

Taiheiyo Cement Corporation

Reference Materials of Financial Results for the First Half of Fiscal 2018 (From April 1, 2017 through September 30, 2017)

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November 9, 2017

1. Trend in Construction Investments and Domestic Demand of Cement

	Estimate of construction investments (in nominal terms) (100 million yen)	Year-on year change (%)	Domestic Demand (including imports) (Thousand tons)	Year-on year change (%)	Exports (Thousand tons)	Year-on year change (%)
Fiscal 2001	661,948	-3.4	71,435	-0.1	7,477	-1.2
Fiscal 2002	612,875	-7.4	67,811	-5.1	7,863	5.2
Fiscal 2003	568,401	-7.3	63,514	-6.3	8,554	8.8
Fiscal 2004	536,880	-5.5	59,687	-6.0	9,879	15.5
Fiscal 2005	528,246	-1.6	57,569	-3.5	10,373	5.0
Fiscal 2006	515,676	-2.4	59,089	2.6	10,273	-1.0
Fiscal 2007	513,281	-0.5	58,985	-0.2	9,592	-6.6
Fiscal 2008	476,961	-7.1	55,506	-5.9	10,017	4.4
Fiscal 2009	481,517	1.0	50,087	-9.8	10,672	6.5
Fiscal 2010	429,649	-10.8	42,732	-14.7	11,054	3.6
Fiscal 2011	419,282	-2.4	41,614	-2.6	9,967	-9.8
Fiscal 2012	432,923	3.3	42,650	2.5	10,006	0.4
Fiscal 2013	452,914	4.6	44,577	4.5	9,632	-3.7
Fiscal 2014	512,984	13.3	47,705	7.0	8,503	-11.7
Fiscal 2015	511,410	-0.3	45,551	-4.5	9,421	10.8
Fiscal 2016	(estimated value) 508,200	-0.6	42,668	-6.3	10,583	12.3
Fiscal 2017	(estimated value) 524,700	3.2	41,777	-2.1	11,529	8.9
Fiscal 2018	(forecasted value) 532,300	1.4	43,000	2.9	12,000	4.1
(For reference)						
First Half of Fiscal 2016			21,154	-7.6		
First Half of Fiscal 2017			20,206	-4.5		
First Half of Fiscal 2018			20,841	3.1		

[Sources]

Estimate of construction investments:

for Fiscal 2001 to Fiscal 2017, Ministry of Land, Infrastructure, Transport and Tourism

for Fiscal 2018 onwards, Research Institute of Construction and Economy (RICE)

Domestic demand of cement:

for Fiscal 2001 to Fiscal 2018, Japan Cement Association

Export:

for Fiscal 2001 to Fiscal 2018, Japan Cement Association

2. Volume of Sales and Shipment Results by Region

Volume of sales of cement by region (excluding imports)

	Fiscal 2016		Fiscal 2017		First Half of Fiscal 2018	
	Volume of sales (Thousand tons)	Year-on-year change (%)	Volume of sales (Thousand tons)	Year-on-year change (%)	Volume of sales (Thousand tons)	Year-on-year change (%)
Hokkaido	1,793	-11.8	1,939	8.1	1,136	6.9
Tohoku	4,784	3.7	4,418	-7.7	2,163	-3.4
Kanto 1	9,551	-6.6	9,327	-2.3	4,749	6.2
Kanto 2	3,684	-7.5	3,724	1.1	1,909	8.2
Hokuriku	1,932	-1.8	1,830	-5.3	944	1.3
Tokai	4,872	-5.3	4,629	-5.0	2,230	0.4
Kinki	5,923	-7.3	5,772	-2.6	2,740	-2.6
Shikoku	1,565	-8.0	1,561	-0.2	752	3.9
Chugoku	2,565	-5.6	2,501	-2.5	1,237	4.9
Kyushu	4,711	-11.1	4,874	3.5	2,369	6.4
Okinawa	968	-1.1	923	-4.6	486	13.0
Domestic Total	42,347	-6.0	41,497	-2.0	20,714	3.3
Exports	10,583	12.3	11,529	8.9	6,163	13.0
Total	52,930	-2.8	53,027	0.2	26,878	5.3

Source: Japan Cement Association

Shipment of ready-mixed concrete by region

	Fiscal 2016		Fiscal 2017		First Half of Fiscal 2018	
	Shipment (Thousand cubic meters)	Year-on-year change (%)	Shipment (Thousand cubic meters)	Year-on-year change (%)	Shipment (Thousand cubic meters)	Year-on-year change (%)
Hokkaido	3,203	-15.7	3,462	8.1	1,971	4.7
Tohoku	9,599	-1.9	8,669	-9.7	4,266	-1.6
Kanto 1	20,470	-6.7	19,961	-2.5	10,060	3.7
Kanto 2	6,211	-9.9	6,066	-2.3	3,047	5.6
Hokuriku	3,967	-6.0	3,828	-3.5	1,977	1.7
Tokai	10,488	-5.2	9,760	-6.9	4,650	-1.1
Kinki	12,878	-6.7	12,363	-4.0	5,929	-3.6
Chugoku	5,057	-6.6	4,826	-4.6	2,381	2.7
Shikoku	3,573	-8.3	3,479	-2.6	1,655	5.5
Kyushu	11,615	-11.9	11,497	-1.0	5,786	9.6
Total	87,061	-7.4	83,912	-3.6	41,722	2.3

Source: National Federation of Ready-Mixed Concrete Industrial Associations

Financial Results for the First Half of Fiscal 2018

Consolidated Statements of Income

(Millions of yen)

Item		First Half of Fiscal 2017	First Half of Fiscal 2018	Change		
Ordinary income and loss	Operating income/loss	Net sales	376,929	421,937	45,007	
		Cost of sales	289,657	324,498	34,840	
		Gross profit	87,272	97,439	10,167	
		Selling, general and administrative expenses	65,803	70,005	4,202	
		Operating income	21,468	27,433	5,964	
	Non-operating income and expenses	Income	Interest income	265	313	48
			Dividends income	507	615	108
			Equity in earnings of unconsolidated subsidiaries and affiliates	1,966	2,053	87
			Other	1,246	1,461	215
		Total		3,984	4,445	460
		Expenses	Interest expenses	2,566	2,394	-172
			Other	2,077	1,415	-662
			Total		4,644	3,809
		Ordinary income		20,809	28,069	7,259
Extraordinary income and losses		Income	Gain on disposal of non-current assets	329	787	458
	Gain on sales of investment securities		3,966	76	-3,890	
	Gain on bargain purchase		16,874	-	-16,874	
	Other		21	39	18	
	Total		21,191	903	-20,287	
	Losses	Loss on disposal of non-current assets	787	1,165	377	
		Loss on step acquisitions	3,034	-	-3,034	
		Other	267	273	5	
	Total		4,089	1,438	-2,651	
	Income before income tax and non-controlling interests		37,911	27,534	-10,376	
Income taxes-current		-5,164	9,434	14,598		
Profit		43,075	18,099	-24,975		
Profit attributable to non-controlling interests		975	1,171	195		
Profit attributable to owners of parent		42,099	16,928	-25,171		

Sales volume of cement (Thousand tons)			
	First Half of Fiscal 2017	First Half of Fiscal 2018	Change
Domestic	6,921	7,287	366
Export	2,023	2,182	159

The Company finalized provisional accounting treatment related to the business combination in the Third Quarter of Fiscal 2017 ended March 31, 2017. The consolidated financial statements for the Second Quarter of Fiscal 2017 ended March 31, 2017 reflects the finalized provisional accounting treatment.

Segment Information

(1) Net sales

(Millions of yen)

		First Half of Fiscal 2017	First Half of Fiscal 2018	Change	Main factors of change	
Cement business	Domestic	181,867	203,601	21,733	Domestic	Increase in domestic cement and solidifying material sales +5.3 bil. yen Increase in export cement volume +0.7 bil. yen Decrease in domestic cement and solidifying material price -0.3 bil. yen Price difference in export cement -0.1 bil. yen Increased sales from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. +16.1 bil. yen
	Overseas subsidiaries	85,162	96,216	11,053	Overseas subsidiaries	U. S. +\$89 million China +\$26 million Asia -\$14 million
Total		267,030	299,817	32,787		
Mineral Resources business		38,491	40,096	1,604	Increase sales of mineral products and increase acceptance of construction generated soil	
Environmental business		35,267	42,499	7,231	Increase waste processing	
Construction Materials business		32,080	36,318	4,237	Increase civil engineering work	
Other		33,433	35,314	1,881	Increase transport and warehousing business	
Total		406,303	454,046	47,742		
Eliminations or corporate assets		-29,374	-32,109	-2,735		
Consolidated total		376,929	421,937	45,007		

(2) Operating income

		First Half of Fiscal 2017	First Half of Fiscal 2018	Change	Main factors of change	
Cement business	Domestic	8,862	10,448	1,586	Domestic	Increase in domestic cement and solidifying material sales +2.8 bil. yen Increase in export cement volume +0.3 bil. yen Decrease in domestic cement and solidifying material price -0.3 bil. yen Decrease in net export revenue -0.4 bil. yen Variable cost etc. -2.0 bil. yen Fixed cost -0.4 bil. yen Increased income from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. +1.6 bil. yen
	Overseas subsidiaries	3,507	6,721	3,214	Overseas subsidiaries	U. S. +\$28 million China +\$17 million Asia -\$15million
Total		12,369	17,170	4,801		
Mineral Resources business		3,360	3,660	299	Increase sales of mineral products and increase acceptance of construction generated soil	
Environmental business		3,464	3,662	197	Increase waste processing	
Construction Materials business		1,387	1,815	428	Increase civil engineering work	
Other		1,026	1,054	28		
Total		21,608	27,364	5,755		
Eliminations or corporate assets		-139	69	209		
Consolidated total		21,468	27,433	5,964		

[Reference information]

Foreign exchange rate First Half of Fiscal 2017 average: ¥111.70 per dollar; First Half of Fiscal 2018 average: ¥112.34 per dollar; difference: ¥0.64
Exchange rate at end of Dec. 2016: ¥116.49 per dollar; at end of Jun. 2017: ¥112.00 per dollar; difference: ¥4.49

Consolidated Balance Sheets

(Unit: Millions of yen)

	As of 3/31/17	As of 9/30/17	Change
Cash and deposits	60,516	58,628	-1,887
Notes and accounts receivable-trade	171,946	187,489	15,543
Merchandise and finished goods	31,835	29,650	-2,185
Work in process	1,708	2,578	869
Raw materials and supplies	42,422	42,510	88
Other	25,591	23,168	-2,423
Allowance for doubtful accounts	-1,125	-1,116	8
Total current assets	332,895	342,910	10,015
Property, plant and equipment			
Buildings and structures	136,454	133,775	-2,678
Machinery, equipment and vehicles	135,380	129,933	-5,447
Land	160,571	159,063	-1,508
Other	64,744	72,139	7,395
Property, plant and equipment	497,151	494,912	-2,238
Intangible assets			
Goodwill	3,409	1,962	-1,447
Other	34,250	33,106	-1,143
Intangible assets	37,660	35,069	-2,590
Investments and other assets			
Investment securities	84,781	86,668	1,887
Asset for retirement benefits	17,352	16,349	-1,002
Other	53,908	53,787	-121
Allowance for doubtful accounts	-8,333	-8,407	-74
Investments and other assets	147,708	148,397	688
Total noncurrent assets	682,520	678,379	-4,140
Total assets	1,015,415	1,021,290	5,874
Notes and accounts payable-trade	79,676	86,728	7,052
Short-term loans payable	134,428	147,108	12,679
Commercial Paper	-	7,000	7,000
Current portion of bonds	11,120	16,070	4,950
Income taxes payable	5,914	9,105	3,190
Provision for bonuses	5,742	5,880	137
Other provision	410	323	-86
Other	71,618	85,982	14,363
Total current liabilities	308,910	358,197	49,286
Bonds payable	35,035	20,000	-15,035
Long-term loans payable	160,346	129,019	-31,327
Provision for retirement benefits	24,217	23,731	-486
Provision for directors' retirement benefits	568	467	-100
Provision for special repairs	121	105	-16
Other provision	981	833	-148
Asset retirement obligations	7,520	7,508	-12
Other	77,677	73,029	-4,648
Total non-current liabilities	306,469	254,695	-51,774
Total liabilities	615,380	612,892	-2,488

	As of 3/31/17	As of 9/30/17	Change
Capital stock	86,174	86,174	-
Capital surplus	59,548	60,272	724
Retained earnings	228,914	242,135	13,221
Treasury stock	-10,911	-10,870	41
Total shareholders' equity	363,725	377,712	13,986
Valuation difference on available-for-sale securities	9,830	10,726	896
Deferred gains or losses on hedges	48	76	27
Revaluation reserve for land	5,065	5,065	-
Foreign currency translation adjustments	-12,862	-17,685	-4,823
Retirement benefits liability adjustments	-3,987	-3,727	259
Total accumulated other comprehensive income	-1,906	-5,545	-3,639
Non-controlling interests	38,215	36,231	-1,984
Total net assets	400,034	408,397	8,362
Total liabilities and net assets	1,015,415	1,021,290	5,874

Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	First Half of Fiscal 2017	First Half of Fiscal 2018	Change
Cash flows from operating activities	36,446	48,465	12,019
Income before income taxes and non-controlling interests	37,911	27,534	-10,377
Depreciation and amortization	21,597	21,328	-269
Decrease (increase) in notes and accounts receivable-trade	6,849	-16,527	-23,376
Increase (decrease) in notes and accounts payable-trade	-8,293	7,586	15,879
Other	-21,618	8,544	30,162
Cash flows from investing activities	19,914	-23,165	-43,079
Purchase of property, plant, and equipment	-20,042	-23,476	-3,434
Proceeds from sale of property, plant, and equipment	731	1,805	1,074
Purchase of investment securities	-507	-106	401
Proceeds from sales of investment securities	40,718	665	-40,053
Other	-986	-2,053	-1,067
Cash flows from financing activities	-29,934	-26,521	3,413
Decrease (increase) in interest-bearing liabilities	-24,333	-19,823	4,510
Cash dividend paid	-3,690	-3,707	-17
Other	-1,911	-2,991	-1,080
Effect of exchange rate changes on cash and cash equivalents	-3,013	-636	2,377
Net increase (decrease) in cash and cash equivalents	23,412	-1,858	-25,270
Other	1,152	0	-1,152
Cash and cash equivalents at beginning of term	50,072	51,974	1,902
Cash and cash equivalents at end of term	74,637	50,115	-24,522

Increase (decrease) in interest-bearing liabilities	As of 3/31/17	As of 9/30/17	Difference
Bonds payable	35,035	20,000	-15,035
Current portion of bonds	11,120	16,070	4,950
Long-term loans payable	160,346	129,019	-31,327
Short-term loans payable	134,428	147,108	12,679
Commercial Paper	-	7,000	7,000
Total interest-bearing liabilities	340,930	319,197	-21,733

Year-on-year change	As of 3/31/17	As of 9/30/17	Difference
Equity ratio (%)	35.6	36.4	0.8
Equity ratio based on market value (%)	45.2	52.7	7.5
Equity per share (yen)	2,930.2	3,006.6	76.4
Current ratio (%)	107.8	95.7	-12.1
Net D/E ratio	0.8	0.7	-0.1

Year-on-year change	First Half of Fiscal 2017	First Half of Fiscal 2018	Difference
Net income per share (yen)	340.28	136.87	-203.41

The Company has implemented the share consolidation of common stocks in a rate of one share for every ten shares effective on October 1, 2017. Accordingly, EPS is calculated on the assumption that the share consolidation was implemented at the beginning of the previous fiscal year.

Forecast of Fiscal 2018

[Preconditions]

- Domestic production: Fiscal 2018 43 million tons
- Foreign exchange rate: 112.0 yen/ US dollar (3.2 yen weaker than Fiscal 2017)

(Unit: 100 million yen)

		Fiscal 2017 (actual)	Fiscal 2018 (forecast)	Differences
Net sales	Cement business (domestic)	3,850	4,100	250
	Overseas subsidiaries	1,738	2,000	262
	Cement business (total)	5,589	6,100	511
	Mineral Resources business	801	820	19
	Environmental business	779	880	101
	Construction Materials business	740	780	40
	Other	753	820	67
	Total	8,663	9,400	737
	Eliminations or corporate assets	-677	-750	-73
Consolidated	7,985	8,650	665	
Operating income	Cement business (domestic)	295	255	-40
	Overseas subsidiaries	93	158	65
	Cement business (total)	388	413	25
	Mineral Resources business	77	80	3
	Environmental business	76	78	2
	Construction Materials business	60	57	-3
	Other	32	44	12
	Total	636	672	36
	Eliminations or corporate assets	-4	-2	2
Consolidated	632	670	38	
Ordinary income	598	650	52	
Extraordinary oncome or loss	-70	-60	10	
Income before income taxes and non-controlling interests	527	590	63	
Profit attributable to owners of parent	475	380	-95	

Sales volume of cement (Thousand tons)

	Fiscal 2017 (actual)	Fiscal 2018 (forecast)	Change
Domestic	14,372	15,030	658
Export	4,356	4,314	-42

Main factors of changes in Net sales

[Cement]

Domestic:

Increase in domestic cement and solidifying material sales +8.4 bil. yen
 Decrease in domestic cement and solidifying material price -0.5 bil. yen
 Decrease in export cement volume -0.2 bil. yen
 Increased sales from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. +17.3 bil. yen

Overseas subsidiaries:

U. S. +\$133 million
 China +\$61 million
 Asia +\$9 million
 Effect of foreign exchange +4.3 bil. yen

Main factors of changes in Operating income

[Cement]

Domestic:

Increase in domestic cement and solidifying material sales +4.5 bil. yen
 Decrease in domestic cement and solidifying material price -0.5 bil. yen
 Decrease in export cement volume -0.1 bil. yen
 Decrease in net export revenue -0.8 bil. yen
 Variable cost etc. -4.7 bil. yen
 Fixed cost -2.5 bil. yen
 Increased income from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. +0.1 bil. yen

Overseas subsidiaries:

U. S. +\$43 million
 China +\$38 million
 Asia -\$24 million
 Effect of foreign exchange +0.3 bil. yen

[Reference Information]

1. Status of the Consolidated Group

(No. of companies)

	As of 3/31/14	As of 3/31/15	As of 3/31/16	As of 3/31/17	As of 9/30/17
Consolidated subsidiaries	132	131	121	125	124
Equity method subsidiaries	13	11	9	8	8
Equity method affiliates	38	37	40	38	38
Total of companies within the scope of consolidation	183	179	170	171	170
Subsidiaries outside the scope of consolidation	89	86	68	78	76
Affiliates outside the scope of consolidation	65	63	62	66	67
Total of companies outside the scope of consolidation	154	149	130	144	143
Total	337	328	300	315	313

2. Change in Interest-bearing Debt

(100 million yen)

	As of 3/31/14	As of 3/31/15	As of 3/31/16	As of 3/31/17	As of 9/30/17	As of 3/31/18 (forecast)
The Company	2,349	2,292	2,533	2,111	1,956	1,850
Consolidated subsidiaries	2,002	1,699	1,411	1,298	1,235	1,200
Whole group	4,351	3,991	3,944	3,409	3,191	3,050

3. Change in Number of Personnel

(No. of persons)

	As of 3/31/14	As of 3/31/15	As of 3/31/16	As of 3/31/17	As of 9/30/17
The Company	2,279	2,296	2,289	2,242	2,337
Consolidated subsidiaries	10,808	10,763	10,285	10,766	10,691
Whole group	13,087	13,059	12,574	13,008	13,028

4. Change in Capital Investment

(100 million yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	First Half of Fiscal 2018	Fiscal 2018 (forecast)
The Company	196	198	224	199	97	208
Consolidated subsidiaries	194	223	216	344	183	372
Whole group	390	421	440	543	280	580

5. Change in Depreciation Expenses

(100 million yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	First Half of Fiscal 2018	Fiscal 2018 (forecast)
The Company	175	180	176	180	85	177
Consolidated subsidiaries	230	244	263	264	128	258
Whole group	405	424	439	444	213	435

6. Change in Experiment and Research Expenses

(100 million yen)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	First Half of Fiscal 2018	Fiscal 2018 (forecast)
The Company	33	37	36	37	17	39
Consolidated subsidiaries	7	7	6	8	4	9
Whole group	40	44	42	45	21	48

7. Cement Sales in Overseas Subsidiaries (Sum of the sales of the consolidated subsidiaries)

(10 thousand tons)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	First Half of Fiscal 2018	Fiscal 2018 (forecast)
U.S.A.	308	343	411	496	275	567
Asia	1,138	1,091	1,017	1,023	496	1,067
Other regions	18	20	16	15	6	13

8. Overview of Businesses in the U.S. (Taiheiyo Cement U.S.A., Inc., on a consolidated basis)

(\$ thousands)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	First Half of Fiscal 2018	Fiscal 2018 (forecast)
Net sales	686,019	803,910	917,753	1,048,453	584,158	1,182,000
Operating income (loss)	-35,575	34,525	22,555	56,074	46,835	98,000
Net income (loss)	-43,965	9,236	2,328	24,799	23,257	49,000