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TAIHEIYO CEMENT

Reference Materials of Financial Results for the Fiscal Year Ended March 31, 2023

May 11, 2023

TAIHEIYO CEMENT CORPORATION

Taiheiyo Cement expects operating income to increase by 53,600 million yen YoY to 58,000 million yen in the fiscal year ending March 31, 2024, due to cement price revisions, etc.

The following is a transcription of Taiheiyo Cement Corporation's financial results presentation for the fiscal year ended March 31, 2023, which was given on May 12, 2023.

[Speakers]

Masafumi Fushihara, President and Representative Director, Taiheiyo Cement Corporation

Naoyuki Kira, Managing Executive Officer, Senior General Manager of Cement Business Division and General Manager of Sales Department Cement Business Division, Taiheiyo Cement Corporation

Masahiro Ban, Managing Executive Officer, Taiheiyo Cement Corporation

Masao Osumi, General Manager of Business Development Department, International Business Division, Taiheiyo Cement Corporation

Tomonori Yamamoto, General Manager of Corporate Planning Department, Taiheiyo Cement Corporation

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Management Overview and Management Policy

Masafumi Fushihara: I am Masafumi Fushihara. Yesterday, we announced our financial results for the previous fiscal year and our forecast for the current fiscal year. Regarding the financial results, the consolidated operating profit was 4,400 million yen, and the profit attributable to owners of parent was negative 33,200 million yen, a very difficult outcome. Details will be explained later by the staff in charge.

For the current fiscal year, we are forecasting an operating profit of 58,000 million yen and a profit attributable to owners of parent of 40,000 million yen. There are many ways to look at this, but the way we see it, these are the most solidly assumed figures.

We have been determined to make a V-shaped recovery this year. Since last year, we have been working hard to revise prices and secure coal, even in the face of difficult conditions, and this 58,000 million yen is the most rigorously calculated figure given the situation.

I think the most important key points to look at here are the prices and how price negotiations are proceeding. The details will be explained later by the staff in charge, but in my understanding, the price negotiations have basically already been completed.

Since some customers have requested that the price revision be made from this second half of the year or from July of this year, we still have some negotiations to do, such as asking that the price revision be made from April or at least within the first quarter. Still, all users have agreed to the 3,000 yen price increase.

We have spent sufficient time explaining the situation to our customers, and so far, we have gained understanding from most of our users. We see the negotiations as basically over, with only a few remaining regarding the start date.

The 58,000 million yen in the operating profit forecast for this fiscal year is based on customers' current requests, so we expect it to be a little higher if the start date is moved up.

Regarding coal procurement, the ratio of coal in the past was approximately 60% Russian, with the remaining 40% Australian, but due to government policy, we will reduce the amount of Russian coal to zero in FY2023. In addition to Australian coal, we now expect to be able to secure all the coal we need for the current fiscal year through the use of the Indonesian and North American coal that we began procuring during the last fiscal year. Now we just need to determine how to balance the weight of long-term and spot contracts while keeping an eye on prices.

Since the nearby Russian coal is no longer available, the coal will be brought in by large vessels. This is not a problem for our Oita plant, where large vessels can dock, but for our other plants, we will need to handle this in different ways, such as by unloading at two ports somewhere in Japan. However, if the coal is brought in by large vessels, we should be able to lower the cost of the coal through ship-to-ship transfers, so we will experiment with that this fiscal year.

In response to the various future concerns about Russian coal and the government's policy, we have succeeded in securing coal in FY2023 without any contracts for Russian coal.

In addition, we withdrew our application for the Tehachapi plant, the second plant we had planned to acquire through M&A in the US, due to a lack of prospects for approval by the Federal Trade Commission.

The first, the Redding plant in Northern California, had a capacity utilization rate of 70 percent at the time of acquisition, but in less than a year, it is now over 90 percent. We have the benefit of that increased production, and through proper port upgrades in the future, we will be able to distribute imported cement in even better ways than before. Accordingly, to make up for the Tehachapi plant that we were not able to acquire, we hope to be able to meet demand in this way.

There were many events in FY2022, but we were able to achieve most of our price negotiations. As for overseas projects, the acquisition in the US is, as I have just mentioned, and the renewal work at our plant in the Philippines is progressing smoothly according to schedule. We will be able to start operations in May of next year.

In the future, we plan to double our sales volume. It is easy to produce a lot, but we need to handle things well, so we are acquiring land on Luzon, the island where Manila is located, to build a service station and develop a distribution network.

In Indonesia, the construction of a pier at the plant of a company in which we invested the year before last is progressing almost according to schedule. When completed, the pier will enable the distribution of clinker and cement by large vessels. We have also been able to establish a cooperative relationship with our parent company, Semen Indonesia, which will be able to supply us with nearly 1 million tons from its plant. In this way, I feel that this was a year in which we were able to establish various logistics networks within the Pacific Rim.

Currently, there are not a lot of soil stabilizers available in Indonesia. Since it is a coal-producing country, it has a lot of peat soil similar to that of Hokkaido, Japan, and ordinary cement will not solidify. For this reason, we have provided our technology to Semen Indonesia for the development of soil stabilizers, and this is also progressing well.

Indonesia is undergoing a major construction project to relocate its capital, and we expect a considerable number of soil stabilizers will be produced in the future. In light of this situation, we are now able to work together on new projects, such as a soil stabilizer joint venture.

As for Vietnam, however, a struggle within their administration has been going on for more than a year, and the prime minister has resigned, which has caused some confusion. As a result, most construction work has been halted for about a year, with permission ungranted even after projects have been ordered and reported.

Vietnam is now the world's largest exporter and exports most of its products to China. However, exports had to stop due to China's COVID-19 countermeasures, which resulted in a market condition decline with excessive competition in the absence of properties due to cheap domestic sales.

The situation has been difficult since FY2020, combined with turmoil in the administration, but I do not think the economy will stagnate for two years again in the future, and the trends have been changing a bit recently. Therefore, I do not expect this year to turn out like last year.

This year is the year in which Taiheiyo Cement will formulate its new medium-term management plan, and we are now beginning that process. The premise for creating it is not to create only a plan for the next three years but to envision what kind of company we will be in the distant future, as we did 10 years ago when envisioning the mid-2020s, formulate three medium-term plans within that vision, and achieve those goals.

When creating our medium-term management plan 10 years ago, the keyword at the time was "the Pacific Rim." We have been working to become a corporate group with a meaningful presence in the Pacific Rim, and we are now in the final year of our third medium-term management plan. Our position within the Pacific Rim and the development of our various businesses have not deviated from what we originally envisioned. However, the figures for domestic demand, for example, are significantly off.

Accordingly, I would like for us to spend this year deciding what kind of company Taiheiyo Cement should be 10 years later, as well as various matters related to carbon neutrality toward 2030, which is the interim target for carbon neutrality six years from now, and announce a new medium-term plan around this time next year.

Last fiscal year, we took over Denka’s cement business. We have been selling Denka’s cement under the Taiheiyo brand since April of this year. That sales volume is approximately 1 million tons. Denka will produce the cement at its plant for two years, and during that time, we will be upgrading Myojo Cement's processing facilities to be able to accept all of Denka's waste.

In two years, if demand does not change from what it is today, we will need to increase production at our existing plants for the 1 million tons that Denka will produce. It is essential to know how to strengthen our plants in case domestic demand does not change and how to handle logistics, especially shipping issues.

In addition, the 2024 issue in logistics is coming up next year. Overtime work will be more restricted than now, and hiring new personnel will be difficult. In the midst of this situation, we are discussing with logistics companies ways to prevent logistics from becoming stagnant by suggesting things such as trying out joint car dispatch, for which efforts have been underway for the last two or three years.

I believe that we must carefully discuss the 2024 issue throughout the year and move forward with various matters so that we will not panic next year. Four years ago, Taiheiyo Cement received 500,000 to 600,000 tons of OEM from Hitachi Cement. It will now receive 1 million tons from Denka in the form of a business transfer.

Taiheiyo Cement became the first private company to produce cement in Japan in 1881. The company was established 142 years ago under its basic philosophy of "making cement as a private company because it is necessary for Japan," not "making cement because it is profitable." Therefore, we want Taiheiyo Cement to supply cement to Japan as long as Japan needs it. The OEM from Hitachi Cement and the business transfer from Denka are part of this philosophy.

It remains to be seen how the cement business will be handled in the future restructuring of other cement manufacturers. I expect the situation to become clearer over the next few years, but under such circumstances, I would like for us to continue supplying the cement that Japan needs for as long as possible.

I have received various suggestions, such as, "What if we reduce our number of kilns like other companies?" or "Why don't we want to reduce them?" but I would like for us to wait and see how things turn out. However, we cannot afford to lose profits, so we will lower our costs and proceed proficiently. That is all for the overview.

Summary of Financial Results for FY2022 and Forecast for FY2023

Masahiro Ban: I will explain the financial results for fiscal 2022 and the forecast for fiscal 2023.

1. Highlights of Consolidated Financial Results

1. Highlights of Consolidated Financial Results

TAIHEIYO CEMENT

(Million yen)

	FY2022	FY2023	Change
Net sales	708,201	809,542	101,340
Operating profit	46,701	4,456	(42,245)
Ordinary profit	50,193	1,015	(49,177)
Profit attributable to owners of parent	28,971	(33,206)	(62,178)
< Indexes >	FY2022	FY2023	Change
Capital adequacy ratio (%)	46.3	39.0	(7.3)
Capital adequacy ratio based on market value (%)	21.4	22.9	1.5
Net assets per share (Yen)	4,362.2	4,228.5	(133.8)
Basic earnings per share (Yen)	245.8	(283.7)	(529.5)
Ordinary profit to total assets ratio (%)	4.7	0.1	(4.6)
Rate of return on equity (%)	5.9	(6.6)	(12.5)
Operating profit to net sales ratio (%)	6.6	0.6	(6.0)

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First, here are the highlights of the consolidated financial results. Net sales were 809,500 million yen, up 101,300 million yen from the previous year; operating profit was 4,400 million yen, down 42,200 million yen from the previous year; ordinary profit was 1,000 million yen, down 49,100 million yen from the previous year; and profit attributable to owners of parent was negative 33,200 million yen, a deterioration of 62,100 million yen from the previous year.

2. FY2022 Results (1) Consolidated Segment Information

2. Financial Results for the Fiscal 2023

TAIHEIYO CEMENT

(1) Consolidated Segment Information

Net Sales and Operating Profit by Reportable Segments

(Million yen)

		Net Sales			Operating Profit		
		FY2022	FY2023	Change	FY2022	FY2023	Change
Cement Business	Domestic	237,490	255,740	18,249	(1,851)	(36,918)	(35,066)
	Overseas Subsidiaries, etc.	225,723	297,301	71,577	26,040	22,019	(4,020)
	Total	463,214	553,041	89,827	24,188	(14,898)	(39,087)
Mineral Resources Business		77,182	82,706	5,523	6,034	5,556	(478)
Environmental Business		72,315	77,911	5,595	6,647	5,871	(776)
Construction Materials Business		65,096	68,270	3,173	3,493	2,351	(1,141)
Other		89,025	86,926	(2,099)	6,920	5,108	(1,811)
Total		766,835	868,855	102,020	47,285	3,989	(43,295)
Elimination		(58,633)	(59,313)	(679)	(583)	466	1,050
Consolidated Total		708,201	809,542	101,340	46,701	4,456	(42,245)

Here is the segment information. Net sales increased in all segments except the “Other” segment. Operating profit significantly worsened in the domestic cement segment, with a loss of 36,900 million yen. All other segments are in the black but have declined.

2. FY2022 Results (1) Consolidated Segment Information

2. Financial Results for the Fiscal 2023

TAIHEIYO CEMENT

(1) Consolidated Segment Information

Cement Business

Sales Volume of Cement (Thousand tons)

	FY2022	FY2023	Change
Domestic	13,363	13,129	(233)
Export	4,147	2,438	(1,709)

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

FY2022	FY2023	Change
109.9	131.6	21.7

(Million yen)

		FY2022	FY2023	Change	Main Factors of Changes in Net Sales and Operating Profit
Net Sales	Domestic	237,490	255,740	18,249	Decrease in sales volume of domestic cement and soil stabilizers -3.3 billion yen Decrease in export cement volume -9.1 billion yen Price difference in domestic cement and soil stabilizers +21.0 billion yen Price difference in export cement +5.7 billion yen Increase in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. +4.0 billion yen
	Overseas Subsidiaries, etc.	225,723	297,301	71,577	U.S.A +US$264 million China -US$68 million, Asia and other +US$28 million Effect of foreign exchange, etc. +47.0 billion yen
	Total	463,214	553,041	89,827	
Operating Profit	Domestic	(1,851)	(36,918)	(35,066)	Decrease in sales volume of domestic cement and soil stabilizers -1.2 billion yen Decrease in export cement volume -3.1 billion yen Price difference in domestic cement and soil stabilizers +19.9 billion yen Increase in net export cement revenue +4.5 billion yen Increase in variable cost -52.5 billion yen Increase in fixed cost -1.2 billion yen Decrease in income from subsidiaries producing or selling cement or ready-mixed concrete, etc. -1.5 billion yen
	Overseas Subsidiaries, etc.	26,040	22,019	(4,020)	U.S.A -US$14 million China -US$32 million, Asia and other -US$27 million Effect of foreign exchange, etc. +4.0 billion yen
	Total	24,188	(14,898)	(39,087)	

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Here is the breakdown by cement segment. Our domestic cement sales volume was 13.129 million tons, down 230,000 tons from the previous year. Export volume was 2.438 million tons, down 1.709 million tons from the previous year. The exchange rate was 131.60 yen to the dollar, a depreciation of 21.70 yen.

Domestic cement sales increased by 18,200 million yen from the previous year to 255,700 million yen. Although both domestic and export cement sales were affected by lower cement sales volume, sales of domestic cement and soil stabilizers increased by 21,000 million yen, and export cement sales increased by 5,700 million yen due to sales price differentials. These were the result of efforts to raise prices. At overseas subsidiaries, our U.S.A. business posted a gain of 264 million dollars, and foreign exchange, etc., had a positive impact of 47,000 million yen.

Next is domestic operating profit. There was a 52,500 million yen impact of our variable cost increase due to higher coal prices and electricity costs. Both domestic and export price hikes had a 19,900 million yen and 4,500 million yen effect, respectively, but could not cover the increase in variable costs. As a result, domestic operating profit deteriorated by 35,000 million yen from the previous year to negative 36,900 million yen.

Operating profit of overseas subsidiaries, etc., was negative 14 million dollars in the U.S.A., negative 32 million dollars in China, and negative 27 million dollars in Asia and others, for a total operating loss of 4,000 million yen. The total operating loss for the domestic and overseas cement segment was 14,800 million yen.

2. FY2022 Results (1) Consolidated Segment Information

2. Financial Results for the Fiscal 2023 TAIHEIYO CEMENT

(1) Consolidated Segment Information

Reportable Segments (Excluding Cement Business) and Other

(Million yen)

		FY2022	FY2023	Change	Main Factors of Changes in Net Sales and Operating Profit
Mineral Resources Business	Net Sales	77,182	82,706	5,523	Aggregates business remained strong mainly in Kanto region and Chubu region Some of the various cost increases passed on to selling prices
	Operating Profit	6,034	5,556	(478)	Decreased due to various cost increases
Environmental Business	Net Sales	72,315	77,911	5,595	Sales of calcium carbonate used for flue gas desulfurization, gypsum, and fuel remained strong
	Operating Profit	6,647	5,871	(776)	Foreign exchange impact deteriorated profitability in biomass fuel business
Construction Materials Business	Net Sales	65,096	68,270	3,173	Sales of ALC (Autoclaved Lightweight Concrete) and contruction materials remained strong despite sales of ground improvement projects remained sluggish
	Operating Profit	3,493	2,351	(1,141)	Rapid rise in raw material prices Decrease in sales of ground improvement projects
Other	Net Sales	89,025	86,926	(2,099)	
	Operating Profit	6,920	5,108	(1,811)	

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Here are the results for segments other than cement. In the mineral resources segment, net sales increased by 5,500 million yen from the previous fiscal year due to solid performance in the aggregate business in the Kanto and Chubu region and an increase in various types of costs partly passed on to sales prices. The final operating profit was 5,500 million yen, down 400 million yen from the previous year, due to the residual effects of cost increases.

In the environmental segment, sales increased by 5,500 million yen from the previous fiscal year due to strong sales of calcium carbonate used for flue gas desulfurization and sales of fuel. However, the profit/loss of the biomass fuel business deteriorated due to the impact of yen depreciation, resulting in a profit of 5,800 million yen, down 700 million yen from the previous fiscal year.

In the construction materials segment, sales of ALC (Autoclaved Lightweight Concrete) and construction materials were strong, and net sales increased by 3,100 million yen from the previous fiscal year. On the other hand, operating profit declined 1,100 million yen from the previous year to 2,300 million yen due to the rapid rise in raw material prices.

In the Other segment, operating profit decreased by 1,800 million yen from the previous year due to the completion of a large property in the engineering business and higher costs in the power generation business.

2. FY2022 Results (2) Consolidated Statements of Income

2. Financial Results for the Fiscal 2023

TAIHEIYO CEMENT

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

(Million yen)

	FY2022	FY2023	Change
Operating profit	46,701	4,456	(42,245)
Non-operating income and expenses	3,491	(3,440)	(6,932)
Ordinary profit	50,193	1,015	(49,177)
Extraordinary income and losses	(7,372)	(17,382)	(10,009)
Profit before income taxes	42,820	(16,366)	(59,187)
Income taxes	11,769	17,872	6,102
Profit attributable to non-controlling interests	2,079	(1,032)	(3,111)
Profit attributable to owners of parent	28,971	(33,206)	(62,178)

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Here are the consolidated statements of income for the items below operating profit. Non-operating income and expenses was negative due to an increase in financial expenses and a deterioration in equity in earnings of affiliates due to impairment losses on fixed assets of affiliates. Extraordinary income and losses were negative 17,300 million yen, mainly due to withdrawal costs from a consolidated subsidiary in China.

Income taxes include a 10,200 million yen reversal of deferred tax assets implemented in the second quarter. In the end, profit attributable to owners of parent was negative 33,200 million yen, a deterioration of 62,100 million yen in gains and losses from the previous year.

2. FY2022 Results (3) Consolidated Balance Sheets

2. Financial Results for the Fiscal 2023

TAIHEIYO CEMENT

(3) Consolidated Balance Sheets

(Million yen)

		As of Mar. 31, 2022	As of Mar. 31, 2023	Change
Current assets	Cash and deposits	60,271	79,842	19,570
	Trade receivables	166,533	182,963	16,429
	Inventories	94,189	138,373	44,183
	Other	19,555	29,228	9,673
	Total current assets	340,550	430,408	89,857
Non-current assets	Total property, plant and equipment	557,829	620,083	62,254
	Total intangible assets	27,566	39,766	12,200
	Total investments and other assets	177,061	178,604	1,543
	Total non-current assets	762,457	838,454	75,997
Total assets		1,103,007	1,268,862	165,854

			As of Mar. 31, 2022	As of Mar. 31, 2023	Change
Liabilities		Current liabilities	309,768	385,784	76,016
		Non-current liabilities	248,440	354,221	105,780
		Total liabilities	558,208	740,005	181,796
Net assets	Shareholders' equity	Share capital	86,174	86,174	-
		Capital surplus	49,729	49,729	0
		Retained earnings	384,154	342,880	(41,273)
		Treasury shares	(13,766)	(13,738)	27
		Total shareholders' equity	506,291	465,045	(41,245)
		Accumulated other comprehensive income	4,325	29,911	25,585
		Non-controlling interests	34,181	33,899	(281)
		Total net assets	544,799	528,857	(15,941)
Total liabilities and net assets			1,103,007	1,268,862	165,854

	As of Dec. 31, 2021	As of Dec. 31, 2022	Change
Exchange rate at end of period (Yen/US$)	115.02	132.70	17.68

	As of Mar. 31, 2022	As of Mar. 31, 2023	Change
Interest-bearing debt (Million yen)	270,587	403,485	132,898

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Regarding the consolidated balance sheets, I will only explain the main increases and decreases. Please look at the total assets on the lower left of the table in the slide. Total assets at the end of the term were 1,268,800 million yen, an increase of 165,800 million yen from the end of the previous term. The main drivers for this were an increase in inventories due to higher coal prices and other factors, the acquisition of assets in the U.S.A., an increase in fixed assets due to a change in lease accounting standards, and the impact of the exchange rate.

Total liabilities at the top right of the table increased by 181,700 million yen from the end of the previous term to 740,000 million yen. The main reason for this was the increase in interest-bearing debt shown in the bottom right of the table. In addition to the acquisition of assets in the U.S.A., the increase was also due to the deterioration of cash flow from operating activities caused by higher coal prices.

Regarding net assets, retained earnings decreased by 41,200 million yen from the end of the previous term. There was also a decrease of 15,900 million yen as a result of an increase in accumulated other comprehensive income due to foreign currency translation adjustments resulting from the depreciation of the yen.

2. FY2022 Results (4) Consolidated Statements of Cash Flow

2. Financial Results for the Fiscal 2023

TAIHEIYO CEMENT

(4) Consolidated Statements of Cash Flows

(Million yen)

	FY2022	FY2023	Change
Cash flows from operating activities	71,191	(268)	(71,460)
Cash flows from investing activities	(83,919)	(93,344)	(9,424)
Cash flows from financing activities	(3,742)	112,080	115,822
Effect of exchange rate change on cash and cash equivalents	2,864	2,048	(816)
Net increase (decrease) in cash and cash equivalents	(13,606)	20,515	34,121
Other	—	99	99
Cash and cash equivalents at beginning of period	63,819	50,213	(13,606)
Cash and cash equivalents at end of period	50,213	70,828	20,614

＜Indexes＞	FY2022	FY2023	Change
Current ratio (%)	109.9	111.6	1.6
Cash flow to interest-bearing debt ratio (Year)	3.8	—	—
Interest coverage ratio (Times)	32.4	—	—
Net debt/equity ratio (Times)	0.41	0.65	0.24

* In FY2023, "Cash flow to interest-bearing debt ratio" and "Interest coverage ratio" are not shown because "Cash flows from operating activities" is negative.

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Here is the consolidated cash flow. Cash flows from operating activities for FY2022 were negative. The negative cash flows from investing activities of 93,300 million yen include a portion of funds for the acquisition of U.S.A. assets and the renewal of the cement plant of Taiheiyo Cement Philippines, Inc.

The lower part of the slide shows indexes related to financial structure. The Net debt/equity ratio (DER) increased by 0.24 points to 0.65 times due to an increase in net interest-bearing debt.

3. Forecast for the Fiscal 2023 (1) Consolidated Statements of income

3. Forecast for the Fiscal 2024

TAIHEIYO CEMENT

(1) Consolidated Statements of Income

(Hundred million yen)

	FY2023 (Actual)	FY2024 (Forecast)	Change
Net sales	8,095	9,200	1,105
Operating profit	44	580	536
Ordinary profit	10	560	550
Profit attributable to owners of parent	(332)	400	732
＜Preconditions＞			
Domestic demand of cement (Ten thousand tons)	3,728	3,800	72

Here is the forecast for fiscal 2023. As a precondition, the domestic demand for cement is estimated at 38 million tons.

Compared to fiscal 2022, we expect net sales to increase 110,500 million yen to 920,000 million yen, operating profit to increase 53,600 million yen to 58,000 million yen, ordinary profit to increase 55,000 million yen to 56,000 million yen, and profit attributable to owners of parent to improve by 73,200 million yen to 40,000 million yen.

3. Forecast for the Fiscal 2023 (2) Segment Information

3. Forecast for the Fiscal 2024

TAIHEIYO CEMENT

(2) Consolidated Segment Information

Net Sales and Operating Profit by Reportable Segments

(Hundred million yen)

		Net Sales			Operating Profit		
		FY2023 (Actual)	FY2024 (Forecast)	Change	FY2023 (Actual)	FY2024 (Forecast)	Change
Cement Business	Domestic	2,557	3,220	663	(369)	73	442
	Overseas Subsidiaries, etc.	2,973	3,220	247	220	287	67
	Total	5,530	6,440	910	(148)	360	508
Mineral Resources Business		827	920	93	55	76	21
Environmental Business		779	810	31	58	69	11
Construction Materials Business		682	770	88	23	32	9
Other		869	950	81	51	50	(1)
Total		8,688	9,890	1,202	39	587	548
Elimination		(593)	(690)	(97)	4	(7)	(11)
Consolidated Total		8,095	9,200	1,105	44	580	536

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Here is the forecast by segment. Net sales are expected to increase in all segments, and operating profit is expected to increase in all but the Other segment.

3. Forecast for the Fiscal 2023 (2) Segment Information

3. Forecast for the Fiscal 2024

TAIHEIYO CEMENT

(2) Consolidated Segment Information

Cement Business

Sales Volume of Cement (Thousand tons)

	FY2023 (Actual)	FY2024 (Forecast)	Change
Domestic	13,129	14,300	1,171
Export	2,438	2,450	12

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

FY2023 (Actual)	FY2024 (Forecast)	Change
131.6	134.0	2.4

(Million yen)

		FY2023 (Actual)	FY2024 (Forecast)	Change	Main Factors of Changes in Net Sales and Operating Profit
Net Sales	Domestic	2,557	3,220	663	Increase in sales volume of domestic cement and soil stabilizers +17.5 billion yen Increase in export cement volume +0.1 billion yen Price difference in domestic cement and soil stabilizers +45.2 billion yen Price difference in export cement -1.1 billion yen Increase in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. +4.5 billion yen
	Overseas Subsidiaries, etc.	2,973	3,220	247	U.S.A +US$194 million China -US$122 million, Asia and other +US$89 million Effect of foreign exchange, etc. +3.5 billion yen
	Total	5,530	6,440	910	
Operating Profit	Domestic	(369)	73	442	Increase in sales volume of domestic cement and soil stabilizers +1.3 billion yen Increase in export cement volume +0.0 billion yen Price difference in domestic cement and soil stabilizers +42.3 billion yen Increase in net export cement revenue +0.5 billion yen Decrease in variable cost +3.9 billion yen Increase in fixed cost -2.6 billion yen Decrease in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. -1.2 billion yen
	Overseas Subsidiaries, etc.	220	287	67	U.S.A +US$34 million China +US$10 million, Asia and other +US$1 million Effect of foreign exchange, etc. +0.6 billion yen
	Total	(148)	360	508	

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Here are the detailed increases and decreases in the cement segment. The top row of the table on the slide shows the assumed figures. Our domestic cement sales volume is forecast at 14.3 million tons, export at 2.45 million tons, with the exchange rate assumed to be 134 yen to the dollar.

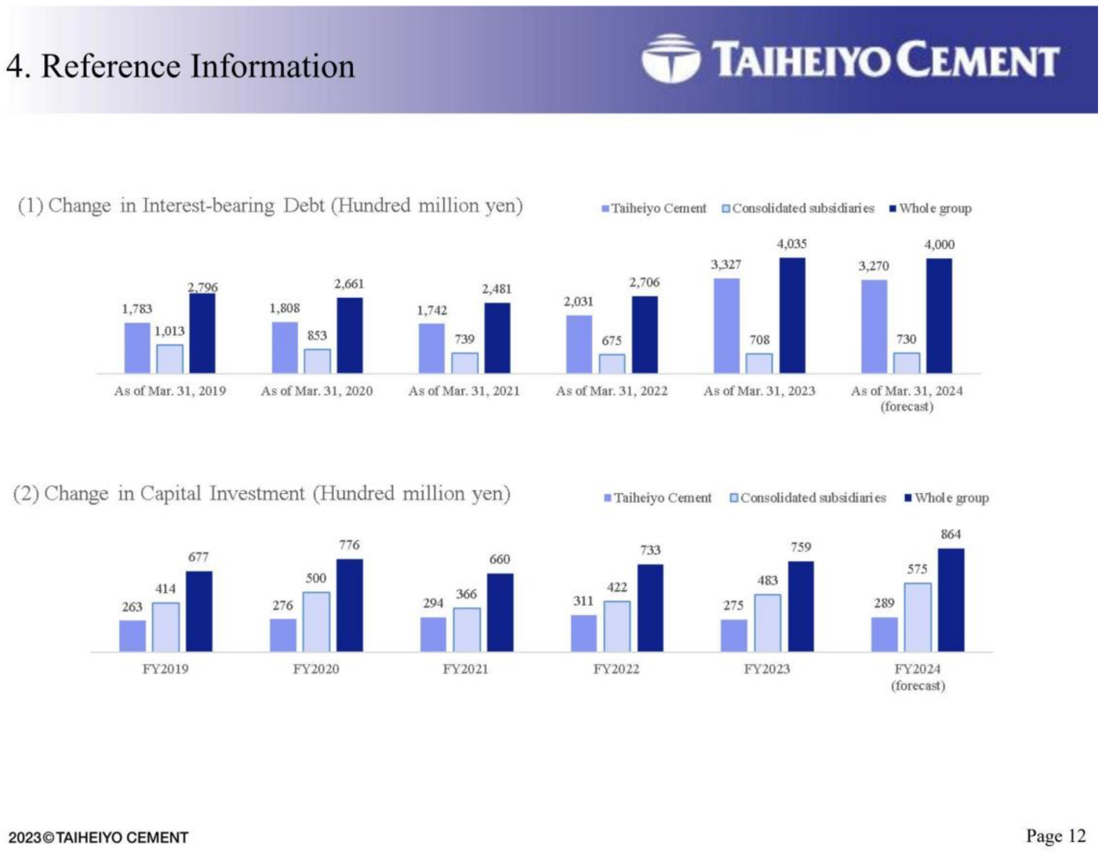
Domestic net sales are forecast to increase by 66,300 million yen to 322,000 million yen. The main breakdown is as follows: an increase in sales volume of domestic cement and soil stabilizers volume of 17,500 million yen and a price difference of plus 45,200 million yen.

Net sales of overseas subsidiaries, etc., are forecast to increase by 24,700 million yen to 322,000 million yen. Net sales in the U.S.A. are expected to increase by 194 million dollars due to the effect of asset acquisitions, etc. Net sales in China are expected to decrease by 122 million dollars due to the lack of sales in the current fiscal year.

Domestic operating profit is forecast to improve by 44,200 million yen to 7,300 million yen. Due to the cement price increase, the price difference between domestic cement and soil stabilizers is expected to be a positive 42,300 million yen. In addition, although we expect the price of coal purchased this fiscal year to decline, the variable cost will improve by only 3,900 million yen in the first half of the fiscal year due to the remaining inventory from the previous year's purchases and increases in other raw material prices, etc.

Operating profit of overseas subsidiaries, etc., is expected to increase by 6,700 million yen to 28,700 million yen. Combined with domestic operating profit, the cement segment is expected to improve profit by 50,800 million yen to 36,000 million yen.

4. Reference Information



The following slides are for reference, so please take a look at them later. This concludes the presentation of the financial results for fiscal 2022 and the forecast for fiscal 2023.

Q&A: About the Cement Price Increase

3. Forecast for the Fiscal 2024

TAIHEIYO CEMENT

(2) Consolidated Segment Information

Cement Business

Sales Volume of Cement (Thousand tons)

	FY2023 (Actual)	FY2024 (Forecast)	Change
Domestic	13,129	14,300	1,171
Export	2,438	2,450	12

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

FY2023 (Actual)	FY2024 (Forecast)	Change
131.6	134.0	2.4

(Million yen)

		FY2023 (Actual)	FY2024 (Forecast)	Change	Main Factors of Changes in Net Sales and Operating Profit
Net Sales	Domestic	2,557	3,220	663	Increase in sales volume of domestic cement and soil stabilizers +17.5 billion yen Increase in export cement volume +0.1 billion yen Price difference in domestic cement and soil stabilizers +45.2 billion yen Price difference in export cement -1.1 billion yen Increase in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. +4.5 billion yen
	Overseas Subsidiaries, etc.	2,973	3,220	247	U.S.A +US$194 million China -US$122 million, Asia and other +US$89 million Effect of foreign exchange, etc. +3.5 billion yen
	Total	5,530	6,440	910	
Operating Profit	Domestic	(369)	73	442	Increase in sales volume of domestic cement and soil stabilizers +1.3 billion yen Increase in export cement volume +0.0 billion yen Price difference in domestic cement and soil stabilizers +42.3 billion yen Increase in net export cement revenue +0.5 billion yen Decrease in variable cost +3.9 billion yen Increase in fixed cost -2.6 billion yen Decrease in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. -1.2 billion yen
	Overseas Subsidiaries, etc.	220	287	67	U.S.A +US$34 million China +US$10 million, Asia and other +US$1 million Effect of foreign exchange, etc. +0.6 billion yen
	Total	(148)	360	508	

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Questioner: I would like to ask about the cement price increase, which is currently receiving the most attention. Earlier in the presentation, you said that customers understood the second price increase of 3,000 yen. On the other hand, coal prices have fallen considerably since February, so I was a little concerned about how the cement price increase negotiations would go.

In the first half of the year, you still have coal contracts with high prices from the previous year, and since you were in the red last year, it is understandable that you want to raise prices once and for all. However, with coal prices falling, how do you explain and gain an understanding of a cumulative 5,000 yen price increase?

Respondent: In the breakdown of the operating profit shown in 3. Forecast for the fiscal 2023 (2) Segment Information on slide 11, the price difference in domestic cement and soil stabilizers is shown as plus 42,300 million yen. About one-third of that was taken from the previous fiscal year and took effect from the beginning of this fiscal year.

As the president mentioned earlier, there is still some room for negotiation on the timing of the price increase, but negotiations are almost complete. The figure is not necessarily unreasonable, and we have set our budget based on the figures presented by our customers, so I believe that we will be nearly 100% able to achieve that goal.

However, as there is the issue of timing, we will continue to negotiate in order to raise profits by even one yen.

Conversely, the price negotiations themselves will probably be completed in the first quarter. Futures are currently falling, but it will not be until the second half of the year that we will actually purchase cheap coal and use it for cement calcination.

Therefore, we have not received any requests from customers to lower prices, and price revisions are generally being discussed, so the decline in coal prices is not a barrier to a 5,000 yen price increase at this time.

Q&A: Timing of when the Price Increase will be Reflected

Questioner: I heard that the timing of shipments at the increased price varies, but approximately when will the price change? Why don't they all go up at the same time in April?

Respondent 1: We were actually considering an earlier price increase. We wanted to reflect the 3,000 yen from the third and fourth quarters of last year, but there was considerable resistance on the part of our users, the ready-mixed concrete companies, because their price revisions are made in April.

As of the end of March, we had addressed the 2,000-yen price increase but not so much the 3,000-yen portion. Now, a month later, the cumulative price increase is just over 4,000 yen out of 5,000 yen, so we understand that April was a turning point in the progress.

Respondent 2: Ready-mixed concrete cooperatives have been saying that they will raise ready-mixed concrete prices starting in April or June, but some users were skeptical as to whether the price increase would actually be implemented. However, as ready-mixed concrete prices rose in April, users' attitudes toward accepting the price increase have changed slightly.

Currently, coal prices have settled between 200 dollars and 180 dollars, but we do not expect them to fall as low as 70 dollars or 80 dollars as they did in the past, and we expect the current price range to continue.

As we indicated in our earnings forecast, net sales for the cement segment are 322,000 million yen for both domestic and overseas subsidiaries. However, despite handling the same cement and some ready-mixed concrete, we forecast a domestic operating profit of 7,300 million yen and an overseas operating profit of 28,700 million yen.

Although this year’s budget assumes a 5,000 yen price increase, as a manufacturer, we place great importance on how profitable it will be. If the price of coal reaches 250 dollars, the profit margin of 7,300 million yen domestically is only a little over 2 percent. On the other hand, the profit margin overseas is 9 percent.

In the future, we must make various investments in our plants, including carbon neutrality efforts. In addition, we need to make our plants more robust, since our major equipment is 60 to 70 years old and may suddenly break down if it is not renewed regularly.

In addition, mining development still remains to be done. The amount of money for such investments should essentially come out of cash flow from the related domestic cement business.

The 5,000 yen price increase was set to eliminate the deficit caused by the sharp rise in coal prices, but we need to immediately start discussing what cement price should be originally and how to incorporate this into our medium-term plan starting next year. With a profit margin of 2 percent, it is impossible to spend money on the plants.

Going forward, we would like to have multiple discussions on things such as how much profit we should make in our business at a minimum in light of the investments to be made in our plants and then adopt the pricing policy that should be in place.

Q&A: U.S. Cement Business

Questioner: I have a question regarding the U.S. business. The U.S. is also experiencing banking issues, and housing starts have been declining, so the demand for cement is also an area to keep an eye on.

How do you see the U.S. cement business this year broken down into private and public demand? It’s hard to tell from your company's figures alone because of the new consolidations, so please tell us how you see demand.

Also, I understand that you have given up on the acquisition of the second plant, but the U.S. is a growing market, and I believe that you are focusing on it. What are your plans regarding future investments in the U.S.? Is there any possibility of acquiring downstream ready-mixed concrete plants, or if there are any acquisition opportunities in other states, such as for cement plants, will you pursue them?

Respondent 1: I will answer regarding the acquisition of the plant. We withdrew our application for the Tehachapi plant in the Los Angeles area because we were unable to obtain approval from the Federal Trade Commission, citing, among other reasons, that our subsidiary's market share would increase too much. The Redding plant in Northern California, which we had applied for before, was approved by the same committee.

I don’t think there is a possibility in the Los Angeles area anymore due to the already-issued stance. However, other areas have been approved, and if we hear of any good opportunities, or benefits, we may proceed with M&A, etc.

If we don’t hear about any good opportunities, then we will need to improve our facilities because of imports, etc., and we will have to invest to meet future increases in demand.

Respondent 2: Regarding demand in the U.S., as you have seen in the news and other media, there were record heavy rains on the West Coast from January to March. Currently, although published information only covers up to February, demand in the five major West Coast states in which we operate has dropped by about 20%.

However, the weather has been recovering since late March, and in fact, CalPortland's shipments have recovered to levels exceeding initial estimates in April and May. In particular, the Los Angeles area has been quite active, with construction properties and subway construction in the downtown area.

As you say about housing, the effect that interest rates will have on the housing market is a major key point. Although there has been a slight decrease in the number of existing home sales, it is said that there is a strong correlation between the demand for cement and the number of housing starts, and even recently, the annualized rate was about 1.4 million units, which I understand is still high compared to the 500,000 units during the Lehman Shock.

Some locals believe that interest rates are close to acceptable levels even after the FOMC rate hike in May, so we do not expect the housing market to decline too much in the second half of the year, despite some impact from interest rates.

In addition, the scope of the Biden administration's infrastructure bill issued in November 2021 was about 1.2 trillion dollars, which was about 140 trillion Japanese yen at that time. It is also expected that this will be gradually implemented over the second half of the year and that it will gradually lead to actual demand for cement.

In the second half of the year, the housing market may be affected to some extent by the interest rate hikes to date, but public demand and other factors will likely compensate for this. Therefore, in general, it is my understanding that U.S. demand itself will not decline significantly.

Q&A: Pricing Policy

Questioner: Can we expect to see something from your company in next year's medium-term plan regarding the pricing policy that should be in place? I understand that you are working toward changing to a shipment-based contracting system for ready-mixed concrete as well, and if steady progress is made, will this lead to the kind of world your company envisions?

Respondent: Yes. As mentioned earlier, there is no way we can continue our business with a profit margin of 2 or 3 percent, so we need to discuss the pricing policy that should be in place.

Q&A: Response to Low PBR

Questioner: There has been a lot of movement in various areas regarding the response to low PBR companies issued by the Tokyo Stock Exchange, but may I ask within reason what the president's thoughts are at this point?

Respondent: There are various ways to think about PBR, so we need to internally discuss and work out a little more about how we, as a cement company, should respond to this issue.

It is also a question of whether the future potential and status of a company can really be judged solely on that basis. Since this is an important indicator, we would like some time to discuss this internally rather than just answering based on my personal opinion.

Q&A: Factors Behind Stagnation in Asia

Questioner: I have a question about the overseas financial results. The president talked about difficulties in Asia. Since this year's profits in Asia are also almost on par with last year's, both the Philippines and Vietnam seem to have really stagnated of late, but what are the reasons for this? Also, is it safe to assume that the Philippines will be able to return to its former state once the kilns start moving?

Respondent: As you say, Vietnam is currently the largest exporter in the region, but the slowdown of the Chinese economy since last year, particularly in the real estate market, and especially the many cases of infection caused by the sudden shift from the zero-Covid policy in the second half of the year, has caused exported cement to lose its place in the country, which has affected the domestic market.

In addition, due to the administrative stagnation affected by the political power struggle, permits have not been granted for construction properties, which seems to have led to a difficult situation over the span of last year to this year.

On the other hand, our logistics network in Asia, namely Southeast Asia, is our greatest strength, so this year, we will export using our logistics network. We also have our own logistics network in central region, and we would like to operate by taking advantage of these networks.

Regarding Vietnam, I believe that now is the time to stand firm. Vietnam currently relies on imports for about half of the coal it uses domestically, so it is unlikely that exports at such low prices will continue, and we have heard that some domestic manufacturers are having considerable difficulty raising funds.

Therefore, this year we hope to survive and move on to the next stage by utilizing the terminal in the central region and exporting.

As for the Philippines, we will renew our kiln by next April. Since the plant is now a clinker-importing grinding plant, we expect profits to be about the same as they are now, but after renovation, we believe that the plant will be competitive enough to survive locally through energy conservation, efficiency, cost competitiveness, and environmental responsiveness.

The Philippines has about the same population as Vietnam, and demand is still only about half. We believe that demand will continue to grow in the future, and we would like to improve our performance with the new plant, along with the development of a logistics network with terminals and other facilities on Luzon Island, etc., as mentioned.

Q&A: Increase in Cement Exports and Price Increase Results

Questioner: Regarding cement exports, I understand that you have reduced the volume considerably through selection, but you plan to export about 2.45 million tons this year, which is about the same level as the previous year. Last year, I believe you explained that you wanted to increase exports again from this level, but are you not in a situation where you can increase exports at this point? Also, I feel that you were able to raise prices reasonably well last year, but could you tell us about the results of raising export prices and the approach for this year?

Respondent 1: Last year, we shipped only to users who accepted the price increase since domestic costs were very high and there was no benefit to exporting. Looking at cost trends, there should be no problem increasing exports after July in the second quarter of this fiscal year.

This year's cement export volume is expected to be 2.45 million tons, about the same as last year, but at its peak, it was 4 million tons. We cannot afford to incur a negative spread, but we have given instructions to try to increase the volume to nearly 3 million tons if we have the chance. If exporting goes well, I think there will be various benefits, such as an increase in plant utilization rates.

Exports from Japan in the Far East to Southeast Asia, Africa, Australia, etc., will have higher freight rates.

Taking this into consideration, we have now secured 1 million tons of cement from Semen Indonesia, and once the pier at the plant of the newly invested company is completed, we will be able to produce another 1 million tons, so the question is whether we should spend high freight rates from Japan to supply somewhere where we cannot make money.

Although we have to do this for ready-mixed concrete companies with whom we have had a relationship for a long time, we do not think it is necessary to forcibly do so.

As you all know, our Oita Plant and Kamiiso Plant are the main exporters. We produce cement for export, which is less profitable, at plants with lower costs, but if more than half of it could be utilized domestically, the benefits would be great, so we must consider what to do with each kind of cement while keeping this in mind for the future.

If demand does not decline in two years, Denka's 1 million tons will need to be covered by increasing production at our plant.

There are many things to be considered, such as increasing the amount at Myojo Cement, increasing the amount at the Kamiiso Plant, and if we increase the amount at the Ofunato Plant, the portion from the Ofunato Plant to the Kanto region must be transferred from the Oita Plant, so we will discuss carefully during these two years how to produce Denka's 1 million tons, including exports.

However, with respect to this year, we have just begun discussions on whether there are advantages to possibly increasing the 2.45 million tons to 3 million tons.

Respondent 2: Last year, we raised prices for exports overseas, including to existing customers, in light of rising domestic costs. In some cases, we had to give up exporting to customers with long transportation distances because we could not reach an agreement with them, but we have responded by shifting to a new partner's plant in Indonesia or by exporting from Vietnam.

Even if exports from Japan decrease, we would like to expand the overall scale of exports and trading by utilizing such trilateral trade.

Respondent 1: We utilize trilateral trade, whereby we purchase and export out of Thailand for the reduced exports from Japan. Also, people ask, "How can you raise prices?" but most of the people who negotiate with the users of Taiheiyo Cement exports are from Taiheiyo Cement, and trading companies are rarely involved.

Since we have a long relationship with them, we can negotiate directly on various matters. I don't know about other companies in the same industry, but I think that in many cases when handing over to a trading company at the port, the price is not being negotiated at the end of the process. However, we have been negotiating with our customers ourselves for many years, so I think it is relatively easy to gain their understanding.

I believe these personal and corporate relationships have benefited us, even though volume has decreased from last year due to the price increase for exports.

Q&A: Estimated Increase in Sales and Profit in Mineral Resources Business

Questioner: Why do you expect a considerable increase in sales and profit in the Mineral Resources business this fiscal year?

Respondent: The largest item in the Mineral Resources business is limestone for steel. We aimed for a price increase last year and will do so again this fiscal year, and it will likely be approved.

In the Aggregates business, we have been negotiating prices since last year and have obtained approval for most of them, but we plan to raise prices this fiscal year in areas that have not yet been revised. Aim for further price increases will lead to higher sales and profits in the Mineral Resources business.

Because of the large volume we handle, even a 100 yen price hike will increase our sales and profits. In general, if demand increases anywhere, we will aim for a price increase for limestone, including exports. We hope to gain an understanding of the fact that we have factored in that price increase.