

May 14, 2018

Notice regarding change of equity method affiliate to consolidated subsidiary

Tokai Carbon Co., Ltd. (hereafter, "Tokai Carbon") hereby announces the decision made at the Board of Directors meeting held on May 14, 2018 to acquire 1,050,750 shares of Tokai Carbon Korea, Ltd. (hereinafter, "TCK"), an equity method affiliate of Tokai Carbon, from KC Co., Ltd. (hereinafter, "KC"), the second largest shareholder of TCK (hereinafter, the "Transaction"). The aggregate percentage of shareholding of Tokai Carbon in TCK will be 44.4% after the Transaction, and TCK is expected to become a consolidated subsidiary of Tokai Carbon, based on effective control criteria, subject to discussion with our auditing firm.

1. Reason for the share acquisition

As a result of working on structural reforms at Phase 1 of the 3-year medium-term management plan "T-2018" announced in February 2016, the company achieved the business restructuring almost as planned; and in accordance with Phase 2 which was newly announced in February 2018, Tokai Carbon is now moving forward with shifting its focus to growth strategy. In November 2017, the company has purchased SGL's graphite electrode business subsidiary by utilizing a part of the strategic investment budget of approximately 50 billion yen set for M&A and other initiatives, and this Transaction represents another part of such strategic investment initiative.

Fine Carbon business (hereinafter, "FC business"), one of the main businesses of Tokai Carbon, has suffered from severe business conditions such as slowing customer demand and emerging Chinese manufacturers, and we have been working on rebuilding the business including narrowing down product lineup including reducing the production capacity of isotropic graphite materials, withdrawing unprofitable items, and reviewing the supply chain in accordance with Phase 1 of T-2018. Through these measures, productivity and profitability improved, and together with the help of market improvement and customer demand recovery, the FC business became profitable in FY2017. However, as one of the fundamental businesses after graphite electrode and carbon black businesses, further strengthening of earnings base and business value enhancement continue to be important tasks.

TCK was established as a joint venture company of three companies including Tokai Carbon and KC in 1996, and since then, Tokai Carbon has been involved in the management of TCK, mainly by providing manufacturing technology and raw materials. Today, with a high level of technical capabilities such as processing technology and high purity technology, TCK has a solid customer base including major semiconductor manufacturing equipment makers and leading semiconductor manufacturers such as LAM Research, Applied Materials, Samsung and Tokyo Electron. In the field of Solid-SiC Focus Ring for etching equipment used in semiconductor manufacturing, which is the main product, TCK has grown into a niche top company with a significant market share.

In addition to expanding the business foundation in the semiconductor field where high growth is expected, Tokai Carbon will further strengthen the competitiveness of the

FC business as a pillar of sustainable growth following the structural reform we have promoted in the medium-term management plan "T-2018" and we believe that this will contribute to strengthening our business base as a whole.

2. Overview of Tokai Carbon Korea., Ltd. (TCK) (as of May 14, 2018)

1. Overview of Tokai Carbon Korea, Ltd. (TCK) (as of May 17, 2018)

(1)	Name of Company	Tokai Carbon Korea Co., Ltd.		
(2)	Location	71, Gaejeongsaneopdanji-ro, Miyang-myeon, Anseong-si, Gyeonggi-do, Republic of Korea		
(3)	Name and Title of Representative	President/CEO Park, Yeong Soon		
(4)	Business Description	Manufacturing and sale of carbon graphite products and CVD-SiC coated/solid products		
(5)	Capital	KRW 5,838MM (JPY590MM)		
(6)	Date Established	August 7, 1996		
(7)	Major Shareholders and Ownership Ratio	Tokai Carbon Co., Ltd. (35.4%) KC Co., Ltd. (28.3%)		
(8)	Relationship with Tokai Carbon	Capital relationship	Tokai Carbon holds 4,132,500 shares equivalent to 35.4% of the total number of TCK's outstanding shares	
		Personnel relationship	2 officers and 1 employee of Tokai Carbon serve as Board members of TCK	
		Business relationship	Tokai Carbon sells products and also has a license agreement on manufacturing technology	
(9)	Business Results and Financial Position for the Past Three Years			
	Fiscal Year	FY2015	FY2016	FY2017
	Net Assets	KRW94,050MM (JPY9,499MM)	KRW113,989MM (JPY11,513MM)	KRW145,451MM (JPY14,691MM)
	Total Assets	KRW103,404MM (JPY10,444MM)	KRW131,532MM (JPY13,285MM)	KRW168,792MM (JPY17,048MM)
	Net Assets per Share	KRW8,857 (JPY895)	KRW11,266 (JPY1,138)	KRW14,458 (JPY1,460)
	Net Sales	KRW61,930MM (JPY6,255MM)	KRW89,447MM (JPY9,034)	KRW130,310 (JPY13,161)
	Operating Profit	KRW16,090MM (JPY1,625MM)	KRW27,430MM (JPY2,770MM)	KRW47,730MM (JPY4,821)
	Net Income	KRW13,166MM (JPY1,330MM)	KRW22,741MM (JPY2,297MM)	KRW37,300MM (JPY3,767MM)
	Net Income per Share	KRW1,128 (JPY114)	KRW1,948 (JPY197)	KRW3,195 (JPY323)
	Dividend per Share	KRW240 (JPY24)	KRW500 (JPY51)	KRW700 (JPY71)

Currency is converted using exchange rate of KRW1.00 = JPY0.101.

3. Overview of the seller (KC) (as of May 14, 2018)

(1)	Name of Company	KC Co., Ltd.	
(2)	Location	39, Je2gongdan, 2-gil, Miyang-myeon, Anseong-si, Gyeonggi-do, Republic of Korea	
(3)	Name and Title of Representative	CEO/Chairman Ko, Suk-Tai, CEO Lee, Jung-Ho	
(4)	Business Description	Manufacture, sales and R&D of semiconductor manufacturing equipment	
(5)	Capital	KRW6,777MM (JPY684MM)	
(6)	Net Assets	KRW247,672MM (JPY25,015MM)	
(7)	Total Assets	KRW376,126MM (JPY37,989MM)	
(8)	Date Established	February 16, 1987	
(9)	Major Shareholders and Shareholding Ratio	Ko, Suk-Tai (33.7%)	
(10)	Relationship with Tokai Carbon	Capital Relationship	Tokai Carbon holds 104,525 shares equivalent to 0.8% of the KC's outstanding shares. In addition, KC holds 273,900 shares equivalent to 0.1% of Tokai Carbon's outstanding shares
		Personnel Relationship	Not applicable
		Business Relationship	Not applicable
		Related Party Relationship	Not applicable

Currency is converted using exchange rate of KRW1.00 = JPY0.101.

4. Number of shares to be acquired, acquisition price and shareholdings before and after the Transaction

(1)	Number of shares held before the Transaction	4,132,500 shares (Number of voting rights: 4,132,500) (Ratio of voting rights held: 35.4%)
(2)	Number of shares to be acquired	1,050,750 shares (Number of voting rights: 1,050,750)
(3)	Consideration	JPY7.8billion*
(4)	Number of shares held after the Transaction	5,183,250 shares (Number of voting right: 5,183,250) (Ratio of voting rights held: 44.4%)

*Price per share is based on the average of closing stock price over the last 60 business days from May 10, 2018. Currency is converted using exchange rate of KRW1.00 = JPY0.101.

5. Transaction schedule*

(1) May 14, 2018	Resolution at the Board of Directors meeting
(2) May 14, 2018	Execution of share purchase agreement
(3) Late May, 2018 (planned)	Completion of the share purchase

* This schedule is as of May 14, 2018, and may change due to contract signing procedure, etc. in the future.

6. Future prospects

The impact on consolidated business performance for fiscal year ending December 31, 2018, will be examined going forward, and we will promptly disclose of upon finding any matters to be disclosed, such as revision of earnings estimates.

End of notice

Company name: Tokai Carbon Co., Ltd.

Security code: 5301 [Tokyo Stock Exchange]

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