

Outline of the 20 Medium-Term Management Plan (FY2019–FY2021)

May 10, 2018

TAIHEIYO CEMENT CORPORATION

Contents

I. Future Vision and Direction

II. Review of the 17 Medium-Term Management Plan

III. Business Environment and Our View of the Future

IV. Outline of the 20 Medium-Term Management Plan

- | | |
|-------------------------|---|
| 1. Positioning | 5. Financial Strategy and Shareholders' Returns |
| 2. Fundamental Policies | 6. Business Strategies |
| 3. Management Targets | 7. Strategy for Research and Development |
| 4. Guidelines | 8. Strengthen Management Foundations |

I. Future Vision and Direction

I. Future Vision and Direction

Mission of the Taiheiyo Cement Group

Our mission is to contribute to social infrastructure development by providing solutions that are environmentally efficient, enhance our competitive position and bring value to our stakeholders.



**Future Vision and Direction
(toward the mid-2020s)**

To become an enterprise group that provides a sense of safety and security to societies in the Pacific Rim by demonstrating the Group's overall capabilities.

II. Review of the 17 Medium-Term Management Plan

II. Review of the 17 Medium-Term Management Plan

As the first step toward realizing our future vision and direction, the Group has worked to (1) generate and improve its earnings capacity, (2) build a flexible and strong financial structure, and (3) enhance shareholders' return.

	Plan	Results
Earnings capacity	<ul style="list-style-type: none"> • Enhance existing businesses. Thorough cost reductions, etc. • Formulate and implement growth strategies. Growth investments for generating and improving earnings capacity (100 billion yen). 	<ul style="list-style-type: none"> • Significant decline in domestic cement demand, below expectations. Management targets underperformed. ➡ Continue to strengthen our earnings capacity. • Executed growth investments as planned. Acquisition of the Oro Grande plant (U.S.) and construction of its new mill, the biomass-based electricity business, DC Co., Ltd.'s becoming our wholly-owned company, etc.
Financial structure	<ul style="list-style-type: none"> • Reduce interest-bearing debt. • Improve the equity capital ratio. • Promote selection and concentration. 	<ul style="list-style-type: none"> • Significantly reduced interest-bearing debt. (110.5 billion yen from end of FY2015) • Achieved net DER and other financial indicators one year earlier than planned. • Improved equity capital ratio. (end/FY2015: 29.1% → end/FY2018: 38.7%)
Shareholders' Return	<ul style="list-style-type: none"> • FY2016: dividend of 6 yen/share Increased by 1 yen/share from FY2015. • FY2017-2018 Determined dividends with consideration of fund needs from growth investments, etc. 	<ul style="list-style-type: none"> • FY2016–2018: maintained dividends of 6 yen/share.* • FY2017: repurchased 10 billion yen of Taiheiyo Cement Corporation's shares. <p>*The Company has consolidated shares of common stocks at a rate of one share for every ten shares, effective October 1, 2017. As a result, the year-end dividend per share for FY2018 will be 30 yen. The dividends per share for the period and for the full year, without reflecting the impact of share consolidation, are 3 yen and 6 yen, respectively.</p>

II. Review of the 17 Medium-Term Management Plan

Management Targets

	FY2018 Plan	FY2018 Actual	Change
Operating income on sales	8.4% or more	7.5%	-0.9%
Return on assets (ROA) (ordinary income)	7% or more	6.3%	-0.7%

Guidelines

(Billions of yen, unless otherwise stated)

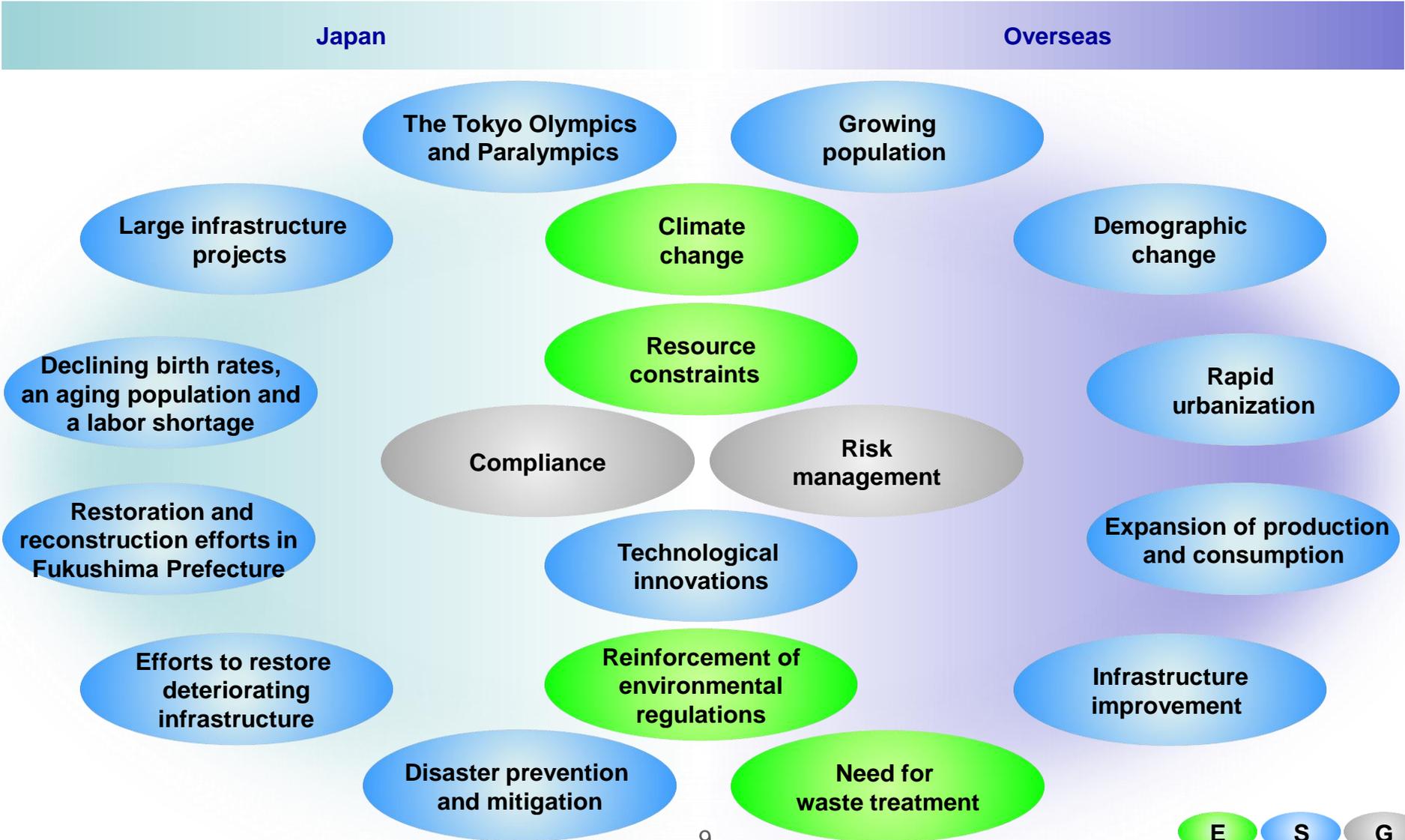
	FY2018 Plan	FY2018 Actual	Change
Net sales	950.0 or more	871.1	-78.9
Operating income	80.0 or more	65.1	-14.9
EBITDA*	125.0 or more	111.6	-13.4
Net debt/equity ratio (DER) (times)	Less than 1.0	0.6	-0.4
Net interest-bearing debt/EBITDA (times)	2.6 or less	2.1	-0.5

*EBITA= Operating income + Depreciation (including goodwill amortization)

III. Business Environment and Our View of the Future

III. Business Environment and Our View of the Future

Business Environment and Social Issues of the Group



III. Business Environment and Our View of the Future

Recognizing the Group's business environment, risks and opportunities in terms of ESG

		E: Environment	S: Society	G: Governance
Business environment and risks	Japan	<ul style="list-style-type: none"> Climate change Severe natural disasters Resource constraints Waste treatment Reinforcement of environmental regulations 	<ul style="list-style-type: none"> Declining birth rates, an aging population and a labor shortage Progress in deterioration of infrastructure The Tokyo Olympics and Paralympics Large infrastructure projects Restoration and reconstruction in disaster-stricken areas Technological innovations (ICT, IoT, AI, etc.) 	<ul style="list-style-type: none"> Unfair trade Corruption and bribery Falsification of data
	Overseas	<ul style="list-style-type: none"> Climate change Resource constraints Waste treatment Reinforcement of environmental regulations 	<ul style="list-style-type: none"> Expansion of production and consumption Rapid urbanization Growing infrastructure improvement Technological innovations (ICT, IoT, AI, etc.) 	
Opportunities		<ul style="list-style-type: none"> Creation and development of a recycling-oriented society Provision of environmentally friendly products Technical assistance for emerging economies 	<ul style="list-style-type: none"> Stable provision of high-quality products Anti-disaster projects and efforts to restore deteriorating infrastructure Provision of solutions Provision of labor-saving products Restoration and reconstruction in disaster-stricken areas Retention and development of capable human resources 	<ul style="list-style-type: none"> Compliance Risk management

III. Business Environment and Our View of the Future

Key Directions the Group Should Pursue

Key Directions	Principal Businesses	ESG
Stable provision of products and services	All businesses	S
Efforts to mitigate and respond to climate change	Cement (Japan and overseas)	E
Creation and development of a recycling-oriented society	Cement (Japan and overseas), mineral resources, environmental	E
Expansion of a strategic business domain	Cement (overseas), mineral resources, environmental, construction materials, others	E, S
Construction of a new business model	Environmental, others	E, S
Retention and development of capable human resources Strengthening of Group governance Enhancement of corporate governance	All businesses	S, G

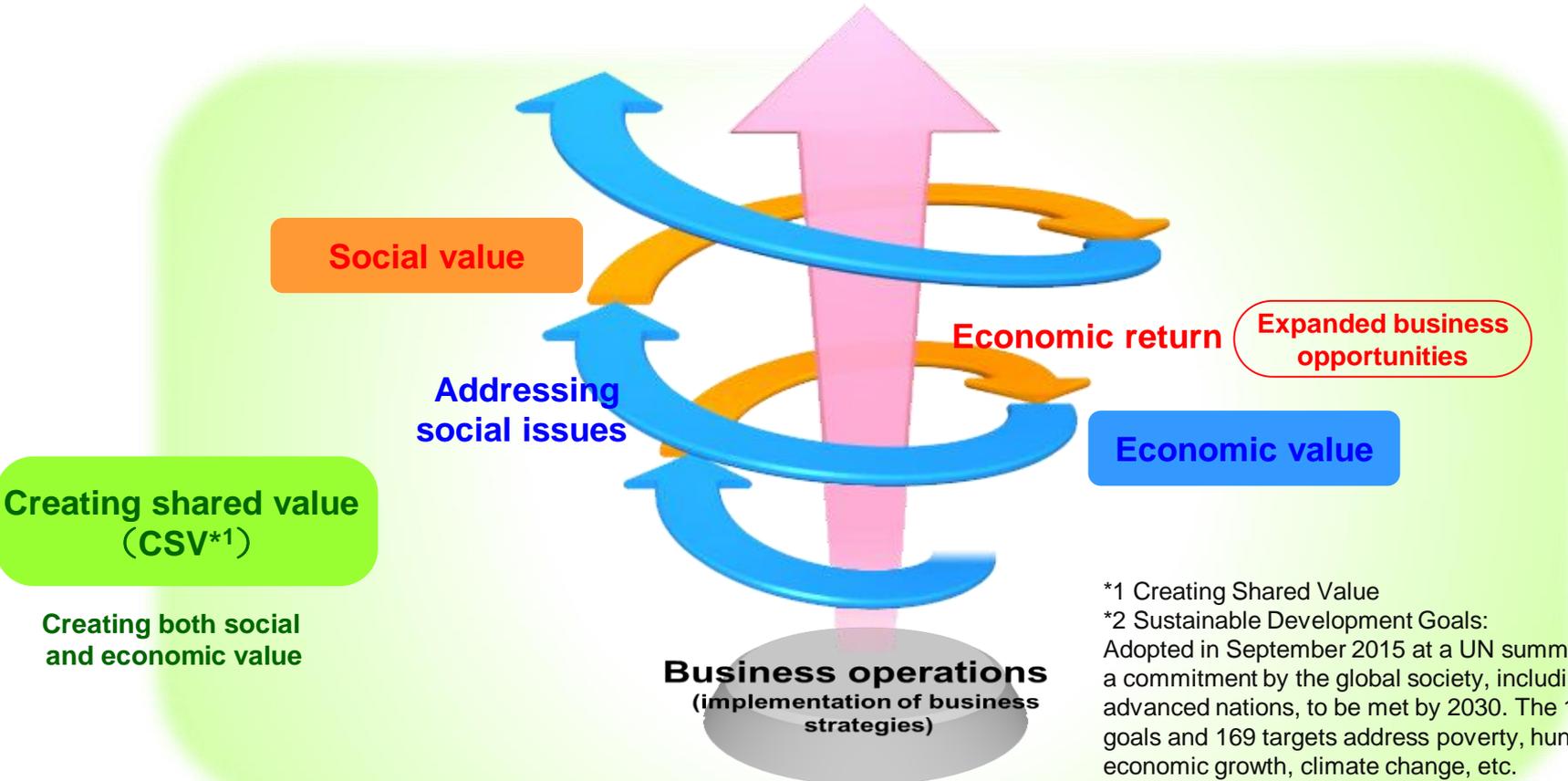


Reduce risks and expand business opportunities by addressing ESG issues

III. Business Environment and Our View of the Future

Achieve sustainable growth for the Group and enhance medium- and long-term enterprise value by creating shared value while contributing to SDGs.

Achieve sustainable growth and enhance medium- and long-term enterprise value. ➔ Contribute to SDGs*2



*1 Creating Shared Value
*2 Sustainable Development Goals: Adopted in September 2015 at a UN summit as a commitment by the global society, including advanced nations, to be met by 2030. The 17 goals and 169 targets address poverty, hunger, economic growth, climate change, etc.

IV. Outline of the 20 Medium-Term Management Plan

1. Positioning

Second Step Toward Realizing Our Future Vision and Direction

Continue addressing the remaining issues of the 17 Medium-Term Management Plan while implementing new initiatives.

**Future Vision and Direction
(toward the mid-2020s)**

**Subsequent Medium-Term Management Plan
(third step)**

**Establish a solid business foundation
for future sustainable growth**

**20 Medium-Term Management Plan
(second step)**

**17 Medium-Term Management Plan
(first step)**



2. Fundamental Policies

Fundamental Policies

To become an enterprise group that anticipates future changes in the business environment and seeks innovations on all fronts, thereby advancing along a pathway of growth.

To contribute to the establishment of a sense of safety and security in society through the stable provision of high-quality products, solutions and advanced technology development, in order to build national resilience as a member of the social infrastructure industry.

To push ahead with the strengthening of our earnings foundation for businesses and further improve our financial structure through thorough cost reductions as well as by actively executing investments in promising fields that will contribute to the Group's sustainable growth.

Strategy for Research
and Development

Business Strategies

Strengthen Management
Foundations

Establish a solid business foundation.

3. Management Targets

Target for FY2021

Operating Income on Sales	ROA (Ordinary Income)
9% or more	8% or more

IV. Outline of the 20 Medium-Term Management Plan

4. Guidelines

We have adopted the following indicators as guidelines
for achieving the management targets.

(Billions of yen, unless otherwise stated)

	FY2018 Actual	FY2021 Plan	Change
Net sales	871.1	950.0 or more	78.9 or more
Operating income	65.1	85.0 or more	19.9 or more
EBITDA*	111.6	140.0 or more	28.4 or more
Net debt/equity ratio (DER) (times)	0.6	0.5 or less	More than -0.1
Net interest-bearing debt/EBITDA* (times)	2.1	1.5 or less	More than -0.6

*EBITDA = Operating income + Depreciation (including goodwill amortization)

5. Financial Strategy and Shareholders' Returns

**Generate an operating cash flow
of 300 billion yen**

**over the three-year period of the
20 Medium-Term Management Plan**



**In principle, we will execute the following
within the operating cash flow.**

**Capital expenditure
and investment and
financing**

**Returns to
shareholders**

**Further
improvement of our
financial structure**

5. Financial Strategy and Shareholders' Returns

(1) Capital expenditure and investment and financing

Total of the three-year period of the
20 Medium-Term Management Plan

**Capital expenditure and
investment and financing: 230 billion yen**

Including growth investments: 120 billion yen

- Focus on growth investments to achieve the Group's sustainable growth.

5. Financial Strategy and Shareholders' Returns

(2) Returns to shareholders

Over the period of the 20 Medium-Term
Management Plan

**Consider flexibly repurchasing shares
toward achieving a total return ratio of
around 30%.**

- **Maintain steady and continuing dividend payments as our basic policy.**
- **Take into account the balance between shareholders' return and the appropriate internal reserves needed to improve equity capital ratio in view of future growth investments and to strengthen our financial structure.**

5. Financial Strategy and Shareholders' Returns

(3) Further improvement of our financial structure

End of FY2021

**Net DER (debt equity ratio) of
0.5 or less** (as a guideline)

- We will further strengthen our financial structure by reducing interest-bearing debt, improving equity capital ratio, and promoting selection and concentration, along with other measures.

5. Financial Strategy and Shareholders' Returns

Our View of ROE

While striving to establish a solid earnings foundation and further strengthen our financial structure . . .

we intend to maintain and increase our earnings rate at a level that steadily exceeds equity costs.

Over the period of the 20 Medium-Term Management Plan

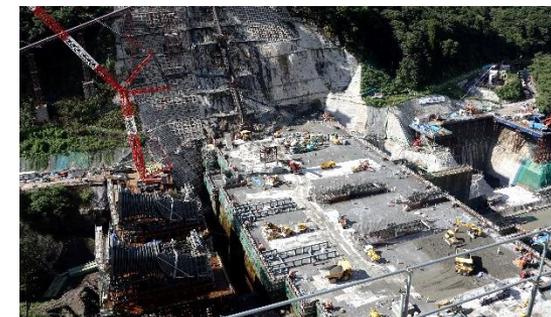
ROE: 10% or more

IV. Outline of the 20 Medium-Term Management Plan

6. Business Strategies: Cement Business (Japan)

- ◆ Strengthen profitability by quickly realizing fair prices and thoroughly cutting costs.
- ◆ Contribute to national and other projects by strengthening and expanding our capacity for reliably supplying products.
- ◆ Actively pursue measures toward mitigating climate change.

- Quickly realize fair prices.
- Secure stable earnings through sales policies and ready-mixed concrete policies.
- Strengthen cost competitiveness by thoroughly cutting costs.
- Rigorously maintain and improve quality and address client needs.
- Further reinforce stable operations by promoting the use of AI.
- Reinforce land and marine transport capacity and expand supply facilities.
- Develop and expand CO₂ reduction technology and technologies for utilizing recycled resources.



Construction site for Yanba Dam



Han ei maru (energy-saving ship)



Tokyo Service Station

Efforts to Address Social Issues

- Stable provision of cement products.
- Efforts to mitigate and adapt to climate change.
- Further contribution to a recycling-oriented society.
- Technological development to reduce environmental impacts.
- Addressing the reinforcement of environmental regulations.

Closely Related SDGs



IV. Outline of the 20 Medium-Term Management Plan

6. Business Strategies: Cement Business (Overseas)

- ◆ Expand our strategic business domain in the Pacific Rim region.
- ◆ Establish a brand image that expresses our quality, technology and environment-oriented values, thereby further reinforcing our regional presence.

- Construct a production and logistics system that adapts to rising demand and also reinforce our earnings capacity.
- Expand our export channel by taking advantage of our strategic cement and clinker.
- Create and expand market share by enhancing collaboration among the mineral resources, environmental and construction materials businesses and tapping into the Group's recycled resource utilization technology.
- Execute growth investments that maximize synergies with existing businesses.



The Oro Grande Plant of CalPortland
(U.S.)



Nghi Son Cement
(Vietnam)

Efforts to Address Social Issues

- Contribution to infrastructure improvement.
- Efforts to mitigate and adapt to climate change.
- Contribution to creating a recycling-oriented society.
- Addressing the reinforcement of environmental regulations.

Closely Related SDGs



IV. Outline of the 20 Medium-Term Management Plan

6. Business Strategies: Mineral Resources Business

- ◆ Establish a robust system for ensuring the stable supply of resources.
- ◆ Take full advantage of the abundant resources of the Group to boost the profitability of our businesses.
- ◆ Focus on developing future-oriented businesses as well as creating an overseas resource business.

■ Boost the earnings capacity of businesses.

- **Aggregates business:** Increase sales of limestone aggregates (strive to address Tokyo Olympics and Paralympics-related demand).
- **Mineral products business:** Increase sales of limestone for steelmaking, quicklime and crystalline limestone.
- **Geo-solution business:** Promote the use of construction soil as raw material for cement production; increase the sales of a material for immobilizing heavy metals (*DENITE*[®]).

■ Restructure an optimal supply system within the Group, thereby accelerating the impact of synergies.

■ Promote the functional material business.

Establish a system to maximize production volume in the ultra-high-purity silicon carbide business.

■ Undertake a full-fledged expansion of the resource business in Southeast Asia.

Efforts to Address Social Issues

- Stable provision of mineral products.
- Further contribution to a recycling-oriented society.
- Provision of environmentally friendly products.



Shin-Tsukumi Quarry and Oita Plant



Heavy machinery for quarries

Closely Related SDGs



IV. Outline of the 20 Medium-Term Management Plan

6. Business Strategies: Environmental Business

- ◆ Maximize the earnings capacity of our businesses while constructing a new business model by developing advanced technology.
- ◆ Contribute to creating a new recycling system for unutilized resources.

- Scale up the business to recycle wastes and other materials into cement.
 - Expand and spread the region covered by our recycling business for municipal incineration ash and wastes that are difficult to process.
 - Conduct an all-out effort to address the need for coal ash recycling.
- Contribute to implementing the resource complex initiative.
 - Develop a technology for recovering precious metals from municipal incineration ash.
- Promote strategic overseas business development including new businesses.
 - Provide environmentally friendly products and solutions.



Demonstration test facility for recovering precious metals from municipal incineration ash (Ofunato Plant)

Efforts to Address Social Issues

- Further contribution to a recycling-oriented society.
- Establish a new model for recycling resources.
- Provision of environmentally friendly products and solutions.

Closely Related SDGs



IV. Outline of the 20 Medium-Term Management Plan

6. Business Strategies: Construction Materials Business

- ◆ Establish a sustainable business foundation capable of adapting to changes in the business environment and strengthen the competitiveness and financial structure of our businesses.
- ◆ Cultivate a new earnings source in a growth field and maximize synergies with our businesses.

- Conduct measures to reform our profit structure.
- Enhance cooperation within the Group.
- Minimize costs incurred by our businesses.
- Provide environmentally friendly products and technical services while introducing labor-saving products to the market.
 - ➔ Respond to the needs of society associated with preserving the environment as well as addressing the labor shortage.
- Expand into the Southeast Asian market.
- Proceed with new business development and strive to quickly realize the benefits.
 - ➔ Consider and execute alliances.



Heat-shielding and permeable paving block



Subway construction work in Vietnam (ground improvement)

Efforts to Address Social Issues

- Provision of environmentally friendly products and technical services.
- Provision of labor-saving products.



Closely Related SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	13 CLIMATE ACTION
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IV. Outline of the 20 Medium-Term Management Plan

6. Business Strategies: Other Business

Boost the earnings capacity of each Group company while constructing a new business model expected to generate synergies within the Group.

- Generate new synergies by utilizing management resources across the Group.
- Launch a wholesale supplier business for biomass-based electricity (scheduled for January 2020).
 - ➔ Promote renewable energy and energize local economies through initiatives such as job creation.



PKS* EFB pellet*



Transportation and Warehousing

Real Estate

Engineering

Information Processing

Sports

Power Generation

*Biomass fuel

Efforts to Address Social Issues

- Provision of renewable energy.
- Job creation.

Closely Related SDGs

<p>7 AFFORDABLE AND CLEAN ENERGY</p>	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>13 CLIMATE ACTION</p>
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6. Business Strategies: **Support for National Projects**

Stable Supply of High-quality Products and Provision of Solutions

Deploy the Group's full strength and resources to support:



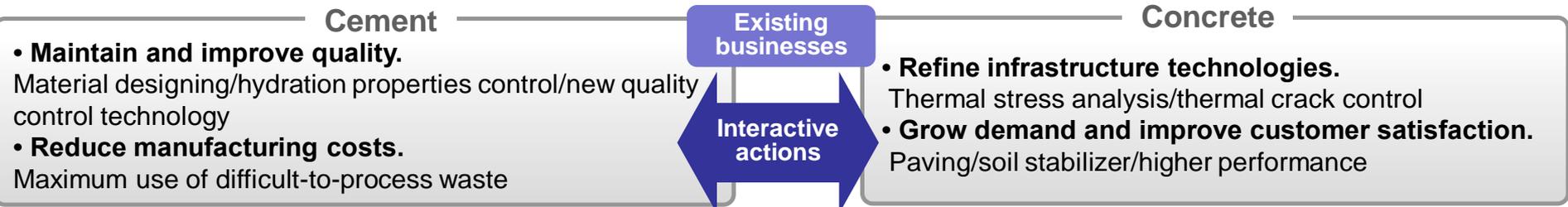
- **Restoration and reconstruction efforts in Fukushima Prefecture and other disaster-stricken areas;**
- **The Tokyo Olympics and Paralympics;**
- **Construction work related to Linear Chuo Shinkansen; and**
- **Other major infrastructure projects.**

IV. Outline of the 20 Medium-Term Management Plan

7. Strategy for Research and Development

Focus on research and development that contributes to Group-wide growth and sustainable development.

- Develop infrastructure technologies for each business while contributing to reducing environmental impacts.
- Quickly establish technologies in growth fields and contribute to commercializing them.
- Research and development of essential technologies that address national projects.



Growth Fields (Four Pillars)

- **Overseas:** development and sales expansion of cement for overseas markets; enhance the overseas technical assistance system.
- **Mineral resources:** development of functional materials; support for commercialization; 3D mold making technology.
- **Environmental:** resource complex initiative (recovery of precious metals); coal ash recycling technology.
- **Construction materials:** enhance cooperation within the Group.

National Projects

- **Contribute to restoration and reconstruction efforts in disaster-stricken areas.**
- **Address demand related to The Tokyo Olympics and Paralympics.**
- **Technological development for construction of the Linear Chuo Shinkansen.**
- **Other large infrastructure projects** (including countermeasures for deteriorating infrastructure).

Reducing Environmental Impacts

- **Development of technologies for reducing CO₂.**
- **Development of technologies for utilizing recycled resources.**
- **Development of technologies for saving energy.**
- **Development of technologies for effectively utilizing water, resources and technologies for preserving biodiversity.**

Closely Related SDGs



IV. Outline of the 20 Medium-Term Management Plan

8. Strengthen Management Foundations

CSR Objectives for 2025

Items		Targets (Objectives to Be Achieved in FY2026)	Scope
1	Prevention of Accidents	Zero fatalities	Employees of the Taiheiyo Cement Group, including overseas business sites and partner companies
2	Reduction of greenhouse gas emissions	Reduce the specific net CO ₂ emissions per tonne of cementitious product by at least 10% from fiscal 2000 levels by fiscal 2025.	Cement production sites of Taiheiyo Cement and group companies, including overseas sites
3	Workplace Diversity	<ul style="list-style-type: none"> • Increase the hiring percentage of female employees under “G Course” categories to at least 30%. • Build an appropriate portfolio of human resources by increasing the percentage of female employees to at least 10%. • Promote the appointment of female employees to management positions with the objective of raising the percentage of newly appointed female managers to 10%. 	Non-consolidated

1

- Establish a system for maintaining stable operations with top priority on safety and health.
- Create a safety-oriented culture.

Closely Related SDGs



2

- Reduce environmental impacts.
- Create a recycling-oriented society.

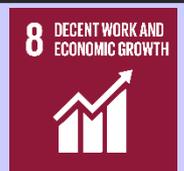
Closely Related SDGs



3

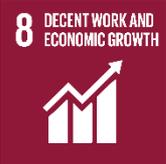
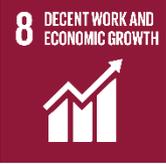
- Create an appropriate portfolio of human resources.
- Apply innovative approaches toward developing our labor force.

Closely Related SDGs



IV. Outline of the 20 Medium-Term Management Plan

8. Strengthen Management Foundations

Items	Details	Closely Related SDGs
Develop global human resources.	<ul style="list-style-type: none"> ■ Secure diverse human resources with a variety of characteristics and values, irrespective of nationality or gender. <ul style="list-style-type: none"> ➡ Proceed with innovation. ■ Develop global human resources capable of functioning effectively in a global setting to support the Group's overseas expansion. 	
Promote work-style reform and effectively manage health and productivity.	<ul style="list-style-type: none"> ■ Improve labor productivity. ■ Create vigorous, comfortable workplace environments. 	
Strengthen governance.	<ul style="list-style-type: none"> ■ Rigorously enforce governance within the Group. ■ Conduct risk management more effectively. ■ Continue to enhance corporate governance. 	
Apply selection and concentration.	<ul style="list-style-type: none"> ■ Realize a more efficient utilization of management resources by continuously rebalancing the asset mix. 	
Increase the competitiveness of our value chain.	<ul style="list-style-type: none"> ■ Respond to stakeholder expectations and requests to maintain sound relationships with them, both directly and indirectly. ■ Engage in appropriate cooperation with stakeholders. 	

IV. Outline of the 20 Medium-Term Management Plan

Reference: Net Sales and Operating Income by Segment

The following presumptions have been applied for the period covered by the 20 Medium-Term Management Plan.

Estimated domestic cement demand: 42 to 43 million tonnes

Estimated exchange rate: 110 yen/US\$

(Billions of yen)

		Net Sales		Operating Income	
		FY2018 Result	FY2021 Plan	FY2018 Result	FY2021 Plan
Cement Business	Japan	408.5	423.0	25.5	29.0
	Overseas	203.4	223.0	15.1	25.5
	Sub-total	611.9	646.0	40.6	54.5
Mineral Resources Business		81.4	90.0	8.0	9.5
Environmental Business		90.2	111.0	7.4	9.0
Construction Materials Business		77.0	88.0	4.7	6.0
Other Business		79.0	95.0	3.9	6.0
Intergroup Elimination		-68.5	-80.0	0.2	-0
Total		871.1	950.0	65.1	85.0

IV. Outline of the 20 Medium-Term Management Plan

Reference: Relationship between SDGs and Our Business Operations

As a member of the social infrastructure industry, we are related to SDGs in all of its businesses operations.



Cement Supply (Role as a Supplier)
Stably provide high-quality products and services and develop advanced technology to establish a sense of safety and security in society.

Resource Recycling (Role as Part of the Waste Treatment Industry)
Safely recycle a large amount of industrial and municipal waste and use it as raw materials for cement production.

CSR Objectives for 2025



Plans and other forward-looking statements in this document are based on information available to the Company as of the date of the release of this document and on certain assumptions the Company deems reasonable, and therefore are subject to risks and uncertainties.

As such, we do not offer any promise or guarantee that planned results and measures included in this document will be realized in the future. Actual results may differ significantly due to a variety of factors.

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