,843
Total selling, general and administrative expenses	38,495	41,696
Operating income	54,344	7,858
Non-operating income		
Interest income	289	214
Dividend income	558	514
Equity in income of non-consolidated subsidiaries and affiliates	123	124
Other	770	782
Total non-operating income	1,741	1,636
Non-operating expenses		
Interest expenses	536	952
Foreign exchange losses	344	282
Other	2,218	1,997
Total non-operating expenses	3,099	3,232
Ordinary income	52,986	6,262
Extraordinary income		
Insurance claim income	-	*5 1,067
Gain on sales of fixed assets	*6 56	*6 769
Gain on termination of retirement benefit program	53	-
Gain on liquidation of subsidiaries and affiliates	23	-
Total extraordinary income	133	1,836
Extraordinary losses		
Loss on disaster	-	*5 1,337
Impairment loss	*7 1,314	*7 643
Loss on sales of fixed assets	*8 3	*8 1
Loss on disposal of fixed assets	576	-
Total extraordinary losses	1,894	1,983
Net income before income taxes	51,226	6,116
Income taxes, inhabitants tax, and enterprise taxes	20,456	6,136
Income tax adjustments	(3,280)	(3,852)
Total Income taxes	17,175	2,283
Net income	34,050	3,833
Net income attributable to non-controlling interests	2,056	2,813
Net income attributable to owners of the parent	31,994	1,019

## Consolidated Statement of Comprehensive Income

(Millions of yen)

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Net income	34,050	3,833
Other comprehensive income		
Net unrealized gains/losses on other securities	1,066	(982)
Deferred gains or losses on hedges	34	(105)
Foreign currency translation adjustments	(1,899)	(1,655)
Remeasurements of defined benefit plans	213	(352)
Share of other comprehensive income of affiliates accounted for by the equity method	19	5
Total other comprehensive income	* <sup>1</sup> (565)	* <sup>1</sup> (3,089)
Comprehensive income	33,484	743
(Breakdown)		
Comprehensive income attributable to owners of parent	32,373	(2,275)
Comprehensive income attributable to non-controlling interests	1,111	3,019

3) Consolidated Statement of Changes in Equity  
Previous fiscal year (January 1, 2019 to December 31, 2019)

(Millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance at beginning of period	20,436	17,333	148,990	(7,258)	179,500
Change during period					
Dividends of surplus			(7,673)		(7,673)
Net income attributable to owners of the parent			31,994		31,994
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		0		0	0
Net change in items other than shareholders' capital					
Total change in items during period	-	0	24,320	(1)	24,318
Balance at end of period	20,436	17,333	173,310	(7,260)	203,819

	Other accumulated comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Cumulative remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at beginning of period	7,345	-	(732)	1,026	7,640	20,692	207,833
Change during period							
Dividends of surplus							(7,673)
Net income attributable to owners of the parent							31,994
Purchase of treasury stock							(1)
Disposal of treasury stock							0
Net change in items other than shareholders' capital	1,070	34	(939)	213	378	444	823
Total change in items during period	1,070	34	(939)	213	378	444	25,142
Balance at end of period	8,415	34	(1,671)	1,239	8,019	21,137	232,975

Current fiscal year (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' capital
Balance at beginning of period	20,436	17,333	173,310	(7,260)	203,819
Change during period					
Dividends of surplus			(8,313)		(8,313)
Net income attributable to owners of the parent			1,019		1,019
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		5		13	19
Net change in items other than shareholders' capital					
Total change in items during period	-	5	(7,293)	12	(7,275)
Balance at end of period	20,436	17,338	166,017	(7,248)	196,543

	Other accumulated comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gains/losses on other securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Cumulative remeasurements of defined benefit plans	Total other accumulated comprehensive income		
Balance at beginning of period	8,415	34	(1,671)	1,239	8,019	21,137	232,975
Change during period							
Dividends of surplus							(8,313)
Net income attributable to owners of the parent							1,019
Purchase of treasury stock							(1)
Disposal of treasury stock							19
Net change in items other than shareholders' capital	(979)	(105)	(1,858)	(352)	(3,295)	2,411	(884)
Total change in items during period	(979)	(105)	(1,858)	(352)	(3,295)	2,411	(8,160)
Balance at end of period	7,436	(70)	(3,529)	887	4,723	23,548	224,815



## 4) Consolidated Statements of Cash Flows

(Millions of yen)

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Cash flows from operating activities		
Net income before income taxes	51,226	6,116
Depreciation and amortization	18,503	20,890
Impairment loss	1,314	643
Loss (gain) on liquidation of subsidiaries and affiliates	(23)	-
Loss (gain) on sales of tangible fixed assets	522	(767)
Amortization of goodwill	4,205	6,512
Gain on termination of retirement benefit program	(53)	-
Increase (decrease) in allowance for doubtful accounts	(480)	(28)
Increase (decrease) in reserve for bonuses	0	270
Increase (decrease) in net defined benefit liability	2,514	168
Decrease (increase) in net defined benefit asset	(637)	(96)
Increase (decrease) in provision for environment and safety measures	(281)	(200)
Interest and dividend income	(847)	(728)
Interest expenses	536	952
Foreign exchange gain (losses)	108	36
Equity in losses (income) of non-consolidated subsidiaries and affiliates	(123)	(124)
Insurance claim income	-	(1,067)
Loss on disaster	-	1,337
Decrease (increase) in trade receivables	8,623	10,463
Decrease (increase) in inventories	(19,778)	26,145
Decrease (increase) in short-term guarantee deposits	-	3,084
Increase (decrease) in trade payables	730	(9,430)
Increase (decrease) in accrued expenses	(88)	(246)
Increase (decrease) in accounts payable-other	(61)	97
Decrease (increase) in advance payments	1,732	(9)
Increase (decrease) in accrued consumption taxes	(419)	(1,639)
Other	65	134
Subtotal	67,287	62,514
Interest and dividends received	891	798
Interest paid	(552)	(1,015)
Proceeds from insurance income	-	1,067
Payments associated with disaster loss	-	(244)
Income taxes paid	(25,961)	(8,098)
Net cash provided by (used in) operating activities	41,664	55,022
Cash flows from investing activities		
Payments into time deposits	(6,243)	(8,992)
Proceeds from withdrawal of time deposits	5,399	5,986
Purchase of tangible fixed assets	(23,984)	(26,839)
Proceeds from sales of tangible fixed assets	150	1,165
Purchase of intangible fixed assets	(649)	(391)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (73,643)	*2 (15,229)
Other	(187)	0
Cash flows from investing activities	(99,159)	(44,301)

	(Millions of yen)	
	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,975)	(33,167)
Net increase (decrease) in commercial paper	30,000	10,000
Proceeds from long-term debt	37,500	15,015
Repayment of long-term debt	(27,302)	(1,415)
Proceeds from issuance of bonds	35,000	20,000
Repayments of finance lease obligations	(371)	(600)
Dividends paid	(7,673)	(8,313)
Dividends paid to non-controlling interests	(666)	(608)
Other	57	17
Cash flows from financing activities	64,568	927
Effect of exchange rate changes on cash and cash equivalents	(1,754)	(364)
Increase (decrease) in cash and cash equivalents	5,318	11,284
Cash and cash equivalents at beginning of period	41,124	46,443
Cash and cash equivalents at end of period	*1 46,443	*1 57,727

## Notes to Consolidated Financial Statements

(Significant basic matters for preparation of consolidated financial statements)

### 1. Matters concerning scope of consolidation

#### (1) Number of consolidated subsidiaries: 34

The names of consolidated subsidiaries are mentioned in “Section 1. Overview of the Company, 4. Status of subsidiaries and affiliates” and hence omitted here.

Tokai Carbon Savoie International SAS and its subsidiary, Tokai Carbon Savoie SAS (trade name changed to Tokai COBEX Savoie SAS on January 29, 2021), are included in the scope of consolidation, due to the acquisition of all of their shares jointly with the Company’s consolidated subsidiary, Tokai COBEX GmbH.

TOKAI COBEX (Beijing) Ltd. is included in the scope of consolidation because it was newly established on July 3, 2020 through investment by Tokai COBEX GmbH, a consolidated subsidiary of the Company. In addition, Tokai COBEX (Shanghai) Ltd. is excluded from the scope of consolidation due to the completion of liquidation.

TOKAI CARBON EUROPE GmbH is excluded from the scope of consolidation because it was dissolved as a result of an absorption-type merger in which TOKAI CARBON DEUTSCHLAND GmbH, a consolidated subsidiary, was the surviving company.

#### (2) Status of non-consolidated subsidiaries

Not applicable

### 2. Matters concerning application of equity method

#### (1) Number of affiliated companies accounted for by the equity method: 2

#### (2) 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

Available-for-sale securities

Securities with market value

...Market value method based on the market price as of the last day of the fiscal period (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).

Securities 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 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
Furnaces	7 to 25 years
  - 2) Intangible fixed assets (excluding leased assets)
 

Based on straight-line method.

The Company and its domestic consolidated subsidiaries amortize software for internal use on a straight-line basis over the period of internal use (5 years).

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) Reserve 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) Reserve for directors' retirement benefits
 

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) Reserve 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, 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 net defined 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) 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.
- (6) 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 to which hedge accounting is applied for the fiscal year under review are as follows.

Hedging instruments: Foreign exchange forward contracts

Hedged items: Foreign currency trade receivables 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.

(7) 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.

(8) 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.

(9) Other significant matters for preparation of consolidated financial statements

Accounting for consumption taxes

The Company and its domestic consolidated subsidiaries adopt the tax exclusion method in accounting for consumption taxes.

(Accounting standards, etc. that have not yet been applied)

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 issued on March 31, 2020)

(1) Summary

Accounting Standard for Revenue Recognition is a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps:

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when or as it satisfies performance obligations.

(2) Effective date

The Group will apply the Guidance from the beginning of the fiscal year ending December 2022.

(3) Impact from application of above guidance

The impact from the application of the above guidance is under assessment at the time of preparing consolidated financial statements for the fiscal year under review.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 issued on July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 issued on March 31, 2020)

(1) Summary

In order to improve comparability with the provisions of international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as "Fair Value Measurement Accounting Standard, etc.") have been developed, establishing guidance, etc. on the method for measuring fair value. The Fair Value Measurement Accounting Standard, etc. shall be applied to the fair value of the following items:

- Financial instruments in the "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes in the "Accounting Standard for Measurement of Inventories"

In addition, the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised to provide notes on the breakdown of the fair value of financial instruments by their level.

- (2) Effective date  
The Group will apply the Guidance from the beginning of the fiscal year ending December 2022.
- (3) Impact from application of above guidance  
The impact from the application of the above guidance is under assessment at the time of preparing consolidated financial statements for the fiscal year under review.
- "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)
- (1) Summary  
The purpose of this Standard is to outline the accounting principles and procedures adopted when the related accounting standards, etc. are not clear.
- (2) Effective date  
It is scheduled to be applied from the end of the fiscal year ending December 2021.
- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)
- (1) Summary  
The purpose of this Standard is to disclose information that contributes to the understanding of financial statement users regarding the content of accounting estimates for items--whose amounts in the financial statements for the current fiscal year are based on accounting estimates--which have a risk of having a material impact on the financial statements for the following fiscal year.
- (2) Effective date  
It is scheduled to be applied from the end of the fiscal year ending December 2021.

(Changes in presentation)

(Notes regarding consolidated statement of operations)

"Rental income," which had been stated separately under "Non-operating income" in the previous fiscal year, is included in "Other" from the current fiscal year, as this item now accounts for less than 10% of total non-operating income. Consolidated financial statements for the previous fiscal year have been restated to reflect this change in presentation.

As a result, ¥133 million in "Rental income" and ¥637 million in "Other," as shown under "Non-operating income" on the consolidated statement of operations for the previous fiscal year, have been reclassified as ¥770 million in "Other."

"Provision for environment and safety measures," which had been stated separately under "Non-operating expenses" in the previous fiscal year, is included in "Other" from the current fiscal year, as this item now accounts for less than 10% of total non-operating expenses. Consolidated financial statements for the previous fiscal year have been restated to reflect this change in presentation.

As a result, ¥141 million in "Provision for environment and safety measures" and ¥2,077 million in "Other," as shown under "Non-operating expenses" on the consolidated statement of operations for the previous fiscal year, have been reclassified as ¥2,218 million in "Other."

(Additional information)

The spread of COVID-19 does not seem to be coming to an end anytime soon, making it continue to be difficult to predict the specific medium-term impact on the Company's business and earnings. Under these circumstances, the International Monetary Fund (IMF) forecasts that the world economy will grow 5.5% in 2021 and 4.2% in 2022. On the other hand, it forecasts variances in the strength of economic recovery among countries, depending on the effectiveness of access to medical intervention and policy support, impacts of international spillover effects, and structural characteristics at the time of crisis.

The Company has made accounting estimates for impairment losses on fixed assets and the recoverability of deferred tax assets on the assumption that the global economy, which has slowed down due to the spread of COVID-19, will recover moderately from fiscal 2021 but not fully recover until fiscal 2022 or later.

Outcomes based on actual results in the future may differ from these assumptions and estimates.

(Notes regarding consolidated balance sheet)

\*1 The cumulative amount of depreciation of tangible fixed assets is as follows.

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
	¥253,854 million	¥276,430 million

\*2 Items associated with affiliates are as follows.

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Investment securities (Shares)	¥791 million	¥835 million

\*3 Overdraft facility agreements and 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 consolidated fiscal year, the balance of unexecuted loans under these agreements was as follows.

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Total value of overdraft limits and loan commitment contracts	¥40,000 million	¥62,000 million
Executed loans	16,000	2,000
Unused balance	24,000	60,000

4 The transferred amount of notes receivable endorsed is as follows:

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Transferred amount of notes receivable endorsed	¥ - million	¥54 million

\*5 Notes and electronically recorded obligations maturing at end of fiscal year

Notes and electronically recorded obligations maturing at the end of the fiscal year are accounted for as if they had been settled on their maturity dates.

(Notes regarding consolidated statement of operations)

\*1 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, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
	¥1,980 million	¥3,162 million

\*2 Major items included in selling expenses and their amounts are as follows.

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Warehousing and shipping expenses	¥7,955 million	¥8,428 million
Selling expenses	2,155	1,421

\*3 Major items included in general and administrative expenses and their amounts are as follows.

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Salaries and allowances	¥6,718 million	¥7,463 million
Additions to reserve for bonuses	375	209
Retirement benefit expenses	200	158
Additions to reserve for directors' retirement benefits	14	12
Additions to reserve for executive officers' retirement benefits	14	10
Depreciation and amortization	4,440	7,204
Research and development expenses	2,425	2,660
Amortization of goodwill	4,205	6,512
Rent expenses	794	754

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

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
	¥2,460 million	¥2,682 million

\*5 Insurance claim income and loss on disaster

Previous fiscal year (January 1, 2019 to December 31, 2019)

Not applicable

Current fiscal year (January 1, 2020 to December 31, 2020)

Expenses required for the dismantling, removal and restoration of production facilities at the Tanoura Plant, which was damaged by the heavy rain disaster that occurred in July 2020, and losses due to damage to inventories, etc. are recorded in "Loss on disaster." Moreover, casualty insurance money received is recorded in "Insurance claim income."

\*6 Gains (losses) on sales of fixed assets were as follows.

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Buildings	¥5 million	¥ - million
Transport equipment	10	15
Land	35	751
Other	4	2
Total	56	769

\*7 Impairment loss

The Group recorded impairment losses with respect to the asset groups below.

Previous fiscal year (January 1, 2019 to December 31, 2019)

(1) Assets that have suffered impairment



Use	Type	Company name	Location	Impairment loss (Million yen)
Anode material manufacturing facility	Buildings and structures Machinery, equipment, and vehicles Software Other	Tokai Carbon Co., Ltd.	Hofu-shi, Yamaguchi	1,206
Idle asset	Buildings and structures Land	Tokai Carbon Co., Ltd.	Chigasaki-shi, Kanagawa	107

(2) Background to recognition of impairment loss

The Group recognized an impairment loss for the anode material manufacturing facility in Hofu-shi, Yamaguchi because this facility's recoverable amount has fallen below the book value due to a decline in profitability.

The Group recognized an impairment loss for idle assets in Chigasaki-shi, Kanagawa because their recoverable amount has fallen below the book value, with such assets not contributing to business operations in the fiscal year under review due to the decision to sell them.

(3) Breakdown of the amount and types of impairment loss

Buildings and structures	¥452 million
Machinery, equipment, and vehicles	780
Land	73
Software	1
Other	7

(4) Outline of asset groups that have suffered impairment loss and method of grouping

- Asset group
  - Tokai Carbon Co., Ltd. – Anode material manufacturing facility
  - Tokai Carbon Co., Ltd. – Idle asset
- Method of grouping
 

The sections under management accounting are considered as grouping units. However, idle assets are grouped according to each individual asset.

(5) Method of calculating recoverable amount

The recoverable amount for the anode material manufacturing facility in Hofu-shi, Yamaguchi was calculated by estimating the value-in-use, and applying a discount rate of 8.03% to the future cash flows.

The recoverable amount for idle assets in Chigasaki-shi, Kanagawa was estimated based on the net selling price, and calculated by subtracting the expected disposal cost from the value obtained in property price survey reports.

Current fiscal year (January 1, 2020 to December 31, 2020)

(1) Assets that have suffered impairment

Use	Type	Company name	Location	Impairment loss (Million yen)
Idle asset	Buildings and structures Land Other	Tokai Carbon Co., Ltd.	Ishinomaki-shi, Miyagi	129
Idle asset	Buildings and structures Land	Tokai Carbon Co., Ltd.	Gotemba-shi, Shizuoka	387
Idle asset	Buildings and structures Land	Tokai Carbon Co., Ltd.	Taketoyo-cho, Chita-gun, Aichi	9
Idle asset	Buildings and structures Land	Tokai Carbon Co., Ltd.	Kitakyushu-shi, Fukuoka	117

(2) Background to recognition of impairment loss

The Group recognized an impairment loss for idle assets which were used as company housing and employee dormitories in Ishinomaki-shi in Miyagi, Gotemba-shi in Shizuoka, Taketoyo-cho, Chita-gun in Aichi and Kitakyushu-shi in Fukuoka because their recoverable amounts have fallen below the book value, with such assets not contributing to business operations in the fiscal year under review due to the decision to sell them.

(3) Breakdown of the amount and types of impairment loss

Buildings and structures	¥211 million
Land	432
Other	0

(4) Outline of asset groups that have suffered impairment loss and method of grouping

- Asset group  
Tokai Carbon Co., Ltd. – Idle asset
- Method of grouping  
The sections under management accounting are considered as grouping units. However, idle assets are grouped according to each individual asset.

(5) Method of calculating recoverable amount

The recoverable amounts of idle assets in Ishinomaki-shi in Miyagi, Gotemba-shi in Shizuoka, Taketoyo-cho, Chita-gun in Aichi, and Kitakyushu-shi in Fukuoka were estimated based on the net selling prices, and calculated by subtracting the expected disposal costs from the amounts evaluated based on real estate appraisal standards.

\*8 Losses on sales of fixed assets were as follows

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Machinery and equipment	¥0 million	¥1 million
Other	2	0
Total	3	1

(Notes regarding consolidated statement of comprehensive income)

\*1 Reclassification adjustments and tax effects relating to other comprehensive income

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Valuation difference on available-for-sale securities:		
Gain (loss) arising during the period	¥1,522 million	¥ (1,399) million
Reclassification adjustments	-	0
Before tax effects	1,522	(1,400)
Tax effects	(456)	418
Net unrealized gains/losses on other securities	1,066	(982)
Deferred gains or losses on hedges:		
Gain (loss) arising during the period	42	(88)
Reclassification adjustments	-	(42)
Before tax effects	42	(131)
Tax effects	(7)	26
Deferred gains or losses on hedges	34	(105)
Foreign currency translation adjustments:		
Gain (loss) arising during the period	(1,899)	(1,655)
Reclassification adjustments	-	-
Foreign currency translation adjustments	(1,899)	(1,655)
Remeasurements of defined benefit plans:		
Gain (loss) arising during the period	699	(40)
Reclassification adjustments	(332)	(338)
Before tax effects	367	(378)
Tax effects	(153)	26
Remeasurements of defined benefit plans	213	(352)
Share of other comprehensive income of affiliates accounted for using equity method:		
Gain (loss) arising during the period	19	5
Share of other comprehensive income of affiliates accounted for by the equity method	19	5
Total other comprehensive income	(565)	(3,089)

(Notes regarding consolidated statement of changes in equity)

Previous fiscal year (January 1, 2019 to December 31, 2019)

1. Class and number of shares issued and treasury shares

	Number of shares at start 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	11,789	1	0	11,790
Total	11,789	1	0	11,790

(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 0 common shares of treasury stock is due to the sale of odd-lot shares.

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 28, 2019	Common shares	2,557	12.0	December 31, 2018	March 29, 2019
Board of Directors' meeting on August 6, 2019	Common shares	5,115	24.0	June 30, 2019	September 2, 2019

(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
March 27, 2020 Annual General Meeting of Shareholders	Common shares	5,115	Retained earnings	24.0	December 31, 2019	March 30, 2020

Current fiscal year (January 1, 2020 to December 31, 2020)

1. Class and number of shares issued and treasury shares

	Number of shares at start 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	11,790	1	21	11,771
Total	11,790	1	21	11,771

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

2. The 21,000 share decrease in the treasury stock of common shares 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 27, 2020	Common shares	5,115	24.0	December 31, 2019	March 30, 2020
Board of Directors' meeting on August 4, 2020	Common shares	3,197	15.0	June 30, 2020	September 1, 2020

(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
March 30, 2021 Annual General Meeting of Shareholders	Common shares	3,197	Retained earnings	15.0	(As of December 31, 2020)	March 31, 2021

(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, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Cash and cash equivalents	¥52,695 million	¥67,174 million
Time deposits with original maturities of more than three months	(6,251)	(9,446)
Cash and cash equivalents	46,443	57,727

\*2 Principal assets and liabilities of companies that became consolidated subsidiaries due to share acquisitions  
Previous fiscal year (January 1, 2019 to December 31, 2019)  
Principal assets and liabilities of Tokai COBEX HoldCo GmbH upon consolidation of the company along with its three group companies resulting from acquisition of its shares, as well as the relationship between the acquisition price of the shares of the company and expenditures (net) for its acquisition are as follows.

Current assets	¥22,281 million
Fixed assets	59,907
Goodwill	39,496
Current liabilities	(8,697)
Fixed liabilities	(37,356)
Foreign currency translation adjustments	165
Acquisition price for shares of Tokai COBEX HoldCo GmbH	75,797
Cash and cash equivalents belonging to Tokai COBEX HoldCo GmbH	(2,153)
Difference: Purchase of shares of subsidiaries resulting in change in scope of consolidation	73,643

The above figures are amounts reflecting the significant revision of the initial allocation amount of acquisition costs due to finalization of provisional accounting treatments for the business combination.

Current fiscal year (January 1, 2020 to December 31, 2020)

Principal assets and liabilities of Carbone Savoie International SAS upon consolidation of the company along with its one subsidiary resulting from acquisition of its shares, as well as the relationship between the acquisition price of the shares of the company and expenditures (net) for its acquisition are as follows.

Current assets	¥13,469 million
Fixed assets	11,706
Goodwill	1,429
Current liabilities	(3,243)
Fixed liabilities	(3,086)
Foreign currency translation adjustments	3
Acquisition price of Carbone Savoie International SAS shares	20,279
Cash and cash equivalents of Carbone Savoie International SAS	5,049
Difference: Purchase of shares of subsidiaries resulting in change in scope of consolidation	15,229

(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 right-of-use assets of foreign consolidated subsidiaries under IFRS 16. Such right-of-use assets are included in "Other, net" on the consolidated balance sheet.

2) Intangible fixed 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 basic matters 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

(Millions of yen)

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Due within 1 year	92	98
Due after more than 1 year	94	68
Total	186	166

(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 corporate bonds and commercial papers, and securitization of accounts receivable, 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.

Short-term borrowings and commercial paper consist mainly of items aimed at raising short-term working capital, while long-term debt and corporate bonds 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. 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, (6) Significant hedge accounting method" under "Significant basic matters for preparation of consolidated financial statements."

(3) Risk management system for financial products

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

The Group aims to mitigate credit risk by quickly identifying any concerns about the collection of operating receivables resulting from deterioration in a business partner's financial position or other factors, while also periodically monitoring the status of our main business partners and managing deadlines and balances in accordance with credit management rules.

To minimize credit risks associated with counterparty default, the Group only engages in derivative transactions with financial institutions that have high credit ratings.

The largest credit risk exposures as of the consolidated closing date are shown in balance sheet figures for financial assets exposed to credit risk.

2) Management of market risk (exchange rate fluctuation 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.

Execution and management of derivative transactions is conducted in accordance with internal rules that stipulate the trading authority.

3) Management of liquidity risk associated with financing activities (risk of becoming unable to make required payments on due date)

Although operating payables and borrowings, etc. are exposed to liquidity risk, the Group manages such risk through methods such as preparing a financing plan.

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

The market value of financial instruments is based on market prices or reasonably calculated value if there is no market price available. Because certain variables are factored into these calculations, the values obtained may vary when different assumptions 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. Note that items whose market value is deemed extremely difficult to determine are not included in the table below.

Previous fiscal year (December 31, 2019)

	Amount recorded on consolidated balance sheet (Million yen)	Market value (Million yen)	Difference (Million yen)
(1) Cash and cash equivalents	52,695	52,695	-
(2) Notes and accounts receivable	50,648	50,648	-
(3) Investment securities			
Available-for-sale securities	18,023	18,023	-
Total assets	121,366	121,366	-
(1) Notes and accounts payable	24,857	24,857	-
(2) Electronically recorded obligations	4,078	4,078	-
(3) Short-term borrowings (*1)	37,530	37,530	-
(4) Commercial paper	30,000	30,000	-
(5) Corporate bonds	35,000	35,055	55
(6) Long-term debt (*2)	45,500	45,456	(43)
Total liabilities	176,966	176,978	11
Derivative transactions (*3)			
1) Transactions not subject to hedge accounting	113	113	-
2) Transactions subject to hedge accounting	-	-	-
Total derivative transactions	113	113	-

(\*1) Does not include current portion of long-term debt.

(\*2) Includes current portion of long-term debt.

(\*3) Net receivables and payables arising from derivative transactions are shown. Figures of items that become net payables in total are shown in parentheses.

Current fiscal year (December 31, 2020)

	Amount recorded on consolidated balance sheet (Million yen)	Market value (Million yen)	Difference (Million yen)
(1) Cash and cash equivalents	67,174	67,174	-
(2) Notes and accounts receivable	41,438	41,438	-
(3) Investment securities			
Available-for-sale securities	16,629	16,629	-
Total assets	125,242	125,242	-
(1) Notes and accounts payable	15,500	15,500	-
(2) Electronically recorded obligations	3,147	3,147	-
(3) Short-term borrowings (*1)	3,065	3,065	-
(4) Commercial paper	40,000	40,000	-
(5) Corporate bonds	55,000	54,969	(30)
(6) Long-term debt (*2)	60,578	60,324	(253)
Total liabilities	177,291	177,007	(284)
Derivative transactions (*3)			
1) Transactions not subject to hedge accounting	58	58	-
2) Transactions subject to hedge accounting	(103)	(103)	-
Total derivative transactions	(44)	(44)	-

(\*1) Does not include current portion of long-term debt.

(\*2) Includes current portion of long-term debt.

(\*3) Net receivables and payables arising from derivative transactions are shown. Figures of items that become net payables in total are shown in parentheses.

(Notes) 1. Methods for calculating the market value of financial instruments, and matters relating to securities and derivative transactions

#### Assets

(1) Cash and cash equivalents, and (2) Notes and accounts receivable

Book value is stated for these items, as book value is almost equal to market value due to short-term settlement. Some accounts receivable are subject to the allocation treatment for foreign exchange forward contracts. These are combined with the relevant foreign exchange forward contracts, and their value is calculated as yen-denominated receivables.

(3) Investment securities

The market value of investment securities is based on quoted market prices. Notes regarding market securities by holding purpose are presented in “(Notes regarding marketable securities).”

#### Liabilities

(1) Notes and accounts payable, (2) Electronically recorded obligations, (3) Short-term borrowings, and (4) Commercial paper

Book value is stated for these items, as book value is almost equal to market value due to short-term settlement.

(5) Corporate bonds, and (6) Long-term debt

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 by an interest rate factoring in credit risk and the remaining maturity for the relevant bonds and debts.

Derivative transactions

Stated under “(Notes regarding derivative transactions).”

2. Financial instruments whose market value is deemed extremely difficult to determine

(Millions of yen)

Category	Previous fiscal year (December 31, 2019)	Current fiscal year (December 31, 2020)
Unlisted stocks, etc.	819	863

These items are not included under “Assets (3) Investment securities,” as it is deemed to be extremely difficult to determine their market value due to the lack of market prices and the fact that future cash flows cannot be estimated.

3. Redemption schedule after the consolidated closing date for monetary claims and securities with maturity

Previous fiscal year (December 31, 2019)

	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 cash equivalents	52,695	-	-	-
Notes and accounts receivable	50,648	-	-	-
Total	103,343	-	-	-

Current fiscal year (December 31, 2020)

	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 cash equivalents	67,174	-	-	-
Notes and accounts receivable	41,438	-	-	-
Total	108,612	-	-	-

4. Repayment schedule after the consolidated closing date for corporate bonds, long-term debt, and other interest-bearing debt  
Previous fiscal year (December 31, 2019)

	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 borrowings	37,530	-	-	-	-	-
Commercial paper	30,000	-	-	-	-	-
Corporate bonds	-	-	10,000	-	-	25,000
Long-term debt	833	7,833	11,832	-	-	25,000
Total	68,363	7,833	21,832	-	-	50,000

Current fiscal year (December 31, 2020)

	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 borrowings	3,065	-	-	-	-	-
Commercial paper	40,000	-	-	-	-	-
Corporate bonds	-	10,000	-	-	-	45,000
Long-term debt	8,813	12,894	8,450	273	5,129	25,015
Total	51,879	22,894	8,450	273	5,129	70,015

(Notes regarding marketable securities)

1. Available-for-sale securities

Previous fiscal year (December 31, 2019)

	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) Stocks	17,016	5,014	12,002
	(2) Bonds			
	1) Government/municipal bonds, etc.	-	-	-
	2) Corporate bonds	-	-	-
	3) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	17,016	5,014	12,002
Amount recorded on consolidated balance sheet not above acquisition cost	(1) Stocks	1,006	1,173	(167)
	(2) Bonds			
	1) Government/municipal bonds, etc.	-	-	-
	2) Corporate bonds	-	-	-
	3) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	1,006	1,173	(167)
Total		18,023	6,187	11,835

(Notes) Unlisted stocks (¥27 million recorded on the consolidated balance sheet) have no market prices, and it is deemed to be extremely difficult to determine their market value. As such, they are not included in “Available-for-sale securities” in the above table.

Current fiscal year (December 31, 2020)

	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) Stocks	14,550	3,620	10,929
	(2) Bonds			
	1) Government/municipal bonds, etc.	-	-	-
	2) Corporate bonds	-	-	-
	3) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	14,550	3,620	10,929
Amount recorded on consolidated balance sheet not above acquisition cost	(1) Stocks	2,079	2,573	(494)
	(2) Bonds			
	1) Government/municipal bonds, etc.	-	-	-
	2) Corporate bonds	-	-	-
	3) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	2,079	2,573	(494)
Total		16,629	6,194	10,435

(Notes) Unlisted stocks (¥27 million recorded on the consolidated balance sheet) have no market prices, and it is deemed to be

extremely difficult to determine their market value. As such, they are not included in “Available-for-sale securities” in the above table.

2. Available-for-sale securities sold  
Previous fiscal year (January 1, 2019 to December 31, 2019)  
Disclosure omitted due to lack of materiality.  
Current fiscal year (January 1, 2020 to December 31, 2020)  
Disclosure omitted due to lack of materiality.
3. Securities for which impairment losses recognized  
Not applicable

(Notes regarding derivative transactions)

1. Derivative transactions not subject to hedge accounting

Currency-related transactions

Previous fiscal year (December 31, 2019)

Category	Type of transaction	Contract amount (Million yen)	Amount due after more than 1 year (Million yen)	Market value (Million yen)	Valuation gain/loss (Million yen)
Non-market transactions	Foreign exchange forward contract transactions				
	Sold				
	USD	1,759	-	41	41
	EUR	11,360	-	72	72
Total		13,120	-	113	113

(Notes) Method for calculating market value

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

Current fiscal year (December 31, 2020)

Category	Type of transaction	Contract amount (Million yen)	Amount due after more than 1 year (Million yen)	Market value (Million yen)	Valuation gain/loss (Million yen)
Non-market transactions	Foreign exchange forward contract transactions				
	Sold				
	USD	1,770	-	88	88
	EUR	2,355	-	(26)	(26)
	Option transactions				
	Sold				
	USD	387	-	(2)	(2)
Total		4,514	-	58	58

(Notes) Method for calculating market value

Market 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, 2019)

Hedge accounting method	Type of transaction	Major hedged items	Contract amount (Million yen)	Amount due after more than 1 year (Million yen)	Market value (Million yen)
Allocation treatment for foreign exchange forward contracts, etc.	Foreign exchange forward contract transactions				
	Sold	Accounts payable			
	EUR		36	-	(Notes)
	RMB		27	-	(Notes)
Total			63	-	-

(Notes) Because items covered by allocation treatment for foreign exchange forward contracts are accounted for as a single transaction with the hedged item (accounts payable), their market value is included in that for the relevant accounts payable.

Current fiscal year (December 31, 2020)

Hedge accounting method	Type of transaction	Major hedged items	Contract amount (Million yen)	Amount due after more than 1 year (Million yen)	Market value (Million yen)
Allocation treatment for foreign exchange forward contracts, etc.	Foreign exchange forward contract transactions				
	Sold	Accounts payable			
	EUR		174	-	(Note) 1
	RMB		94	-	(Note) 1
Principle treatment method	Foreign exchange forward contract transactions	Forecast foreign currency transactions			
	Sold				
	EUR		7,553	-	(103)
Total			7,823	-	(103)

(Notes) 1. Because items covered by allocation treatment for foreign exchange forward contracts are accounted for as a single transaction with the hedged item (accounts payable), their market value is included in that for the relevant accounts payable.

2. Market 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, 2019 to December 31, 2019)		Current fiscal year (January 1, 2020 to December 31, 2020)	
Retirement benefit obligation at beginning of period	¥15,452	million	¥11,802	million
Service cost	456		518	
Interest cost	226		157	
Actuarial differences	776		414	
Prior service costs	13		-	
Retirement benefits paid	(412)		(324)	
Increase from new consolidation	598		872	
Decrease stemming from termination of retirement benefit program (Note)	(5,392)		-	
Foreign currency translation gains (losses)	83		181	
Retirement benefit obligation at end of period	11,802		13,624	
(Note) This decrease is stemmed from the termination of retirement benefit programs at some consolidated subsidiaries in the US.				

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

	Previous fiscal year (January 1, 2019 to December 31, 2019)		Current fiscal year (January 1, 2020 to December 31, 2020)	
Pension assets at beginning of period	¥13,422	million	¥9,302	million
Expected return on plan assets	90		53	
Actuarial differences	1,165		299	
Employer contributions	349		309	
Retirement benefits paid	(322)		(216)	
Increase from new consolidation	97		-	
Decrease stemming from termination of retirement benefit program (Note)	(5,392)		-	
Foreign currency translation gains (losses)	(108)		190	
Pension assets at end of period	9,302		9,938	
(Note) This decrease is stemmed from the termination of retirement benefit programs at some consolidated subsidiaries in the US.				



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

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Net defined benefit liability at beginning of period	¥1,055 million	¥1,112 million
Retirement benefit expenses	100	90
Retirement benefits paid	(42)	(74)
Net defined benefit liability at end of period	1,112	1,129

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

	Previous fiscal year (December 31, 2019)	Fiscal year under review (As of December 31, 2020)
Retirement benefit obligation for funded plans	¥8,554 million	¥9,348 million
Pension assets	(9,302)	(9,938)
	(747)	(590)
Retirement benefit obligation for unfunded plans	4,361	5,405
Net liability and asset recorded on consolidated balance sheet	3,613	4,814
Net defined benefit liability	6,246	7,544
Net defined benefit asset	(2,633)	(2,729)
Net liability and asset recorded on consolidated balance sheet	3,613	4,814

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

(5) Retirement benefit expenses and breakdown

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Service cost	¥456 million	¥518 million
Interest cost	226	157
Expected return on plan assets	(90)	(53)
Amortization of actuarial differences	250	(173)
Amortization of prior service costs	13	-
Retirement benefit expenses calculated by simplified method	100	90
Other	0	(168)
Retirement benefit expenses related to defined benefit plans	956	372
Gain on termination of retirement benefit program (Note)	(53)	-
(Notes) Gain on termination of retirement benefit program is recorded under extraordinary income.		

(6) Remeasurements of defined benefit plans

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

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Actuarial differences	¥367 million	¥ (378) million
Total	367	(378)

(7) Cumulative remeasurements of defined benefit plans

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

	Previous fiscal year (December 31, 2019)	Current fiscal year (December 31, 2020)
Unrecognized actuarial differences	¥1,714 million	¥1,336 million
Total	1,714	1,336

(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, 2019)	Current fiscal year (December 31, 2020)
Bonds	36 %	39 %
Stocks	44	42
General accounts	17	17
Other	3	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, 2019)	Current fiscal year (December 31, 2020)
Discount rate	0.5~3.4 %	0.5~2.8 %
Long-term expected rate of return	0.0~3.4 %	0.0~2.8 %

3. Defined contribution plan

Contributions required by defined contribution plans of consolidated subsidiaries totaled ¥714 million in the previous fiscal year and ¥651 million for the current fiscal year.

(Notes regarding tax effect accounting)

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

	Previous fiscal year (December 31, 2019)	Current fiscal year (December 31, 2020)
Deferred tax assets		
Net defined benefit liability	¥1,687 million	¥2,581 million
Denial of loss on valuation of inventories	296	1,105
Excess depreciation and amortization	2,367	3,579
Denial of impairment loss	1,456	1,535
Tax credits carryforward	842	2,178
Tax loss carryforward (Note) 2	1,907	4,323
Other	2,557	2,415
Deferred tax assets (subtotal)	11,115	17,719
Valuation allowance for tax loss carryforward (Note) 2	(1,018)	(784)
Valuation allowance for total deductible temporary difference	(3,345)	(3,340)
Valuation allowance (subtotal)	(4,363)	(4,124)
Total deferred tax assets	6,751	13,594
Amount offset by deferred tax liabilities	(5,754)	(10,983)
Net deferred tax assets	997	2,611
Deferred tax liabilities		
Net unrealized gains/losses on other securities	(3,418)	(2,992)
Valuation difference on consolidated subsidiaries	(15,891)	(15,292)
Reserve for reduction entry of fixed assets	(893)	(1,357)
Retained earnings of overseas subsidiaries	(2,476)	(2,774)
Shortfall of depreciation	(1,562)	(6,524)
Net defined benefit asset	(1,159)	(1,264)
Other	(1,784)	(2,186)
Total deferred tax liabilities	(27,186)	(32,392)
Amount offset by deferred tax assets	5,754	10,983
Net deferred tax liabilities (Note) 1	(21,431)	(21,409)

(Notes) 1. The above figures are amounts reflecting the significant revision of the initial allocation amount of acquisition costs due to finalization of provisional accounting treatments for the business combination.

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

Previous fiscal year (December 31, 2019)

	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)	369	368	141	8	131	888	¥1,907 million
Valuation allowance	(366)	(368)	(141)	(8)	(131)	(2)	(1,018)
Deferred tax assets	3	-	-	-	-	886	(b) 889

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

(b) The ¥889 million in deferred tax assets were recognized for tax loss carryforwards of ¥1,907 million (amount multiplied by the statutory tax rate). The ¥889 million in deferred tax assets stemmed mainly from recognizing the full amount of tax loss carryforwards for consolidated subsidiary Tokai COBEX HoldCo GmbH and its three group companies, which totaled ¥807 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, 2020)

	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)	375	141	12	133	122	3,538	¥4,323 million
Valuation allowance	(370)	(139)	(12)	(133)	(122)	(6)	(784)
Deferred tax assets	4	2	-	-	-	3,532	(d)3,538

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

(d) The ¥3,538 million in deferred tax assets was recognized for tax loss carryforwards of ¥4,323 million (amount multiplied by the statutory tax rate). The ¥3,538 million in deferred tax assets stemmed mainly from recognizing the full amount of tax loss carryforwards for TOKAI ERFTCARBON GmbH, which totaled ¥1,614 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.

(Changes in presentation)

"Denial of accrued enterprise tax," "Denial of provision for environment and safety measures," "Excess allowance for doubtful accounts," "Denial of loss on valuation of investment securities," "Costs related to acquisition of shares of subsidiaries and affiliates" and "Unrealized gains on inventories and fixed assets," which were presented separately as deferred tax assets in the previous fiscal year, are included in "Other" from the current fiscal year due to decreased monetary significance. Moreover, "Valuation difference on business combination," which was stated separately under deferred tax liabilities, is included under "Other" from the current fiscal year due to decreased monetary significance. Notes for the previous fiscal year have been restated to reflect these changes in presentation.

As a result, ¥155 million in "Denial of accrued enterprise tax," ¥88 million in "Denial of provision for environment and safety measures," ¥15 million in "Excess allowance for doubtful accounts," ¥163 million in "Denial of loss on valuation of investment securities," ¥423 million in "Costs related to acquisition of shares of subsidiaries and affiliates," ¥1,080 million in "Unrealized gains on inventories and fixed assets" and ¥630 million in "Other," as shown under deferred tax assets in the previous fiscal year, have been reclassified as ¥2,557 million in "Other." Moreover, ¥1,347 million in "Valuation difference on business combination" and ¥437 million in "Other," as shown under deferred tax liabilities in the previous fiscal year, have been reclassified as ¥1,784 million in "Other."

The item presented as "Foreign tax credits carried forward" in the previous fiscal year has been changed to "Tax credits carryforward" from the current fiscal year in order to present it more clearly in line with actual conditions.

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, 2019)	Current fiscal year (December 31, 2020)
Statutory tax rate	30.0 %	30.0 %
(Adjustment)		
Entertainment expenses and other permanently non-deductible expenses	0.2	5.8
Dividend income and other permanently non-taxable income	(0.5)	(2.1)
Amortization of goodwill	2.5	31.9
Increase (decrease) in valuation allowance	(0.2)	(0.2)
Difference in tax rates applied at overseas subsidiaries	(2.7)	(18.6)
Tax credits	(1.9)	(19.2)
Costs related to acquisition of shares of subsidiaries	0.8	3.0
Retained earnings of overseas subsidiaries	3.1	4.9
Foreign withholding tax	0.6	2.1
Other	1.6	(0.3)
Effective tax rate after application of tax effect accounting	33.5	37.3

(Changes in presentation)

The item presented as "Foreign tax credits" in the previous fiscal year has been changed to "Tax credits" from the current fiscal year in order to present it more clearly in line with actual conditions. Moreover, "Tax credit for R&D expenses," which was stated separately in the previous fiscal year, is included under "Tax credit" from the current fiscal year due to decreased monetary significance. Notes for the previous fiscal year have been restated to reflect these changes in presentation.

As a result, -0.3% for "Tax credit for R&D expenses" and -1.6% for "Foreign tax credit" shown in the previous fiscal year have been reclassified as -1.9% for "Tax credits."

(Notes regarding business combination)

Business combination by acquisition

In accordance with the agreement entered into on July 17, 2020 that allows the Company and its subsidiary, Tokai COBEX GmbH, to jointly acquire all the shares of Carbone Savoie International SAS ("CSI") held by Alandia Industries and to make CSI a subsidiary of the Company, the Company completed the share acquisition on the same date (July 17, 2020), as follows. CSI and its subsidiary are currently the Company's consolidated subsidiaries.

1. Overview of business combination

(1) Name of acquired company and business line

Name of acquired company: Carbone Savoie International SAS

Business line: Production, sales and R&D of cathodes for smelting aluminum, specialty graphite products and carbon/graphite powder

(2) Main reason for business combination

In the three-year mid-term management plan "T-2022" announced in February 2020, the Company lays out a growth policy of utilizing strategic investments in the existing and peripheral businesses.

Carbone Savoie SAS ("CS") under CSI is based in France and has a history and tradition of more than 120 years. The company offers high-performance, high-quality graphitized cathodes and specialty graphite materials backed by its advanced technology and good customer relations based on trust and achievements. In the aluminum market—the end market for CS's core business of cathodes for aluminum smelting—steady expansion is expected in the long-term, due to factors such as demand for further weight reduction in transportation equipment (including automobiles and aircraft), a rise in the volume of aluminum used in construction materials amid ongoing urbanization, a shift toward use of aluminum in beverage containers, and demand for aluminum as a replacement for copper in the electronics industry. Accordingly, demand for cathodes for aluminum smelting is also likely to be steady. In the specialty graphite materials business, we are mainly engaged in the production of materials for heat exchangers and heat resistant applications, with steady growth in demand expected for the end-user markets.

The Company's aim is for this transaction to grow its Smelting and Lining as well as Fine Carbon businesses, not only by improving its profitability but also by diversifying its portfolio, which in turn will lead to further enhancement of the Company's corporate value.

(3) Date of business combination

July 17, 2020

(4) Legal form of business combination

Acquisition of shares in exchange for cash

(5) Name of acquired company after combination

Tokai Carbon Savoie International SAS

(6) Ratio of acquired voting rights

100%

(7) Major basis for determining the acquiring company

The Company is the acquiring company because it acquired 100% of the voting rights of CSI by jointly acquiring them with its consolidated subsidiary, Tokai COBEX GmbH, through the share acquisition in cash.

2. Period of performance of the acquired company included in the consolidated financial statements

The performance from August 1, 2020 to December 31, 2020 is included in the consolidated financial statements under review as July 31, 2020 is the deemed acquisition date.

3. Acquisition cost of the acquired company and its breakdown by type of consideration

Consideration for acquisition	Cash	¥20,279 million	(166,000,000 euros)
Acquisition cost		¥20,279 million	(166,000,000 euros)

4. Details and amount of major costs related to acquisition

Remuneration, commissions and other fees to advisors, etc.	¥618 million
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5. Goodwill arising from company acquisition, cause for accrual, and method and period of amortization

(1) Amount of goodwill

¥1,429 million (11,702 thousand euros)

During the third quarter of fiscal 2020, the Company applied provisional accounting treatment in calculating the amount of goodwill. However, the allocation of acquisition cost has been completed as of the end of the consolidated fiscal year under review, and therefore the amount of goodwill has been finalized.

(2) Cause for accrual

Primarily additional future income-generating power expected to derive from business development going forward.

(3) Method and period of amortization

Amortization over a 17-year period on a straight-line basis

6. Amounts of assets received and liabilities undertaken on the date of business combination, and the breakdown thereof

Current assets	¥13,469 million	(110,277,000 euros)
Fixed assets	¥11,706 million	(95,848,000 euros)
Total assets	¥25,176 million	(206,126,000 euros)
Current liabilities	¥3,243 million	(26,558,000 euros)
Fixed liabilities	¥3,086 million	(25,270,000 euros)
Total liabilities	¥6,330 million	(51,828,000 euros)

7. Estimated amount and calculation method for hypothetical impact on consolidated statement of operations for the current fiscal year assuming the business combination was completed on the first day of the fiscal year

Net sales ¥9,797 million

Operating income ¥964 million

Method for calculating estimated amounts

The estimated amounts of the impact represent the difference between net sales and profit/loss data calculated based on the assumption that the business combination was completed as of the first day of the current fiscal year and net sales and profit/loss data on the consolidated statement of operations of the acquiring company. The amortized amount of goodwill was calculated assuming that the goodwill recognized at the time of the business combination had arisen on the first day of the current fiscal year.

Please note that these notes have not received audit certification.

(Asset retirement obligations)

End of previous fiscal year (December 31, 2019)

Disclosure omitted due to lack of materiality.

End of current fiscal year (December 31, 2020)

Disclosure omitted due to lack of materiality.

(Notes regarding real estate for lease, etc.)

Previous fiscal year (January 1, 2019 to December 31, 2019)

Disclosure omitted due to lack of materiality.

Current fiscal year (January 1, 2020 to December 31, 2020)

Disclosure omitted due to lack of materiality.

(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 main products of each reportable segment are as follows.

Reportable segments	Main 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 smelters, 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 basic matters 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, 2019 to December 31, 2019)

(Millions of yen)

	Reportable segments						Other Operations (Note) 1	Total	Adjustment (Note) 2	Amount recorded in consolidated financial statements (Note) 3
	Graphite Electrode Business	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Total				
Net sales										
External sales	91,317	101,751	30,369	14,662	12,641	250,741	11,286	262,028	-	262,028
Intersegment sales/transfers	40	69	114	-	604	828	0	828	(828)	-
Total	91,358	101,820	30,483	14,662	13,245	251,570	11,287	262,857	(828)	262,028
Segment income (loss)	39,388	8,512	6,107	(1,600)	3,227	55,635	(21)	55,614	(1,270)	54,344
Segment assets	100,899	107,186	80,183	126,286	22,187	436,743	10,282	447,026	15,846	462,872
Other items										
Depreciation and amortization	2,310	6,658	3,637	4,539	199	17,344	734	18,079	424	18,503
Impairment loss	-	-	-	-	-	-	1,206	1,206	107	1,314
Investment in equity- method affiliates	-	-	791	-	-	791	-	791	-	791
Increase in tangible and intangible fixed assets	7,890	7,026	4,371	3,271	338	22,898	311	23,209	1,131	24,341

(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 ¥1,270 million negative adjustment to segment income (loss) includes ¥1,252 million negative in company-wide expenses that were not allocated to a reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to reportable segments.
- (2) The ¥15,846 million adjustment to segment assets includes ¥22,634 million in company-wide assets that are not allocated to a reportable segment. The main components of company-wide assets are surplus funds (e.g., cash and deposits) and investment securities.
- (3) The ¥107 million adjustment to impairment losses consists of impairment losses on company-wide assets that are not allocated to a reportable segment.
- (4) The ¥1,131 million adjustment to the increase in tangible fixed assets and intangible fixed assets represents the amount of capital investment for company-wide assets not allocated to a reportable segment.

3. Segment income (loss) is adjusted with operating income as reported in consolidated financial statements.

Current fiscal year (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segments						Other Operations (Note) 1	Total	Adjustment (Note) 2	Amount recorded in consolidated financial statements (Note) 3
	Graphite Electrode Business	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Total				
Net sales										
External sales	37,879	70,754	31,775	36,421	13,873	190,704	10,837	201,542	-	201,542
Intersegment sales/transfers	147	56	171	7	571	954	3	957	(957)	-
Total	38,026	70,811	31,946	36,428	14,445	191,659	10,841	202,500	(957)	201,542
Segment income (loss)	(5,766)	3,192	6,647	1,161	3,765	8,999	298	9,297	(1,439)	7,858
Segment assets	79,929	100,699	81,030	147,503	23,854	433,017	10,412	443,430	16,279	459,709
Other items										
Depreciation and amortization	3,015	6,454	3,649	6,396	232	19,748	534	20,282	607	20,890
Impairment loss	-	-	-	-	-	-	-	-	643	643
Investment in equity-method affiliates	-	-	835	-	-	835	-	835	-	835
Increase in tangible and intangible fixed assets	9,021	9,001	3,721	5,594	632	27,971	362	28,334	539	28,873

(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 ¥1,439 million negative adjustment in segment income (loss) includes company-wide expenses of ¥1,403 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 ¥16,279 million, includes ¥24,014 million of corporate-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 impairment loss, which is ¥643 million, is the amount of impairment loss of the land and others that is classified as idle assets in the corporate-wide assets and not allocated to each reportable segment.
- (4) The adjustment of the increase in tangible fixed assets and intangible fixed assets, which is ¥539 million, is the amount of capital expenditure of the corporate-wide assets that is not allocated to each reportable segment.

3. Segment income (loss) is adjusted with operating income as reported in consolidated financial statements.

Related Information

Previous fiscal year (January 1, 2019 to December 31, 2019)

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

(Millions of yen)

US	Japan	Asia	Europe	Other regions	Total
86,614	66,867	60,639	31,851	16,055	262,028

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

(2) Tangible fixed assets

(Millions of yen)

US	Japan	Asia	Poland	Other regions	Total
35,342	28,375	15,139	12,311	10,174	101,343

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 operations. Therefore, this entry is omitted here.

Current fiscal year (January 1, 2020 to December 31, 2020)

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

(Millions of yen)

US	Japan	Asia	Europe	Other regions	Total
53,398	49,585	53,737	23,484	21,336	201,542

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

(2) Tangible fixed assets

(Millions of yen)

US	Japan	Asia	Poland	Other regions	Total
38,936	31,535	15,788	15,617	23,129	125,007

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 operations. Therefore, this entry is omitted here.

[Information regarding impairment loss of fixed assets by reportable segment]

Previous fiscal year (January 1, 2019 to December 31, 2019)

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

Current fiscal year (January 1, 2020 to December 31, 2020)

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

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

Previous fiscal year (January 1, 2019 to December 31, 2019)

(Millions of yen)

	Reportable segments						Eliminations /unallocated	Total
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Total		
Amount amortized	486	538	1,557	1,622	-	4,205	-	4,205
Balance at end of period	3,830	6,078	16,361	38,271	-	64,543	-	64,543

Current fiscal year (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segments						Eliminations /unallocated	Total
	Graphite Electrodes	Carbon Black	Fine Carbon	Smelting and Lining	Industrial Furnaces and Related Products	Total		
Amount amortized	476	524	1,505	4,005	-	6,512	-	6,512
Balance at end of period	3,156	5,313	14,884	36,961	-	60,316	-	60,316

[Information regarding profit on negative goodwill by reportable segment]

Previous fiscal year (January 1, 2019 to December 31, 2019)

Not applicable

Current fiscal year (January 1, 2020 to December 31, 2020)

Not applicable

[Information regarding related parties]

Previous fiscal year (January 1, 2019 to December 31, 2019)

Not applicable

Current fiscal year (January 1, 2020 to December 31, 2020)

Not applicable

(Per-share information)

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Net assets per share	993.84 JPY	944.16 JPY
Net income per share	150.10 JPY	4.78 JPY

(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, 2019 to December 31, 2019)	Current fiscal year (January 1, 2020 to December 31, 2020)
Net income attributable to owners of the parent (millions of yen)	31,994	1,019
Amount not attributable to common shareholders (millions of yen)	-	-
Net income attributable to owners of the parent related to common stock (millions of yen)	31,994	1,019
Average number of common shares during period (thousands of shares)	213,152	213,166

(Subsequent material 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	July 5, 2019	10,000	10,000	0.12	X	July 5, 2022
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	X	December 10, 2049
Tokai Carbon Co., Ltd.	2nd Unsecured Bonds with Deferred Interest Payments and Premature Redemption (Subordinated)	June 30, 2020	-	20,000	1.77 (Note) 2	X	June 30, 2050
Total	-	-	35,000	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 borrowings	37,530	3,065	1.5	-
Current portion of long-term loans payable	833	8,813	0.3	-
Current portion of lease obligations	512	749	-	-
Commercial paper	30,000	40,000	(0.0)	-
Long-term loans payable (excluding current portion )	44,666	51,764	0.6	2022 to 2049
Lease obligations (excluding current portion )	2,281	3,197	-	2022 to 2097
Other interest-bearing debt (long-term)	598	604	0.8	-
Total	116,423	108,195	-	-

- (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 some 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 debt	12,894	8,450	273	5,129

Lease obligations	549	395	315	234
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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 were not larger than 1% of total liabilities and net assets at the beginning and end of the current fiscal year.

(2) Other

Quarterly information for the current fiscal year

Cumulative period		1st Quarter	2nd Quarter	3rd Quarter	Current fiscal year
Net sales	(Million yen)	52,790	93,738	144,623	201,542
Net income before income taxes	(Million yen)	6,484	5,074	5,657	6,116
Net income attributable to owners of the parent	(Million yen)	4,583	2,158	1,040	1,019
Net income per share	(Yen)	21.50	10.13	4.88	4.78

Each quarter		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Quarterly net income per share or quarterly net loss per share (-)	(Yen)	21.50	(11.37)	(5.25)	(0.10)

(Note) The Company finalized provisional accounting treatments for its business combination with Tokai Carbon Savoie International SAS in the fourth quarter of fiscal 2020. Quarterly information for the third fiscal quarter reflects the significant revisions of the initial allocation amount of the acquisition cost due to finalization of provisional accounting treatments.

## 2 Financial Statements, etc.

### (1) Financial Statements

#### 1) Balance Sheet

(Millions of yen)

	Previous fiscal year (December 31, 2019)	Fiscal year under review (December 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	6,385	9,787
Notes receivable	*5 142	*5 94
Accounts payable	*1 24,845	*1 15,173
Merchandise and finished goods	6,181	4,418
Work in progress	14,904	11,503
Raw materials and supplies	5,330	4,076
Prepaid expenses	142	75
Short-term loans receivable from subsidiaries and affiliates	2,875	1,411
Accounts receivable	*1 623	*1 1,336
Other	*1 205	*1 332
Allowance for doubtful accounts	(18)	(11)
Total current assets	61,620	48,198
Fixed assets		
Tangible fixed assets		
Buildings	6,888	6,548
Structures	2,128	2,097
Machinery and equipment	7,013	10,295
Furnaces	1,848	1,758
Vehicles and transport equipment	41	35
Tools, furniture and fixtures	644	642
Land	5,031	4,457
Construction in progress	2,150	2,788
Total tangible fixed assets	*2 25,746	*2 28,623
Intangible fixed assets		
Software	1,387	1,220
Right to use facilities, etc.	14	14
Total intangible fixed assets	1,402	1,234
Investments and other assets		
Investment securities	15,820	13,710
Shares of subsidiaries and affiliates	192,037	206,847
Equity invested in affiliates	5,587	5,587
Long-term loans receivable to subsidiaries and affiliates	1,150	-
Prepaid pension cost	1,051	1,234
Other	318	315
Allowance for doubtful accounts	(44)	(44)
Total investments and other assets	215,921	227,650
Total fixed assets	243,069	257,508
Total assets	304,689	305,707



(Millions of yen)

	Previous fiscal year (December 31, 2019)	Fiscal year under review (December 31, 2020)
Liabilities		
Current liabilities		
Electronically recorded obligations	*1, *5 2,786	*1, *5 2,278
Accounts payable	*1 9,005	*1 4,663
Short-term borrowings	*3 36,000	*3 2,000
Short-term borrowings from subsidiaries and affiliates	9,685	11,753
Commercial paper	30,000	40,000
Current portion of long-term debt	833	8,497
Accounts payable-other	*1 1,444	*1 3,171
Income taxes payable	1,413	122
Consumption taxes payable	137	-
Accrued expenses	*1 774	*1 985
Deposits received	274	244
Reserve for bonuses	153	80
Electronically recorded obligations-non-operating	*5 2,396	*5 2,125
Other	223	331
Total current liabilities	95,129	76,254
Fixed liabilities		
Corporate bonds	35,000	55,000
Long-term debt	44,666	50,670
Deferred tax liabilities	2,205	1,693
Reserve for executive officers' retirement benefits	66	73
Provision for environment and safety measures	295	137
Asset retirement obligations	46	47
Other	580	559
Total fixed liabilities	82,860	108,182
Total liabilities	177,990	184,436
Net assets		
Shareholders' capital		
Common stock	20,436	20,436
Additional paid-in capital		
Capital reserve	17,502	17,502
Other capital surplus	0	5
Total capital surplus	17,503	17,508
Retained earnings		
Legal retained earnings	2,864	2,864
Other retained earnings		
Reserve for reduction entry of fixed assets	1,297	1,269
General reserve	34,368	34,368
Retained earnings carried forward	50,540	46,605
Total retained earnings	89,071	85,107
Treasury stock	(7,260)	(7,248)
Total shareholders' capital	119,750	115,803
Valuation and translation adjustments		
Net unrealized gains/losses on other securities	6,949	5,467
Total valuation and translation adjustments	6,949	5,467
Total net assets	126,699	121,271
Total liabilities and net assets	304,689	305,707

## 2) Statement of Operations

(Millions of yen)

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Fiscal year under review (January 1, 2020 to December 31, 2020)
Net sales	*1 84,543	*1 48,915
Cost of sales	*1 51,557	*1 39,710
Gross profit	32,985	9,205
Selling, general and administrative expenses	*1, *2 10,659	*1, *2 8,697
Operating income	22,325	507
Non-operating income		
Interest and dividend income	*1 13,279	*1 5,061
Other	*1 949	*1 1,070
Total non-operating income	14,228	6,131
Non-operating expenses		
Interest expenses	*1 351	*1 778
Foreign exchange losses	459	79
Borrowing fees	264	13
Bond issuance costs	245	185
Additions to provision for environment and safety measures	129	311
Other	416	510
Total non-operating expenses	1,866	1,880
Ordinary income	34,687	4,758
Extraordinary income		
Insurance claim income	-	*3 1,067
Gain on sales of fixed assets	*4 5	*4 751
Total extraordinary income	5	1,819
Extraordinary losses		
Loss on disaster	-	*3 1,337
Impairment loss	1,314	643
Loss on disposal of fixed assets	*5 571	-
Loss on sales of fixed assets	*6 0	-
Total extraordinary losses	1,886	1,981
Net income before income taxes	32,806	4,596
Income taxes, inhabitants tax, and enterprise taxes	6,087	126
Income tax adjustments	207	120
Total Income taxes	6,294	247
Net income	26,511	4,349

3) Statement of Changes in Equity  
Previous fiscal year (January 1, 2019 to December 31, 2019)

(Millions of yen)

	Shareholders' capital										
	Common stock	Additional paid-in capital			Retained earnings					Treasury stock	Total shareholders' capital
		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	0	17,503	2,864	1,327	34,368	31,672	70,233	(7,258)	100,913
Change during period											
Dividends of surplus								(7,673)	(7,673)		(7,673)
Net income								26,511	26,511		26,511
Reversal of reserve for reduction entry of fixed assets						(29)		29	-		-
Purchase of treasury stock										(1)	(1)
Disposal of treasury stock			0	0						0	0
Net change in items other than shareholders' capital											
Total change in items during period	-	-	0	0	-	(29)	-	18,868	18,838	(1)	18,836
Balance at end of period	20,436	17,502	0	17,503	2,864	1,297	34,368	50,540	89,071	(7,260)	119,750

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/losses on other securities	Total valuation and translation adjustments	
Balance at beginning of period	6,254	6,254	107,167
Change during period			
Dividends of surplus			(7,673)
Net income			26,511
Reversal of reserve for reduction entry of fixed assets			-
Purchase of treasury stock			(1)
Disposal of treasury stock			0
Net change in items other than shareholders' capital	695	695	695
Total change in items during period	695	695	19,531
Balance at end of period	6,949	6,949	126,699

Current fiscal year (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Shareholders' capital										
	Common stock	Additional paid-in capital			Retained earnings					Treasury stock	Total shareholders' capital
		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	0	17,503	2,864	1,297	34,368	50,540	89,071	(7,260)	119,750
Change during period											
Dividends of surplus								(8,313)	(8,313)		(8,313)
Net income								4,349	4,349		4,349
Reversal of reserve for reduction entry of fixed assets						(28)		28	-		-
Purchase of treasury stock										(1)	(1)
Disposal of treasury stock			5	5						13	19
Net change in items other than shareholders' capital											
Total change in items during period	-	-	5	5	-	(28)	-	(3,935)	(3,963)	12	(3,946)
Balance at end of period	20,436	17,502	5	17,508	2,864	1,269	34,368	46,605	85,107	(7,248)	115,803

	Valuation and translation adjustments		Total net assets
	Net unrealized gains/losses on other securities	Total valuation and translation adjustments	
Balance at beginning of period	6,949	6,949	126,699
Change during period			
Dividends of surplus			(8,313)
Net income			4,349
Reversal of reserve for reduction entry of fixed assets			-
Purchase of treasury stock			(1)
Disposal of treasury stock			19
Net change in items other than shareholders' capital	(1,481)	(1,481)	(1,481)
Total change in items during period	(1,481)	(1,481)	(5,428)
Balance at end of period	5,467	5,467	121,271

## Notes to Financial Statements

### (Important accounting policies)

#### 1. Valuation standards and methods for assets

##### (1) Valuation standards and methods for marketable securities

Shares of subsidiaries                      Based on the moving average cost method.

##### Available-for-sale securities

Securities with market value      Market value method based on the market price as of the last day of the fiscal period (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).

Securities without market value      Based on the moving average cost method.

##### (2) Valuation standards and methods for derivatives

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 method based on a decline in profitability).

#### 2. Depreciation and amortization 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

Furnaces                                       8 to 9 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) Reserve for bonuses

To provide for bonuses to employees, a reserve is recorded based on the estimated payable 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) Reserve 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. Other significant basic matters 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 to which hedge accounting is applied for the fiscal year under review are as follows.

Hedging instruments	Foreign exchange forward contracts
Hedged items	Foreign currency trade receivables 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.
- (3) Accounting for consumption taxes  
Based on tax exclusion method.
- (4) Accounting for retirement benefits  
The accounting method for unrecognized actuarial differences on retirement benefits is different from the method used in consolidated financial statements.
- (5) Accounting method for deferred assets  
For bond issuance costs, the full amount is recorded as expenses at the time of expenditure.

(Changes in presentation)

(Notes regarding statement of operations)

“Rental income,” which had been stated separately under “Non-operating income” in the previous fiscal year, is included in “Other” from the current fiscal year, as this item now accounts for less than 10% of total non-operating income. Financial statements for the previous fiscal year have been restated to reflect this change in presentation.

As a result, ¥352 million in “Rental income” and ¥596 million in “Other,” as shown under “Non-operating income” on the statement of operations for the previous fiscal year have been reclassified as ¥949 million in “Other.”

“Rental equipment costs,” which had been stated separately under “Non-operating expenses” in the previous fiscal year, is included in “Other” from the current fiscal year, as this item now accounts for less than 10% of total non-operating expenses. Financial statements for the previous fiscal year have been restated to reflect this change in presentation.

As a result, ¥177 million in “Rental equipment costs” and ¥239 million in “Other” under “Non-operating expenses” on the statement of operations for the previous fiscal year have been reclassified as ¥416 million in “Other.”

(Additional information)

The spread of COVID-19 does not seem to be coming to an end anytime soon, making it continue to be difficult to predict the specific medium-term impact on the Company's business and earnings. Under these circumstances, the International Monetary Fund (IMF) forecasts that the world economy will grow 5.5% in 2021 and 4.2% in 2022. On the other hand, it forecasts variances in the strength of economic recovery among countries, depending on the effectiveness of access to medical intervention and policy support, impacts of international spillover effects, and structural characteristics at the time of crisis.

The Company has made accounting estimates for impairment losses on fixed assets and the recoverability of deferred tax assets on the assumption that the global economy, which has slowed down due to the spread of COVID-19, will recover moderately from fiscal 2021 but not fully recover until fiscal 2022 or later.

Outcomes based on actual results in the future may differ from these assumptions and estimates.

(Notes regarding balance sheet)

\*1 Monetary claims and monetary debts to subsidiaries and affiliates (excluding items shown separately)

	Previous fiscal year (December 31, 2019)	Fiscal year under review (December 31, 2020)
Short-term monetary claims	¥4,957 million	¥2,618 million
Short-term monetary debts	458	509

\*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, 2019)	Fiscal year under review (December 31, 2020)
	(Current portion)	(Current portion)
Buildings	¥215 million (¥-65 million)	¥202 million (¥-13 million)
Structures	19 ( - )	19 ( - )
Machinery and equipment	800 ( - )	799 (0)
Total	1,035 (-65)	1,021 (-14)

\*3 Overdraft facility agreements and 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, 2019)	Fiscal year under review (December 31, 2020)
Total value of overdraft limits and loan commitment contracts	¥40,000 million	¥62,000 million
Executed loans	16,000	2,000
Unused balance	24,000	60,000

4 Guarantee obligations

This is a guarantee for bank loans, etc., and is as outlined below.

Previous fiscal year (December 31, 2019)

Guaranteed party	Amount (Million yen)	Content of guaranteed obligations
Tokai Carbon (Tianjin) Co., Ltd.	1,472 (94,000,000 RMB)	Bank loans
Tokai Carbon (Suzhou) Co., Ltd.	56 (3,614,000 RMB)	Bank loans
TOKAI CARBON GE LLC	2,719 (24,820,000 USD)	Trade payables
Total	4,248	

Current fiscal year (December 31, 2020)

Guaranteed party	Amount (Million yen)	Content of guaranteed obligations
Tokai Carbon (Tianjin) Co., Ltd.	1,041 (65,570,000 RMB)	Bank loans
Tokai Carbon (Suzhou) Co., Ltd.	23 (1,500,000 RMB)	Bank loans
Tokai COBEX GmbH	1,866 (14,668,000 euros, etc.)	Bank Guarantees (Note)
Total	2,931	

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

\*5 Notes and electronically recorded obligations maturing at end of fiscal year

Notes and electronically recorded obligations maturing at the end of the fiscal year are accounted for as if they had been settled on their maturity dates.



(Notes regarding statement of operations)

\*1 Transactions with subsidiaries and affiliates

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Fiscal year under review (January 1, 2020 to December 31, 2020)
Operating transactions		
Net sales	¥16,854 million	¥8,813 million
Purchase amount	2,813	2,320
Transactions other than operating transactions	1,238	1,341

- \*2 Selling expenses accounted for around 28% of selling, general and administrative expenses in the previous fiscal year and around 21% in the current fiscal year, while general and administrative expenses accounted for around 72% in the previous fiscal year and 79% 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, 2019 to December 31, 2019)	Fiscal year under review (January 1, 2020 to December 31, 2020)
Warehousing and shipping expenses	¥2,086 million	¥1,439 million
Cost of finished goods sold	900	400
Additions to allowance for doubtful accounts	(15)	(7)
Salaries and allowances	2,284	2,115
Additions to reserve for bonuses	24	23
Retirement benefit expenses	45	16
Additions to reserve for executive officers' retirement benefits	14	10
Amount paid to subcontractors	347	297
Depreciation and amortization	195	243
Rent expenses	387	410
Research and development expenses	1,570	1,692

- \*3 Insurance claim income and loss on disaster

Previous fiscal year (January 1, 2019 to December 31, 2019)

Not applicable

Current fiscal year (January 1, 2020 to December 31, 2020)

Expenses required for the dismantling, removal and restoration of production facilities at the Tanoura Plant, which was damaged by the heavy rain disaster that occurred in July 2020, and losses due to damage to inventories, etc. are recorded in "Loss on disaster." Moreover, casualty insurance money received is recorded in "Insurance claim income."

- \*4 Gains (losses) on sales of fixed assets were as follows.

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Fiscal year under review (January 1, 2020 to December 31, 2020)
Land	¥5 million	¥751 million
Other	0	-
Total	5	751

\*5 Losses on disposal of fixed assets were as follows.

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Fiscal year under review (January 1, 2020 to December 31, 2020)
Demolition expenses	¥570 million	¥ - million
Other	1	-
Total	571	-

\*6 Losses on sales of fixed assets were as follows.

	Previous fiscal year (January 1, 2019 to December 31, 2019)	Fiscal year under review (January 1, 2020 to December 31, 2020)
Buildings	¥0 million	¥ - million
Total	0	-

(Notes regarding marketable securities)

Shares of subsidiaries

Previous fiscal year (December 31, 2019)

Category	Amount recorded on balance sheet (Million yen)	Market value (Million yen)	Difference (Million yen)
Shares of subsidiaries	8,353	32,313	23,960
Total	8,353	32,313	23,960

Current fiscal year (December 31, 2020)

Category	Amount recorded on balance sheet (Million yen)	Market value (Million yen)	Difference (Million yen)
Shares of subsidiaries	8,353	61,828	53,475
Total	8,353	61,828	53,475

(Notes) Amount recorded on balance sheet for subsidiary shares whose market value is deemed extremely difficult to determine  
(Millions of yen)

Category	Previous fiscal year (December 31, 2019)	Fiscal year under review (December 31, 2020)
Shares of subsidiaries	183,684	198,494

These items have no market prices, and it is deemed to be extremely difficult to determine their market value. As such, they are not included in "Shares of subsidiaries" in the above table.

(Notes regarding tax effect accounting)

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

	Previous fiscal year (December 31, 2019)	Fiscal year under review (December 31, 2020)
Deferred tax assets		
Denial of valuation loss on shares of subsidiaries and affiliates, etc.	¥4,326 million	¥4,326 million
Excess depreciation and amortization	2,053	1,851
Denial of impairment loss	264	457
Redemption of shares of subsidiaries and affiliates	319	319
Denial of loss on valuation of investment securities	139	139
Denial of loss on valuation of inventories	175	89
Tax loss carryforward	-	183
Other	521	461
Deferred tax assets (subtotal)	7,801	7,829
Valuation allowance for tax loss carryforward	-	-
Valuation allowance for total deductible temporary difference	(6,349)	(6,456)
Valuation allowance (subtotal)	(6,349)	(6,456)
Total deferred tax assets	1,451	1,373
Deferred tax liabilities		
Net unrealized gains/losses on other securities	(2,778)	(2,146)
Reserve for reduction entry of fixed assets	(556)	(544)
Prepaid pension cost	(315)	(370)
Other	(6)	(6)
Total deferred tax liabilities	(3,656)	(3,066)
Net deferred tax liabilities	(2,205)	(1,693)

(Changes in presentation)

“Denial of accrued enterprise tax” and “Denial of provision for environment and safety measures,” which had been stated separately under deferred tax assets in the previous fiscal year, are included under “Other” from the current fiscal year due to decreased monetary significance. Notes for the previous fiscal year have been restated to reflect this change in presentation.

As a result, ¥123 million in “Denial of accrued enterprise tax” and ¥88 million in “Denial of provision for environment and safety measures” and ¥309 million in “Other” as shown under deferred tax assets in the previous fiscal year, have been reclassified as ¥521 million in “Other.”

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, 2019)	Fiscal year under review (December 31, 2020)
Statutory tax rate	30.0 %	30.0 %
(Adjustment)		
Entertainment expenses and other permanently non-deductible expenses	0.3	1.7
Dividend income and other permanently non-taxable income	(11.4)	(29.5)
Withholding tax on dividend income from overseas subsidiaries	0.9	2.5
Valuation allowance	0.1	2.3
Other	(0.7)	(1.6)
Effective tax rate after application of tax effect accounting	19.2	5.4

(Changes in presentation)

“Tax credit for R&D expenses” and “Tax credit for tax system supporting income growth,” which were stated separately in the previous fiscal year, are included under “Other” from the current fiscal year due to decreased monetary significance. Notes for the previous fiscal year have been restated to reflect this change in presentation.

As a result, -0.6% for “Tax credit for R&D expenses” and -0.3% for “Tax credit for tax system supporting income growth” and -

0.2% for "Other," as shown in the previous fiscal year, have been reclassified as -0.7% for "Other."

(Notes regarding business combination)

This information is disclosed in "Notes to Consolidated Financial Statements (Notes regarding business combination)" and is therefore omitted here.

(Subsequent material events)

Because the same information is disclosed in "Notes to Consolidated Financial Statements (Subsequent material events)," this entry is omitted here.

4) Supplementary Schedules  
Schedule of Tangible Fixed Assets

(Millions of 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	6,888	746	591 (324)	494	6,548	21,065
	Structures	2,128	246	19 (13)	257	2,097	11,387
	Machinery and equipment	7,013	5,979	95 (73)	2,602	10,295	76,475
	Furnaces	1,848	484	62 (56)	511	1,758	13,281
	Vehicles and transport equipment	41	18	1 (1)	22	35	266
	Tools, furniture and fixtures	644	418	4 (0)	415	642	4,401
	Land	5,031	-	573 (432)	-	4,457	-
	Construction in progress	2,150	8,552	7,914 (20)	-	2,788	-
	Total	25,746	16,445	9,263 (922)	4,304	28,623	126,878
Intangible fixed assets	Software	1,387	214	0	381	1,220	-
	Right to use facilities, etc.	14	-	0	0	14	-
	Total	1,402	214	0	381	1,234	-

(Note) 1. Significant items within the increase for tangible fixed assets during the period were as follows.

Machinery and equipment Hofu Plant Graphite electrode manufacturing facility ¥3,118 million

2. Figures in parentheses for “Decrease during period” indicate amounts recognized as impairment losses of ¥643 million and loss on disaster of ¥279 million.

Schedule of Provisions

(Millions of yen)

Item	Balance at beginning of period	Increase during period	Decrease during period	Balance at end of period
Allowance for doubtful accounts	63	0	7	56
Reserve for bonuses	153	80	153	80
Reserve for executive officers' retirement benefits	66	9	2	73
Provision for environment and safety measures	295	317	475	137

(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 December 31										
Number of shares constituting one unit	100 shares (Note 1)										
Purchase and additional purchase of odd-lot shares	<p>(Special account)</p> <p>Handling office 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo Stock Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation</p> <p>Shareholder Registry Administrator (Special account) 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation</p> <p>Agency -</p> <p>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.</p> <p>(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</p> <table> <tr> <td>Equal to or less than ¥1 million</td><td>1.150%</td></tr> <tr> <td>More than ¥1 million and equal to or less than ¥5 million</td><td>0.900%</td></tr> <tr> <td>More than ¥5 million and equal to or less than ¥10 million</td><td>0.700%</td></tr> <tr> <td>More than ¥10 million and equal to or less than ¥30 million</td><td>0.575%</td></tr> <tr> <td>More than ¥30 million and equal to or less than ¥50 million</td><td>0.375%</td></tr> </table> <p>(Fractions of less than one yen rounded down )</p> <p>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.</p>	Equal to or less than ¥1 million	1.150%	More than ¥1 million and equal to or less than ¥5 million	0.900%	More than ¥5 million and equal to or less than ¥10 million	0.700%	More than ¥10 million and equal to or less than ¥30 million	0.575%	More than ¥30 million and equal to or less than ¥50 million	0.375%
Equal to or less than ¥1 million	1.150%										
More than ¥1 million and equal to or less than ¥5 million	0.900%										
More than ¥5 million and equal to or less than ¥10 million	0.700%										
More than ¥10 million and equal to or less than ¥30 million	0.575%										
More than ¥30 million and equal to or less than ¥50 million	0.375%										
Method of public notice	<p>Electronic public notice</p> <p>URL for public notice: <a href="https://www.tokaicarbon.co.jp/">https://www.tokaicarbon.co.jp/</a></p> <p>Provided, however, that 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.</p>										
Shareholder benefits	Shareholder special benefit plan (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 1,000 shares	-	Items with value of ¥2,000	Items with value of ¥3,000
At least 1,000 shares	Items with value of ¥2,000	Items with value of ¥3,000	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 2019)  
(January 1, 2019 to December 31, 2019), filed to the Director-General of the Kanto Local Finance Bureau on March 27, 2020
- (2) Internal Control Report and Appendices  
Fiscal year (Fiscal 2019)  
(January 1, 2019 to December 31, 2019), filed to the Director-General of the Kanto Local Finance Bureau on March 27, 2020
- (3) Quarterly Reports and Confirmation Letter  
(1st quarter of fiscal 2020)  
(January 1, 2020 to March 31, 2020), filed to the Director-General of the Kanto Local Finance Bureau on May 14, 2020  
(2nd quarter of fiscal 2020)  
(April 1, 2020 to June 30, 2020), filed to the Director-General of the Kanto Local Finance Bureau on August 13, 2020  
(3rd quarter of fiscal 2020)  
(July 1, 2020 to September 30, 2020), filed to the Director-General of the Kanto Local Finance Bureau on November 13, 2020
- (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 March 31, 2020  
Extraordinary Report based on Article 19, Paragraph 2, Item 8-2 (Acquisition of Subsidiaries) of the Cabinet Office Order on Disclosure of Corporate Affairs, filed to the Director-General of the Kanto Local Finance Bureau on July 21, 2020  
Extraordinary Report based on Article 19, Paragraph 2, Item 9-4 (Change of the Certified Public Accountant, etc.) of the Cabinet Office Order on Disclosure of Corporate Affairs, filed to the Director-General of the Kanto Local Finance Bureau on February 15, 2021
- (5) Shelf Registration Statement (stock certificates, corporate bond certificates, etc.) and Appendices  
Filed to the Director-General of the Kanto Local Finance Bureau on May 29, 2020
- (6) Amended Shelf Registration Statement  
Filed to the Director-General of the Kanto Local Finance Bureau on May 29, 2020  
Filed to the Director-General of the Kanto Local Finance Bureau on July 21, 2020  
Filed to the Director-General of the Kanto Local Finance Bureau on February 15, 2021
- (7) Shelf Registration Supplement (stock certifications, corporate bond certificates, etc.) and Appendices  
Filed to the Director-General of the Kanto Local Finance Bureau on June 24, 2020

Part 2 Information on Submitting Company's Surety Company, etc.

Not applicable



# Independent Auditor's Audit Report and Internal Control Audit Report

March 30, 2021

Tokai Carbon Co., Ltd.  
To: The Board of Directors

Deloitte Touche Tohmatsu LLC

Tokyo Office

Designated Limited  
Liability Partner  
and Executive  
Member

Certified public  
accountant

Seibei Kyoshima (Seal)

Designated Limited  
Liability Partner  
and Executive  
Member

Certified public  
accountant

Yoshiki Okutsu (Seal)

## <Audit of 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 operations, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, significant basic matters for preparation of consolidated financial statements, other notes, and consolidated supplementary schedules for the fiscal year from January 1, 2020 to December 31, 2020.

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, 2020 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.

### 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 as fair and valid 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 the content of safeguards to remove or mitigate any impediments.

#### <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, 2020.

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, 2020 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 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 the content of safeguards to remove or mitigate any impediments.

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 above is a digitized version of the original copy of the Audit Report, which is held in the custody of the Company (the company filing this securities report).
2. XBRL data is excluded from the scope of audit.

## Independent Auditor's Audit Report

March 30, 2021

Tokai Carbon Co., Ltd.  
To: The Board of Directors

Deloitte Touche Tohmatsu LLC

Tokyo Office

Designated Limited  
Liability Partner  
and Executive  
Member

Certified  
public  
accountant

Seibei Kyoshima (Seal)

Designated Limited  
Liability Partner  
and Executive  
Member

Certified  
public  
accountant

Yoshiki Okutsu (Seal)

### 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 operations, non-consolidated statement of changes in equity, important accounting policies, other notes, and non-consolidated supplementary schedules for the fiscal year from January 1, 2020 to December 31, 2020.

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, 2020 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.

### 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 as fair and valid 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 the content of safeguards to remove or mitigate any impediments.

#### 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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