

May 10, 2018

To: All concerned parties

Company Name: Taiheiyo Cement Corporation

Name of Representative: Masafumi Fushihara, President
and Representative Director

(Code: 5233, First Section of Tokyo Stock Exchange,
Fukuoka Stock Exchange)

Contact: Toshiyuki Nono,
General Manager of General Affairs Department
(Tel: 03-5531-7334 (Int'l: +81-3-5531-7334))

Taiheiyo Cement Announces “20 Medium-Term Management Plan”

Taiheiyo Cement Corporation has announced that it has formulated its 20 Medium-Term Management Plan, covering the three years from FY2019 to FY2021, to take the next, or the second, step toward realizing our future vision and direction targeting the mid-2020s. The plan is outlined below.

I. Future Vision and Direction

The Taiheiyo Cement Group will keep in mind its mission of striving “to become an enterprise group that provides a sense of safety and security to communities in the Pacific Rim by demonstrating the Group’s overall capabilities” based on our future vision and direction targeting the mid-2020s. We have established and are actively engaged in three steps for achieving this goal.

II. Review of the 17 Medium-Term Management Plan

The Group views the 17 Medium-Term Management Plan, covering the three-years from FY2016 to FY2018, as the first step toward realizing our future vision and direction and has worked to generate and improve our earnings capacity, build a flexible and strong financial structure and enhance shareholders’ return.

In regard to the generation and improvement of our earnings capacity, two management targets, operating income on sales and ROA, underperformed due to a harsh business environment resulting from factors such as the significant decline of domestic cement demand below expectation. While growth investments to generate and improve our earnings capacity were made in accordance with the plan, returns from most of these investments are not expected to be realized until after the period covered by the 20 Medium-Term Management Plan.

On the other hand, with regard to our effort to establish a flexible and strong financial structure, we pushed ahead with the reduction of interest-bearing debt at a level that significantly exceeded the plan. Moreover, we achieved the target financial indicators for net DER and net interest-bearing debt/EBITDA, set as a guideline for achieving management targets by the end of FY2017, one year earlier than planned.

As for enhancing shareholders’ return, we continued steady dividend payments by increasing the dividend by 1 yen per share from the previous fiscal year to 6 yen per share^{*1} for FY2016. In addition, we repurchased 10 billion yen of Taiheiyo Cement Corporation’s shares in FY2017.

We believe that we have fulfilled our plan for growth investments, building a flexible and strong financial structure and enhancing shareholders' return. However, challenges remain for generating and improving our earnings capacity. We acknowledge this as a key management challenge that the Group must continue to tackle.

*1: Taiheiyo Cement Corporation has consolidated shares of common stocks at a rate of one share for every ten shares effective October 1, 2017. As a result, year-end dividend per share for FY2018 will be 30 yen. The dividends per share for the period and for the full year without reflecting the impact of share consolidation are 3 yen and 6 yen, respectively.

17 Medium-Term Management Plan: Management Target

	FY2018 Plan	FY2018 Actual	Change
Operating income on sales	8.4% or more	7.5%	-0.9%
Return on assets (ROA) (ordinary income)	7% or more	6.3%	-0.7%

17 Medium-Term Management Plan: Guideline

(Billions of yen, unless otherwise stated)

	FY2018 Plan	FY2018 Actual	Change
Net sales	950.0 or more	871.1	-78.9
Operating income	80.0 or more	65.1	-14.9
EBITDA*	125.0 or more	111.6	-13.4
Net debt/equity ratio (DER) (times)	Less than 1.0	0.6	-0.4
Net interest-bearing debt/EBITDA (times)	2.6 or less	2.1	-0.5

*EBITDA = Operating income + Depreciation (including goodwill amortization)

III. Business Environment and Our View of the Future

Demand is expected to continue exceeding supply in the domestic business environment in which the Taiheiyo Cement Group operates up to around 2020, primarily supported by investments for the Tokyo Olympics and Paralympics as well as large infrastructure projects. However, over the long run, as further decline in birth rates and an increasingly aging population are deemed certain, demand for cement is expected to gradually decrease in line with economic contraction. Nevertheless, a mountain of issues remains to be addressed, including such pressing concerns as the restoration and reconstruction of the disaster-stricken areas of Fukushima Prefecture and other regions as well as efforts to restore infrastructure in the face of an accelerating pace of deterioration in the coming years. Furthermore, natural disasters are becoming more severe, and immediate actions are required for disaster prevention and mitigation while we also adapt to climate change. There is a need for initiatives to address these concerns and provide assurance for long-term expectations.

In the overseas market, while uncertainty over the global economy has risen, markets in emerging economies, particularly those in Asia, are expected to expand, owing to regional economic growth. As infrastructure demand increased along with rapid urbanization and expansion of production and consumption in the wake of economic growth, issues related to resource constraints and waste treatment manifested

themselves, requiring the reinforcement of environmental regulations and the creation of a sustainable, recycling-oriented society. We believe we can contribute in many ways through the strength of our business fields to address these changes in society.

In addition, compliance and risk management will need to be further reinforced as fundamental factors influencing business operations both in and outside of Japan.

The Group will seek to recognize and assess its risks and opportunities in terms of ESG (environment, society, and governance) to minimize any potential medium- to long-term business uncertainties. We will concurrently maximize the use of both tangible and intangible assets of the Group, including merchandise, technology and know-how, to contribute to solving social issues. Such activity will allow us to put into practice our efforts to create shared value while fulfilling both the creation of social value and expansion of business opportunities. We intend to achieve the Group's sustainable growth and enhance medium- and long-term enterprise value through these activities while contributing to SDGs^{*2} as a universal set of development goals.

*2: Sustainable Development Goals: Adopted in September 2015 at a UN summit as a commitment by the global society, including advanced nations, to be met by 2030. The 17 goals and 169 targets address poverty, hunger, economic growth, climate change, etc.

IV. Outline of the 20 Medium-Term Management Plan

1. Positioning

The 20 Medium-Term Management Plan covers the three years from FY2019 to FY2021 and is regarded as the second step toward realizing our future vision and direction. We will build on the results of the business and financial strategies implemented in the first step, the 17 Medium-Term Management Plan, and continue addressing the remaining issues while we open up a path on which we can move on to the next step by establishing a solid business foundation for future sustainable growth by ensuring the implementation of new initiatives.

2. Fundamental Policies

Under the 20 Medium-Term Management Plan, we will strive to establish a solid business foundation based on the following policies.

- (i) To become an enterprise group that anticipates future changes in the business environment and seeks innovations on all fronts, thereby advancing along a pathway of growth.
- (ii) To contribute to the establishment of a sense of safety and security in society through the stable provision of high-quality products, solutions, and advanced technology development in order to build national resilience as a member of the social infrastructure industry.
- (iii) To push ahead with the strengthening of our earnings foundation for businesses and further improve our financial structure through thorough cost reductions as well as by actively executing investments in promising fields that will contribute to the Group's sustainable growth.

3. Management Targets

Under the 20 Medium-Term Management Plan, we intend to establish a robust earnings foundation by establishing the following policies.

Target for FY2021

Operating income on sales: 9% or more

ROA (ordinary income): 8% or more

4. Guidelines

By adopting the following indicators as guidelines for achieving the management targets, we will work to strengthen our earnings foundation and further improve our financial structure.

(Billions of yen, unless otherwise stated)

	FY2018 Actual	FY2021 Plan	Change
Net sales	871.1	950.0 or more	78.9 or more
Operating income	65.1	85.0 or more	19.9 or more
EBITDA*	111.6	140.0 or more	28.4 or more
Net debt/equity ratio (DER) (times)	0.6	0.5 or less	More than -0.1
Net interest-bearing debt/EBITDA (times)	2.1	1.5 or less	More than -0.6

*EBITDA = Operating income + Depreciation (including goodwill amortization)

5. Financial Strategy and Shareholders' Returns

We will generate an operating cash flow of 300 billion yen over the three-year period of the 20 Medium-Term Management Plan and, in principle, execute capital expenditure and investment and financing, complete returns to shareholders and further strengthen our financial structure within the operating cash flow.

(1) Capital expenditure and investment and financing

With regard to the allocation of cash generated, we will focus on growth investments and actively execute capital expenditure and investment and financing. We plan to execute a total of 230 billion yen of capital expenditure and investment and financing over three years, of which 120 billion yen will be allocated to growth investments.

(2) Returns to shareholders

We consider shareholders' return as a key management challenge. Our basic policy is to maintain steady and continuing dividend payments. While taking into account the balance between shareholders' return and the appropriate internal reserves needed to improve equity capital ratio in view of future growth investments and to strengthen our financial structure, we will consider flexibly implementing share repurchase toward achieving a total return ratio of around 30%.

(3) Further improvement of our financial structure

Through the reduction of interest-bearing debt, improvement of equity capital ratio and the promotion of selection and concentration, along with other measures, we will strive to further strengthen our financial structure. We intend to achieve a net DER (debt equity ratio) of 0.5 or less by the end of FY2021.

We will also strive to establish a solid earnings foundation and further strengthen our financial structure

while maintaining and increasing our earnings rate at a level that steadily exceeds equity costs. As for ROE, we intend to consistently maintain 10% or more throughout the period of the 20 Medium-Term Management Plan.

6. Business Strategies

(1) Strengthen the earnings capacity of our businesses and formulate and implement growth strategies

We will establish a stronger earnings foundation through thorough cost-cutting and process innovation while also pursuing a competitive advantage by generating new value and differentiation. Moreover, we will contribute to addressing social issues through growth investments for expanding earnings capacity as well as by remaining committed to business strategies.

(i) Cement Business (Japan)

We will strive to quickly realize fair prices, carry out thorough cost-cutting and strengthen our earnings capacity. Also, we will strengthen and expand our capacity for reliably supplying products at both the production and logistics fronts while fulfilling our responsibility to ensure a steady supply to national and other projects. In addition, we will actively pursue measures for mitigating climate change by developing new technologies and production strategies.

- We will strive to quickly realize fair prices and secure stable earnings through sales policies and ready-mixed concrete policies.
- We will strengthen cost competitiveness through thorough cost-cutting.
- We will rigorously maintain and improve quality and address client needs.
- We will further reinforce stable operations by promoting the use of AI while also establishing a system for ensuring stable supply by reinforcing land and marine transport capacity and expanding supply facilities.
- We will contribute to the mitigation of climate change by implementing strategic measures as well as through the development and expansion of technologies, such as innovative CO₂ reduction methods to lessen the burden on the global environment as well as technologies for utilizing recycled resources.

(ii) Cement Business (Overseas)

We will expand our strategic business domain in the Pacific Rim region while establishing a brand image that expresses our quality, technology and environment-oriented values, thereby further reinforcing our regional presence. We will contribute to addressing social issues, including infrastructure improvement in regions where we operate, creating a recycling-oriented society and addressing the reinforcement of environmental regulations.

- We will construct a production and logistics system that adapts to rising demand and also reinforce our earnings capacity to fully capitalize on the demand for cement and maximize the profit of our businesses.
- We will expand our export channel by taking advantage of our strategic cement and clinker. In addition, we will enhance collaboration among the mineral resources, environmental and construction materials businesses while also creating and expanding market share by tapping into the Group's recycled resource utilization technology.
- We will execute growth investments that maximize synergies with businesses to actively expand

overseas business that leverages the Group's uniqueness and strength.

(iii) Mineral Resources Business

We will establish a foundation for sustainable growth based on a resource policy formulated from the medium- to long-term perspective, thereby establishing a robust system for ensuring the stable supply of resources. Also, we will take full advantage of the abundant resources of the Group to boost the earnings capacity of our businesses. In addition, we will focus on developing future-oriented businesses as well as creating an overseas resource business.

- Boost the earnings capacity of the aggregates, mineral products and geo-solution businesses while restructuring an optimal supply system within the Group, thereby accelerating the impact of synergies.
- We will steadily contribute to resource recycling by recycling construction-generated soil into cement, an initiative that is expected to grow.
- We will promote the functional material business and undertake a full-fledged expansion of the resource business in Southeast Asia.

(vi) Environmental Business

We will maximize the earnings capacity of our businesses while constructing a new business model by developing advanced technology. In addition to our conventional role as a member of the waste treatment industry, we will further contribute by taking on a new role in resource recycling that involves extracting and marketing useful resources from wastes and by-products.

- We will expand and spread the region covered by our recycling business for general waste incineration ash and wastes that are difficult to process, thereby scaling up the business to recycle wastes and other materials to cement.
- We will conduct an all-out effort to address the need for coal ash recycling.
- We will develop a technology for recovering precious metals from general waste incineration ash as our participation in a resource complex initiative^{*3} in cooperation with companies in the materials industry.
- We will promote strategic overseas business development including new businesses.

*3: A resource recycling system for increasing the volume of recycled materials considered either essential or to be avoided in each industry, through the cooperation of companies in the materials industry, including cement, non-ferrous metal smelting, electrical furnace and metal recyclers. The goal is to fully optimize recycling within each industry as well as through cross-industry efforts.

(v) Construction Materials Business

We will establish a sustainable business foundation capable of adapting to changes in the business environment and strengthen the competitiveness and financial structure of our businesses. Moreover, we will cultivate a new earnings source in a growth field and maximize synergies with our businesses.

- We will conduct measures to reform our profit structure to enhance cooperation within the Group and to minimize costs incurred by our businesses.
- We will respond to the needs of society associated with preserving the environment as well as addressing the labor shortage due to declining birth rates and an increasingly aging population

by providing environmentally friendly products and technical services as well as introducing labor-saving products to the market.

- We will proceed with new business development and strive to quickly realize the benefits by expanding into the Southeast Asian market as well as considering and executing alliances in areas in which synergies could be expected.

(iv) Other Business

We will boost the earnings capacity of each Group company while constructing a new business model that is expected to generate synergies within the Group.

- We will generate new synergies by utilizing management resources across the Group.
- We will promote renewable energy and energize local economies through initiatives such as job creation by launching a wholesale supplier business for biomass-based electricity.

(2) Support for National Projects

The Taiheiyo Cement Group will deploy its full strength and resources to ensure the stable supply of high-quality products and the provision of solutions for national projects, including full-fledged restoration and reconstruction efforts in Fukushima Prefecture, infrastructure improvements for hosting the Tokyo Olympics and Paralympics and other major infrastructure projects.

7. Strategy for Research and Development

The Taiheiyo Cement Group considers research and development as an engine for growth that supports each division. For this reason, the Group will engage in research and development that contributes to Group-wide growth. Furthermore, as a member of the social infrastructure industry, we will focus on research and development that addresses social issues while also developing and providing essential technologies for national projects.

(1) Research and Development that Contributes to Group-wide Growth

We will contribute to the strengthening and enhancement of the profitability of our businesses by maintaining and improving quality that leads to the sustainable growth of our businesses by establishing stabilizing technology and developing and expanding cost reduction technology for cement production. In addition, we will build on our research and development achievements in growth fields such as overseas, mineral resources, the environment and construction materials to create and provide technologies for securing profit under the 20 Medium-Term Management Plan as well as for sustainable future growth.

(2) Research and Development that Addresses Social Issues as a Member of the Social Infrastructure Industry

We will develop technologies for reducing the environmental load on the planet, including technologies for reducing CO₂, utilizing recycled resources, saving energy, addressing water resource-related issues and preserving biodiversity.

(3) Research and Development that Addresses National Projects

We will develop technologies that contribute to disaster restoration, mainly in Fukushima Prefecture, develop components necessary for other major projects and provide technical assistance in sales.

(4) Executing Strategic Intellectual Property Activities

We will maintain and enhance the Group's competitiveness by retaining intellectual property that supports our businesses while at the same time carrying out strategic intellectual property initiatives that contribute to new businesses.

8. Strengthen Management Foundations

We will remain on the path set by the 17 Medium-Term Management Plan and steadily realize the three quantitative targets under "CSR Objectives for 2025." In addition, we will implement initiatives for retaining and developing human resources who can function effectively in a global setting while also striving to improve labor productivity and creating comfortable workplace environments by promoting work-style reform and effectively manage health and productivity. Furthermore, we will strengthen Group governance, enhance corporate governance, continue the selection and concentration process and sharpen the competitiveness of our value chain to strengthen our management foundation.

(1) CSR Objectives for 2025

The following three objectives have been set for the target year of FY2026.

Item		Target	Scope
1	Prevention of accidents	Zero fatalities	Employees of the Taiheiyo Cement Group, including overseas business sites and partner companies
2	Reduction of greenhouse gas emissions	Reduce the specific net CO ₂ emissions per tonne of cementitious product by at least 10% from fiscal 2000 levels by fiscal 2025.	Cement production sites of Taiheiyo Cement and group companies, including overseas sites
3	Workplace diversity	Increase the hiring percentage of female employees under "G Course" categories to at least 30%. Build an appropriate portfolio of human resources by increasing the percentage of female employees to at least 10%. Promote the appointment of female employees to management positions with the objective of raising the percentage of newly appointed female managers to 10%.	Non-consolidated

We intend to achieve the following objectives through our efforts to address the above targets.

- (i) Create a Group-wide safety-oriented culture by establishing a system for maintaining stable operations with top priority on safety and health.
- (ii) Contribute to the creation of a recycling-oriented society by developing a CO₂ reduction technology for lessening the burden on the global environment.
- (iii) Improve corporate value by creating an appropriate portfolio of human resources and by applying

innovative approaches for developing our labor force.

(2) Develop Human Resources Capable of Functioning Effectively in a Global Setting

By eliminating any discrimination based on employee nationality or gender, we will secure diverse human resources with a variety of characteristics and values to press ahead with innovation while also developing human resources capable of functioning effectively in a global setting in order to support the Group's overseas expansion.

(3) Promote Work-style Reform and Effectively Manage Health and Productivity

We will strive to improve labor productivity and create vigorous, pleasant workplace environments by promoting work-style reform through various approaches to boost the efficiency of operations as well as by promoting health and productivity management to help advance each employee's physical and mental well-being.

(4) Strengthen Governance

We will rigorously enforce governance within the Group, conduct risk management more effectively and continue to enhance corporate governance.

(5) Selection and Concentration

We will rebalance the asset mix through ongoing selection and concentration to realize a more efficient utilization of management resources.

(6) Increase Competitiveness of Our Value Chain

We will respond to stakeholder expectations and requests to maintain sound relationships with them both directly and indirectly, engage in appropriate cooperation and strive to create shared value with stakeholders toward reinforcing the competitiveness and sustainability of our value chain.

Reference: Net sales and operating income by segment

The following presumptions are applied for the period covered by the 20 Medium-Term Management Plan.

Estimated domestic cement demand: 42 to 43 million tonnes

Estimated exchange rate: 110 yen/US\$

(Billions of yen)

		Net Sales		Operating Income	
		FY2018 Actual	FY2021 Plan	FY2018 Actual	FY2021 Plan
Cement Business	Japan	408.5	423.0	25.5	29.0
	Overseas	203.4	223.0	15.1	25.5
	Sub-total	611.9	646.0	40.6	54.5
Mineral Resources Business		81.4	90.0	8.0	9.5
Environmental Business		90.2	111.0	7.4	9.0
Construction Materials Business		77.0	88.0	4.7	6.0
Other Business		79.0	95.0	3.9	6.0
Intergroup Elimination		-68.5	-80.0	0.2	-0
Total		871.1	950.0	65.1	85.0

End

Note: Plans and other forward-looking statements in this document are based on information available to the Company as of the date of the release of this document and on certain assumptions the Company deems reasonable, and therefore are subject to risks and uncertainties. As such, we do not offer any promise or guarantee that planned results and measures included in this document will be realized in the future. Actual results may differ significantly due to a variety of factors.