

**Striving for Sustainable  
Growth and Strengthening  
Our Presence across  
the Pacific Rim**



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## Business Environment and Results of Our Performance in FY 2020

**Increasing Uncertainty in the Global Economy**

The Taiheiyo Cement Group has announced its intention to achieve its vision and direction targeting the mid-2020s to be an enterprise group capable of providing a sense of safety and security to communities in the Pacific Rim by demonstrating the group's overall capabilities. In FY2020, the second year of the 20 Medium-Term Management Plan (FY2019–2021), which we formulated as the second step for realizing our Future Vision and Direction, the Japanese economy mildly recovered amid improvements in employment and income. Business performance, however, particularly that of manufacturers, remained weak and the economic outlook was uncertain.

In the Pacific Rim region, a main focus for the group's overseas business, the U.S. economy achieved robust growth with low unemployment and strong consumer spending. While the pace of China's economic growth slowed due to the prolonged trade conflict with the U.S., the rapidly growing economies of Vietnam and the Philippines demonstrated strength. Since the start of 2020, COVID-19 has spread across the globe. Given that the impact of infections across the world will be prolonged, the uncertainty surrounding the global economy is increasing.

Under these circumstances the group's net sales and operating income for FY2020 declined from the previous fiscal year to 884,350 million yen and 61,008 million yen, respectively. The business environment surrounding the group will continue to support a certain level of demand for domestic cement, our main business, due to investments for urban redevelopment and disaster protection and mitigation projects, and an increase in construction work related to the Linear (maglev) Chuo Shinkansen. The prospects for the domestic business, however, will depend on the extent to which economic activities are affected by the spread of COVID-19. Domestic demand for cement for FY2020 was 41.0 million tonnes, the same level as 50 years ago. While we were unable to achieve the net sales we had originally targeted, we are clearly making steady progress toward our goal of strengthening our presence across the Pacific Rim.

For instance, in the West Coast of the U.S., a key area for our investments, we are steadily preparing for an increase in demand through measures such as expanding equipment at the Oro Grande plant, which we acquired in 2015. We also concluded a basic agreement on capital and business partnership with an Indonesian state-owned company, the largest cement manufacturer in Indonesia, in April 2020. This represents a significant step toward establishing a base in an area where the group has not previously maintained any business sites. For example, we are exporting clinker to Australia and Bangladesh from Japan in a partnership with an Indonesian company, and this investment is expected to help us boost efficiency in logistics by leveraging Indonesia as our new export base. In line with its growth strategy, the group has restructured its portfolio through additional investments in the U.S. and equity injection in the Philippines, Vietnam and other South Asian countries. Indonesia, where we have now established a foothold, is the sole untapped region in our strategic business expansion in the Pacific Rim. While declining cement demand in Japan is unavoidable, this recent action could be highly significant for the group in taking a number of proactive measures to ensure its sustainable growth. We will continue to explore future investments in each of our business sites to drive the growth of the group.



### Boosting Corporate Resilience in Times of Change

We achieved an operating income of over 60 billion yen despite a greater-than-expected decline in domestic demand for cement. However, we believe we have established a corporate structure that would have delivered the earnings targeted in the Mid-term Management Plan had the level of cement demand been as projected.

One strength of the group's corporate structure is that all of our businesses are well balanced. For instance, the operating income of 66 billion yen for FY2019 was distributed evenly across the domestic cement business at 21.4 billion yen, the overseas cement business at 20.3 billion yen, and the total of Natural Resources, Environmental, and Construction Materials and Building Construction & Civil Engineering businesses at 24.5 billion yen. Even though domestic demand for cement shrank in FY2020, we have established a corporate structure that ensures we would still achieve profits for the group as a whole, regardless of the condition of the domestic market, through the growth in overseas demand and other businesses.

It is undeniable that in the past the Group had been highly reliant on the domestic cement business to earn the major portion of profit. However, we have taken steps to broaden the experience of employees though, for example, cross-departmental and international assignments and, as a result, our human resources have significantly strengthened in each of the businesses and communication in every division has

improved, largely contributing to the group's growth. FY2021, which will be significantly impacted by the spread of COVID-19, is the final year of the 20 Medium-Term Management Plan. The Taiheiyo Cement Group has worked on establishing a solid business foundation while balancing its investments for continued business growth, strengthening its financial structure and enhancing shareholder returns. FY2021 will challenge the results of the various measures the group has taken. I am confident that the corporate structures of the company and the group have sufficiently evolved to navigate through this adversity.

### Progress of CSR Objectives for 2025

#### Targeting an 80% Reduction in CO<sub>2</sub> Emissions by 2050

The group has established quantitative targets in the areas of (1) Prevention of accidents, (2) Reduction of greenhouse gas emissions, and (3) Workplace diversity as CSR Objectives for 2025. We have incorporated these into the 20 Medium-Term Management Plan and have been working to achieve them.

We declared our support for the Task Force on Climate-related Financial Disclosures (TCFD) in June 2019. We also set a target of reducing the net CO<sub>2</sub> emissions from cement production by 80% from the 2000 level by 2050 in a framework for our long-term vision of greenhouse gas emissions reduction toward 2050, which we formulated in July 2019. While it is challenging to completely avoid the generation of CO<sub>2</sub> emissions from cement production, the public would never allow the cement industry to demonstrate a reluctance to take action. It is feasible that an alternative material to concrete could be developed but it is unlikely to be available in sufficient quantities to replace the world's most used man-made product. We will therefore continue to pursue the reduction of CO<sub>2</sub> emissions associated with cement and concrete. Moreover, we should regard the reduction of CO<sub>2</sub> emissions as a challenge not for the survival of the company but for that of the cement industry as a whole.

While our environmental technologies in cement production are among the best in the world, outside-the-box, innovative technologies are essential for achieving our target of reducing CO<sub>2</sub> emissions by



80%. For instance, establishing CCS/CCU technology to separate, capture and utilize CO<sub>2</sub> will play a key role in those innovative technologies. Following the construction of a test facility at the Fujiwara Plant in Inabe City, Mie Prefecture, we are planning a demonstration plant with the support of NEDO (New Energy and Industrial Technology Development Organization). We are also preparing to dispatch engineers and researchers to research institutions around the world with the aim of acquiring the latest knowledge. We must clearly address this tough challenge by seizing the initiative and take action toward mitigating climate change as a leading company in the cement industry.

#### Initiatives for Creating Safety Culture and Promoting Diversity

We continuously focus on establishing a safety culture and creating a safe workplace, and the prevention of accidents has been raised as a priority among our CSR objectives for 2025. Creating a safety culture that secures the happiness of our employees and their families comes first in doing business. A company cannot pursue growth if it is unable to produce safe products in a safe manner. As a result of focusing on measures for the safe operation of equipment, we have nearly achieved zero accidents from equipment malfunctions. Most of the remaining accidents have been due to a lack of safety awareness. The heads of the business sites are responsible for ensuring that employees remain completely aware of safety. In the area of diversity we have set a target of women representing at least 30% of new hires, with specific measures in place for achieving this goal. I fully expect them to have opportunities to continue advancing their careers toward reaching management and senior executive positions. We are also implementing specific initiatives in anticipation of the roles women will have in energizing the future of Taiheiyo Cement. The group has worked on developing global human resources in expanding its business areas focusing on the Pacific Rim region, and we must further promote the effective use of their capabilities. Our overseas business is not based on a strategy of injecting capital and receiving dividends; our



employees are directly engaged in production and sales on-site. Therefore, it is vital for us to recruit and develop human resources from a global perspective regardless of nationality. Looking ahead, we will continue striving to develop and deploy human resources from the viewpoint of motivation and skills.

#### The Future Envisioned by Taiheiyo Cement

#### Toward Realizing a Sustainable Society with a Focus on Cement

The Taiheiyo Cement Group has continued to grow while focusing on the cement business and pursuing the potential of cement and concrete. It also contributes to the resolution of social issues by providing environmentally sound products and creating a recycling-based society.

Cement plays a central role in the group's business. Ensuring the availability of limestone, a raw material for cement, is essential for the group's continued contribution to society. With this philosophy we have secured reserves of limestone equivalent to the total production volume of cement over the next 100 years and established a system to ensure the stable supply of cement. In addition to cement, our core product, we will develop the cementitious materials\* business to further strengthen the company's presence in overseas markets. In overseas regions where we produce or sell cement, we will contribute to the development of local communities and increase our corporate value by offering the advanced technologies we have nurtured in the Environmental and Natural Resources businesses in Japan.

In order to create a sustainable society we are committed to meeting the expectations of our stakeholders by contributing to achieving the SDGs, which are goals shared internationally, through business activities focused on the cement business.

\*Cement with mineral components, such as slag and pulverized fuel ash