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TAIHEIYO CEMENT

Reference Materials of Financial Results for the Six Months Ended September 30, 2022

November 10, 2022

TAIHEIYO CEMENT CORPORATION

Taiheiyo Cement to Focus on Investment in North America and Southeast Asia while Building a Stronger Domestic Business Structure through New Quarry Development, Investment and Alliances with Other Company

The following is a transcript of Taiheiyo Cement Corporation's financial results briefing for the second quarter of the fiscal year ending March 31, 2023, which was released on November 11, 2022.

【Speakers】

Masafumi Fushihara, President and Representative Director, Taiheiyo Cement Corporation
Hideaki Asakura, Director and Senior Executive Officer, Taiheiyo Cement Corporation
Naoyuki Kira, Executive Officer, General Manager of Sales Department, Cement Business Division, Taiheiyo Cement Corporation
Tsuyoshi Hara, Executive Officer, General Manager of Business Development Department, International Business Division, Taiheiyo Cement Corporation
Masahiro Ban, Executive Officer, General Manager of Accounting & Finance Department, Taiheiyo Cement Corporation
Tomonori Yamamoto, General Manager of Corporate Planning Department, Taiheiyo Cement Corporation

Management Overview and Management Policy

Mr. Masafumi Fushihara : I am Fushihara. Thank you very much for joining us today. Following yesterday's announcement of our second-quarter results and outlook for the current fiscal year, we will give you more detailed explanations today. First, I am going to give you an overview of our business situation and future management policies, followed by detailed explanations of the financial results from the person in charge.

The first half showed a consolidated operating loss of approximately 300 million yen. We haven't seen this level of loss for 13 years or so. The primary reason for the slump was that securing the price hikes in the domestic cement business were slightly slower than expected.

The loss was due to the higher price of coal for cement production and the cost of electricity. In short, we were not able to keep up with coal prices rise through increases in cement prices.

Coal prices rose gradually from around September last year and coal, which had always been around $100, went up to about $200/t and showed no sign of coming down. This rise in coal prices is expected to be linked to oil prices. If this situation continued, the cement business would be difficult. Therefore, in October last year, we announced a price increase of 2,000 yen/t cement starting from shipments on January 1st this year and began price negotiations with users.

However, Russia's invasion of Ukraine in February this year caused the price of coal, which had already risen to $200, to soar to nearly $500. Although slightly lower now, it is still hovering above $400. Since we could not keep up our business with the 2,000 yen price increase, we asked users to accept a further increase of 3,000 yen starting with shipments in October this year. In this way, we have been negotiating prices all through the first half.

For the first 2,000 yen price increase, we aimed to obtain the approval of all users by April 1. Since 80% of our users are ready-mixed concrete companies, it was hard to get their approval without a corresponding rise in ready-mixed concrete cooperative prices. Therefore, it took some time, but negotiations for the 2,000 yen increase were completed by this October.

For the additional 3,000 yen increase, we are working to obtain customer approval as soon as possible. We will negotiate the price to reach an understanding by the end of this year at the earliest, or by the end of March next year at the latest.

Although we are asking for an unprecedented price revision of 5,000 yen/t, users have shown a certain level of understanding. The ready-mixed concrete cooperatives around the country have announced significant increases in their prices. However, the timing of the price increase, such as April next year or the beginning of the new year, does not mesh with our desired timing from October this year and it has been difficult to gain their understanding so far.

It is true that for ready-mixed concrete companies, a 1,000 yen per ton increase in the cement price will have a significant impact on their business, but we are negotiating with the hope they would expedite the price revision.

However, the majority of ready-mixed concrete cooperatives nationwide plan to raise their prices by 3,000 yen or 4,000 yen between the beginning of next year and April. The revision of the ready-mixed concrete price reflects the increase in cement prices, so it is unthinkable that they won’t agree to the increase in cement prices.

Since we are cashing out daily against high coal prices, we are continuing to negotiate and hope to confirm all users’ approval by March next year.

As for coal prices, we have been using Russian coal for nearly 60% of our production needs but, according to government policy, we are required to refrain from purchasing from Russia as much as possible. We will fulfill existing contracts as long as vessels can be arranged. However, we have not yet negotiated next year's contracts.

Since we are not sure what the situation in Russia will be like in the next fiscal year, we are working very hard to find new coal import sources. We will begin importing coal from Australia, Indonesia, North America and other countries. Since Indonesian coal is nearly half the price of today's Russian and Australian coal, our focus is on how to use such cheap coal.

There are many reasons why we have not previously imported from these countries, including fineness of the coal and other properties such as susceptibility to stockpile ignition. However, we have no choice other than to source imports through various measures. We have already delivered coal samples to our plants and ran various tests to determine its suitability, and intend to increase the import volume in earnest from now on.

As for Australian coal, Tohoku Electric Power Company negotiates an annual price for power generation coal each year. Latest annual price has been set at $395. Although we may be dealing with a slightly lower grade of coal, Australian coal is a kind of indicator of general coal. We don't think the price will drop sharply in next fiscal year, so we are working hard to increase the imports from Indonesia and North America.

In forecast for second half, we have only included certain import volume of lower price coal . If the volume increases, variable costs may be slightly lower than expected.

The price of electricity has also risen steeply. As we do not generate all our own electricity we are inevitably having to pay more for that purchased from power companies and it is important for us to find ways to cover the increase.

On October 24, a waste heat power generation facility at the Saitama Plant started operation. Therefore, we expect to see the benefit of reduced purchased electricity in the future. So, the second half depends on two things - the increase in cement prices as soon as possible and the reduction of variable costs.

As for our overseas business, operating income of the first half deteriorated by about 4.6 billion yen from the same period last year. The primary reason was the simultaneous need for repairs at three plants in the United States. It would have been nice if the repairs could have been implemented with a little more balance but, partly due to the convenience of contractors, the work was concentrated in the first half this year. Compared to the first half of last year, there were more than 30 more days of plant shutdowns, which resulted in greater haulage distances from distant plants and the usage of imported cement with a lower profit margin. As a result, profitability was slightly lower in the first half of this year.

There was also a strike by the ready-mixed concrete workers' union in Washington State. As a result of the interruption of ready-mixed concrete shipments until the strike was settled, our U.S. business struggled a little in the first half.

However, the newly acquired Redding cement plant has been making a decent contribution, and another plant is under review by the local authority corresponding to Japanese Fair Trade Commission. Once we get the permit, the two new plants will be in full operation, which would be a very exciting situation for the future.

With regard to our China business, we have decided to suspend operations of our cement plant in Dalian. Since it became clear that the land lease could not be renewed, we must cease the business there after more than 30 years of operation.

We have already sold our subsidiary in Qinhuangdao to a local company the year before last and our subsidiary in Jiangnan is facing difficulty getting a new permit for mining. However, we have some long-standing customers in Hong Kong and we have many other relationships there, so we need to continue to think strategically about how we will interact with China.

In the future, we will concentrate our management resources on Southeast Asia, which is expected to grow. Last year, we secured a 15 percent stake in a subsidiary of an Indonesian state-owned company. Also, in August, the Philippines plant held the groundbreaking ceremony for a new production line after the old one was dismantled and cleared. The new line will be completed in two years. As for the plant in Vietnam, we will continue to invest in waste heat power generation and environmental projects focusing on recycling in order to make the plant contribute to the formation of a recycling-oriented society in the country.

For our domestic business, we will first work on the development of quarries. Actually, we have been developing quarries in sequence for a long time and, probably by the end of this year, we will be able to start developing a new quarry at the Oita Plant.

Also, we will jointly develop the Myojo Cement quarry with Denka Company Limited. (hereunder, Denka) , with whom we are entering into a business alliance. We have been able to strengthen our relationship with Denka in various ways during the business transfer and hope to begin construction there in the next year or so. Once it is done, we will be able to secure limestone reserves in the quarries of each plant for the next 100 years or so, ensuring a very stable raw material supply for the future.

As I have just informed you, Denka has transferred its cement business to us, and we have agreed to sell it under our brand name from shipments starting April next year. For the next two years or so, Denka will run its own plant and produce cement, and we will receive and sell it under the Taiheiyo Cement brand.

The reason for this two-year time frame is that there are more than 200,000 tons of various wastes generated from Denka's plants. After Denka's cessation of cement production these wastes will basically be received and processed by Myojo Cement.

In preparation for this, we must make various capital investments in Myojo Cement and develop a system for two years. After the investments completed, instead of Denka we will supply users from our group's plants with over 1 million tons of cement.

We undertook OEM from Hitachi Cement three years ago. This time, we will produce and sell Denka's portion as well.

We are now serving as a recipient for companies that will discontinue cement production.-We have a very good balance of plants in Japan, with cement plants in each region from Hokkaido to Kyushu and on both the Pacific and Sea of Japan sides. It is probably for this reason that we are an obvious partner for business alliances.

Since we were the first company to build a cement plant in Japan 141 years ago, we can say that the history of the cement industry in Japan is equal to the history of Taiheiyo Cement. Over the course of 141 years, cement production in Japan grew from 0 to 100 million tons. As a cement company with such a history, we believe we have an obligation to supply cement for the domestic market and operate under such a corporate mission.

Therefore, since we have such obligation of supply, we may start to discuss what we can do if we are approached from other companies in the future. Most recently, the two companies I just mentioned told us they hoped to work with Taiheiyo Cement.

We are also committed to carbon neutrality and towards achieving this goal, we will complete the development of technology by 2030 and implement the technology and equipment in each plant and other facilities by 2050. We made this declaration, and are now steadily investing in facilities and engaged in R&D to achieve carbon neutrality.

As part of our efforts we are working on the development of new calciner to efficiently capture CO2. We have begun construction of a demonstration plant in Sanyo-Onoda City and, next year, we will use the plant to develop more specific technologies, which will then be used to create facilities that can be installed in each plant. If the equipment is too large, there will be no place to install it in the current plants. So, we are developing compact facilities which can be retrofitted to kilns to recover 100% of CO2 from the exhaust gas.

We are also exploring various methods for recovering and utilizing CO2 (CCU or Carbon Capture and Utilization), such as methanation. We are currently working on research and development in partnership with other companies such as Tokyo Gas.

We have a dedicated project team in place and are making good progress toward carbon neutrality. Demonstration equipment has already been installed in the Kumagaya Plant and, since the results have been so successful, I would like you to come and see it for yourself.

So, that is an overview of the current situation of Taiheiyo Cement but our policy will be to never stop growing, no matter what the circumstances. If we stop and say "It's tough now, so let's hold out for two or three years" we may miss out on opportunities.

Financially, it may be tough in many ways, but we have been working on the development of quarries, acquired overseas plants and made investments. We will keep moving forward under the policy of being a corporate group that never stops growing, with the spirit of “We have to do it right at this moment”.

The results include the acquisition of plants in the U.S. and investments in Indonesia. We have also begun construction of an export jetty in Indonesia and, once large vessels start to use it, logistics in the Pacific Rim will change considerably. We should see the results in two or three years.

This is the end of the overview.

Explanation of Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2023 and Forecast for the Fiscal 2023

Mr. Hideaki Asakura: I am Asakura. Now I am going to provide an overview of the financial results for the second quarter and the performance forecast for fiscal 2023.

1. Consolidated Financial Highlights

1. Highlights of Consolidated Financial Results TAIHEIYO CEMENT

(Million yen)

	FY2022 Six months	FY2023 Six months	Change
Net sales	339,798	375,982	36,184
Operating profit	25,812	(313)	(26,126)
Ordinary profit	26,578	(84)	(26,663)
Profit attributable to owners of parent	19,485	(16,455)	(35,940)

＜Indexes＞	As of Mar. 31, 2022	As of Sep. 30, 2022	Change
Capital adequacy ratio (%)	46.3	41.3	(5.0)
Capital adequacy ratio based on market value (%)	21.4	18.7	(2.7)
Net assets per share (Yen)	4,362.2	4,492.3	130.1
	FY2022 Six months	FY2023 Six months	Change
Basic earnings per share (Yen)	163.9	(140.6)	(304.5)

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First, the consolidated financial highlights.

Net sales for the second quarter were about 375.9 billion yen, an increase of about 36.1 billion yen from the same period last year. Operating income showed a loss of about 300 million yen, down about 26.1 billion yen from the same period last year, and ordinary income was a loss of about 80 million yen, down about 26.6 billion yen from the same period last year.

The quarterly profit attributable to owners of parent showed a loss of about 16.4 billion yen, a decrease of about 35.9 billion yen from the same period last year. The table at the bottom of the slide shows the capital adequacy ratio and other management indicators.

2. 2Q FY2023 Results (1) Consolidated Segment Information

2. Financial Results for the Six Months Ended September 30, 2022

TAIHEIYO CEMENT

(1) Consolidated Segment Information

Net Sales and Operating Profit by Reportable Segments

(Million yen)

		Net sales			Operating profit		
		FY2022 Six months	FY2023 Six months	Change	FY2022 Six months	FY2023 Six months	Change
Cement Business	Domestic	114,368	123,839	9,470	1,582	(17,559)	(19,142)
	Overseas Subsidiaries, etc.	110,982	129,006	18,024	14,826	10,149	(4,677)
	Total	225,351	252,846	27,494	16,409	(7,410)	(23,820)
Mineral Resources Business		37,214	39,763	2,548	2,633	2,710	77
Environmental Business		33,837	39,504	5,667	3,066	2,848	(218)
Construction Materials Business		29,261	30,723	1,462	1,146	60	(1,086)
Other		42,001	41,699	(301)	2,462	1,199	(1,262)
Total		367,665	404,537	36,872	25,718	(591)	(26,309)
Elimination		(27,866)	(28,554)	(688)	94	278	183
Consolidated Total		339,798	375,982	36,184	25,812	(313)	(26,126)

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By segment, net sales increased in all divisions except for “Other”. Total consolidated net sales were about 375.9 billion yen, an increase of about 36.1 billion yen from the same period last year.

On the other hand, the Domestic Cement Division posted an operating loss of about 17.5 billion yen, down about 19.1 billion yen from the same period last year, while the Overseas Cement Division posted a profit of about 10.1 billion yen, down about 4.6 billion yen from the same period last year, for a total operating loss of about 7.4 billion yen for both divisions.

Operating income in the Mineral Resources Division was about 2.7 billion yen, almost the same level as last year, while the Environmental Division recorded approximately 2.8 billion yen, a decrease of about 200 million yen from the same period last year. Operating income in the Construction Materials Division was 60 million yen, down about 1 billion yen from the same period last year. Operating income in the “Other” division is about 1.2 billion yen. This resulted in a total operating loss of about 300 million yen.

2. 2Q FY2023 Results (1) Consolidated Segment Information

2. Financial Results for the Six Months Ended September 30, 2022

TAIHEIYO CEMENT

(1) Consolidated Segment Information

Sales Volume of Cement (Thousand tons)

	FY2022 Six months	FY2023 Six months	Change
Domestic	6,605	6,566	(40)
Export	1,937	1,419	(518)

Average exchange rate applied by overseas subsidiaries (Yen/US$)

FY2022 Six months	FY2023 Six months	Change
107.8	123.1	15.3

Cement Business

(Million yen)

		FY2022 Six months	FY2023 Six months	Change	Main Factors of Changes in Net Sales and Operating Profit
Net Sales	Domestic	114,368	123,839	9,470	Decrease in sales volume of domestic cement and soil stabilizers -0.5 billion yen Decrease in export cement volume -2.4 billion yen Price difference in domestic cement and soil stabilizers +6.5 billion yen Price difference in export cement +4.4 billion yen Increase in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. +1.5 billion yen
	Overseas Subsidiaries, etc.	110,982	129,006	18,024	U.S.A. +US$37 million, China -US$19 million, Asia and other +US$7 million Effect of foreign exchange, etc. +15.4 billion yen
	Total	225,351	252,846	27,494	
Operating Profit	Domestic	1,582	(17,559)	(19,142)	Decrease in sales volume of domestic cement and soil stabilizers -0.1 billion yen Decrease in export cement volume -0.9 billion yen Price difference in domestic cement and soil stabilizers +5.9 billion yen Increase in net export cement revenue +2.6 billion yen Increase in variable cost -23.3 billion yen Increase in fixed cost -2.2 billion yen Decrease in income from subsidiaries producing or selling cement or ready-mixed concrete, etc. -1.1 billion yen
	Overseas Subsidiaries, etc.	14,826	10,149	(4,677)	U.S.A. -US$34 million, China -US$10 million, Asia and other -US$13 million Effect of foreign exchange, etc. +1.4 billion yen
	Total	16,409	(7,410)	(23,820)	

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This is a breakdown of the Cement Division. The small table at the top of the slide shows cement sales volumes. Cement sales in the second quarter was about 6.56 million tons, almost the same as last year. Exports decreased by about 510,000 tons to about 1.41 million tons. The average exchange rate was 123.1 yen.

In terms of net sales, both domestic and overseas divisions benefited from the price increase, with an impact of about 6.5 billion yen on domestic sales. There is also a 4.4-billion-yen price increase effect from exports and a revenue increase of $37 million in the U.S. in the Overseas Cement Division.

Operating income, on the other hand, was significantly affected by the 23.3 billion yen increase in variable costs while being benefited from the price increase in Japan and the price increase in exports of 5.9 billion yen and 2.6 billion yen, respectively.

The Overseas Cement Division also had negative earnings, with minus $34 million in the U.S., minus $10 million in China, and minus $13 million in Asia, for a total decline of 4.6 billion yen. As a result, the total domestic and overseas earnings resulted in an operating loss of about 7.4 billion yen.

2. 2Q FY2023 Results (1) Consolidated Segment Information

2. Financial Results for the Six Months Ended September 30, 2022

TAIHEIYO CEMENT

(1) Consolidated Segment Information

Reportable Segments (Excluding Cement Business) and Other

(Million yen)

		FY2022 Six months	FY2023 Six months	Change	Main Factors of Changes in Net Sales and Operating Profit
Mineral Resources Business	Net Sales	37,214	39,763	2,548	Aggregate business remained strong mainly in the Kanto and Chubu region Increase in various type of costs partly passed on to sales prices
	Operating Profit	2,633	2,710	77	Increase in various type of costs partly passed on to sales prices
Environmental Business	Net Sales	33,837	39,504	5,667	Sales of calcium carbonate used for flue gas desulfurization and sales of fuel remained strong
	Operating Profit	3,066	2,848	(218)	Processing operations in coal ash remained sluggish
Construction Materials Business	Net Sales	29,261	30,723	1,462	Sales of ALC (Autoclaved Lightweight Concrete) and contruction materials remained strong despite sales of ground improvement projects remained sluggish
	Operating Profit	1,146	60	(1,086)	Rapid rise in raw material prices Decrease in sales of ground improvement projects
Other	Net Sales	42,001	41,699	(301)	
	Operating Profit	2,462	1,199	(1,262)	

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Now I am going to explain the situation of our non-cement segments. In the Mineral Resources Division, the Aggregates Business in the Kanto and Chubu regions remained strong, and the price pass-through progressed, resulting in an increase in both sales and profits. In the Environmental Division, net sales increased about 5.6 billion yen due to strong sales of calcium carbonate for desulfurization and fuels. On the other hand, operating income decreased by about 200 million yen due to weak coal ash processing volumes.

Net sales in the Construction Materials Division increased due to strong sales of ALC. On the other hand, operating income decreased by about 1 billion yen due to soaring raw material prices.

2. 2Q FY2023 Results (2) Consolidated Statements of Income

2. Financial Results for the Six Months Ended September 30, 2022

TAIHEIYO CEMENT

(2) Consolidated Statements of Income (Items below Operating Profit)

(Million yen)

	FY2022 Six months	FY2023 Six months	Change
Operating profit	25,812	(313)	(26,126)
Non-operating income and expenses	766	229	(536)
Ordinary profit	26,578	(84)	(26,663)
Extraordinary income and losses	2,600	(1,298)	(3,898)
Profit before income taxes	29,179	(1,382)	(30,562)
Income taxes	8,469	14,505	6,035
Profit attributable to non-controlling interest	1,224	567	(657)
Profit attributable to owners of parent	19,485	(16,455)	(35,940)

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This slide shows the items under operating income on the P/L. What I would like to draw your attention to is the portion of income taxes. The amount shown here is due to a 10.2 billion yen reversal of deferred tax assets in the second quarter.

2. 2Q FY2023 Results (3) Consolidated Balance Sheets

2. Financial Results for the Six Months Ended September 30, 2022

TAIHEIYO CEMENT

(3) Consolidated Balance Sheets

(Million yen)

		As of Mar. 31, 2022	As of Sep. 30, 2022	Change
Current assets	Cash and deposits	60,271	80,850	20,578
	Notes and accounts receivable - trade, and contract assets	143,178	158,336	15,158
	Inventories	94,189	132,713	38,523
	Other	42,910	53,224	10,313
	Total current assets	340,550	425,125	84,574
Non-current assets	Total property, plant and equipment	557,829	627,059	69,230
	Total intangible assets	27,566	40,459	12,892
	Total investments and other assets	177,061	179,832	2,771
	Total non-current assets	762,457	847,351	84,894
Total assets		1,103,007	1,272,477	169,469

			As of Mar. 31, 2022	As of Sep. 30, 2022	Change
Liabilities		Current liabilities	309,768	392,116	82,348
		Non-current liabilities	248,440	317,083	68,642
		Total liabilities	558,208	709,200	150,991
Net assets	Shareholders' equity	Share capital	86,174	86,174	-
		Capital surplus	49,729	49,724	(4)
		Retained earnings	384,154	363,601	(20,552)
		Treasury shares	(13,766)	(13,731)	34
		Total shareholders' equity	506,291	485,769	(20,522)
		Accumulated other comprehensive income	4,325	40,090	35,764
		Non-controlling interests	34,181	37,416	3,235
		Total net assets	544,799	563,277	18,478
Total liabilities and net assets			1,103,007	1,272,477	169,469

	As of Dec. 31, 2021	As of Jun. 30, 2022	Change
Exchange rate at end of period (Yen/US$)	115.02	136.68	21.66

	As of Mar. 31, 2022	As of Sep. 30, 2022	Change
Interest-bearing debt (Million yen)	270,587	373,656	103,069

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This is the Consolidated Balance Sheet. Current Assets totaled approximately 425.1 billion yen as of the end of September, due mainly to an increase of about 38.5 billion yen in Inventories caused by soaring coal prices and other factors. Fixed assets totaled approximately 1,272.4 billion yen, an increase of about 84.8 billion yen due mainly to changes in U.S. lease accounting standards and asset acquisitions.

The balance of interest-bearing debt, shown at the bottom right of the table, increased by about 103.0 billion yen from 270.0 billion yen at the end of March to 373.6 billion yen.

In shareholders' equity, the net loss of about 16.4 billion yen and dividends of about 4.1 billion yen for the fiscal year under review reduced retained earnings by about 20.5 billion yen. The increase in accumulated other comprehensive income of about 35.7 billion yen is due to the swelling of the foreign currency translation adjustment as a result of the significant depreciation of the yen in the current period. Accordingly, total net assets increased by about 18.4 billion yen to about 563.2 billion yen.

2. 2Q FY2023 Results (4) Consolidated Statements of Cash Flows

2. Financial Results for the Six Months Ended September 30, 2022

TAIHEIYO CEMENT

(4) Consolidated Statements of Cash Flows

(Million yen)

	FY2022 Six months	FY2023 Six months	Change
Cash flows from operating activities	43,093	(15,013)	(58,106)
Cash flows from investing activities	(53,144)	(57,583)	(4,439)
Cash flows from financing activities	6,590	91,628	85,038
Effect of exchange rate change on cash and cash equivalents	1,876	1,558	(317)
Net increase (decrease) in cash and cash equivalents	(1,584)	20,590	22,175
Other	0	24	24
Cash and cash equivalents at beginning of period	63,819	50,213	(13,606)
Cash and cash equivalents at end of period	62,235	70,828	8,593

< Indexes >	As of Mar. 31, 2022	As of Sep. 30, 2022	Change
Current ratio (%)	109.9	108.4	(1.5)
Net debt/equity ratio (Times)	0.41	0.56	0.14

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Cash flows from operating activities were approximately minus 15 billion yen, cash flows from investing activities were about 57.5 billion yen expenditure and cash flows from financing activities were about 91.6 billion yen.

3. Forecast for FY2023 (1) Consolidated Statements of Income

3. Forecast for the Fiscal 2023

TAIHEIYO CEMENT

(1) Consolidated Statements of Income

(Hundred million yen)

	FY2022 (Actual)	FY2023 (Forecast)	Change
Net sales	7,082	8,440	1,358
Operating profit	467	130	(337)
Ordinary profit	501	130	(371)
Extraordinary income and losses	(73)	(60)	13
Profit before income taxes	428	70	(358)
Profit attributable to owners of parent	289	(160)	(449)
＜Preconditions＞			
Domestic demand of cement (Ten thousand tons)	3,788	3,800	12

For the fiscal 2023 results, we forecast net sales of 844 billion yen, operating income of 13 billion yen, ordinary income of 13 billion yen, and loss attributable to owners of parent of 16 billion yen.

3. Forecast for FY2023 (2) Consolidated Segment Information

3. Forecast for the Fiscal 2023

TAIHEIYO CEMENT

(2) Consolidated Segment Information

Net Sales and Operating Profit by Reportable Segments

(Hundred million yen)

		Net sales			Operating profit		
		FY2022 (Actual)	FY2023 (Forecast)	Change	FY2022 (Actual)	FY2023 (Forecast)	Change
Cement Business	Domestic	2,374	2,720	346	(18)	(327)	(309)
	Overseas Subsidiaries, etc.	2,257	3,120	863	260	270	10
	Total	4,632	5,840	1,208	241	(57)	(298)
Mineral Resources Business		771	850	79	60	60	0
Environmental Business		723	830	107	66	56	(10)
Construction Materials Business		650	710	60	34	18	(16)
Other		890	880	(10)	69	53	(16)
Total		7,668	9,110	1,442	472	130	(342)
Elimination		(586)	(670)	(84)	(5)	0	5
Consolidated Total		7,082	8,440	1,358	467	130	(337)

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This slide shows projected net sales and operating income by segment in units of 100 million yen. For the full year of fiscal 2023, we expect an operating loss of 32.7 billion yen for domestic cement and a profit of 27.0 billion yen for overseas cement.

3. Forecast for FY2023 (2) Consolidated Segment Information

3. Forecast for the Fiscal 2023

TAIHEIYO CEMENT

(2) Consolidated Segment Information

Sales Volume of Cement (Thousand tons)

	FY2022 (Actual)	FY2023 (Forecast)	Change
Domestic	13,363	13,300	(63)
Export	4,147	2,800	(1,347)

Average exchange rate applied by overseas subsidiaries (Yen/US$)

FY2022 (Actual)	FY2023 (Forecast)	Change
109.9	133.0	23.1

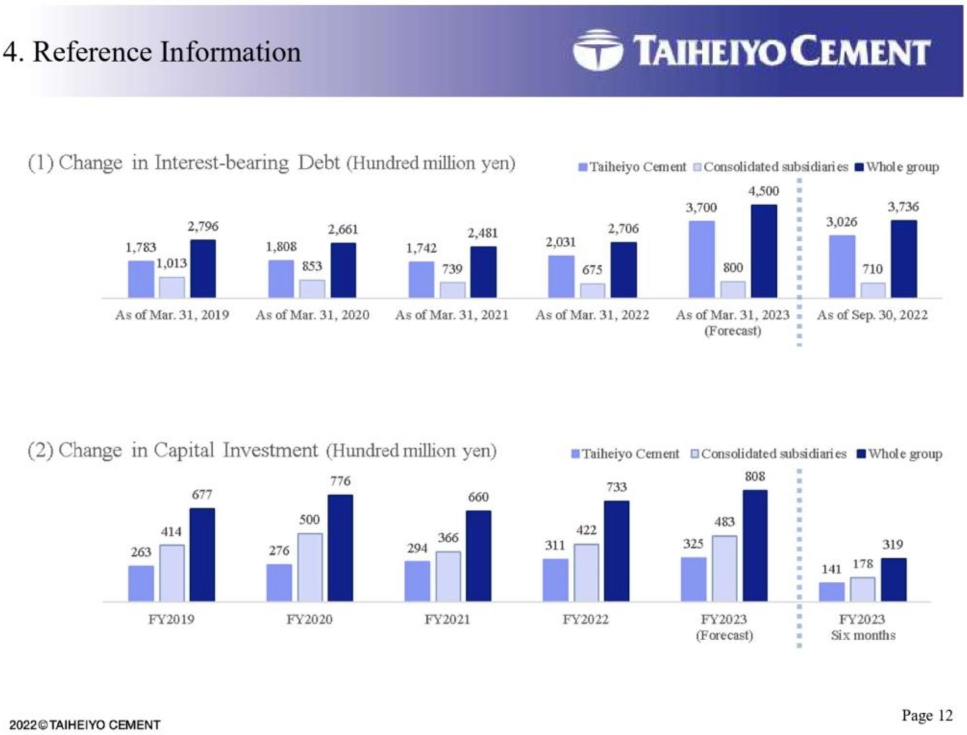
Cement Business

(Hundred million yen)

		FY2022 (Actual)	FY2023 (Forecast)	Change	Main Factors of Changes in Net Sales and Operating Profit
Net Sales	Domestic	2,374	2,720	346	Decrease in sales volume of domestic cement and soil stabilizers -1.0 billion yen Decrease in export cement volume -7.2 billion yen Price difference in domestic cement and soil stabilizers +29.0 billion yen Price difference in export cement +8.9 billion yen Increase in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. +4.9 billion yen
	Overseas Subsidiaries, etc.	2,257	3,120	863	U.S.A. +US$246 million, China -US$19 million, Asia and other +US$75 million Effect of foreign exchange, etc. +53.1 billion yen
	Total	4,632	5,840	1,208	
Operating Profit	Domestic	(18)	(327)	(309)	Decrease in sales volume of domestic cement and soil stabilizers -0.5 billion yen Decrease in export cement volume -2.4 billion yen Price difference in domestic cement and soil stabilizers +26.8 billion yen Increase in net export cement revenue +6.1 billion yen Increase in variable cost -54.3 billion yen Increase in fixed cost -3.1 billion yen Decrease in income from subsidiaries producing or selling cement or ready-mixed concrete, etc. -3.5 billion yen
	Overseas Subsidiaries, etc.	260	270	10	U.S.A -US$11 million, China -US$9 million, Asia and other -US$16 million Effect of foreign exchange, etc. +5.0 billion yen
	Total	241	(57)	(298)	

This is a factor analysis of net sales and operating income in the Cement segment. Please see the slides for details.

4. Reference Materials



Various reference figures are given on this page and the following pages.

Q&A: Cement price increase(1)

Q: I know you have been working hard to raise cement prices, but could you tell us what you have achieved up to the end of September? Also, how far do you expect to get by next March?

The increase in the downstream price of ready-mixed concrete next year would be the best opportunity for the next increase in cement prices. You mentioned earlier that each ready-mixed concrete cooperative plans to raise prices considerably in early spring next year, but do you see the price of ready-mixed concrete will go up enough nationwide for users to accept an additional 3,000-yen increase in the cement price?

A: First, let me give you an update on the current progress of the price increase. Regarding the 2,000-yen price increase that we put forth last year, although some of the figures were not recorded during the first half, we had received the approval of almost all users as of October. Maybe, a little short of the figures for the first half, but it would come into effect in the second half.

As for the 3,000-yen price increase we announced this year, we initially presented it as a surcharge and added it to the budget for the second half. Then, it was left to the customer’s choice, and most of them chose the fixed price with the 3,000-yen increase.

Under the assumption that the price increase will be approved by all users by the end of this fiscal year through conventional negotiations, we are budgeting the figure of increase in stages. It means, the total figure has not been included in the budget for the second half. The 45 percent or so would come into effect.

Q: What do you mean by 45 percent?

A: It is the percentage of the estimated amount of money originally budgeted for the second half.

Q&A: Change in the contract type for ready-mixed concrete sales prices

Q: In relation to the case you just mentioned, there is a talk about the ready-mixed concrete industry changing its prices from a contract basis to a shipment basis. I know there have been reports of such talk in the Tokyo area and elsewhere, but how far do you think the story of the nationwide change to shipment basis is likely to go? If this were to happen, would it be possible to review the cement prices every three months?

A: Currently, the Tokyo District Ready-mixed Concrete Cooperative Association is running a PR campaign stating that they want to change from a contract basis to a shipment basis starting next year, but there are not many cooperatives in Japan that have put forward such a shipment-based price revision.

However, since cooperatives in rural areas don't have as many remaining contracts as those in large urban areas, the situation would change if cooperatives in large urban areas put forward the shipment-based price changes in the future. If such a groundwork can be laid nationwide, while I'm not sure if price reviewing of every three months is a good idea, the introduction of variable prices, such as the surcharge we recently proposed, would be easier to implement than at present.

Q&A: Surcharge on the price of coal

Q: You also explained that "the secondary increase of 3,000 yen practically has the same meaning as a surcharge for about a year". I understand that the movement toward surcharge did not gain much traction this time. Are you thinking about withdrawing it in the future? It would be the story of the next year or beyond, but what is your policy?

A1: We do not specifically want to withdraw the surcharge. The timing we proposed coincided with the period when the price of coal was rising steadily. So, customers were very wary of the surcharge. Partly because of it and due in part to the way the ready-mixed concrete industry sets its prices, most customers have chosen a fixed price this time.

If the timing were when there were no extreme reasons, such as a spike in the price of coal, this surcharge would be very highly regarded and easily accepted. We would like to work on it while keeping an eye on how the shipping price of ready-mixed concrete will be determined in the future.

A2: I have a few additional points. In the past, no cement manufacturer has ever launched a system like a surcharge. Ready-mixed concrete companies say “it's a new way of thinking” and “easy to understand”, but it's not easy for ready-mixed concrete cooperatives to revise prices every two months.

However, just because ready-mixed concrete cooperatives revise the price basically once a year, we do not consider our prices to be fixed. Our initial surcharge idea was that the price is revised every two months based on indicators.

We have not given up the surcharge. We concluded that we must raise the price by as much as 5,000 yen this time based on the average price we worked out under the assumption that the price is reviewed once a year instead of every two months to make it easier for ready-mix cooperatives and users to pass it on to their prices.

In our industry, we have never seen such a situation before. This is a very painful situation, and the best way to deal with it is to face the cement price. Until now, the cement pricing policy has been based on the current price, but I believe the ideal pricing policy should be based on production cost and the funds for necessary future investments.

In a situation that requires a major price change, the nature of price revision or the concept of price itself is changing. Surcharging is one of those ideas we have not had in the past hundred years and more. We see it as an opportunity to rethink our future pricing policy.

It is not because other companies in the same business are not following suit, but because, as a manufacturer, we have the idea of “what product prices should be.” It will be a bit long but let me explain the history of the cement industry in Japan as the background of what is happening now. We are now in our 141st year of operation. We had been growing for all 110 years until the bursting of the bubble economy. As a result, domestic cement production has increased from 0 to 100 million tons.

The volume increased every year, so we were able to be profitable even if being indifferent to prices. Then, for the 30 years after the bubble burst, the volume declined sharply to about 45% of what it used to be. Probably, we should have thought more about the price when something that had continued to grow for 110 years has decreased in 30 years or so.

By working hard to recycle waste materials, lowering costs and streamlining operations by reducing the number of plants, we have managed to run the company without raising cement prices too much. We regret very much that we have come to this point in our history without having to think very seriously about prices.

In order to continue the cement business in Japan, it will take a lot of money to invest in various ways, such as mine development and carbon neutrality. The newest kiln in our plants is 60 years old, and we don’t know when it will break down. We must replace the basic equipment in turn. Putting this in perspective and taking it as an opportunity, we should determine prices as money will be spent on various portions of domestic plants.

Q&A: Relationship between cement price increase and the price of coal

Q: I would like to ask a little more about the price increase. I believe that the price of coal has now dropped from its peak of $400 to about $300, and there has been some movement to lower the price a bit.

You mentioned earlier that the 2,000-yen price increase has penetrated in the market, but I believe the price of coal is a bit volatile now. Will you be able to complete the additional 3,000-yen increase at this point? It wouldn't be easy for you to improve earnings without raising the price. How should we look at this?

A1: Although the price of coal is now falling slightly due to futures and other factors, we believe that the price increase of 3,000 yen is a must, as the domestic purchase price, including freight, is still around $400.

A2: As for the price increase that we announced last year, many companies, including ready-mixed concrete cooperatives, incorporated it into their price revisions in June this year. Therefore, it must be quite difficult to pass on the additional increase of 3,000 yen to the price from October.

The cooperative in each district has announced the timing of the price increase for ready-mixed concrete, saying that it will start at the beginning of the year or in April next year. In our negotiations to date, we found that the situation of cement manufacturers is well recognized, but it is difficult to raise prices twice or three times a year. In fact, many cooperatives want to raise 3,000 yen at a good and convenient time, such as from the beginning of the year or from next April.

However, as I mentioned earlier, we are trying very hard to negotiate with cutomers to get their understanding as soon as possible, suggesting a slight hike at least a month or two before the ready-mixed concrete price increase begins. It took us much longer than planned to gain their understanding of the 2,000-yen price increase, but it means we could explain the detailed circumstances.

Since everyone is aware of our situation, we do not have to start from scratch in negotiating an additional 3,000-yen price increase. We should be careful about the timing only. The cooperatives have been relatively understanding, proposing larger-than-ever increase in ready-mixed concrete unit prices of 3,000, 4,000, or 5,000 yen. This price increase would be realized, but we are negotiating hard to obtain as much agreement as possible from customers before that.

Questioner: Thank you. I understand you are working on the price increase faster than ever.

Q&A: Overseas situation and future outlook

Q: Let me ask you about overseas. With business confidence in the U.S. still cautious regarding housing and other issues, please tell us about your outlook for demand. Also, earnings from Asia seem to be getting a little tougher.

The situation seems to have changed a bit from the assumptions made in the first quarter due to the lockdown in China and other events. The scope is huge with the U.S. and Asia, but please tell us about the situations around there.

A: First, as for the U.S., I would like to focus on the current situation based on what we explained in the August briefing for the first quarter.

As you know, the number of housing starts has declined in response to the decline in the number of homes sold. However, the number of houses completed has not. The move to build up backlogs and inventories, which we reported in the briefing for the first quarter results, has continued until recently. We do not expect a significant decrease in these backlogs and inventories until the middle of December at the earliest or the first quarter of next year.

Since the number of permits for construction starts is decreasing, the demand for housing would also drop from around the second half of next year. However, the U.S. Democrats are fighting a good fight in the election, so we believe that there will certainly be spending by the Biden administration on infrastructure investments starting around the second half of next year.

As for public investments, it has the nature of using very large amounts of cement per million dollars. From the cement industry's point of view, public investment is very efficient. It has a positive effect on us, realizing cement usage at twice the level of housing investment. Of course, we can expect a big spillover effect.

In terms of the current situation, I mentioned earlier that the number of construction starts has decreased, but it is still at a high level with one million units, compared to 500,000 units at the time of the 2008 global financial crisis. If this level continues, the demand would never decrease significantly.

As for Asia, as you have pointed out, China’s performance has been much worse than expected. In particular, the zero-coronavirus policy, specifically the Shanghai lockdown, and more sporadic regional “block-downs”, have had a considerable impact. Although it is difficult to generalize for the first quarter as it includes the Chinese New Year, overall production volume in China declined by 12 percent or so.

Initially, the production volume was expected to return in the second quarter with the end of the Chinese New Year, but the impact of the Shanghai lockdown was significant, resulting in a reduction of 17 percent. Also, the production volume has not recovered well in the third quarter, when it was expected to do so, at minus 7 percent. We are beginning to see an economic recession and a decline in the real estate market due in part to this. We need to keep a close watch on the situation.

Furthermore, in terms of performance, the price of Chinese coal rose about $100 last year but dropped earlier this year. The Chinese government has been working to increase production and imports of Russian coal. As of September, China's coal production has increased by 300 million tons. The coal imports from Russia have increased more than 10% from last year and more than 80% from the year before.

Also, the price of coal fell from June to August, which was a bit of a relief for us, but then the buying up in preparation for winter started, and the price has risen a bit again. Of course, it's lower than the price at its peak, but it remains high. As for China, these two points are different from the assumptions we reported at the briefing for the first quarter.

Regarding Vietnam, there are two points. The indirect impact of the Shanghai lockdown mentioned earlier has reduced Chinese cement demand, which led to a significant drop in exports from Vietnam. There were no clinker exports from Vietnam to China in June for the first time since the export began in April 2017. Since then, there have been few signs of improvement. As a result, not only are exports to China declining, but the impact is bouncing back to the domestic Vietnamese market, making competition tougher. This is the first point.

The second point is that the government raised the interest rate for the first time in 11 years in September and again in October by 1 percent to curb the depreciation of the dong and price increases, which is quite an unusual situation. In addition, tighter loan restrictions for construction and real estate have been imposed to keep prices down, which are temporarily delaying projects and dampening demand.

As mentioned above, for Vietnam, the indirect impact from China and the interest rate hike in response to the strong dollar are two major differences from our assumption as of August.

Q: Am I correct in understanding that the forecast in the Overseas Division has been revised because of some portions that are slightly different from your assumption?

A: You’re right. However, in the case of the U.S., as we reported earlier, demand has not yet decreased at all. For example, demand in the five states through August has been positive.

The five-state figure of negative 0.6 percent for January through August is largely due to the impact of the Washington State strike. The four states, excluding Washington State, are still strong on the ground, with January through August at positive 2.2 percent and July through August at positive 2.2 percent. Our subsidiary, CalPortland Company (CPC), also has substantial sales.

Therefore, as I mentioned a little while ago, for the U.S., we are not in a situation at the moment where it is reflected in the figures. I would like you to understand that the decrease in profit in the U.S. is only due to the temporary effects of troubles or something else.

Q&A: Cement price increase(2)

Q: Please allow me to confirm what you said about the price increase that everyone has been asking about. The remark of cement companies at the briefing session, etc. that they "obtained consent to the price increase" seems a bit ambiguous. Am I correct in understanding that the current situation is that the price has gone up by 2,000 yen on a P/L basis since October 1?

A: Prices have been mostly up since October. Although some of the price increases will take effect in November, we expect it to come into effect from the beginning of the next period.

Q: So, you mean, the 2,000-yen increase will be included in the upcoming quarterly results?

A: Basically, we have negotiated with and sold to fixed accounts, or what we call customers, which account for about 80% of our total sales. I think it will come into effect. As for the construction account, since there are contracts from the past, properties will be completed in turn and replaced by new ones under the new contract.

Q: It makes a lot of sense for us as a manufacturer to announce a 5,000-yen price increase and keep this banner flying for a long time, but I wish ready-mixed concrete suppliers would also change their stances.

The ready- mixed concrete cooperative of Greater Osaka, which took the lead on the ready-mixed concrete side this time, said they have agreed to a total price hike of up to 3,000 yen. Also, at a recent briefing by a competitor, they said some of the additional 3,000-yen price increase has been factored into the budget for this fiscal year, and the remainder is to be addressed in the next fiscal year. This is a very realistic plan in terms of budget. Didn't you have such an option?

In short, after such a large downward revision and after hearing what you just said, I cannot help feeling the risk of another downward swing in domestic prices. I wonder if you have never thought of taking the stance of realistic budget.

A1: I think it depends on the budgetary approach. For us, this price increase of 5,000 yen is necessary to make a profit in normal times with conventional price of coal. In our announcement in October, we did not assume that "we cannot achieve it during this term" or "we give up from the beginning". We want to complete this price increase by the end of the fiscal year and reach the same profit margin from the next fiscal year.

A2: I think this is a story of not in theory but in practice. Our concern is the domestic cement business, especially on a non-consolidated basis. We were in the red last fiscal year and expected to sink even more deeply this fiscal year. Normally, if a company has been in the red for two consecutive years and cannot budget for the next year, it is subject to an impairment loss.

As a cement company, we must rebuild our core domestic cement business. Failure to do so would be a betrayal to the shareholders. For example, if we say, "2,000 yen will do for now", we must ship and sell the product in deficit. It is like sticking a wad of cash on the product.

They say that a 5,000-yen price increase will bring "initial profit". However, considering the future investments and various other things I mentioned earlier, it would not be much of a profit. It may be a reality, but if the price of coal stays around the current $400, a 5,000 yen price increase is necessary. Otherwise, the period during which we betray our shareholders will get longer. The management has such a sense of crisis. Please understand even a little about that.

Q&A: The 2024 problem of logistics

Q: Although a little further down the road, I am concerned about the 2024 problem. The other day, I asked a competitor about transportation costs. They did not give the amount but said they expected a significant impact and would have to ask the customers for the price pass-through. Is that correct for you as well?

A: We have a great sense of crisis about this. Of course, costs will rise considerably, and there is also the fundamental question of whether the Group's transportation companies can maintain their current structure. So, we will strive to save labor for the delivery system through the use of AI and other technologies.

At the same time, there is the issue of hiring people. Although we have introduced a surcharge system for freight paid to our group carriers, we would like to raise awareness of this issue among customers who actually pay freight since our main sales system is based on pick-ups.

Q&A: Concentration of repairs in the U.S.

Q: Not too long ago, I had the impression that there were not many regular repairs in the U.S., but it seems to be done well this time. Moreover, probably for the convenience of the contractors, repair works were concentrated during the same period.

Should we recognize this concentration as a risk for the next year and beyond? Or would you keep the schedule for repair works dispersed on the plan and then leave it to the contractors?

A1: Basically, the schedule for repair works will be dispersed. Unlike other companies, we have four plants, including one in Northern California. Our basic policy is to use this advantage to successfully spread out the schedule for repair works.

This year, we renewed the raw material mill at the Mojave Plant and got the work done to restore the production capacity. Since then, production capacity has recovered, resulting in increased sales and profits. It was a large-scale construction project scheduled to be done a little earlier but was delayed a bit due to the COVID-19 pandemic. This year, repairs were concentrated in the first half. We didn’t want to miss any chances for repairs when possible, which was a characteristic of this year.

Since the COVID-19 pandemic is expected to subside from next year on, our basic stance is to spread out the schedule for repair works so as not to miss any sales opportunities.

A2: Basically, the equipment utilization rate of U.S. companies is low. At the time of acquisition, it was 80 percent or so. Then it rose to 90-plus percent when Japanese technology was introduced. The newly acquired Reading plant had a utilization rate of 70 percent or so, but our engineers increased it by 20 percent to 90 percent. In this way, we continue to produce greater benefits after the acquisition.

To this end, we need engineers who can play active roles overseas, and it is important that such personnel has been trained well. Otherwise, we will end up just investing. I believe it is going well so far, especially in the U.S.

Also, as I mentioned earlier, the problem of logistics is very serious. We are addressing the problem throughout our supply chain in a carbon-neutral manner. For example, each cement manufacturer has a vessel for peak shipments in December. They also do run loading only one way. However, I don't think we need to compete in logistics. We, as the industry, need to think about how to improve the efficiency of logistics, especially the allocation of vessels, to reduce CO2 emissions and how to secure employment for drivers.

The same is true on the ready-mixed concrete company side. There are few young drivers, and aging of drivers is underway. The era of unmanned driving may arrive someday, but it's still a long way ahead. As you say, the issue of personnel is very important. I believe we should work hard on this issue from now on.

Q&A: Acquisition of Denka's cement sales business

Q: I would like to ask you about the acquisition of Denka's cement sales business. I think it is a sales business of a little over 1 million tons. I imagine it is just large enough to make up for the decrease of a little over 1 million tons in exports this year. Which plant will you use to produce this quantity? I imagine that if it is from Hokuriku Plant centering on your Myojo Cement, you would not be able to produce 1 million tons. Do you get it from other plants, such as Hokkaido and Oita?

A: Denka operates mainly in Hokuriku, but also sells in Gunma, Nagano and Nagoya in the Chubu region. It does not mean that everything comes from the Itoigawa Plant. As I mentioned, we have a very good arrangement of the plant locations. There is also Tsuruga Cement in Hokuriku. Therefore, we are not so worried about it in terms of logistics because there is no extreme burden placed on Myojo Cement.

As for exports, since we have raised prices considerably overseas, we can generate marginal profits even in the current situation. Taiheiyo Cement has exported an average of 4 million tons to date. It means we can develop various things in the future if domestic circumstances require them.

You mentioned "just 1 million tons to make up for exports," but there is no need to reduce exports to get 1 million tons. For example, if two Myojo Cement kilns were operated at full capacity, we could increase our production by about 600,000 tons. The remainder can be collected from each district SS and other plants. We are not talking about cutting exports for this purpose. The decrease of 500,000 tons in export in the first half occurred because we refrained from shipping to those destinations where we had not been able to raise the price.

Q: Did you mean you will ship products basically from the two plants in Hokuriku? Have you ever thought of increasing the utilization rate of other plants, such as the Oita Plant?

A: We will ship from the plants that have many SSs nearby. There are users of Denka in Nagoya and Gifu. There may be cases where it is better to send the product out of the Fujiwara Plant. Anyway, we will ship from where there are logistical benefits, which means it is not necessary to get them out of Myojo Cement by any means.