

Summary of Semi-annual Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2024 [Japanese GAAP]

August 8, 2024

Company name: Tokai Carbon Co., Ltd.	Listing: Tokyo Stock Exchange Prime Market
Securities code: 5301	URL: https://www.tokaicarbon.co.jp/en/
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Scheduled date to file semi-annual report:	August 9, 2024
Scheduled date to commence dividend payments:	September 2, 2024
Preparation of supplementary material on financial results:	Yes
Holding of financial results briefing:	Yes (Conference call for analysts and institutional investors)

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2024 (January 1 to June 30, 2024)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Semi-annual Net Income Attributable to Owners of the Parent Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2024	170,922	(4.2)	8,424	(61.2)	10,520	(56.4)	3,661	(77.0)
Six months ended June 30, 2023	178,428	13.6	21,738	30.0	24,109	24.0	15,904	71.9

Note: Comprehensive income: Six months ended June 30, 2024: 51,175 million yen (-10.3%)
Six months ended June 30, 2023: 57,024 million yen (23.4%)

	Semi-annual Net Income per Share	Semi-annual Net Income per Share Fully Diluted
	Yen	Yen
Six months ended June 30, 2024	17.17	-
Six months ended June 30, 2023	74.60	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2024	695,049	401,306	52.5
As of December 31, 2023	640,005	360,103	50.7

For reference: Shareholders' capital: As of June 30, 2024: 364,754 million yen
As of December 31, 2023: 324,491 million yen

2. Dividends

	Annual Dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	-	18.00	-	18.00	36.00
Fiscal year ending December 31, 2024	-	15.00			
Fiscal year ending December 31, 2024 (Forecast)			-	15.00	30.00

Note: Amendment to most recently disclosed dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2024
(January 1 to December 31, 2024)

(Percentages represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	370,000	1.7	23,000	(40.6)	23,000	(44.7)	15,000	(41.1)	70.35

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

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries accompanying changes in the scope of consolidation): None

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

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

(a) Changes in accounting policy accompanying the revision of accounting standards: None

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

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares issued (common stock)

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

As of June 30, 2024	224,943,104 shares	As of December 31, 2023	224,943,104 shares
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(b) Number of treasury stock at the end of the period

As of June 30, 2024	11,697,954 shares	As of December 31, 2023	11,727,642 shares
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(c) Average number of shares during the period

Six months ended June 30, 2024	213,228,088 shares	Six months ended June 30, 2023	213,204,105 shares
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* The semi-annual financial results are not subject to audit by certified public accountants or audit firms.

* Appropriate use of earnings forecasts and other pertinent information

(Cautionary statement on forward-looking statements)

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

(How to obtain the supplemental material on semi-annual financial results)

Tokai Carbon has scheduled a briefing on financial results in the form of a telephone meeting for analysts and institutional investors on Friday, August 9, 2024. The materials for this briefing will be posted on the corporate website on that day.

Supplemental Materials

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1. Qualitative Information on the Semi-Annual Financial Results

(1) Operating Results for the Second Quarter of the Fiscal Year Ending December 31, 2024

During the first six months of 2024 (from January 1 to June 30, 2024) the global economy continued to stagnate due to the sluggish European and Chinese economies, despite the steady performance of the U.S. economy. There are concerns about the impact of policy interest rates remaining high as the pace of the decline in inflation slows, as well as heightened geopolitical risks such as the worsening situation in the Middle East on the outlook for the global economy.

Under these circumstances, in February this year, Tokai Carbon Group disclosed the rolling medium-term management plan “T-2026”, for the three-year period from 2024 to 2026. Based on the three basic policies of “Strengthening the earnings power of core businesses,” “Enhancing business portfolio management,” and “Pursuing sustainability management,” we aim to achieve quantitative targets of 458 billion yen in net sales, 53 billion yen in operating income, 12% in ROS, and 104 billion yen in EBITDA by 2026. We aim to increase our corporate value and promptly improve our PBR by reviewing our production system in Graphite Electrodes, actively investing in the growing businesses of Fine Carbon and Industrial Furnaces and focusing on various sustainability measures.

As a result, net sales for the first six months of 2024 decreased 4.2% year-on-year to 170,922 million yen. Operating income decreased 61.2% year-on-year to 8,424 million yen. Ordinary income decreased 56.4% year-on-year to 10,520 million yen. Semi-annual net income attributable to owners of the parent company decreased 77.0% year-on-year to 3,661 million yen.

Results by business segment were as follows:

Carbon Black

Sales volume decreased slightly year-on-year in replacement tires due to ongoing inventory adjustments by tire manufacturers, however net sales and operating income increased year-on-year due to passing part of the cost increases on to product prices and the impact of exchange rates and other factors.

As a result, net sales for the Carbon Black business increased 7.8% year-on-year to 79,585 million yen, while operating income increased 1.1% year-on-year to 10,887 million yen.

Fine Carbon

Sales of the Solid SiC focus ring, a key product for the memory semiconductors market, increased year-on-year, despite the impact of the U.S. export restrictions on China.

Sales for power semiconductors remained steady, and the segment as a whole posted year-on-year increases in both net sales and profit.

As a result, net sales for the Fine Carbon business increased 23.8% year-on-year to 26,459 million yen, while operating income increased 31.0% year-on-year to 6,602 million yen.

Smelting & Lining

Sales volume of cathodes for aluminum electrolysis decreased year-on-year and selling prices also declined due to reduced demand for replacements of aluminium smelting furnaces. A decline in production volume resulted in an increase in fixed costs, putting pressure on earnings.

As a result, net sales for the Smelting and Lining business decreased 27.6% year-on-year to 30,030 million yen, while operating loss, including the impact of goodwill depreciation, was 7,555 million yen (compared with operating income of 1,392 million yen in the same period of the previous fiscal year).

Graphite Electrodes

Amid stagnant demand for electrodes, in China and India, a high level of production continued, leading to a deterioration in the electrode market. As a result, sales volume and selling prices declined in the Company's main markets and fixed costs increased due to lower plant operation rates. This put pressure on earnings.

As a result, net sales for the Graphite Electrodes business decreased 19.8% year-on-year to 24,392 million yen, and operating loss was 2,423 million yen (compared with operating income of 3,164 million yen in the same period of the previous fiscal year).

Industrial Furnaces and Related Products

In net sales of industrial furnaces and heating elements, there was a partial recovery in demand in electronic component-related industries due to inventory adjustments. However net sales and profits decreased year-on-year due to continued delays in customer projects in energy-related industries.

As a result, net sales for the Industrial Furnaces and Related Products business decreased 10.2% year-on-year to 5,125 million yen, while operating income decreased 10.9% year-on-year to 1,125 million yen.

Other Operations

Friction Materials

Net sales for the construction machinery and electromagnetic equipment market decreased year-on-year due to a decline in demand from China. Net sales in the motorcycle market also decreased year-on-year as a reaction to the extra demand following COVID-19.

As a result, net sales of friction materials decreased 14.6% year-on-year to 4,150 million yen.

Anode Materials

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

As a result, net sales of anode materials increased 57.0% year-on-year to 1,113 million yen.

Others

Net sales from real estate leasing and other business decreased 2.2% year-on-year to 64 million yen.

As a result, net sales in Other Operations, decreased 5.4% year-on-year to 5,329 million yen, while operating income decreased 30.9% year-on-year to 439 million yen.

2. Semi-Annual Consolidated Financial Statements and Notes

(1) Semi-Annual Consolidated Balance Sheets

(Millions of yen)

	Previous fiscal year (As of December 31, 2023)	First six months of the fiscal year under review (As of June 30, 2024)
Assets		
Current assets		
Cash and deposits	77,465	77,390
Notes and accounts receivable	65,530	73,624
Merchandise and finished goods	28,886	31,124
Work in progress	47,431	52,488
Raw materials and supplies	33,014	32,646
Other	11,463	10,051
Allowance for doubtful accounts	(900)	(992)
Total current assets	262,890	276,334
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	37,895	43,977
Machinery, equipment and vehicles, net	107,187	133,063
Land	12,291	12,863
Construction in progress	58,187	57,315
Other, net	8,242	10,214
Total tangible fixed assets	223,804	257,433
Intangible assets		
Goodwill	49,212	49,015
Customer-related assets	52,880	53,241
Other	14,958	15,134
Total intangible assets	117,051	117,391
Investments and other assets		
Investment securities	30,980	38,138
Net defined benefit asset	3,811	3,773
Deferred tax assets	492	775
Other	997	1,224
Allowance for doubtful accounts	(22)	(22)
Total investments and other assets	36,258	43,889
Total fixed assets	377,114	418,714
Total assets	640,005	695,049

(Millions of yen)

	Previous fiscal year (As of December 31, 2023)	First six months of the fiscal year under review (As of June 30, 2024)
Liabilities		
Current liabilities		
Notes and accounts payable	25,663	21,771
Electronically recorded obligations	3,806	3,490
Short-term loans payable	7,000	6,000
Commercial papers	60,000	48,500
Current portion of long-term loans payable	3,218	8,227
Income taxes payable	3,983	3,740
Contract liability	2,550	3,661
Provision for bonuses	4,432	2,061
Other	26,315	26,670
Total current liabilities	136,971	124,122
Long-term liabilities		
Bonds payable	55,000	65,000
Long-term loans payable	41,424	50,895
Deferred tax liabilities	30,251	34,908
Retirement benefit liability	7,720	8,381
Provision for retirement benefits for directors	101	93
Provision for executive officers' retirement benefits	53	40
Provision for environment and safety measures	461	502
Other	7,918	9,797
Total long-term liabilities	142,930	169,620
Total liabilities	279,902	293,742
Net assets		
Shareholders' equity		
Capital stock	20,436	20,436
Capital surplus	13,825	10,581
Retained earnings	210,183	210,006
Treasury stock	(7,225)	(7,208)
Total shareholders' equity	237,220	233,816
Accumulated other comprehensive income		
Valuation difference on other securities	15,106	19,696
Deferred gains or losses on hedges	268	127
Foreign currency translation adjustments	69,302	108,328
Cumulative remeasurements of defined benefit plans	2,593	2,785
Total accumulated other comprehensive income	87,271	130,938
Non-controlling interests	35,612	36,552
Total net assets	360,103	401,306
Total liabilities and net assets	640,005	695,049

(2) Semi-Annual Consolidated Statements of Income and Comprehensive Income

Semi-Annual Consolidated Statements of Income

(Millions of yen)

	First six months of the previous fiscal year (January 1 to June 30, 2023)	First six months of the fiscal year under review (January 1 to June 30, 2024)
Net sales	178,428	170,922
Cost of sales	127,880	132,331
Gross profit	50,547	38,591
Selling, general and administrative expenses	28,808	30,166
Operating income	21,738	8,424
Non-operating income		
Interest income	625	688
Dividend income	431	520
Share of profit of entities accounted for using equity method	145	362
Foreign exchange gains	2,111	1,824
Other	505	488
Total non-operating income	3,820	3,885
Non-operating expenses		
Interest expenses	717	760
Other	732	1,028
Total non-operating expenses	1,449	1,788
Ordinary income	24,109	10,520
Extraordinary income		
Gain on sales of fixed assets	173	25
Gain on sale of investment securities	24	13
Total extraordinary income	197	39
Extraordinary losses		
Loss on retirement of fixed assets	18	7
Loss on sales of fixed assets	0	1
Total extraordinary losses	19	8
Semi-annual net income before income taxes	24,287	10,551
Income taxes - current	4,696	4,493
Income taxes - deferred	2,004	485
Total income taxes	6,700	4,979
Semi-annual net income	17,586	5,572
Semi-annual net income attributable to non-controlling interests	1,682	1,911
Semi-annual net income attributable to owners of the parent company	15,904	3,661

Semi-Annual Consolidated Statements of Comprehensive Income

(Millions of yen)

	First six months of the previous fiscal year (January 1 to June 30, 2023)	First six months of the fiscal year under review (January 1 to June 30, 2024)
Semi-annual net income	17,586	5,572
Other comprehensive income		
Valuation difference on other securities	4,003	4,593
Deferred gains or losses on hedges	54	(140)
Foreign currency translation adjustments	35,258	40,742
Remeasurements of defined benefit plans	8	191
Share of other comprehensive income of associates accounted for using equity method	112	215
Total other comprehensive income	39,437	45,603
Semi-annual comprehensive income	57,024	51,175
(Breakdown)		
Semi-annual comprehensive income attributable to owners of the parent company	53,992	47,328
Semi-annual comprehensive income attributable to non- controlling interests	3,032	3,847

(3) Notes to Semi-Annual Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not Applicable

(Notes on Significant Changes in Shareholders' Equity Amount)

The Company acquired additional shares of consolidated subsidiary TOKAI CARBON KOREA CO., LTD. on April 23, 2024. As a result, in the current consolidated period, capital surplus decreased by 3,270 million yen, and capital surplus was 10,581 million yen at the end of the current consolidated period.

(Segment Information)

I First six months of the previous fiscal year (January 1 to June 30, 2023)

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

(Millions of yen)

	Reportable segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the semi-annual consolidated statements of income (Note 3)
	Carbon Black	Fine Carbon	Smelting and Lining	Graphite Electrodes	Industrial Furnaces and Related Products	Subtotal				
Net sales										
External sales	73,831	21,373	41,473	30,407	5,707	172,792	5,635	178,428	—	178,428
Inter-segment sales/transfers	13	41	200	169	99	524	—	524	(524)	—
Total	73,844	21,414	41,674	30,577	5,807	173,317	5,635	178,952	(524)	178,428
Segment income (loss)	10,773	5,041	1,392	3,164	1,263	21,635	635	22,271	(533)	21,738

- Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the Friction Materials business, Anode Materials business, real estate leasing business, and other businesses.
2. The 533-million-yen negative adjustment in segment income includes company-wide expenses of 654 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to the reportable segments.
3. Segment income is reconciled to the operating income reported in the Semi-Annual Consolidated Statements of Income.

II First six months of the fiscal year under review (January 1 to June 30, 2024)

Information on net sales and amount of income by reportable segment

(Millions of yen)

	Reportable segment						Other Operations (Note 1)	Total	Adjustments (Note 2)	Amount recorded in the semi-annual consolidated statements of income (Note 3)
	Carbon Black	Fine Carbon	Smelting and Lining	Graphite Electrodes	Industrial Furnace and Related Products	Subtotal				
Net sales										
External sales	79,585	26,459	30,030	24,392	5,125	165,593	5,329	170,922	-	170,922
Inter-segment sales/transfers	14	150	160	121	115	561	-	561	(561)	-
Total	79,599	26,609	30,190	24,513	5,241	166,154	5,329	171,484	(561)	170,922
Segment income (loss)	10,887	6,602	(7,555)	(2,423)	1,125	8,635	439	9,074	(650)	8,424

- Notes: 1. The Other Operations segment is a business segment that is not included among the reportable segments. It consists of the Friction Materials business, Anode Materials business, real estate leasing business, and other businesses.
2. The 650-million-yen negative adjustment in segment income includes company-wide expenses of 756 million yen that were not allocated to each reportable segment. Company-wide expenses consist of research and development expenses and other expenses not attributable to the reportable segments.
3. Segment income is reconciled to the operating income reported in the Semi-Annual Consolidated Statements of Income.

(Business Combination etc.)

Common control transactions, etc.

Additional acquisition of shares of consolidated subsidiary

(1) Outline of transaction

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

Company involved in the combination

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

Description of business

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

(ii) Date of business combination

April 23, 2024

(iii) Legal form of business combination

Acquisition of shares from non-controlling interests

(iv) Name of the Company after business combination

There is no change.

(v) Other information related to the outline of transaction

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

(2) Implemented accounting method

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

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

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

Consideration for acquisition	Cash	5,199 million yen
Acquisition cost		5,199 million yen

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

(i) Major fluctuation factors in capital surplus

Additional acquisition of shares of a subsidiary

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

3,270 million yen

(Significant Subsequent Events)

At the extraordinary Board of Directors' meeting held on July 16, 2024, as part of the Graphite Electrode segment's structural reforms, the Company resolved to reduce graphite electrode production capacity in Japan and Europe from 56,000 tons per year to 32,000 tons per year by July 2025, and to concentrate Japan graphite electrode production in the Hofu Plant (Hofu-shi, Yamaguchi) and end production in the Shiga Plant (Omihachiman-shi, Shiga) by the end of July 2025.

We are currently examining the impact of this matter on our consolidated results.