*Note: This document is a translated version of the Japanese original. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.*

## 1. Highlights of Consolidated Financial Results

TAIHEIYO CEMENT

(Million yen)

| | FY2023 Six months | FY2024 Six months | Change |
|---|---|---|---|
| Net sales | 375,982 | 418,554 | 42,572 |
| Operating profit | (313) | 17,752 | 18,065 |
| Ordinary profit | (84) | 20,115 | 20,199 |
| Profit attributable to owners of parent | (16,455) | 13,617 | 30,072 |
| ＜Indexes＞ | As of Mar. 31, 2023 | As of Sep. 30, 2023 | Change |
| Capital adequacy ratio (%) | 39.0 | 40.1 | 1.1 |
| Capital adequacy ratio based on market value (%) | 22.9 | 23.3 | 0.4 |
| Net assets per share (Yen) | 4,228.5 | 4,552.0 | 323.5 |
| | FY2023 Six months | FY2024 Six months | Change |
| Basic earnings per share (Yen) | (140.6) | 116.2 | 256.8 |

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**Taiheiyo Cement announces significant return to profitability in operating profit, ordinary profit, and quarterly net profit in H1 due to domestic cement price revision and strong performance of U.S. business.**

The following is a transcription of Taiheiyo Cement Corporation's financial results presentation for the fiscal year ended September 30, 2023, which was given on November 10, 2023.

**[Speakers]**

Masafumi Fushihara, President and Representative Director, Taiheiyo Cement Corporation

Masahiro Ban, Managing Executive Officer, 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

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

Hiroshi Onoue, General Manager of Accounting & Finance Department, Taiheiyo Cement Corporation

**Masafumi Fushihara:** I am Masafumi Fushihara. On November 9, we announced our H1 financial results and outlook for the current fiscal year.

Regarding the financial results, we feel that the operating profit for H1 was small. Domestic volume has dropped, as you all know, due to various problems at our plants in H1. For example, the EP explosion at the Kamiiso plant and the fire in the belt conveyor at the Ofunato plant, among other troubles at various plants, caused the kilns to shut down, resulting in a slight negative operating profit.

Since September, the operation has fortunately been very stable. If we can achieve stable operations, we expect to see reasonable figures in H2.

Domestic demand for cement ended H1 with a 6.5% decrease compared to last year. This is expected to continue in H2, down about 3% from last year. Domestic demand in H2 of last year deteriorated very badly in January, February and March, and was lower than during the COVID-19 pandemic, the year before last. This year, demand is expected to be even worse than last year.

In previous years, we saw slightly more cement shipments in H2, with 46% to 47% in H1 and 52% to 53% in H2. Last year, however, shipments declined in H2, as shipments in H1 and H2 were almost the same. We expect shipments in H2 to be slightly lower than last year, and forecast domestic demand for cement at 35.5 million tons for the current fiscal year.

Although there were various construction projects in H1, they were affected by the long rains in June and other factors. Traditionally, the general contractor would make up for such rain delays by the next month or two, but now it is not possible to do so at all, and the period is extended by the amount of the delay.

The labor shortage on the part of general contractors cannot be resolved overnight, and this situation will continue for some time. Therefore, considering Japan's current construction capacity, we can only handle 35 million to 36 million tons of cement consumption in terms of volume.

For example, a very large construction project has begun on Mageshima Island in Kagoshima, Japan, and human resources are currently being assembled. This would make it impossible to work in other areas of Kyushu. The number of human resources will increase in Mageshima, but not in Kyushu as a whole. Construction of a large semiconductor plant will begin in Sapporo. Then, similarly, the situation is becoming busy in the Sapporo area, but there are no contractors in the other districts of Hokkaido.

It is said that the construction capacity of Japan as a whole may be 35 million to 36 million tons in terms of cement volume. In this context, we think the challenges will be how to think about the future of the cement business in Japan and how to establish a production system.

We are currently working on a new mid-term business plan that will begin in 2024. Until now, our policy has been to look 10 years ahead and work on three medium-term management plans in the meantime. However, times will change too much in 10 years, so this time we are preparing a medium-term management plan with a view to what TAIHEIYO CEMENT will be like in 2030. We are currently engaged in various discussions, but the major proposition is that we strive for sustainable growth..

As for where to grow, we would like to discuss such issues as, if the domestic cement volume is going to plateau at 35 million to 36 million tons, how we should work on our overseas business.

With regard to its domestic operations, Mitsubishi UBE Cement Corporation is undertaking a specific review of its production structure, including the shutdown of its Aomori plant and the shutdown of one of its kilns at its Isa plant. On the other hand, TAIHEIYO CEMENT has been criticized for not reviewing its production system, even though demand has dropped so much.

The future, however, is still unclear. Specifically, some companies, such as Denka Company Limited, are considering withdrawing from the cement business and want to outsource waste disposal to Myojo Cement Co., Ltd. However, until we have a clear idea of what we will do with our domestic business in the future, we would like to maintain our current production capacity. When it comes to maintaining production capacity, we have to lower our costs or we will cause problems for our shareholders, so we are working on that.

We would like to maintain our production capacity, as we will have to increase production by 1 million tons at our northern plant in the year after next, in order to accept Denka's current 1 million tons. In the meantime, other companies in the same industry may want to withdraw or outsource to an OEM, so we would like to maintain the current structure until it becomes clear .

The year 2023 is said to mark approximately 150 years since cement was first manufactured in Japan. Since we were the first private company in Japan to make a ton of cement, we believe we have an obligation to supply the country with the cement it needs. Until we have a clear direction for the future, we would like to maintain the current form. I do not think it will take a long time, and we would like to create a system so that we do not have a situation where "there is not enough cement in Japan and we cannot supply it."

Although we are experiencing very difficult conditions in Japan this fiscal year, fortunately our business in the US is progressing well. There was a concern that the housing starts rate would fall as interest rates rose, but in fact, the housing starts rate did not fall that much.

In 2021, President Biden passed a nearly USD1 trillion infrastructure investment bill through Congress, and investments under that bill began to be implemented in 2023. Since its investment targets include highway repairs, our sites on the West Coast of the US are also making good progress with no drop in shipments.

In the current fiscal year, conditions were very difficult from January to March due to the rain, but from April onward, we made up the negative amount from January to March. Shipments are growing steadily at this time through December. As for price increases, we are doing very well in the US, with flexible price increases for cement, ready-mixed concrete, and aggregates.

Meanwhile, in the Philippines, we are renewing our factory. Until now, we have been grinding imported clinker and shipping it out, which has been very unprofitable, but we plan to begin production in May 2024 in state-of-the-art, energy-efficient kilns. If we also work on the production of mixed cement, production could nearly double. In addition to the current area, a terminal site has been acquired on Luzon Island, where the capital, Manila, is located, and construction will begin. We are now building such a system.

In addition, as you know, Vietnam has cement production and supply capacity that is more than twice the demand. With domestic politics slightly unstable and construction of various projects slow to start, the price of cement is rising, and for the time being, there is excessive competition. However, since we can export from Vietnam to the US, our system is focused on exports for the time being, until the situation in Vietnam settles down.

In Indonesia, the business alliance with Semen Indonesia is progressing very well. Currently, Semen Indonesia's plant supplies us with approximately 1 million tons of clinker and cement, which we are able to ship to Australia and other countries. In addition, a pier currently under construction is scheduled for completion in 2024. From there, I believe that our company's vision of logistics within the Pacific Rim will steadily begin to run.

Regarding our overseas business, while it is important to create new bases, we would like to gain a market share of more than 10% in the Philippines and Vietnam. Currently, our market share is between 6% and 7%, but I believe that if we take more than 10%, we will have a greater voice in the industry in that country.

We need to establish bases in new countries one after another, but for the time being, we are working to establish a structure in those two countries and to become an important cement company in those countries.

As for the US, we believe it would be tough to acquire another factory in the current area due to antitrust issues. However, there are other possibilities in the US, such as Texas, and there is room for expansion if there are inquiries in those areas. We would like to work with this in mind.

As we move forward with the next medium-term management plan, the most important thing is our pricing policy. The JPY5,000 price increase was completed at the end of September, but this price increase was in response to the rising cost of coal. We are now beginning to discuss the original pricing policy, such as, what operating margin cement prices must generate when coal prices have settled down.

As you all know, the major investments we will be making in Japan are quarry development, strengthening plant facilities, and carbon neutrality. These are all about investing in cement plants or mines in the area. In other words, it is the same as investing in a domestic cement business.

Therefore, the huge investment should not originally be recovered through overseas business profits, but rather through the domestic cement, mineral resources, and environmental businesses. We would like to discuss internally how prices should be, including such matters.

Now is not the time to be saying how our competitors are doing. We must change our way of thinking from the old days, when volumes increased every year. We would like to discuss in such a direction and announce the next mid-term management plan and the one after that, well into 2030.

I would like to answer many questions during the Q&A session.

**Highlights of Consolidated Financial Results**

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TAIHEIYO CEMENT

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| Capital adequacy ratio based on market value (%) | 22.9 | 23.3 | 0.4 |
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**Masahiro Ban**: I would like to explain the financial results for the first six months of FY2024 (ending March 2024) and the forecast for FY2024.

Financial highlights. Net sales totaled approximately JPY418.5 billion, up JPY42.5 billion from the same period last year.

Operating profit was JPY17.7 billion, an improvement of JPY18 billion from the same period last year. Ordinary profit was JPY20.1 billion, an improvement of JPY20.1 billion from the same period last year. Profit attributable to owners of parent was JPY13.6 billion, an improvement of JPY30 billion from the same period last year.

**Consolidated Segment Information**

## 2. Financial Results for the Six Months Ended September 30, 2023

TAIHEIYO CEMENT

### (1) Consolidated Segment Information

Sales Volume of Cement (Thousand tons)

| | FY2023 Six months | FY2024 Six months | Change |
|---|---|---|---|
| Domestic | 6,566 | 6,486 | (79) |
| Export | 1,419 | 1,232 | (187) |

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

| FY2023 Six months | FY2024 Six months | Change |
|---|---|---|
| 123.1 | 135.0 | 11.9 |

### Cement Business

(Million yen)

| | | FY2023 Six months | FY2024 Six months | Change | Main Factors of Changes in Net Sales and Operating Profit |
|---|---|---|---|---|---|
| Net Sales | Domestic | 123,839 | 144,208 | 20,369 | Decrease in sales volume of domestic cement and soil stabilizers -0.9 billion yen<br>Decrease in export cement volume -1.4 billion yen<br>Price difference in domestic cement and soil stabilizers +22.4 billion yen<br>Price difference in export cement -1.2 billion yen<br>Increase in sales from subsidiaries producing or selling cement or ready-mixed concrete, etc. +1.4 billion yen |
| | Overseas Subsidiaries, etc. | 129,006 | 154,167 | 25,160 | U.S.A. +US$175 million<br>China -US$70 million, Asia and other -US$4 million<br>Effect of foreign exchange, etc. +12.6 billion yen |
| | Total | 252,846 | 298,375 | 45,528 | |
| Operating Profit | Domestic | (17,559) | (6,064) | 11,495 | Decrease in sales volume of domestic cement and soil stabilizers -1.7 billion yen<br>Decrease in export cement volume -0.4 billion yen<br>Price difference in domestic cement and soil stabilizers +20.7 billion yen<br>Increase in net export cement revenue +0.3 billion yen<br>Increase in variable cost -8.3 billion yen<br>Decrease in fixed cost +1.3 billion yen<br>Decrease in income from subsidiaries producing or selling cement or ready-mixed concrete, etc. -0.5 billion yen |
| | Overseas Subsidiaries, etc. | 10,149 | 13,940 | 3,791 | U.S.A. +US$32 million<br>China +US$0 million, Asia and other -US$13 million<br>Effect of foreign exchange, etc. +1.4 billion yen |
| | Total | (7,410) | 7,876 | 15,286 | |

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Segment information is explained below. In the cement segment, domestic cement sales volume was 6,486,000 tons, down 79,000 tons from the same period last year. Export volume was 1,232,000 tons, down 187,000 tons from the same period last year. The average exchange rate was JPY135, a depreciation of JPY11.90.

Domestic cement sales increased JPY20.3 billion YoY to JPY144.2 billion. Although domestic cement and export cement volumes declined, the price differential in domestic cement and soil stabilizers was up JPY22.4 billion YoY.

Net sales of overseas subsidiaries, etc. increased by USD175 million YoY in the US, mainly due to higher selling prices of cement and ready-mixed concrete, despite the impact of heavy rains in Q1. Sales in China declined because the Company has already ceased operations in Jiangnan and Dalian.

The impact of foreign exchange and other factors was positive JPY12.6 billion compared with the same period of the previous year. Sales in the cement business, including domestic business and overseas subsidiaries, totaled JPY298.3 billion, up JPY45.5 billion from the same period last year.

Next is the operating profit of the cement business in Japan. Price difference in domestic cement and soil stabilizers was positive JPY20.7 billion versus the same period last year, while our variable costs had a negative impact of JPY8.3 billion versus the same period last year. Solid fuel prices are down about USD90 on C&F terms on a purchased basis, but slightly up on a paid-out basis. Other raw material costs, electricity costs, and purchase costs are also up. In the domestic cement business total, operating profit improved by JPY11.4 billion YoY to minus JPY6 billion.

In overseas subsidiaries, etc., operating profit increased by JPY3.7 billion from the same period of the previous year, mainly due to increased income in the US and the effect of foreign exchange rates. Overall, operating profit in the cement segment improved by JPY15.2 billion from the same period last year to JPY7.8 billion.

**Consolidated Segment Information/Reportable Segments (Excluding Cement Business) and Other**

2. Financial Results for the Six Months Ended September 30, 2023

TAIHEIYO CEMENT

(1) Consolidated Segment Information

Reportable Segments (Excluding Cement Business) and Other

(Million yen)

| | | FY2023 Six months | FY2024 Six months | Change | Main Factors of Changes in Net Sales and Operating Profit |
|---|---|---|---|---|---|
| Mineral Resources Business | Net Sales | 39,763 | 42,904 | 3,140 | Increase in aggregate sales volume in the Hokkaido, Kansai and Chubu region |
| | Operating Profit | 2,710 | 4,088 | 1,378 | Increase in various type of costs passed on to sales prices |
| Environmental Business | Net Sales | 39,504 | 32,505 | (6,998) | Decrease in fuel sales |
| | Operating Profit | 2,848 | 3,036 | 188 | Sales volume of gypsum remained strong |
| Construction Materials Business | Net Sales | 30,723 | 34,189 | 3,465 | Ground improvement projects were strong |
| | Operating Profit | 60 | 1,881 | 1,820 | Price optimization of ALC (Autoclaved Lightweight Concrete) and construction materials |
| Other | Net Sales | 41,699 | 40,346 | (1,353) | |
| | Operating Profit | 1,199 | 946 | (253) | |

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Non-cement segment. In the mineral resources segment, the aggregate sales business in the Hokkaido, Kansai, and Chubu regions performed well. In addition, the shift of various cost increases to selling prices penetrated, resulting in a net sales increase of JPY3.1 billion and an operating profit increase of JPY1.3 billion.

In the environmental segment, net sales were JPY32.5 billion, down JPY6.9 billion from the same period last year, due to a decrease in fuel sales. On the other hand, gypsum sales, which are more profitable than fuel, remained strong, and operating profit increased JPY188 million YoY to JPY3 billion.

In the construction materials segment, both sales and operating profit increased due to favorable ground improvement projects and the optimization of selling prices for ALC (Autoclaved Lightweight Concrete) and construction materials. Net sales were JPY34.1 billion and operating profit was JPY1.8 billion.

In other businesses, both sales and operating profit declined due to a reactionary drop in the engineering business from the previous year's large construction projects, and higher fuel and other costs in the power generation business.

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

## 2. Financial Results for the Six Months Ended September 30, 2023

TAIHEIYO CEMENT

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

(Million yen)

| | FY2023 Six months | FY2024 Six months | Change |
|---|---|---|---|
| Operating profit | (313) | 17,752 | 18,065 |
| Non-operating income and expenses | 229 | 2,363 | 2,134 |
| Ordinary profit | (84) | 20,115 | 20,199 |
| Extraordinary income and losses | (1,298) | (425) | 873 |
| Profit before income taxes | (1,382) | 19,690 | 21,072 |
| Income taxes | 14,505 | 5,956 | (8,548) |
| Profit attributable to non-controlling interest | 567 | 116 | (451) |
| Profit attributable to owners of parent | (16,455) | 13,617 | 30,072 |

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The table on the slide shows the items under operating profit. Regarding non-operating income and expenses, non-operating income increased by JPY3.3 billion and non-operating expenses increased by JPY1.2 billion. As a result of this, non-operating income and expenses increased by JPY2.1 billion from the same period of the previous year.

Non-operating income includes foreign exchange gains. This is mainly due to exchange rate differences between the time of recording and the time of payment related to coal purchases. Although the yen has been weakening this fiscal year, the exchange rate has been volatile in the short term, which was a positive factor. Non-operating expenses were affected by an increase in interest expenses due to the average balance of interest-bearing debt.

In the previous fiscal year, income taxes of JPY14.5 billion were incurred despite the loss before income taxes. This was due to a JPY10.2 billion reversal of deferred tax assets. Finally, profit attributable to owners of parent was JPY13.6 billion, a JPY30 billion improvement over the same period last year.

**Consolidated Balance Sheets**

## 2. Financial Results for the Six Months Ended September 30, 2023

TAIHEIYO CEMENT

### (3) Consolidated Balance Sheets

(Million yen)

| | | As of Mar. 31, 2023 | As of Sep. 30, 2023 | Change |
|---|---|---|---|---|
| Current assets | Cash and deposits | 79,842 | 82,147 | 2,304 |
| | Trade receivables | 182,963 | 217,280 | 34,316 |
| | Inventories | 138,373 | 129,824 | (8,549) |
| | Other | 29,228 | 25,197 | (4,031) |
| | Total current assets | 430,408 | 454,448 | 24,040 |
| Non-current assets | Total property, plant and equipment | 620,083 | 649,223 | 29,139 |
| | Total intangible assets | 39,766 | 40,599 | 832 |
| | Total investments and other assets | 178,604 | 188,347 | 9,743 |
| | Total non-current assets | 838,454 | 878,170 | 39,716 |
| Total assets | | 1,268,862 | 1,332,619 | 63,756 |

| | | | As of Mar. 31, 2023 | As of Sep. 30, 2023 | Change |
|---|---|---|---|---|---|
| Liabilities | | Current liabilities | 385,784 | 393,840 | 8,055 |
| | | Non-current liabilities | 354,221 | 369,668 | 15,447 |
| | | Total liabilities | 740,005 | 763,508 | 23,503 |
| Net assets | Shareholders' equity | Share capital | 86,174 | 86,174 | - |
| | | Capital surplus | 49,729 | 49,788 | 59 |
| | | Retained earnings | 342,880 | 352,382 | 9,502 |
| | | Treasury shares | (13,738) | (12,927) | 810 |
| | | Total shareholders' equity | 465,045 | 475,417 | 10,371 |
| | | Accumulated other comprehensive income | 29,911 | 58,969 | 29,057 |
| | | Non-controlling interests | 33,899 | 34,723 | 823 |
| | | Total net assets | 528,857 | 569,110 | 40,253 |
| Total liabilities and net assets | | | 1,268,862 | 1,332,619 | 63,756 |

※Trade receivables include "Notes and accounts receivable-trade, and contract assets" and "Electronically recorded monetary claims - operating".

| | As of Dec. 31, 2022 | As of Jun. 30, 2023 | Change |
|---|---|---|---|
| Exchange rate at end of period (Yen/US$) | 132.70 | 144.99 | 12.29 |

| | As of Mar. 31, 2023 | As of Sep. 30, 2023 | Change |
|---|---|---|---|
| Interest-bearing debt (Million yen) | 403,485 | 388,547 | (14,938) |

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For the consolidated balance sheet, only the main increase/decrease items will be explained. See total assets on the bottom left of the slide. Total assets at the end of the current period amounted to JPY1,332.6 billion, an increase of JPY63.7 billion from the end of the previous period. The increase is mainly due to the change in the exchange rate at the end of the period, as shown in the lower left-hand corner of the slide. Assets increased by about JPY36 billion due to a yen depreciation of JPY12.29 to JPY144.99.

The increase in current assets was due to an increase in trade receivables resulting from higher domestic cement prices, as well as the effect of bank holidays.

The main reason for the increase in non-current assets is that Taiheiyo Cement Philippines, Inc. is currently undergoing renovation work. Non-current assets increased due to funds stored in construction in progress for this project.

Total liabilities at the top right of the slide were JPY763.5 billion, an increase of JPY23.5 billion from the end of the previous period. This also includes a positive impact of about JPY10 billion from foreign exchange rates. Another major factor is the impact of bank holidays.

Interest-bearing debt was JPY388.5 billion, a decrease of JPY14.9 billion from the end of the previous period, as shown in the lower right-hand corner of the slide. This was due to a decrease in interest-bearing debt resulting from improved operating cash flow.

The JPY40.2 billion increase in net assets was due to net profit for the quarter, a JPY26.9 billion increase in foreign currency translation adjustments resulting from the weaker yen, and a JPY2.2 billion increase in unrealized gains on available-for-sale securities due to higher stock prices.

**Consolidated Statements of Cash Flows**

## 2. Financial Results for the Six Months Ended September 30, 2023

TAIHEIYO CEMENT

### (4) Consolidated Statements of Cash Flows

(Million yen)

| | FY2023 Six months | FY2024 Six months | Change |
|---|---|---|---|
| Cash flows from operating activities | (15,013) | 54,330 | 69,344 |
| Cash flows from investing activities | (57,583) | (30,229) | 27,354 |
| Cash flows from financing activities | 91,628 | (24,895) | (116,523) |
| Effect of exchange rate change on cash and cash equivalents | 1,558 | 2,708 | 1,149 |
| Net increase (decrease) in cash and cash equivalents | 20,590 | 1,914 | (18,675) |
| Other | 24 | 39 | 15 |
| Cash and cash equivalents at beginning of period | 50,213 | 70,828 | 20,614 |
| Cash and cash equivalents at end of period | 70,828 | 72,783 | 1,954 |

| ＜Indexes＞ | As of Mar. 31, 2023 | As of Sep. 30, 2023 | Change |
|---|---|---|---|
| Current ratio (%) | 111.6 | 115.4 | 3.8 |
| Net debt/equity ratio (Times) | 0.65 | 0.57 | (0.08) |

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Statement of cash flows. Operating cash flow improved by JPY69.3 billion from the same period last year due to an improvement in profit before income taxes and a decrease in inventories. As a result, operating cash flow was positive JPY54.3 billion.

**Forecast for the Fiscal 2024 Consolidated Statements of Income**

3. Forecast for the Fiscal 2024

TAIHEIYO CEMENT

(1) Consolidated Statements of Income

Revised from previous forecast (announced on May 11th, 2023)

(Hundred million yen)

| | FY2023 (Actual) | FY2024 (Previous forecast) | FY2024 (Current forecast) | Change | |
|---|---|---|---|---|---|
| | | | | Year-on-Year | Compared to previous forecast |
| Net sales | 8,095 | 9,200 | 8,940 | 845 | (260) |
| Operating profit | 44 | 580 | 580 | 536 | - |
| Ordinary profit | 10 | 560 | 590 | 580 | 30 |
| Extraordinary income and losses | (332) | 400 | 400 | 732 | - |
| ＜Preconditions＞ | | | | | |
| Domestic demand of cement (Ten thousand tons) | 3,726 | 3,800 | 3,550 | (176) | (250) |

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Forecasts for FY2024. I will now explain the revisions since the announcement at the May financial results . Operating profit and profit attributable to owners of parent remain unchanged from the May forecast. On the other hand, the sales forecast was revised downward from JPY920 billion to JPY894 billion, a decrease of JPY26 billion from the previous forecast. The ordinary profit forecast has been revised upward from JPY56 billion to JPY59 billion, an increase of JPY3 billion.

At the bottom of the table on the slide is the domestic demand for cement. The forecast has been revised downward by 2.5 million tons from the previous forecast of 38 million tons to 35.5 million tons.

**Forecast for the Fiscal 2024 Consolidated 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 | | |
|---|---|---|---|---|---|---|---|
| | | FY2024 (Previous forecast) | FY2024 (Current forecast) | Change | FY2024 (Previous forecast) | FY2024 (Current forecast) | Change |
| Cement Business | Domestic | 3,220 | 3,050 | (170) | 73 | 5 | (68) |
| | Overseas Subsidiaries, etc. | 3,220 | 3,300 | 80 | 287 | 335 | 48 |
| | Total | 6,440 | 6,350 | (90) | 360 | 340 | (20) |
| Mineral Resources Business | | 920 | 890 | (30) | 76 | 81 | 5 |
| Environmental Business | | 810 | 690 | (120) | 69 | 66 | (3) |
| Construction Materials Business | | 770 | 730 | (40) | 32 | 46 | 14 |
| Other | | 950 | 930 | (20) | 50 | 51 | 1 |
| Total | | 9,890 | 9,590 | (300) | 587 | 584 | (3) |
| Elimination | | (690) | (650) | 40 | (7) | (4) | 3 |
| Consolidated Total | | 9,200 | 8,940 | (260) | 580 | 580 | - |

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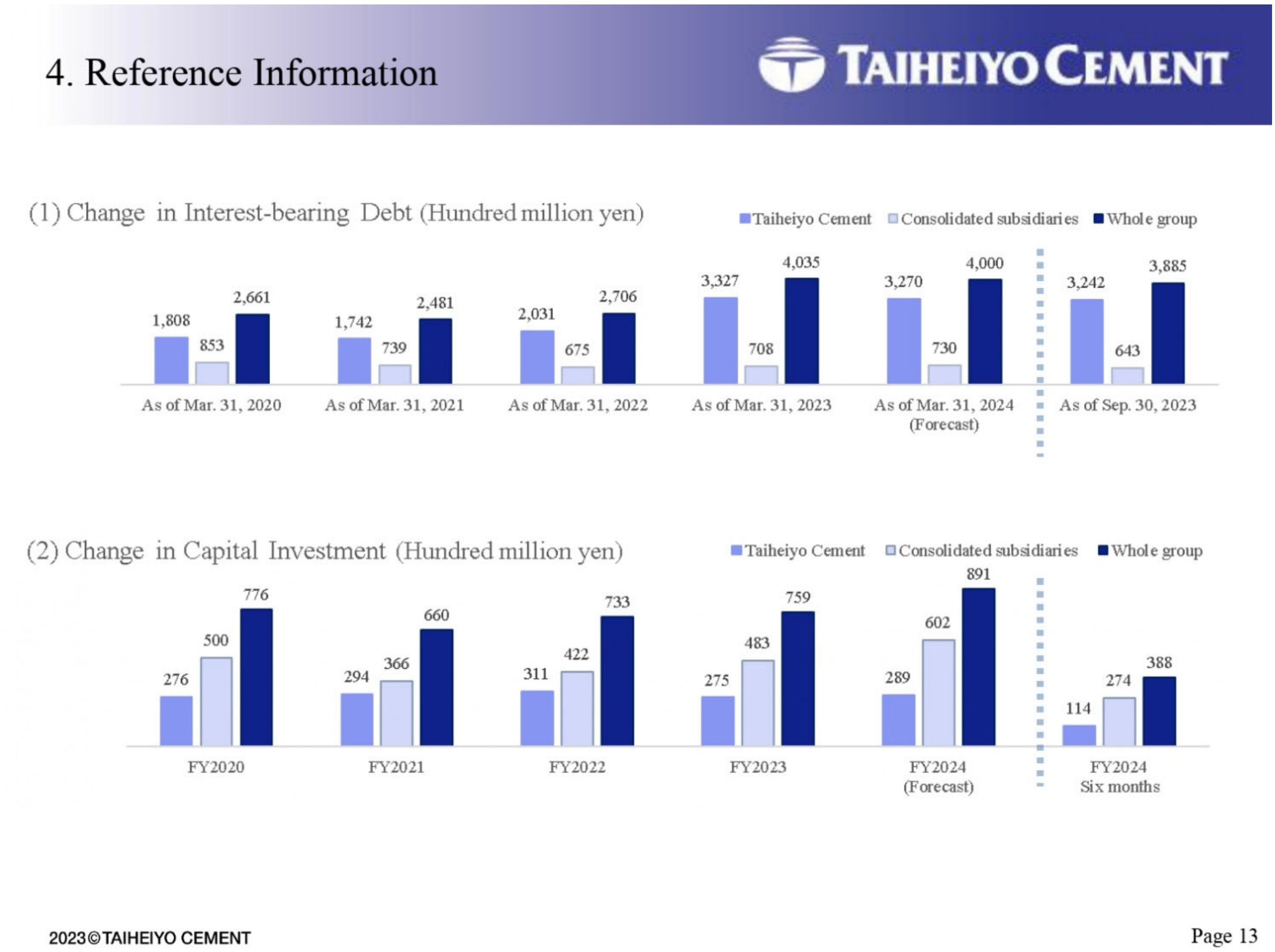
Here you see a comparison of the previous forecast and the current forecast. This is a breakdown of the figures on a consolidated basis on “Notice Regarding the Revision of Financial Results Forecasts for the Fiscal Year Ending March 31, 2024”. In the cement segment sales, the domestic cement sales forecast is down JPY17 billion from the previous forecast. This is mainly due to a decrease in sales volume of cement and soil stabilizers.

The JPY8 billion increase in the sales forecast for overseas subsidiaries, etc. is due to higher sales in the US business resulting from higher selling prices of cement and ready-mixed concrete, and the effect of foreign exchange rates due to the yen's depreciation.

The operating profit forecast for domestic cement is JPY0.5 billion, a decrease of JPY6.8 billion from the previous forecast, but this is also mainly due to a decrease in the sales volume of cement and soil stabilizers. As a result, high inventories of solid fuel will remain in H2, and production costs have not come down as much as expected.

The revised forecast for overseas subsidiaries is also due to higher earnings from the US business and the effect of foreign exchange rates. Although the total amount of operating profit remains unchanged, the forecast is for a decrease in domestic cement volume offset by an increase in income in the US and an increase in income from higher prices at the construction materials subsidiary.

**Reference Information**




The following slides are for reference only, please see later for details. That is all for my explanation.

## Question & Answer

**Q&A: Initiatives to improve performance in the domestic cement business**

**Participant:** My question is about the domestic cement business. I expect your performance to improve in the next fiscal year as coal prices come down.

However, in addition to the improvement in business performance due to coal prices, President Fushihara mentioned earlier something with a nuance of "making structural reforms." In the domestic cement business, what is the first thing you need to work on?

**Respondent:** As you mentioned, coal prices will settle down next year. I also believe that shipments will not grow significantly and will enter a period of stability.

In this context, Denka's cement sales business will be conducted with our products the year after next. That volume is approximately 1 million tons per year. We will take over this 1 million tons in the summer of 2025, including users. For the time being, there will be some handover of technology, etc., but we hope to make this a smooth process. In addition, the price was revised this time due to the rising price of coal. We intend to consider a pricing policy in the next mid-term management plan that will enable us to pass on cost increases in a short term.

**Participant:** With respect to Denka's portion, will it contribute to sales, earnings, etc. in 2025?

**Respondent:** We have already recorded the sales, but the manufacturing is being done by Denka. We outsource manufacturing to Denka. Therefore, after the end of cement production at Denka's plant around the summer of 2025, we hope it to smoothly transition to our manufactured products.

**Q&A: Asian market situation and risks in the Philippines**

**Participant:** This is about overseas demand. I understand that the US is strong, but in Asian markets, such as China and Vietnam, the situation is difficult. Are there any risks in the Philippines under such circumstances? Will the start-up of a renewed factory in the Philippines in 2024 contribute to earnings?

**Respondent:** As you say, the slowdown in China has had an impact. It is difficult to raise prices in the Philippines, as cement that used to flow to China is now flowing to Asian markets.

However, with the completion of the kiln renewal in May 2024, competitiveness is also expected to improve significantly. With regard to the Philippines, the economic fundamentals themselves are not bad. There is also the view that President Marcos' "Build Better More" initiative will give a significant boost to infrastructure investment next year.

In such a macro environment, we believe that we can compete adequately in kiln renewal through cost, competitiveness, utilization of waste, and inland logistics using tankers, etc.

**Participant:** There are risks in the external environment, but if your company works on this properly, would this contribute to profitability?

**Respondent:** You are correct.

**Q&A: Share buybacks**

**Participant:** This is about share buybacks. Your company has announced that it will repurchase about JPY5 billion of its own shares. Since the Company's performance is still recovering in the current fiscal year, I thought it would not be until next year that you would repurchase your own shares. What is the reason for taking this step at this time?

**Respondent:** I never dreamed that you would be surprised by our share buyback plan, as I thought that you had already factored it in.

The Company basically follows a policy of stable and continuous shareholder returns. It was difficult last year, but cash flow is recovering this fiscal year.

Our policy has been to return at least 33% to our shareholders. On a single-year basis, it is about 33% to 34% combined with dividends.

Share buybacks can be difficult depending on whether or not there is a disclosure case, and if postponed, may not be possible during the period. Therefore, we thought this was the best time to conduct it.

**Q&A: Response to the 2024 problem**

**Participant:** I would like to talk about the "firm pricing policy" as reported in the cement newspaper in September.

Due to the 2024 problem, logistics will be very difficult. As a result, ready-mixed concrete manufacturers have announced price increases starting next April. As a cement manufacturer, how does your company view this transportation cost push and how will you pass it on?

Please tell us whether you are considering price shifting and medium- to long-term pricing policy as a set, or whether it will be done as a short-term response in the next fiscal year, within the context of the pricing policy that should be in place.

**Respondent:** As you say, cost related to logistics is also a push factor. However, I believe there will be investment costs for carbon neutrality in the future, and there is also the issue of raw fuel costs, as in the current period. Therefore, we will consider whether it is better to pass on those costs one by one or whether a combined surcharge of some sort is better.

We would like to come up with a fair and transparent pricing policy that is acceptable to our customers.

**Q&A: Shareholder Return Policy**

**Participant:** This question is also related to the next mid-term management plan. Earlier, the president mentioned that shareholder returns should be stable.

The total return ratio was 30% in the previous medium-term management plan and has increased slightly to 33% in the current medium-term management plan. However, other companies in the same industry announced a total return ratio of 50% or more a year ago.

I'm sure there are different ways to think about it, but with 40% to 50% being the norm when it comes to total return ratios, can we expect your company's shareholder return policy to jump up, unlike in the past?

Or should we take it as "TAIHEIYO CEMENT has a base of thinking that 'shareholder returns should be stable'?"

**Respondent:** The 33% total return ratio means one-third. This, however, includes dividends and share buybacks, and what we need to consider is what to do about them in the future.

A company needs to consider not only its shareholders but also its employees. Local economies and other factors are also very important, as equipment industries such as cement can only operate if they are allowed to dig in the country's land.

In such a balance, when considering how best to return profits to shareholders, the best thing to do is to increase the denominator. For example, rather than raising the total return ratio from 30% to 50% with a profit of only JPY10 billion, a profit of JPY100 billion would naturally result in a larger dividend at the same ratio.

Therefore, in order to enhance shareholder returns, we believe that the denominator needs to be as large as possible, so we are placing more weight on that side. However, the total return ratio cannot be less than one-third. We would also like to proceed with flexibility, as the era of a 50% total return ratio may be coming.

We do not believe that a total return ratio of 30% is sufficient, but we are looking at how far we can raise it while keeping an eye on the balance.

As a way to do this, we will continue to buy back our own shares because we have a large number of shares outstanding. We will discuss whether to proceed to a certain point or focus on increasing dividends.

**Q&A: Performance of US Operations**

**Participant:** Regarding the overseas business, I was surprised by the weak US demand in Q1, but even more surprised by the large profit in Q2.

You mentioned that Q1 was weak due to weather factors. Regarding the situation in Q2, how did the sales volume change when divided into cement and ready-mixed concrete? You mentioned that the price increase has relatively progressed, but could you please explain to what extent it was?

**Respondent:** As you know, the US is very rainy from January to March. However, shipments recovered steadily from April onward as the weather recovered.

One of the reasons for the recovery in shipments is the penetration of price increases in cement and ready-mixed concrete. This is probably true for the industry as a whole. In addition, import costs have come down due to the stabilization of freights and other factors.

In addition, the price of natural gas was very high from January to March due to the cold weather, but this has calmed down, resulting in lower energy costs linked to electricity costs. We understand that these factors contributed very significantly.

In CPC, there is a slight influence of inflation and other factors, so volume growth has not been that great. However, in cement and ready-mixed concrete, the recovery has been helped by the very good penetration of price increases, especially in ready-mixed concrete.

Also, from CPC's own perspective, we acquired the Redding plant as well as 14 ready-mixed concrete plants last June. This was another factor that contributed significantly to profits.

Regarding your question about the progress of the price increase, the pattern in the US is to announce the price increase around October and implement it starting in March or April. This time, however, the price increase was implemented slightly earlier, around March.

Specific figures vary from region to region, but a rough estimate is that we have proposed a price increase of at least 10% of the current price, which has been accepted.

**Participant:** Does that mean a price increase of about 10% for both cement and ready-mixed concrete?

**Respondent:** That is correct. I think the price increase for ready-mixed concrete is slightly larger, but I think you can generally understand it that way.

**Participant:** You mentioned that import costs have come down. Does that mean that costs have come down with regard to cement that is transported from Asia and sold in the US?

**Respondent:** As you point out, that also has an impact.

**Participant:** So, that is also contributing to margin expansion and profit improvement? Also, taking into account that natural gas prices have dropped, is it your view that there is continuity in this situation and that it will continue to some extent in the future?

**Respondent:** You are correct. However, high interest rates have led to a slight decrease in residential construction in some areas and slight delays in some projects. However, from what we hear locally, there is not that much of a slowdown.

The local view is also that there will be a slight impact on demand, such as a decrease in housing this year and next, but it will return in H2 next year or by the end of 2025. In addition, we believe that we will continue to take the stance of passing on higher costs to customers.

**Q&A: Impact of coal prices on domestic cement business**

**Participant:** With regard to the domestic cement business, you explained that although coal prices have been falling, cement sales have been sluggish, so there is still relatively high unit price coal remaining. What assumptions do you expect regarding coal prices on a disbursement basis and on a purchase basis in H2?

I see the spot price for Australian coal at USD130. Please tell us, to the extent possible, what assumptions you are making in comparison to such prices.

**Respondent:** The purchase price of coal has been considerably lowered in our annual forecast as of the end of Q2. For FY2024, we expect to be able to purchase it for about USD215 in C&F.

However, on a disbursement basis, we believe the impact of the low cement volume was about JPY1 billion, which will remain in H2. We also believe that the recent purchases have also been affected by the weak yen, and that such effects will continue to be felt next year.

Thus, the current price is about USD215, more than USD100 less than last year, and we expect this to carry over into next year, not this year. Of course, this will be expressed in H2, but in some cases, while we thought we would be able to use cheap coal around October, it could be delayed until January or later.

**Participant:** The spot price I'm seeing most often is at the level of USD130. Is the price unlikely to come down to that level?

**Respondent:** Of course, the freight will be added to that, so if you add USD20 or USD30, it will be closer to the actual price.

Currently, we are able to purchase at relatively low prices on a spot basis, but we also have Indonesian coal, which we have been considering since last year, remaining in our inventory at high unit prices because of the long-term contracts we have. That will gradually be shipped out as well, so we expect it to be around USD200 with freights.

**Q&A: Status of Nanolitia®, a cathode material for lithium-ion batteries**

**Participant:** I believe you are evaluating Nanolitia® as a cathode material for lithium-ion batteries. Although you are quite late to the game on this, I believe you are working on with the expectation that it will be promising.

Please let us know what the current status of Nanolitia® is and if there are any updates to the information.

**Respondent:** We are making steady progress on Nanolitia®. It has been well received in various places, and although there are a few issues that need to be improved, we believe it is a very promising product.

The battery side is also changing considerably, as is the all-solid-state type. Therefore, we are proceeding with the idea that Nanolitia® must be changed to a material that can be applied to it.

**Participant:** What kind of feedback did you get in the evaluation?

**Respondent:** I cannot give you details, but we are steadily moving forward.

**Participant:** Are you saying that this is not a situation that will lead to commercialization moves, etc.?

**Respondent:** It is difficult to sign a contract unless we can confirm that we can produce a product that suits the user with some stability. I believe this is prudent material and we should proceed according to procedure.

**Participant:** I am looking forward to hearing about your progress, as I have high hopes for such a product in terms of carbon neutrality.

**Q&A: Improvement in profitability of domestic cement business**

**Participant:** I would like to talk about improving profitability, including costs, in the coming year and beyond. With coal prices falling, can the domestic cement business take options to earn volume, including exports? Please tell us what kind of initiatives you are taking, including export price revisions.

**Respondent:** With regard to exports, we have been able to improve profitability due to the significant rise in coal prices since last year, which we have been able to pass on to prices.

Last year, we had to decline transactions with long transport distances. However, since the beginning of this year, as coal prices have calmed down, we have made further efforts to resume approaches and transactions.

Our approach is to optimize logistics not only from Japan, but also from Indonesia and Vietnam, utilizing trilateral trade within the Group as a whole.

The main premise of exporting itself is to focus on profitability. However, it is also positioned as a precursor to future strategies, alliances, and investments. We can also obtain a variety of information, and we would like to expand aggressively as long as it is within the scope of profitability.

**Q&A: Status of the cement business in the US**

**Participant:** This is about the cement business in the US. Earlier, you mentioned that you are taking a firm margin on price increases. What is the current capacity utilization rate of your US plants ?

If private demand were to fall, would it be possible to control supply and demand to some extent, for example by reducing imported cement? Please tell us about your thinking in this area.

**Respondent1:** Demand is still very strong. All four domestic plants are operating at full capacity, and the shortfall is covered by imports. There may be a slight increase or decrease, but for the time being, we believe that demand is basically steady.

The basic idea is that if demand falls in the future, imports will be used to meet the demand. In a sense, this is the strongest point of the US business, which can respond to fluctuations in supply and demand without having to drastically reduce the domestic operation rate. So, we would like to respond in that way.

**Respondent2:** Regarding what we are going to do with our domestic operations, one is to increase the production at our plants for Denka's 1 million tons, especially in the north and east. This is expected to make a considerable contribution, and the occupancy rate is expected to increase significantly.

Another major factor is coal. In accordance with national policy, TAIHEIYO CEMENT has been zeroing out Russian coal since this April. Therefore, the cargo is transported in 40,000- or 50,000-ton units from Australia and other countries by large vessels.

Large vessels can only berth directly at the Oita plant, so for other plants, the vessels must be transported once to the coal center. However, there are no rooms in coal centers in Japan, so we are currently using coal centers in Korea and China.

Thus, the challenge is how to manage logistics in the future, since much handling costs are currently incurred. We intend to steadily implement measures to lower costs, mainly through the procurement department, so that we can do this without renting coal centers in China and Korea.

If Russian coal can be imported, a 10,000-ton ship can be used for short distance transportation. However, we cannot do so, and we need to somehow overcome the cost issue, which is one of the challenges.

Measures must be taken whenever possible to address the nature of exports. Even the Oita plant, which has the lowest full cost, is exporting with poor net revenue. It would be better to ship it to the domestic market for a better net revenue, but the domestic supply system needs to be re-established while keeping a close eye on the balance. We will consider how to handle the next logistics in this area as well.

Also, there was a discussion earlier about logistics. The logistics of just transporting cement can barely be guaranteed. In the supply chain, however, after our industry, there are ready-mixed concrete and secondary products. Nearly 200 million tons of aggregate alone are moved annually to ready-mixed concrete companies and secondary product companies.

50 million tons of cement is moved by truck and 70 million cubic meters of ready-mixed concrete by truck. Taken together, this amounts to a considerable amount of material. If any one of the pathways is disrupted, the cement industry cannot stand. If aggregate is not delivered to the ready-mixed concrete plant as ordered, the plant will not be able to knead ready-mixed concrete, and naturally, cement shipments will also drop.

In relation to the 2024 problem, we must not only say "cement can be transported" but we must also address the issue of how to guarantee a stable supply, including the industry as a whole.

Since we are in a high-volume industry anyway, we accept that the weight of the 2024 problem is quite large. We recognize that this is an issue that should be addressed together with ready-mixed concrete companies, aggregate companies, and various other related parties.