

Message from the President



Since the production of the very first tonne, we have and will continue to produce cement as long as this country needs it.

Cement was first brought to Japan with the introduction of Western architecture during the Meiji era (1868-1912). As it could not be produced domestically at that time, cement was imported from Europe at prices 100 times higher than today. It was exactly 150 years ago, in 1873, that the government-run Cement Manufacturing Plant was established, and eight years later, in 1881, Taiheiyo Cement became the first private company to produce a tonne of cement with the aspiration to "build the nation using cement". Since then, we have contributed to Japan's development by delivering cement to every corner of the country, with the belief of "making cement because Japan needs it," rather than "making cement because it is profitable". The history of cement in Japan, beginning with the very first tonne of cement, mirrors the history of Taiheiyo Cement, which has been involved all along the way.

As it was Taiheiyo Cement that made the first tonne of cement, if the time ever comes for the last tonne to be made, we also want to be the ones who make it. We will continue to make cement for as long as it is needed, while passing on the motto of "build the nation using cement" to the next generation.

Masafumi Fushihara
President and Representative Director

Summary of the 23 Medium-Term Management Plan

Resolutely Implementing Growth Investments in Order to Realize Our Future Vision and Direction, Even in a Difficult Environment.

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The 23 Medium-Term Management Plan is positioned as the third step towards realizing our future vision and direction targeting the mid-2020s. This year is the final year of the 23 Medium-Term Management Plan, which has "becoming an outstanding leading company" as a fundamental policy. During the Medium-Term Management Plan the hurdles to achieving the management targets have become higher due to a decline in domestic demand, which was a precondition for the plan, as well as significant changes in the business environment, including soaring coal prices. However, we have resolutely made growth investments, even in this difficult business environment, and I believe that we have achieved the goals that we set 10 years ago as our future vision to "never stop moving forward" and "become a corporate group with a strong presence in the Pacific Rim."

In addition, "becoming an outstanding leading company", a fundamental policy of the 23 Medium-Term Management Plan, is based on the concept of creating a corporate structure that can withstand even the toughest business environment, in which our core businesses of cement, mineral resources, environment, construction materials are thought of as four mountains, and a "Taiheiyo mountain range" is built by each of the businesses functioning together in an integrated manner. Through the experience of a war occurring in a foreign land, which hit the Japanese economy a month later in the form of soaring energy prices and exchange rate fluctuations, we have become acutely aware of the need to build an even more resilient corporate structure.

Focus on the Growing U.S. and Southeast Asia. Increasing Production and Supply Capacity to Capture Market Share.

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In order to become a corporate group with a strong presence in the Pacific Rim, we believe it is of utmost importance to increase our market influence by achieving a market share of at least 10% in the countries and regions where we operate. In order to capture the strong demand in growing markets, we have made investments to increase production and supply capacity.

In the U.S., further asset acquisitions have significantly increased our presence on the west coast, resulting in our local subsidiary, CalPortland Company, expanding its market share in California to 40%. We expect strong demand to continue for about a decade as the U.S. continues its infrastructure investment policy, with public investment of \$1.2 trillion commencing in earnest and the 2028 Los Angeles Olympics and Paralympics approaching.

In Asia, we have withdrawn from China, where we had been operating since the second half of the 1980s, and have progressed our southward shift to Southeast Asia, where the economy is growing rapidly. In 2021, we formed a capital and business alliance with the Indonesian government-owned Semen Indonesia Group, and have built a new logistics network in the Pacific Rim. This has already yielded benefits in the trading business, and we plan to supply one million tonnes of cement per year to our U.S. subsidiary starting in 2024. Meanwhile, the renovation of the production line at our subsidiary in the Philippines will be completed in May 2024. In addition, we have also decided to build a new terminal to supply cement to the area around Manila, the country's largest market, in order to capture the strong demand.

Carbon Neutrality is Our Important Growth Strategy. Making Our Independently Developed Kiln the Global Standard.

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We see carbon neutrality as the greatest challenge to the survival of the cement industry, as well as important growth strategy for our company. We have launched our "Carbon Neutral Strategy 2050" and have set targets to reduce our CO₂ emissions by 2030. Thereafter, as well as achieving the interim target, we plan to complete the development of innovative technologies that are effective in achieving carbon neutrality and gradually deploy them to the Group's cement plants. In particular,

we are working on the development of our own "C2SP Kiln," which is world-first compact equipment that enables the separation and capture of CO₂, with the aim of it becoming the global standard, and are also considering licensing the technology as business development that actively utilizes the intellectual property rights.

Formulation of the Next Medium-Term Management Plan has Begun Based on the Achievements and Challenges under the 23 Medium-Term Management Plan.

We will formulate the next Medium-Term Management Plan by backcasting from the long-term "future vision and ideal form" to depict the vision we are aiming for 10 years from now. How quickly we can recover the growth investments made under the 23 Medium-Term Management Plan is important, and the asset acquisitions on the west coast of the U.S. have already started to produce results from the second half of the previous year. In addition, we will expand our overseas businesses in Indonesia and the Philippines while capturing the strong demand. Our discussions will also focus on what needs to be accelerated to achieve the interim goals of our carbon neutral strategy, which have been set for 2030.

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Medium- to Long-Term Strategy

Create a Strong Corporate Structure that is Unaffected by Changes in the External Environment.

The net sales ratio of the Taiheiyo Cement Group is very well balanced, with the domestic cement business, the overseas cement business, and the mineral resources, environmental, and construction materials businesses each accounting for one third. However, our businesses have been hit hard by changes in the external environment, such as the spread of COVID-19 followed by soaring coal and fuel prices due to Russia's invasion of Ukraine. To become an outstanding leading company, we believe it is essential to build a strong corporate structure that will not be affected by such changes in the external environment, and accordingly we will work on the following.

1. Firm pricing policies

In response to soaring coal and fuel prices, we announced unprecedented drastic price increases totaling 5,000 yen per tonne. But this was still not sufficient to absorb the cost increases, and the domestic cement business ended the previous year with an operating loss. The Taiheiyo Cement Group's mission is to deliver safety and security to society, and we must have a business structure that can continue stable operations in order to do so.

In addition to coal prices, cement manufacturers are facing a variety of other cost-increasing factors, such as carbon neutrality and the logistics industry's response to the shortage of drivers under the revision of regulations in 2024. In the future, we must have the pricing power to develop pricing policies based on the cost of products and the resources for necessary future investments, and to sell products at the prices they should be sold at. Also, from the standpoint of co-existence and co-prosperity, we believe it is necessary to create an environment in which the entire supply chain, including not only cement manufacturers but also users, can pass on cost increases to product prices and secure profits.

2. Become leaders in decarbonization

We will invest a total of 300 billion yen by 2030 to develop our quarries and strengthen plant facilities for the next 100 years, and to achieve carbon neutrality. This is an opportunity for our plants to evolve into truly leading decarbonization facilities that will guide cement production and the decarbonization of local communities. The goal is to utilize our plants, which are located in a well-balanced manner throughout the country, to create decarbonization hubs for the use and storage of CO₂ that is separated and captured in each region, as well as the advancement of waste treatment

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and digitalization using DX to meet the characteristics and needs of each region. In addition, we will optimize our limestone supply network by application according to the characteristics of the limestone produced from our 13 quarries in Japan, and aim to become leading facilities in decarbonization that cannot be found anywhere else.

3. Reducing risk through diverse and multifaceted businesses

A significant recovery in domestic demand for cement is not expected in the future due to the declining population in Japan. Therefore, not only are we aiming to expand our overseas businesses, but also to develop a new core business in Japan that is not dependent upon cement production.

In the Mineral Resources Business we are working to commercialize functional materials and new materials that fully utilize our accumulated knowledge of minerals. In the Environmental Business we are expanding businesses that are less dependent on kilns, such as recovering useful materials from lithium-ion batteries for automobiles and sewage sludge.

At the same time, we plan to participate in the Namie Town Reconstruction Farm Project to support the reconstruction of Fukushima, utilizing our waste and by-product processing technologies.

4. Committed to human capital

To this day, I continue to believe that "people are the greatest asset that does not appear on a balance sheet." I believe that top management must focus their greatest effort on how to activate our human capital. In order for us to be chosen by young people and for them to want to continue working for us for a long time, it is important that we become a company with appeal. To this end, we will further proceed in creating a workplace where employees with diverse personalities and values can feel fulfilled and thrive, regardless of their nationality, gender, or other traits, and develop a personnel system that emphasizes work-life balance. In addition, we will improve the vitality and productivity of each and every employee by promoting "Kenkokeiei" health management that maintains the health and safety of employees. Furthermore, we will commit to developing global human resources who can work overseas and those who can pass on the core cement manufacturing technologies.

Continuing to produce cement and forming a circular economy. That is our sustainability.

Following on from the contract production for Hitachi Cement Co., Ltd. that started in 2019, we took over the cement sales business of Denka Co., Ltd. in April of this year, and plan to take over its cement business from 2025 onward by optimizing the production and supply system. Currently, there are more than 10 cement manufacturing companies in Japan and, as domestic cement demand is not expected to significantly recover in the future, we believe that the structure of the cement industry is likely to change as a result of business restructuring.

However, as the top specialist manufacturer that produced the first private-sector cement 140 years ago, we are determined to continue to produce cement based on our belief that "the cement Japan requires should be made in Japan," and we will work to strengthen our mining and production systems with an eye to the next 100 years.

On the other hand, in addition to its mission to deliver critical materials that are indispensable for infrastructure development, the cement industry has an important role as a key player in the formation of a circular economy with local communities and industries. The cement industry effectively uses waste and by-products as alternative raw materials and fuels for cement production. More than 25 million tonnes of waste and by-products is received annually, which is more than 10% of the total amount of waste and by-products recycled in Japan. In addition, we contribute to local communities by accepting municipal waste and incineration residues.

The Taiheiyo Cement Group also mines limestone from 13 limestone quarries in Japan, half of which is used for cement production and the other half for ready-mixed concrete aggregates and in many other industries such as electric power, steel and paper manufacturing. Furthermore, the waste and by-products generated by the electric power and steel industries can be effectively used as alternative raw materials for cement, forming a circular economy with these industries, which is also a characteristic of the cement industry and a truly sustainable model.

We believe that the state of the cement industry needs to be viewed as a challenge for Japanese industry as a whole in order to form and develop a sustainable society in the future.

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To Our Stakeholders

Contributing to local communities. Aiming for co-existence and co-prosperity is important.

We are aiming for co-existence and co-prosperity with the local and regional communities where our plants and quarries are situated, giving maximum consideration to the environment in terms of biodiversity and water resources, while keeping in mind at all times that the cement industry exists due to being allowed to mine the nation's land.

The cement industry has also contributed to the early recovery of areas affected by natural disasters by receiving debris and other waste that is generated by a disaster for use as alternative raw materials and fuels for cement. We began receiving and processing disaster waste after the Niigata Chuetsu Earthquake in 2004 and, since then, we have concluded several comprehensive partnership agreements with local governments where our plants are located as disaster preparation. Furthermore, from 2019 onward, we have also concluded comprehensive partnership agreements with local governments where we do not have a cement plant, and have established a system to receive and process disaster waste at all of our cement plants located throughout Japan via regional transportation and processing.



Striving to build closer relationships with our stakeholders so they can understand our business more.

Cement is the foundation of our business and we will continue to grow with the cement business as a keystone, pursue further possibilities for cement and concrete, and build a corporate group with a strong presence in the Pacific Rim. At the same time, as mentioned earlier, the cement industry exists due to being allowed to mine the nation's land, so we recognize the importance of co-existence and co-prosperity with the people in the areas where our plants and quarries are located. Through our business activities we will strive to resolve social issues on a global scale, not only by protecting the environment, creating a circular economy and combating climate change, but also by helping to build a sustainable society, including efforts to protect human rights, water resources and biodiversity, which have been identified as common global goals set out in the SDGs.

We believe that our stakeholders need to know more about our business and our approach. We will also make every effort to increase the opportunities to listen to the opinions of our stakeholders and build closer relationships with them.

This year marks 150 years since cement was first made in Japan. Since that time, we have continued to produce cement. As the first private company to make a tonne of cement we will continue to make it as long as it is needed.

