

Taiheiyo Cement Corporation

Reference Materials of Financial Results for the First Half of Fiscal 2020 (From April 1, 2019 through September 30, 2019)

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November 12, 2019

1. Trend in Construction Investments and Domestic Demand of Cement

	Estimate of construction investments (in normal 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 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	421,139	0.4	42,650	2.5	10,006	0.4
Fiscal 2013	424,493	0.8	44,577	4.5	9,632	—) 3.7
Fiscal 2014	482,997	13.8	47,705	7.0	8,503	—) 11.7
Fiscal 2015	474,941	—) 1.7	45,551	—) 4.5	9,421	10.8
Fiscal 2016	566,468	19.3	42,668	—) 6.3	10,583	12.3
Fiscal 2017	587,399	3.7	41,777	—) 2.1	11,529	8.9
Fiscal 2018	(Estimated) 606,800	3.3	41,876	0.2	11,808	2.4
Fiscal 2019	(Estimated) 608,800	0.3	42,589	1.7	10,371	—) 12.2
Fiscal 2020	(Forecasted) 622,100	2.2	42,500	—) 0.2	11,000	6.1
(For reference)						
First Half of Fiscal 2018			20,841	3.1		
First Half of Fiscal 2019			20,770	—) 0.3		
First Half of Fiscal 2020			20,364	—) 2.0		

[Sources]

Estimate of construction investments:

for Fiscal 2002 to Fiscal 2019, Ministry of Land, Infrastructure, Transport and Tourism
for Fiscal 2020, Research Institute of Construction and Economy (RICE)

Domestic demand:

for Fiscal 2002 to Fiscal 2019, Japan Cement Association
for Fiscal 2020, our estimate

Exports:

for Fiscal 2002 to Fiscal 2020, Japan Cement Association

2. Volume of Sales and Shipment Results by Region

Volume of sales of cement by region (excluding imports)

	First Half of Fiscal 2018		First Half of Fiscal 2019		First Half of Fiscal 2020	
	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	1,136	6.9	1,048	-7.7	1,048	0.0
Tohoku	2,163	-3.4	2,037	-5.8	1,936	-5.0
Kanto 1	4,749	6.2	4,899	3.2	4,730	-3.5
Kanto 2	1,909	8.2	1,815	-4.9	1,707	-6.0
Hokuriku	944	1.3	1,131	19.9	1,156	2.2
Tokai	2,230	0.4	2,414	8.3	2,270	-6.0
Kinki	2,740	-2.6	2,606	-4.9	2,703	3.7
Shikoku	752	3.9	712	-5.4	732	2.8
Chugoku	1,237	4.9	1,148	-7.2	1,210	5.4
Kyushu	2,369	6.4	2,410	1.7	2,362	-2.0
Okinawa	486	13.0	484	-0.5	499	3.2
Domestic Total	20,714	3.3	20,703	-0.1	20,352	-1.7
Exports	6,163	13.0	5,262	-14.6	5,017	-4.6
Total	26,878	5.3	25,965	-3.4	25,369	-2.3

Source: Japan Cement Association

Volume of shipment of ready-mixed concrete by region

	First Half of Fiscal 2018		First Half of Fiscal 2019		First Half of Fiscal 2020	
	Volume of shipment (Thousand cubic meters)	Year-on year change (%)	Volume of shipment (Thousand cubic meters)	Year-on year change (%)	Volume of shipment (Thousand cubic meters)	Year-on year change (%)
Hokkaido	1,971	4.7	1,826	-7.4	1,920	5.1
Tohoku	4,266	-1.6	3,951	-7.4	3,682	-6.8
Kanto 1	10,060	3.7	10,684	6.2	10,119	-5.3
Kanto 2	3,047	5.6	2,952	-3.1	2,835	-4.0
Hokuriku	1,977	1.7	2,375	20.1	2,383	0.4
Tokai	4,650	-1.1	4,755	2.3	4,665	-1.9
Kinki	5,929	-3.6	5,340	-9.9	5,457	2.2
Chugoku	2,381	2.7	2,164	-9.1	2,340	8.1
Shikoku	1,655	5.5	1,482	-10.5	1,559	5.2
Kyushu	5,786	9.6	5,877	1.6	5,783	-1.6
Total	41,722	2.3	41,405	-0.8	40,744	-1.6

Source: National Federation of Ready-Mixed Concrete Industrial Associations

Financial Results for the First Half of Fiscal 2020

Sales volume of cement (Thousand tons)

	First Half of Fiscal 2019	First Half of Fiscal 2020	Change
Domestic	7,433	7,202	-230
Export	1,845	1,851	6

Consolidated Statements of Income

(Millions of yen)

		Item	First Half of Fiscal 2019	First Half of Fiscal 2020	Change	
Ordinary income and losses	Operating income/ loss	Net sales	438,700	431,389	-) 7,311	
		Cost of sales	342,391	342,745	354	
		Gross profit	96,309	88,643	-) 7,665	
		Selling, general and administrative expenses	68,924	66,179	-) 2,745	
		Operating income	27,384	22,463	-) 4,920	
	Non-operating income and loss	Income	Interest income	270	243	-) 27
			Dividend income	731	819	88
			Share of profit of entities accounted for using equity method	1,297	1,503	205
			Other	1,276	1,330	53
			Total	3,575	3,896	320
Expenses		Interest expenses	1,953	2,023	69	
	Other	1,899	1,866	-) 33		
		Total	3,852	3,889	36	
		Ordinary income	27,107	22,470	-) 4,637	
Extraordinary income and losses	Income	Gain on disposal of non-current assets	374	547	173	
		Gain on sales of investment securities	46	78	31	
		Compensation income	-	2,730	2,730	
		Other	56	33	-) 22	
			Total	478	3,390	2,912
	Losses	Loss on disposal of non-current assets	1,034	1,811	776	
		Other	669	316	-) 353	
		Total	1,704	2,127	423	
		Income before income taxes and non-controlling interests	25,881	23,733	-) 2,148	
		Income taxes	7,484	6,609	875	
		Profit	18,397	17,124	-) 1,272	
		Profit attributable to non-controlling interests	1,058	922	-) 136	
		Profit attributable to owners of parent	17,338	16,202	-) 1,135	

Segment Information

(1) Net sales

(Millions of yen)

		First Half of Fiscal 2019	First Half of Fiscal 2020	Change	Main factors of change	
Cement business	Domestic	211,189	207,051	-4,138	Domestic	Decrease in domestic cement and solidifying materials sales -2.4 bil. yen Price difference in domestic cement and solidifying materials +0.8 bil. yen Price difference in export cement -0.1 bil. yen Decrease sales from companies producing or selling cement or ready-mixed concrete, etc. -2.4 bil. yen
	Overseas subsidiaries	100,673	101,544	870	Overseas subsidiaries	U.S.A. -\$4 million China +\$8 million Asia and other -\$2 million Effect of foreign exchange +0.8 bil. yen
	Total	311,863	308,596	-3,267		
Mineral Resources business		40,543	39,461	-1,082		Decrease sales of aggregate
Environmental business		46,094	41,537	-4,556		Decrease sales of fuel, calcium carbonate used for flue gas desulfurization and gypsum
Construction Materials business		36,040	39,039	2,998		Increase sales of materials for shield tunnel construction, recovery of ground improvement work
Other		38,662	36,626	-2,035		
Total		473,204	465,261	-7,943		
Elimination		-34,503	-33,871	632		
Consolidated total		438,700	431,389	-7,311		

(2) Operating income

		First Half of Fiscal 2019	First Half of Fiscal 2020	Change	Main factors of change	
Cement business	Domestic	9,876	3,703	-6,172	Domestic	Decrease in domestic cement and solidifying materials sales -1.1 bil. yen Price difference in domestic cement and solidifying materials +0.6 bil. yen Increase in net export cement revenue +0.2 bil. yen Increase variable cost -2.5 bil. yen Increase fixed cost -2.2 bil. yen Decrease income from companies producing or selling cement or ready-mixed concrete, etc. -1.1 bil. yen
	Overseas subsidiaries	8,138	8,584	446	Overseas subsidiaries	U.S.A. -\$2 million Goodwill amortization +0.4 bil. yen China +\$5 million Asia and other -\$3 million Effect of foreign exchange +0.1 bil. Yen
	Total	18,014	12,288	-5,726		
Mineral Resources business		3,684	3,230	-453		Decrease sales of aggregate
Environmental business		3,409	3,546	137		Increase of waste-plastic processing and disaster-waste processing
Construction Materials business		918	1,951	1,032		Increase sales of materials for shield tunnel construction, recovery of ground improvement work and improvement in profitability of construction materials
Other		1,309	1,337	28		
Total		27,336	22,354	-4,982		
Elimination		47	109	61		
Consolidated total		27,384	22,463	-4,920		

[Reference Information]

Foreign exchange rate First Half of Fiscal 2019 average: ¥108.67 per dollar; First Half of Fiscal 2020 average: ¥110.06 per dollar; difference: ¥1.39 per dollar
 Exchange rate at the end of Dec.2018: ¥111.00 per dollar; at the end of June 2019; ¥107.79 per dollar; difference: -¥3.21 per dollar

Consolidated Balance Sheets

(Millions of yen)

	As of 3/31/19	As of 9/30/19	Change
Cash and deposits	56,561	48,629	-7,932
Notes and accounts receivable-trade	180,535	158,268	-22,267
Electronically recorded monetary claims-operating	12,998	13,071	73
Merchandise and finished goods	31,138	31,593	454
Work in process	2,268	2,429	160
Raw materials and supplies	43,314	44,290	975
Other	15,135	15,908	772
Allowance for doubtful accounts	-646	-605	41
Total current assets	341,307	313,585	-27,722
Property, plant and equipment			
Buildings and structures, net	135,653	133,490	-2,162
Machinery, equipment, and vehicles, net	134,649	133,219	-1,430
Land	157,638	157,680	41
Other	92,998	106,237	13,238
Total property, plant, and equipment	520,939	530,627	9,687
Intangible assets			
Goodwill	321	247	-74
Other, net	30,553	29,531	-1,022
Total intangible assets	30,875	29,778	-1,096
Investments and other assets			
Investment securities	83,692	83,394	-298
Retirement benefit assets	17,807	18,298	490
Other	47,238	47,772	534
Allowance for doubtful accounts	-7,432	-7,397	34
Total investments and other assets	141,306	142,067	761
Total non-current assets	693,120	702,473	9,352
Total assets	1,034,428	1,016,058	-18,369
Notes and accounts payable-trade	96,275	80,313	-15,962
Electronically recorded obligations-operating	8,716	4,937	-3,779
Short-term borrowings	135,381	130,429	-4,952
Commercial papers	4,000	21,000	17,000
Current portion of bonds	10,000	-	-10,000
Income taxes payable	8,376	5,666	-2,710
Provision for bonuses	6,046	6,134	88
Other provisions	220	215	-5
Other	80,373	77,940	-2,433
Total current liabilities	349,390	326,635	-22,754
Bonds payable	30,000	30,000	-
Long-term borrowings	100,233	95,089	-5,144
Retirement benefit liabilities	24,206	23,627	-579
Provision for retirement benefits for directors	535	467	-68
Provision for special repairs	75	101	26
Other provisions	757	765	8
Asset retirement obligations	7,619	7,682	63
Other	70,964	73,057	2,092
Total non-current liabilities	234,392	230,789	-3,602
Total liabilities	583,783	557,425	-26,357

Share capital	86,174	86,174	-
Capital surplus	60,408	60,419	10
Retained earnings	294,265	306,746	12,480
Treasury shares	-16,081	-16,092	-11
Total shareholders' equity	424,767	437,246	12,479
Valuation difference on available-for-sale securities	8,688	7,949	-738
Deferred gains or losses on hedges	-3	-0	2
Revaluation reserve for land	5,019	5,003	-15
Foreign currency translation adjustment	-20,128	-23,935	-3,807
Accumulated remeasurements of defined benefit plans	-3,632	-3,364	268
Total accumulated other comprehensive income	-10,057	-14,347	-4,290
Non-controlling interests	35,935	35,733	-202
Total net assets	450,645	458,632	7,987
Total liabilities and net assets	1,034,428	1,016,058	-18,369

Consolidated Statements of Cash Flows

(Millions of yen)

	First Half of Fiscal 2019	First Half of Fiscal 2020	Change
Cash flows from operating activities	44,085	35,566	-8,519
Income before income taxes and non-controlling interests	25,881	23,733	-2,148
Depreciation	21,072	22,642	1,570
Decrease (increase) in trade receivables	313	21,274	20,961
Increase (decrease) in trade payables	2,681	-19,444	-22,125
Other	-5,862	-12,639	-6,777
Cash flows from investing activities	-32,117	-33,178	-1,061
Purchase of non-current assets	-33,928	-34,094	-166
Proceeds from sales of non-current assets	628	874	246
Purchase of investment securities	-108	-78	30
Proceeds from sales of investment securities	191	245	54
Other	1,100	-125	-1,225
Cash flows from financing activities	-8,744	-9,978	-1,234
Increase (decrease) in interest-bearing liabilities	61	-2,066	-2,127
Dividends paid	-3,715	-3,681	34
Other	-5,090	-4,231	859
Effect of exchange rate change on cash and cash equivalents	-522	-352	170
Net increase (decrease) in cash and cash equivalents	2,701	-7,942	-10,643
Other	0	0	0
Cash and cash equivalents at beginning of period	44,976	50,084	5,108
Cash and cash equivalents at end of period	47,678	42,141	-5,537

(Millions of yen)

Increase (decrease) in interest-bearing debt	As of 3/31/19	As of 9/30/19	Change
Bonds payable	30,000	30,000	-
Current portion of bonds	10,000	-	-10,000
Long-term borrowings	100,233	95,089	-5,144
Short-term borrowings	135,381	130,429	-4,952
Commercial papers	4,000	21,000	17,000
Total interest-bearing debt	279,615	276,518	-3,096

	As of 3/31/19	As of 9/30/19	Change
Equity ratio (%)	40.1	41.6	1.5
Equity ratio based on market value (%)	43.7	34.8	-8.9
Equity per share (yen)	3,388	3,455	67
Current ratio (%)	97.7	96.0	-1.7
Net DE ratio (times)	0.54	0.54	0.00

Year-on-year change	First Half of Fiscal 2019	First Half of Fiscal 2020	Change
Earnings per share (yen)	140.11	132.38	-7.73

Forecast of Fiscal 2020

[Preconditions]

- Domestic demand: Fiscal 2020 42.5 million tons
- Foreign exchange rate at Fiscal 2020: ¥108.6 per dollar (1.8 yen stronger than Fiscal 2019)

(100 million yen)

		Fiscal 2019 (actual)	Fiscal 2020 (forecast)	Change	
Net sales	Cement business (domestic)	4,348	4,340	—)	8
	Overseas subsidiaries	2,116	2,110	—)	6
	Cement business (total)	6,464	6,450	—)	14
	Mineral Resources business	842	830	—)	12
	Environmental business	926	870	—)	56
	Construction Materials business	821	840		19
	Other	860	850	—)	10
	Total	9,916	9,840	—)	76
	Elimination	-755	-740		15
Consolidated total		9,160	9,100	—)	60
Operating income	Cement business (domestic)	214	160	—)	54
	Overseas subsidiaries	203	220		17
	Cement business (total)	417	380	—)	37
	Mineral Resources business	82	77	—)	5
	Environmental business	66	72		6
	Construction Materials business	49	55		6
	Other	46	53		7
	Total	662	637	—)	25
	Elimination	-2	3		5
Consolidated total		660	640	—)	20
Ordinary income		643	620	—)	23
Extraordinary income or losses		-51	-35		16
Income before income taxes and non-controlling interests		591	585	—)	6
Profit attributable to owners of parent		434	420	—)	14

Sales volume of cement (Thousand tons)

	Fiscal 2019 (actual)	Fiscal 2020 (forecast)	Change
Domestic	15,248	15,090	-158
Export	3,485	3,634	149

Main factors of changes in Net sales [Cement]

Domestic

Increase in domestic cement and solidifying materials sales + 0.1 bil. yen
 Increase in export cement volume +0.6 bil. yen
 Price difference in domestic cement and solidifying materials +1.0 bil. yen
 Price difference in export cement +0.3 bil. yen
 Decrease sales from companies producing or selling cement or ready-mixed concrete, etc. -2.8 bil. yen

Overseas subsidiaries

U. S. A. + \$11 million
 China + \$ 8 million
 Asia and other + \$10 million
 Effect of foreign exchange - 3.9 bil.yen

Main factors of changes in Operating income [Cement]

Domestic

Increase in domestic cement and solidifying materials sales +0.1 bil. yen
 Increase in export cement volume +0.2 bil. yen
 Price difference in domestic cement and solidifying materials +0.9 bil. yen
 Increase in net export cement revenue +0.2 bil. yen
 Increase variable cost -2.3 bil. yen
 Increase fixed cost -3.3 bil. yen
 Decrease income from companies producing or selling cement or ready-mixed concrete, etc. -1.2 bil. yen

Overseas subsidiaries

U. S. A. + \$9 million
 Goodwill amortization + 0.4 bil. yen
 China - \$1 million
 Asia and other + \$6 million
 Effect of foreign exchange - 0.3 bil.yen

[Reference Information]

1. Status of the Consolidated Group

(Number of companies)

	As of 3/31/16	As of 3/31/17	As of 3/31/18	As of 3/31/19	As of 9/30/19
Consolidated subsidiaries	121	125	123	119	118
Equity method subsidiaries	9	8	7	6	6
Equity method affiliates	40	38	38	37	37
Total of companies within the scope of consolidation	170	171	168	162	161
Subsidiaries outside the scope of consolidation	68	78	72	67	66
Affiliates outside the scope of consolidation	62	66	67	66	65
Total of companies outside the scope of consolidation	130	144	139	133	131
Total	300	315	307	295	292

2. Change in Interest-bearing Debt

(100 million yen)

	As of 3/31/16	As of 3/31/17	As of 3/31/18	As of 3/31/19	As of 9/30/19	AS of 3/31/20 (forecast)
The Company	2,533	2,111	1,754	1,783	1,812	1,910
Consolidated subsidiaries	1,411	1,298	1,132	1,013	953	870
Whole group	3,944	3,409	2,886	2,796	2,765	2,780

3. Change in Number of Personnel

(Number of persons)

	As of 3/31/16	As of 3/31/17	As of 3/31/18	As of 3/31/19	As of 9/30/19
The Company	2,289	2,242	2,308	2,328	2,398
Consolidated subsidiaries	10,285	10,766	10,747	10,755	10,744
Whole group	12,574	13,008	13,055	13,083	13,142

4. Change in Capital Investment

(100 million yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	First Half of Fiscal 2020	Fiscal 2020 (forecast)
The Company	224	199	208	263	93	278
Consolidated subsidiaries	216	344	372	414	232	449
Whole group	440	543	580	677	325	727

5. Change in Depreciation Expenses

(100 million yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	First Half of Fiscal 2020	Fiscal 2020 (forecast)
The Company	176	180	178	177	87	182
Consolidated subsidiaries	263	264	262	263	136	287
Whole group	439	444	440	440	223	469

6. Change in Research and Development Expenses

(100 million yen)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	First Half of Fiscal 2020	Fiscal 2020 (forecast)
The Company	36	37	36	35	16	37
Consolidated subsidiaries	6	8	8	8	4	6
Whole group	42	45	44	43	20	43

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

(10 thousand ton)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	First Half of Fiscal 2020	Fiscal 2020 (forecast)
U.S.A.	411	496	565	603	284	591
Asia	1,017	1,023	1,061	1,092	525	1,119
Other regions	16	15	12	11	6	12

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

(\$ thousands)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	First Half of Fiscal 2020	Fiscal 2020 (forecast)
Net Sales	917,753	1,048,453	1,224,641	1,328,117	636,922	1,340,000
Operating income	22,555	56,074	97,672	127,196	49,932	136,000
Net income	2,328	24,799	37,524	88,858	34,163	97,000