

Taiheiyo Cement Corporation

Reference Materials of Financial Results for the First Half of Fiscal 2017 (From April 1, 2016 through September 30, 2016)

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November 10, 2016

1. Trend in Construction Investments and Domestic Demand of Cement

	Estimate of construction investments (in nominal terms) (100 million yen)	Year-on year change (%)	Domestic Demand (including imports) (Thousand tons)	Year-on year change (%)	Exports (Thousand tons)	Year-on year change (%)
Fiscal 2001	661,948	-3.4	71,435	-0.1	7,477	-1.2
Fiscal 2002	612,875	-7.4	67,811	-5.1	7,863	5.2
Fiscal 2003	568,401	-7.3	63,514	-6.3	8,554	8.8
Fiscal 2004	536,880	-5.5	59,687	-6.0	9,879	15.5
Fiscal 2005	528,246	-1.6	57,569	-3.5	10,373	5.0
Fiscal 2006	515,676	-2.4	59,089	2.6	10,273	-1.0
Fiscal 2007	513,281	-0.5	58,985	-0.2	9,592	-6.6
Fiscal 2008	476,961	-7.1	55,506	-5.9	10,017	4.4
Fiscal 2009	481,517	1.0	50,087	-9.8	10,672	6.5
Fiscal 2010	429,649	-10.8	42,732	-14.7	11,054	3.6
Fiscal 2011	419,282	-2.4	41,614	-2.6	9,967	-9.8
Fiscal 2012	432,923	3.3	42,650	2.5	10,006	0.4
Fiscal 2013	452,914	4.6	44,577	4.5	9,632	-3.7
Fiscal 2014	512,984	13.3	47,705	7.0	8,503	-11.7
Fiscal 2015	(estimated value) 512,400	-0.1	45,551	-4.5	9,421	10.8
Fiscal 2016	(estimated value) 509,500	-0.6	42,668	-6.3	10,583	12.3
Fiscal 2017	(forecasted value) 519,400	1.9	42,000	-1.6	12,000	13.4
(For reference)						
First Half of Fiscal 2015			22,611	-1.3		
First Half of Fiscal 2016			21,154	-6.4		
First Half of Fiscal 2017			20,206	-4.5		

[Sources]

Estimate of construction investments:

for Fiscal 2001 to Fiscal 2016, Ministry of Land, Infrastructure, Transport and Tourism

for Fiscal 2017 onwards, Research Institute of Construction and Economy (RICE)

Domestic demand of cement:

for Fiscal 2001 to Fiscal 2016, Japan Cement Association

2. Volume of Sales and Shipment Results by Region

Volume of sales of cement by region (excluding imports)

	Fiscal 2015		Fiscal 2016		First Half of Fiscal 2017	
	Volume of sales (Thousand tons)	Year-on-year change (%)	Volume of sales (Thousand tons)	Year-on-year change (%)	Volume of sales (Thousand tons)	Year-on-year change (%)
Hokkaido	2,033	-5.6	1,793	-11.8	1,062	2.0
Tohoku	4,615	-2.0	4,784	3.7	2,239	-6.0
Kanto 1	10,221	-4.7	9,551	-6.6	4,470	-7.5
Kanto 2	3,982	-2.0	3,684	-7.5	1,765	-2.7
Hokuriku	1,967	-11.0	1,932	-1.8	931	-8.6
Tokai	5,145	-1.0	4,872	-5.3	2,222	-6.1
Kinki	6,388	-1.4	5,923	-7.3	2,813	-2.1
Shikoku	1,701	-6.7	1,565	-8.0	724	-2.1
Chugoku	2,717	-8.5	2,565	-5.6	1,179	-4.0
Kyushu	5,302	-8.4	4,711	-11.1	2,226	0.9
Okinawa	978	16.6	968	-1.1	430	-10.7
Domestic Total	45,048	-4.1	42,347	-6.0	20,061	-4.4
Exports	9,421	10.8	10,583	12.3	5,452	5.5
Total	54,469	-1.8	52,930	-2.8	25,513	-2.4

Source: Japan Cement Association

Shipment of ready-mixed concrete by region

	Fiscal 2015		Fiscal 2016		First Half of Fiscal 2017	
	Shipment (Thousand cubic meters)	Year-on-year change (%)	Shipment (Thousand cubic meters)	Year-on-year change (%)	Shipment (Thousand cubic meters)	Year-on-year change (%)
Hokkaido	3,800	0.4	3,203	-15.7	1,882	4.4
Tohoku	9,786	-2.5	9,599	-1.9	4,334	-12.0
Kanto 1	21,951	-6.4	20,470	-6.7	9,702	-7.2
Kanto 2	6,891	0.6	6,211	-9.9	2,885	-5.4
Hokuriku	4,219	-13.4	3,967	-6.0	1,944	-4.4
Tokai	11,060	-3.4	10,488	-5.2	4,700	-8.9
Kinki	13,805	-0.0	12,878	-6.7	6,152	-2.4
Chugoku	5,415	-7.9	5,057	-6.6	2,317	-4.0
Shikoku	3,897	-5.5	3,573	-8.3	1,569	-7.8
Kyushu	13,191	-9.6	11,615	-11.9	5,279	-4.5
Total	94,014	-4.9	87,061	-7.4	40,765	-6.0

Source: National Federation of Ready-Mixed Concrete Industrial Associations

Financial Results for the First Half of Fiscal 2017

Consolidated Statements of Income

(Millions of yen)

Item		First Half of Fiscal 2016	First Half of Fiscal 2017	Change		
Ordinary income and loss	Operating income/loss	Net sales	415,152	376,929	-38,222	
		Cost of sales	322,927	289,669	-33,257	
		Gross profit	92,225	87,259	-4,965	
		Selling, general and administrative expenses	66,970	65,803	-1,166	
		Operating income	25,255	21,456	-3,798	
		Non-operating income and expenses				
		Income	Interest income	281	265	-16
			Dividends income	480	507	27
			Equity in earnings of unconsolidated subsidiaries and affiliates	3,680	1,966	-1,714
			Other	2,596	1,246	-1,350
		Total	7,038	3,984	-3,053	
	Expenses	Interest expenses	3,020	2,566	-453	
		Other	2,877	2,089	-787	
		Total	5,897	4,656	-1,241	
	Ordinary income	26,396	20,785	-5,610		
Extraordinary income and losses	Income	Gain on disposal of non-current assets	370	329	-40	
		Gain on sales of investment securities	640	3,966	3,326	
		Gain on bargain purchase	-	17,070	17,070	
		Other	76	21	-55	
		Total	1,087	21,388	20,300	
		Losses	Loss on disposal of non-current assets	1,031	787	-243
			Loss on step acquisitions	-	3,034	3,034
			Other	403	267	-136
			Total	1,434	4,089	2,654
		Income before income tax and non-controlling interests	26,048	38,083	12,035	
	Income taxes-current	9,449	-5,164	-14,613		
	Profit	16,598	43,247	26,649		
	Profit attributable to non-controlling interests	796	975	178		
	Profit attributable to owners of parent	15,802	42,272	26,470		

Sales volume of cement (Thousand tons)			
	First Half of Fiscal 2016	First Half of Fiscal 2017	Change
Domestic	7,380	6,921	-460
Export	1,923	2,023	100

Segment Information

(1) Net sales

(Millions of yen)

		First Half of Fiscal 2016	First Half of Fiscal 2017	Change	Main factors of change	
Cement business	Domestic	205,375	181,867	-23,507	Domestic	Decrease in domestic cement and solidifying material sales -3.6 bil. yen Increase in export cement volume +0.6 bil. yen Decrease in domestic cement and solidifying material price -0.3 bil. Yen Price difference in export cement -2.1 bil. yen Increased sales from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. -18.1 bil. yen
	Overseas subsidiaries	86,715	85,162	-1,553	Overseas subsidiaries	U. S. +\$60 million China -\$23 million; Asia +\$18 million Effect of foreign exchange -8.2 bil. yen
Total		292,091	267,030	-25,061		
Mineral Resources business		45,442	38,491	-6,951	Exclusion of subsidiaries from consolidation	
Environmental business		35,721	35,267	-453	Decreased sales of related commodity	
Construction Materials business		39,173	32,080	-7,092	Decreased in construction materials	
Other		36,555	33,433	-3,122	Exclusion of subsidiaries from consolidation	
Total		448,984	406,303	-42,680		
Eliminations or corporate assets		-33,831	-29,374	4,457		
Consolidated total		415,152	376,929	-38,222		

(2) Operating income

		First Half of Fiscal 2016	First Half of Fiscal 2017	Change	Main factors of change	
Cement business	Domestic	12,275	8,850	-3,425	Domestic	Decrease in domestic cement and solidifying material sales -2.4 bil. yen Increase in export cement volume +0.3 bil. yen Decrease in domestic cement and solidifying material price -0.2 bil. Yen Increase in net export revenue -0.9 bil. yen Variable cost etc. +1.6 bil. Yen Fixed cost -1.3 bil. yen Decreased income from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. -0.5 bil. yen
	Overseas subsidiaries	2,728	3,507	778	Overseas subsidiaries	U. S. +\$5 million China -\$6 million Asia +\$11 million Effect of foreign exchange -0.4 bil. yen
Total		15,004	12,357	-2,647		
Mineral Resources business		3,129	3,360	231	Decreased cost of physical distribution	
Environmental business		3,558	3,464	-93	Decreased sales of related commodity	
Construction Materials business		1,983	1,387	-596	Decreased in construction materials	
Other		1,569	1,026	-543	Exclusion of subsidiaries from consolidation	
Total		25,246	21,596	-3,649		
Eliminations or corporate assets		8	-139	-148		
Consolidated total		25,255	21,456	-3,798		

[Reference information]

Foreign exchange rate First Half of Fiscal 2016 average: ¥120.30 per dollar; First Half of Fiscal 2017 average: ¥111.70 per dollar; difference: ¥8.60
Exchange rate at end of Dec. 2015: ¥120.61 per dollar; at end of Jun. 2016: ¥102.91 per dollar; difference: ¥17.70

Consolidated Balance Sheets

(Unit: Millions of yen)

	As of 3/31/16	As of 9/30/16	Change	Main factors of change
Cash and deposits	53,539	77,482	23,943	
Notes and accounts receivable-trade	161,392	158,707	-2,685	
Merchandise and finished goods	31,187	30,958	-229	
Work in process	1,485	2,022	537	
Raw materials and supplies	42,624	40,008	-2,615	
Other	19,627	25,127	5,500	
Allowance for doubtful accounts	-938	-1,079	-141	
Total current assets	308,918	333,227	24,309	
Property, plant and equipment				
Buildings and structures	132,708	135,468	2,759	
Machinery, equipment and vehicles	147,151	137,192	-9,958	
Land	140,726	157,685	16,958	
Other	67,024	62,574	-4,450	
Property, plant and equipment	487,611	492,920	5,309	
Intangible assets				
Goodwill	6,432	4,256	-2,175	
Other	37,487	35,147	-2,339	
Intangible assets	43,919	39,404	-4,515	
Investments and other assets				
Investment securities	115,443	78,275	-37,167	
Asset for retirement benefits	8,968	9,544	576	
Other	55,870	73,190	17,319	
Allowance for doubtful accounts	-6,655	-7,680	-1,024	
Investments and other assets	173,626	153,330	-20,295	
Total noncurrent assets	705,156	685,654	-19,502	
Total assets	1,014,075	1,018,882	4,807	
Notes and accounts payable-trade	73,893	68,840	-5,052	
Short-term loans payable	160,421	149,793	-10,628	
Current portion of bonds	450	10,170	9,720	
Income taxes payable	8,351	16,569	8,217	
Provision for bonuses	5,723	5,841	118	
Other provision	751	436	-315	
Other	71,637	70,503	-1,134	
Total current liabilities	321,229	322,154	924	
Bonds payable	46,155	36,070	-10,085	
Long-term loans payable	187,471	174,563	-12,907	
Provision for retirement benefits	22,814	22,509	-305	
Provision for directors' retirement benefits	433	422	-11	
Provision for special repairs	245	117	-127	
Other provision	747	971	224	
Asset retirement obligations	7,990	7,905	-84	
Other	69,915	73,156	3,240	
Total non-current liabilities	335,772	315,716	-20,055	
Total liabilities	657,002	637,871	-19,131	

	As of 3/31/16	As of 9/30/16	Change	Main factors of change
Capital stock	86,174	86,174	-	
Capital surplus	50,925	59,005	8,080	
Retained earnings	188,731	227,483	38,752	
Treasury stock	-979	-1,358	-379	
Total shareholders' equity	324,851	371,304	46,453	
Valuation difference on available-for-sale securities	4,755	5,239	484	
Deferred gains or losses on hedges	16	132	115	
Revaluation reserve for land	4,665	5,065	400	
Foreign currency translation adjustments	-4,174	-27,758	-23,584	
Retirement benefits liability adjustments	-11,829	-9,645	2,184	
Total accumulated other comprehensive income	-6,566	-26,966	-20,400	
Non-controlling interests	38,787	36,673	-2,114	
Total net assets	357,073	381,011	23,938	
Total liabilities and net assets	1,014,075	1,018,882	4,807	

Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	First Half of Fiscal 2016	First Half of Fiscal 2017	Change	Main factors of change
Cash flows from operating activities	31,773	36,446	4,673	
Income before income taxes and non-controlling interests	26,048	38,083	12,035	
Depreciation and amortization	21,440	21,622	182	
Decrease (increase) in notes and accounts receivable-trade	11,160	6,849	-4,311	
Increase (decrease) in notes and accounts payable-trade	-7,183	-8,293	-1,110	
Other	-19,692	-21,815	-2,123	
Cash flows from investing activities	-7,220	19,914	27,134	
Purchase of property, plant, and equipment	-19,004	-20,042	-1,038	
Proceeds from sale of property, plant, and equipment	2,501	731	-1,770	
Purchase of investment securities	-25	-507	-482	
Proceeds from sales of investment securities	171	40,718	40,547	
Other	9,137	-986	-10,123	
Cash flows from financing activities	27,547	-29,934	-57,481	
Decrease (increase) in interest-bearing liabilities	34,647	-24,333	-58,980	
Cash dividend paid	-3,685	-3,690	-5	
Other	-3,415	-1,911	1,504	
Effect of exchange rate changes on cash and cash equivalents	-28	-3,013	-2,985	
Net increase (decrease) in cash and cash equivalents	52,072	23,412	-28,660	
Other	126	1,152	1,027	
Cash and cash equivalents at beginning of term	50,645	50,072	-573	
Cash and cash equivalents at end of term	102,844	74,637	-28,207	

Increase (decrease) in interest-bearing liabilities	As of 3/31/16	As of 9/30/16	Difference
Bonds payable	46,155	36,070	-10,085
Current portion of bonds	450	10,170	9,720
Long-term loans payable	187,471	174,563	-12,907
Short-term loans payable	160,421	149,793	-10,628
Total interest-bearing liabilities	394,497	370,597	-23,900

Year-on-year change	As of 3/31/16	As of 9/30/16	Difference
Equity ratio (%)	31.4	33.8	2.4
Equity ratio based on market value (%)	31.4	35.7	4.3
Equity per share (yen)	259.1	273.4	14.3
Current ratio (%)	96.2	103.4	7.2
Net D/E ratio	1.1	0.9	-0.2

Year-on-year change	First Half of Fiscal 2016	First Half of Fiscal 2017	Difference
Net income per share (yen)	12.86	34.17	21.31

Forecast of Fiscal 2017

[Preconditions]

- Domestic production: Fiscal 2017 42.00 million tons
- Foreign exchange rate: 107.0 yen/ US dollar (14.1 yen stronger than Fiscal 2016)

(Unit: 100 million yen)

		Fiscal 2016 (actual)	Fiscal 2017 (forecast)	Differences
Net sales	Cement business (domestic)	3,927	3,890	-37
	Overseas subsidiaries	1,820	1,770	-50
	Cement business (total)	5,747	5,660	-87
	Mineral Resources business	935	770	-165
	Environmental business	734	790	56
	Construction Materials business	808	760	-48
	Other	852	780	-72
	Total	9,077	8,760	-317
	Eliminations or corporate assets	-724	-710	14
Consolidated	8,353	8,050	-303	
Operating income	Cement business (domestic)	285	283	-2
	Overseas subsidiaries	61	101	40
	Cement business (total)	346	384	38
	Mineral Resources business	81	68	-13
	Environmental business	76	71	-5
	Construction Materials business	61	57	-4
	Other	40	40	0
	Total	605	620	15
	Eliminations or corporate assets	-1	0	1
Consolidated	604	620	16	
Ordinary income	602	570	-32	
Extraordinary oncome or loss	-76	0	76	
Income before income taxes and non-controlling interests	525	570	44	
Profit attributable to owners of parent	364	520	156	

Sales volume of cement (Thousand tons)

	Fiscal 2016 (actual)	Fiscal 2017 (forecast)	Change
Domestic	14,671	14,510	-161
Export	3,989	4,526	537

Main factors of changes in Net sales

[Cement]

Domestic:

Decrease in domestic cement and solidifying material price -1.2 bil. Yen
 Increase in export cement volume +2.9 bil. yen
 Price difference in export cement -4.0 bil. yen
 Decreased sales from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. -1.4 bil. Yen

Overseas subsidiaries:

U. S. +\$158 million
 China -\$29 million
 Asia +\$36 million
 Effect of foreign exchange -25.9 bil. yen

Main factors of changes in Operating income

[Cement]

Domestic:

Decrease in domestic cement and solidifying material price -1.0 bil. Yen
 Increase in export cement volume +1.3 bil. yen
 Decrease in net export revenue -2.2 bil. yen
 Variable cost etc. +2.7 bil. Yen
 Fixed cost -2.4 bil. Yen
 Increased income from companies producing ready-mixed concrete and merchandising firms of ready-mixed concrete etc. +1.4 bil. Yen

Overseas subsidiaries:

U. S. +\$39 million
 China -\$1 million
 Asia +\$7 million
 Effect of foreign exchange -1.6 bil. yen

[Reference Information]

1. Status of the Consolidated Group

(No. of companies)

	As of 3/31/13	As of 3/31/14	As of 3/31/15	As of 3/31/16	As of 9/30/16
Consolidated subsidiaries	141	132	131	121	127
Equity method subsidiaries	14	13	11	9	8
Equity method affiliates	38	38	37	40	38
Total of companies within the scope of consolidation	193	183	179	170	173
Subsidiaries outside the scope of consolidation	94	89	86	68	80
Affiliates outside the scope of consolidation	64	65	63	62	65
Total of companies outside the scope of consolidation	158	154	149	130	145
Total	351	337	328	300	318

2. Change in Interest-bearing Debt

(100 million yen)

	As of 3/31/13	As of 3/31/14	As of 3/31/15	As of 3/31/16	As of 9/30/16	As of 3/31/17 (forecast)
The Company	2,552	2,349	2,292	2,533	2,353	2,150
Consolidated subsidiaries	2,187	2,002	1,699	1,411	1,352	1,350
Whole group	4,739	4,351	3,991	3,944	3,705	3,500

3. Change in Number of Personnel

(No. of persons)

	As of 3/31/13	As of 3/31/14	As of 3/31/15	As of 3/31/16	As of 9/30/16
The Company	2,276	2,279	2,296	2,289	2,310
Consolidated subsidiaries	11,556	10,808	10,763	10,285	10,771
Whole group	13,832	13,087	13,059	12,574	13,081

4. Change in Capital Investment

(100 million yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	First Half of Fiscal 2017	Fiscal 2017 (forecast)
The Company	191	196	198	224	89	212
Consolidated subsidiaries	134	194	223	216	123	349
Whole group	325	390	421	440	212	561

5. Change in Depreciation Expenses

(100 million yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	First Half of Fiscal 2017	Fiscal 2017 (forecast)
The Company	177	175	180	176	86	171
Consolidated subsidiaries	217	230	244	263	130	262
Whole group	394	405	424	439	216	433

6. Change in Experiment and Research Expenses

(100 million yen)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	First Half of Fiscal 2017	Fiscal 2017 (forecast)
The Company	30	33	37	36	17	40
Consolidated subsidiaries	8	7	7	6	4	6
Whole group	38	40	44	42	21	46

7. Cement Sales in Overseas Subsidiaries (Sum of the sales of the consolidated subsidiaries)

(10 thousand tons)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	First Half of Fiscal 2017	Fiscal 2017 (forecast)
U.S.A.	275	308	343	411	239	512
Asia	1,106	1,138	1,091	1,017	492	1,050
Other regions	14	18	20	16	7	16

8. Overview of Businesses in the U.S. (Taiheiyō Cement U.S.A., Inc., on a consolidated basis)

(\$ thousands)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	First Half of Fiscal 2017	Fiscal 2017 (forecast)
Net sales	563,016	686,019	803,910	917,753	494,938	1,075,000
Operating income (loss)	-77,575	-35,575	34,525	22,555	19,066	62,000
Net income (loss)	-59,751	-43,965	9,236	2,328	7,566	29,000