

FY 2017-2019 Medium-term Management Plan

May 12, 2017

Sumitomo Osaka Cement Co., Ltd.

President Fukuichi Sekine



1 Management Policy

- (1) Overview of FY 2014-2016 Medium-term Management Plan
- (2) Current Situation
- (3) Approach for the Future
- (4) Basic Policy

2 Business Strategy

- (1) Cement-related Business (including Cement-Related Products and Mineral Resources)
- (2) High-Performance Product Business

3 Numerical Plan

- (1) Profit/Loss Plan
- (2) CAPEX Plan
- (3) Financing Plan
- (4) Management Indicators

1. MANAGEMENT POLICY



1. Management Policy (1. Overview of FY 2014-2016 Medium-term Management Plan)

Basic Policy

- (1) With the backdrop of domestic cement demand persisting at a high level, we will focus on maximizing revenue by mobilizing group capabilities.
- (2) We will proactively nurture the growth fields in order to “establish company-wide framework for stable revenue” against possible shrink of the domestic market via:
 - Expansion of the repair business which is a growth business,
 - Establishing a business base in the overseas market as soon as possible,
 - Increase of revenues by stepping up the “Choice & Focus” strategy of new businesses



Results

- Targets for sales and operating profit not attained due to decreased domestic demand
- Expansion of growth fields
- Growth of repair market that did not come up to our expectations
 - Lack of new cement projects overseas
 - New businesses that made stable profit

	2016 Results	2016 Plans	Change/Achievement Rate
Domestic demand	41.78 million t	48.00 million t	▲6.22 million t
Coal price	80 \$ / t	100 \$ / t	20 \$ / t
Sales	234.1 billion yen	250.0 billion yen	93.6 %
Operating income	21.5 billion yen	26.0 billion yen	82.7 %
Ordinary income	22.6	26.0	86.9 %
Net income	16.2	14.6	111.0 %
CAPEX (3 yr)	57.6 billion yen	53.0 billion yen	4.6 billion yen
Index FCF (3 yr)	42.6 billion yen	15.4 billion yen	27.2 billion yen
ROA	6.8 %	8.1 %	▲ 1.3 %

(1) Cement Business

Domestic market

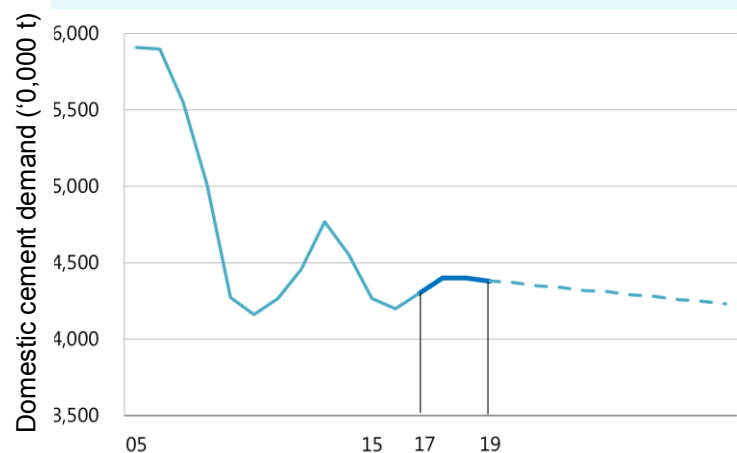
Demand

- During Medium-term Management Plan: current level (43-44 million t)
Tokyo 2020 Olympics and Paralympics, Maglev Chuo Shinkansen
- Long-term trend: decrease gradually (⇒ around 40 million t)

Demand calculated from base demand + special demand

[Base: risk of decrease in basic unit
(Increase in precast concrete (Pca), decrease in RC)
Special demand: ongoing demand such as national
resilience

<Domestic Cement Demand Trend>



Price The Cement Business needs a pricing structure that ensures the sustainability of business

Other Drop in production of clinker due to uptake of low-carbon concrete ⇒ reduction in waste treatment

Overseas markets

Cement market in Southeast Asia

Currently...increased demand < increased supply ⇒ intensifying competition

1. Management Policy (2. Current Situation-2)

(2) Non-Cement Business

Mineral Resources Business

Major mining projects completed ⇒ shifting to payback period
Sales of limestone facing increased competition due to restructuring of steelworks blast furnaces

Cement-Related Product Business

The repairs market forecast to increase gradually on a long time basis
Production facilities upgraded (with a new plant that started operation in FY2015)

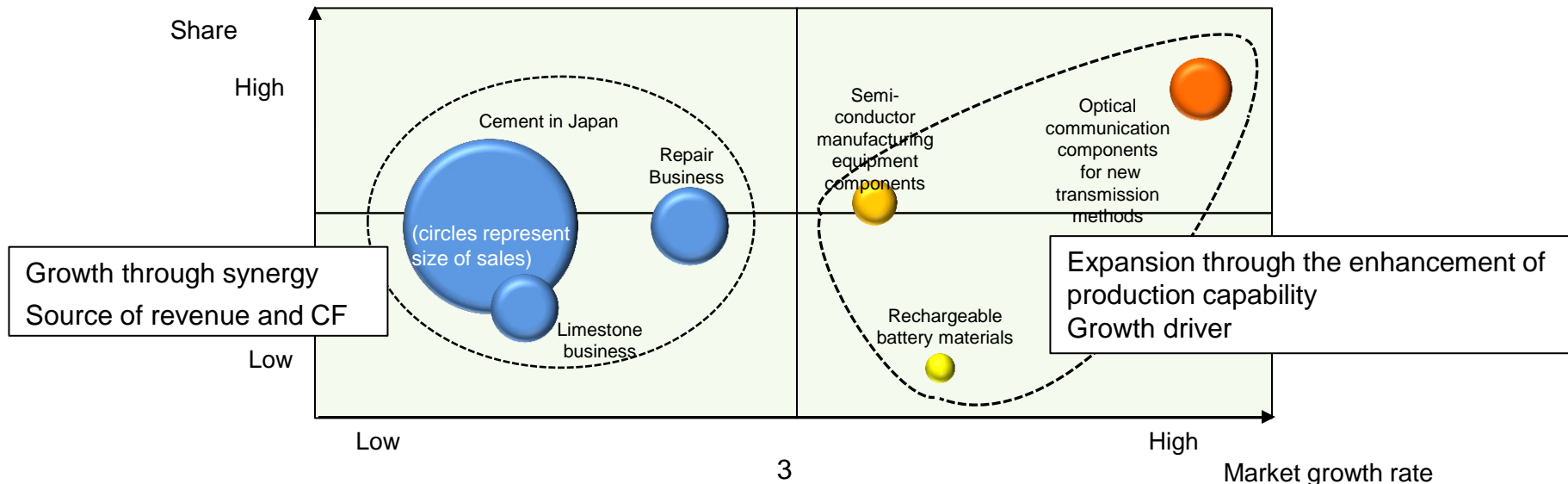
Optoelectronics and Advanced Material Businesses

Core products ensuring stable revenues as a R&D driven business
Niche market, expected to grow in the future

Battery Materials Business

Achieved positive profit with full operation in FY 2016
Fierce competition due to lots of new entrants with the market expansion

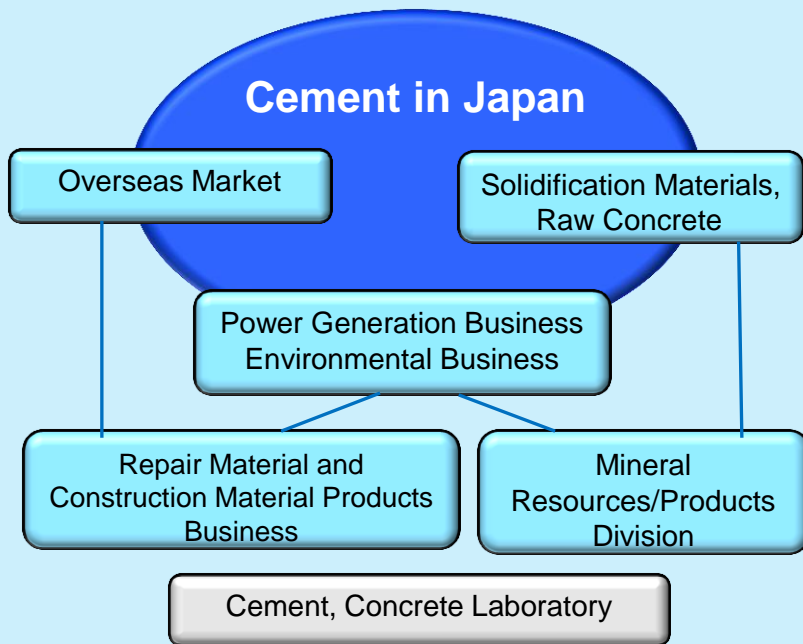
<Business Positioning>



Approach for the future

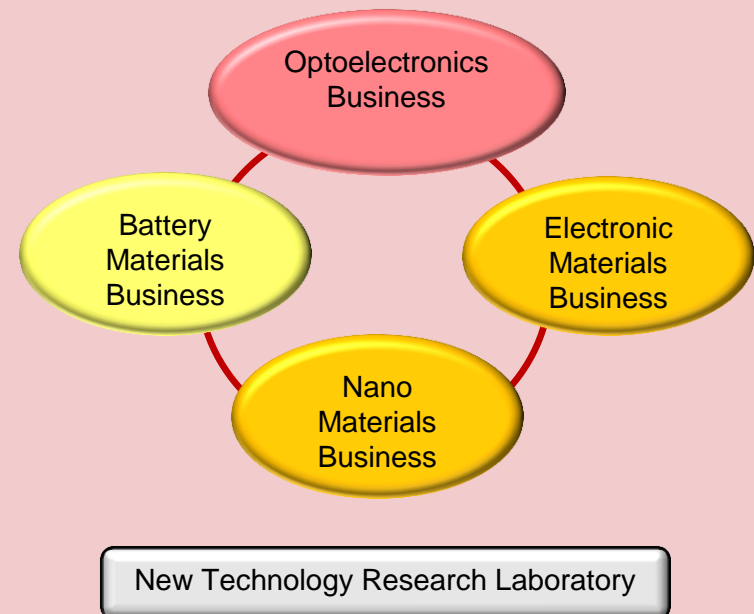
We are aiming to become a corporate group on a steady growth trajectory, by expanding our presence in the markets of both the Cement-related Business and High-Performance Product Business.

Cement-related Business



[Developing the peripheral sectors through synergy]

High-Performance Product Business



[Scaling up the production in each of the niche markets]

1. Management Policy (4. Basic Policy)

(1) Overall policy

Implement our growth strategy steadfastly, positioning this medium-term management plan as the best opportunity for growth

Strategy planning: Redefine the scope of business and cultivate new growth markets via group cooperation and synergy

Implementation: Actively execute the growth strategy with an appropriate allocation of business resources

(2) Approach in each business field

Cement-related Business (including Cement-Related Products and Mineral Resources)

Development and expansion of the peripheral areas through group synergy
Cultivation of the overseas market positioned as a single market

High-Performance Product Business

Increase in production responding to market growth
Development of new businesses in peripheral areas.



Administration Department

Full support of growth strategies

Market strategies, intellectual property strategies, enhanced investment management, IoT utilization, IR deployment

2. BUSINESS STRATEGY



2. Business Strategy (1. Cement Business-1)

(1) Strategies for the Overseas Cement Business

Aim at cultivating the overseas market regardless of its market size with positioning it as one of the Cement-related Business markets

Our goal is to consolidate the overseas cement business in Southeast Asia.

Stable increase in exports

- Major improvements to export infrastructure
Construct large-scale silos at the Kochi Plant
Upgrade Ako Plant to handle exports
- Consolidating our presence in the markets where to sell our products continuously.

<Synergy effect>

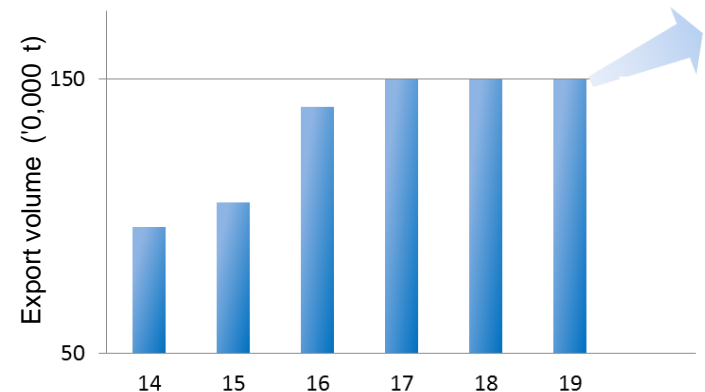
Stable and high operating ratio of kilns
Stable acceptance of industrial waste

Gearing up for the next stage of business expansion from the market-entry stage

Expansion in geographical terms = Penetrate the markets of nearby countries

Expansion on a volume basis = Expand into cement related products and environment business

Establishing our presence in the cement business of Southeast Asia



(2) Expansion into the peripheral sectors

Cultivate the peripheral areas through group cooperation and synergy while there is no major growth potential in each category of our Cement-related Business on a stand-alone basis

Especially develop Environment Business, which has a key role in building up a recycling-based society, to expand under shrinking cement demand

Expansion of Environmental Business

- Expanding the waste treatment service to use wastes as a raw material and fuel for cement production
- Waste treatment business without using kilns
- Development of environmental business in the overseas market

Widening of the business domain via cooperation and synergy across divisions

- Deployment of soil business
 - Integrated sales of solidification materials, non-soluble materials and soil treatment
- Fully comprehensive ordering system for the Cement-related Business
 - "Inquiry - Design - Materials & Construction" ordering process
- Ready to handle increase in thermal power plant construction
 - Capable of treating coal ash, selling calcium carbonate and procuring gypsum

(3) Enhancing the business base

Aim to enhance the base of our Cement-related Business through a further streamlined operation of logistics as well as aggressive investments, in order to ensure future revenues and a source of cash flow.

Expansion of logistics rationalization

Reduce logistics costs drastically by reviewing current logistics system

Aggressive investments

Cost reduction investments

Install higher efficiency AQC at all plants	(Gifu, Ako)
Improve recycling-related facilities	(each plant)
Coal transportation using own ships	Planned from March 2018

Infrastructure development investments

Manufacturing	Increase slag mill for manufacturing solidification materials	(Kochi)
Sales	Increased raw concrete in Tokyo area	(Tokyo, Yokohama)
Logistics	Greater product range at SS	(Onahama SS, other)
	Systematic replacement of tankers	

Maintenance upgrade

Conduct major repairs in planned manner

2. Business Strategy (2. High-Performance Product Business-1)

(1) Scaling up of the production of core products

Our marketing strategy for existing products is to dominate the market through a focus on the fast-growing segments with enhanced R&D activities as well as aggressive investments towards the scaling up of production.

	Product	Correspondence for Increased Production	Market Forecast
Optoelectronics Business	Optical communications components for new transmission methods	<ul style="list-style-type: none"> Enhance production capacity of high value-added products in steps to suit demand planned capacity at MT year end More than 2X of current level 	<ul style="list-style-type: none"> Modulator market to increase quickly due to increased transmission capacity in China and around the world 25% average growth rate expected
Electronic Materials Business	Electronic materials for semiconductor manufacturing equipment	<ul style="list-style-type: none"> Production capacity being increased to suit the increasing demand for semiconductor manufacturing equipment (operational from Nov.2017) 30% increase in Capacity 	<ul style="list-style-type: none"> The growing semiconductor market means a greater market for equipment to meet faster production speeds and increased capacity 7% average growth rate expected
Battery Materials Business	Rechargeable battery cathode materials	<ul style="list-style-type: none"> Capacity increased at SOC Vietnam (Operating from April 2017) 1,000 t ➡ 2,000t/ year More increase possible to suit demand 	<ul style="list-style-type: none"> The growing Lib market means an increased market size globally for both stationary and mobile LFP 10% average growth rate expected

2. Business Strategy (2. High-Performance Product Business-2)

(2) New business and new product development

Towards a continuous growth on an overall basis, we will endeavor to strengthen our R&D activities with both internal and external resources, accelerating the development of new businesses and new products in the areas relating to our existing businesses.

< Comparison of R&D expenses >

	2014 - 16 MT		Units :100 Milliom Yen 2017 - 19 MT
Cement-related Business	41	→	38
High-Performance Product Business	54	↗	67
Total	95	↗	105

Exploring new products

Optoelectronics Business

Use of LN modulator to expand into markets located at a medium-range

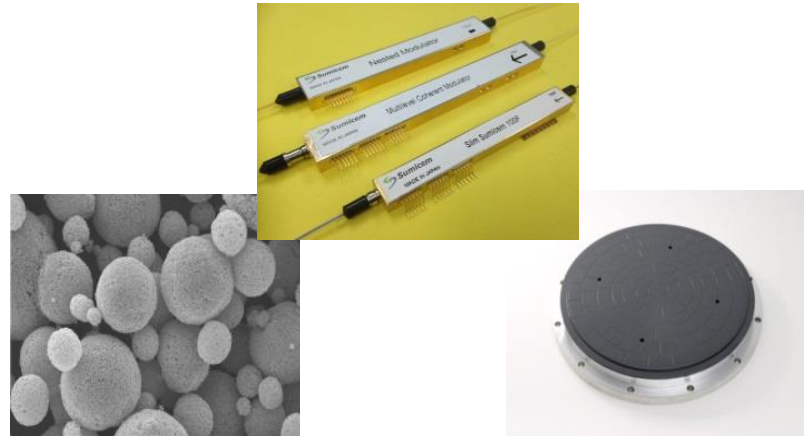
Advanced Materials Business

Development of a full lineup of cosmetics material and establish titanium dioxide business

Battery Materials Business

Highly developing the specification at LFP cathode materials and advancing them to high-voltage models

3. NUMERICAL PLAN



3. Numerical Plan (1. Profit/Loss Plan-1)

(1) Overall profit/loss plan (on a consolidated basis)

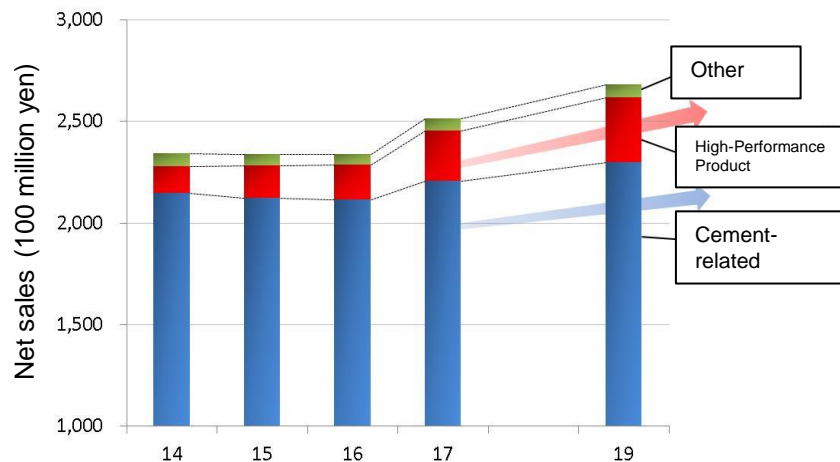
(Unit: 100 million of yen)

Target values for current Medium-term Management Plan

Net sales **270 billion yen**

Operating income **30 billion yen**

<Changes in net sales by business field>

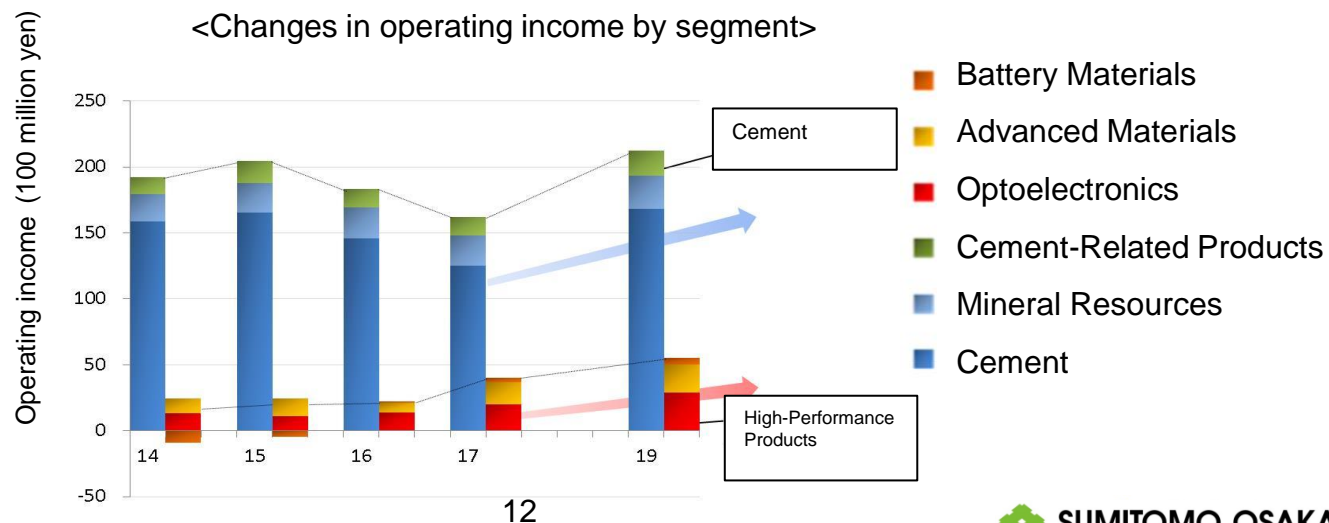


		2019 Plan	Change from 2016
Sales	Cement-related	2,299	109%
	High-Performance Product	323	189%
	Other	62	122%
	Total	2,684	115%
Operating Income	Cement-related	212	116%
	High-Performance Product	56	263%
	Other	15	129%
	Total	283	132%
Ordinary Income		300	133%
Current Net Income		200	123%

3. Numerical Plan (1. Profit/Loss Plan-2)

(2) Profit/loss plan by segment

		Sales				Operating Income			
		Medium-term Management Plan				Medium-term Management Plan			
		2016 Results	2017 Forecast	2019 Plan	Changes from 2016	2016 Results	2017 Forecast	2019 Plan	Changes from 2016
Cement-related Business	Cement	1,803	1,860	1,961	158	146	125	168	22
	Minerals	120	132	120	0	23	23	25	2
	Cement-Related Products	195	215	218	23	14	14	19	5
	Subtotal	2,118	2,207	2,229	181	183	162	212	29
High-Performance Product Business	Optoelectronics	90	127	172	82	14	20	29	15
	Advanced Materials	57	84	101	44	7	17	21	14
	Battery Materials	24	40	50	26	1	3	5	4
	Subtotal	171	251	323	152	21	40	56	35
Other		51	57	62	11	12	13	15	3
Total		2,341	2,515	2,684	343	215	215	283	68



3. Numerical Plan (1. Profit/Loss Plan-3)

(3) Cement Business profit/loss analysis

<Factors affecting profit/loss>

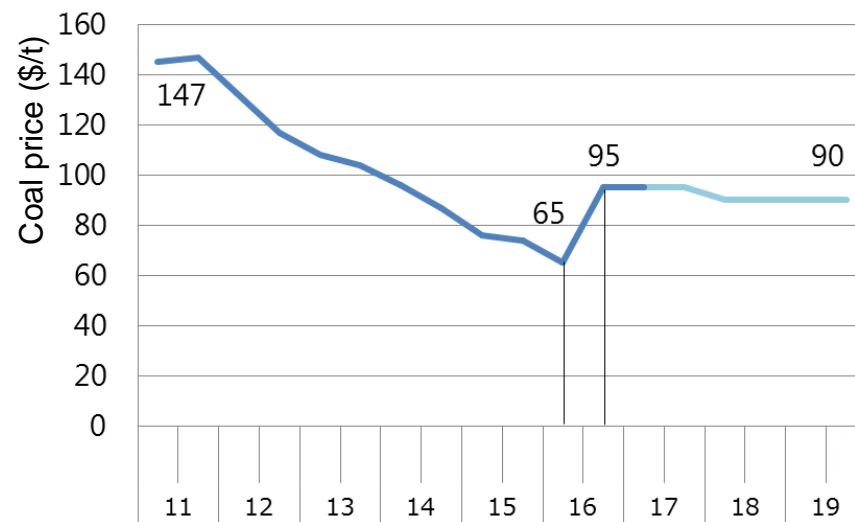
Units: 100 million yen

	Change from 2016
Sales, production quantity	16
Export price	▲ 6
Coal, oil price	▲ 17
Electricity, fuel price	▲ 2
Recycling, streamlining	29
Other	2
Total	22

<Assumptions>

Domestic cement demand 44 million t
Coal price (CIF) \$90/t
Crude oil price (Dubai) \$60/barrel
Foreign Exchange Rate 110 yen/\$

<Changes in coal price>



<Sensitivity>

\$1 rise of coal price has a negative impact on profit of ¥140 million a year.
\$1 rise of crude oil price has a negative impact of ¥40 million a year.
¥1 appreciation against US\$ has a positive impact of ¥100 million a year.

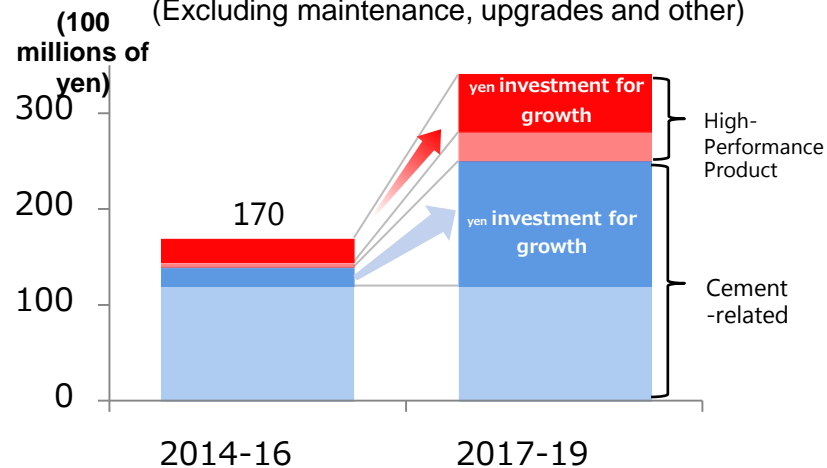
3. Numerical Plan (2. CAPEX Plan)

Implement positive investments for growth strategies for the Cement-related Business and
High-Performance Product Business

<Capital investment plan (3 year plan)> (Unit: 100 millions of Yen)

	Cement	High - Performance Product	Total
Growth strategy	130	60	190
Cost reduction, enhanced framework	120	30	150
Maintenance/upgrades, other	370	20	390
Total	620	110	730
Depreciation expense (3 yr plan)			569

<Comparison of investment amount (in 3-year total)>
(Excluding maintenance, upgrades and other)



① Key investments for growth strategy

	14-16 MT	14-16 Results	17-19 MT	Change from 14-16 MT
Investment amount	530	580	730	+200
Of which is growth	45	75	190	+145

② Increased investment for High-Performance Product

In line with market growth

Start from fiscal 2016 (increased LN and LFP production)

Investing in High-Performance Product Business

	2014	2015	2016	2017	2018	2019
Plan	10	25	10	45	30	35
Results	15	15	40			

③ Increased maintenance and upgrades

Change from fiscal 14-16 MT

Maintenance and upgrades +3 billion yen (36 → 39 billion yen)

3. Numerical Plan (3. Financing Plan)

Shareholder returns (1) Consolidated payout ratio at around 25% ⇒ around 30%
 (2) Treasury stocks will be acquired at the appropriate timing after taking into consideration CF and stock price

<Consolidated balance sheet (3 year plan)>

Units :100 Million Yen

	17-19 MT	14-16 Results
Income before taxes	788	
Depreciation expenses	569	
Change in assets	▲ 89	
Corporate tax,etc.	▲ 196	
CF from operations	1,072	919
Acquisition of assets	▲ 755	
Disposal of assets	0	
CF from investments	▲ 755	▲ 493
FCF	317	426
Expected dividends	▲ 148	▲ 90
FCF after dividend payout	169	336

Policies for utilizing "FCF after dividend payments"

(1) Investment for growth

Include identifying the timing for further investments for High Performance Product Business

(2) Shareholder returns by acquiring treasury stock

(3) Funding for acquisitions

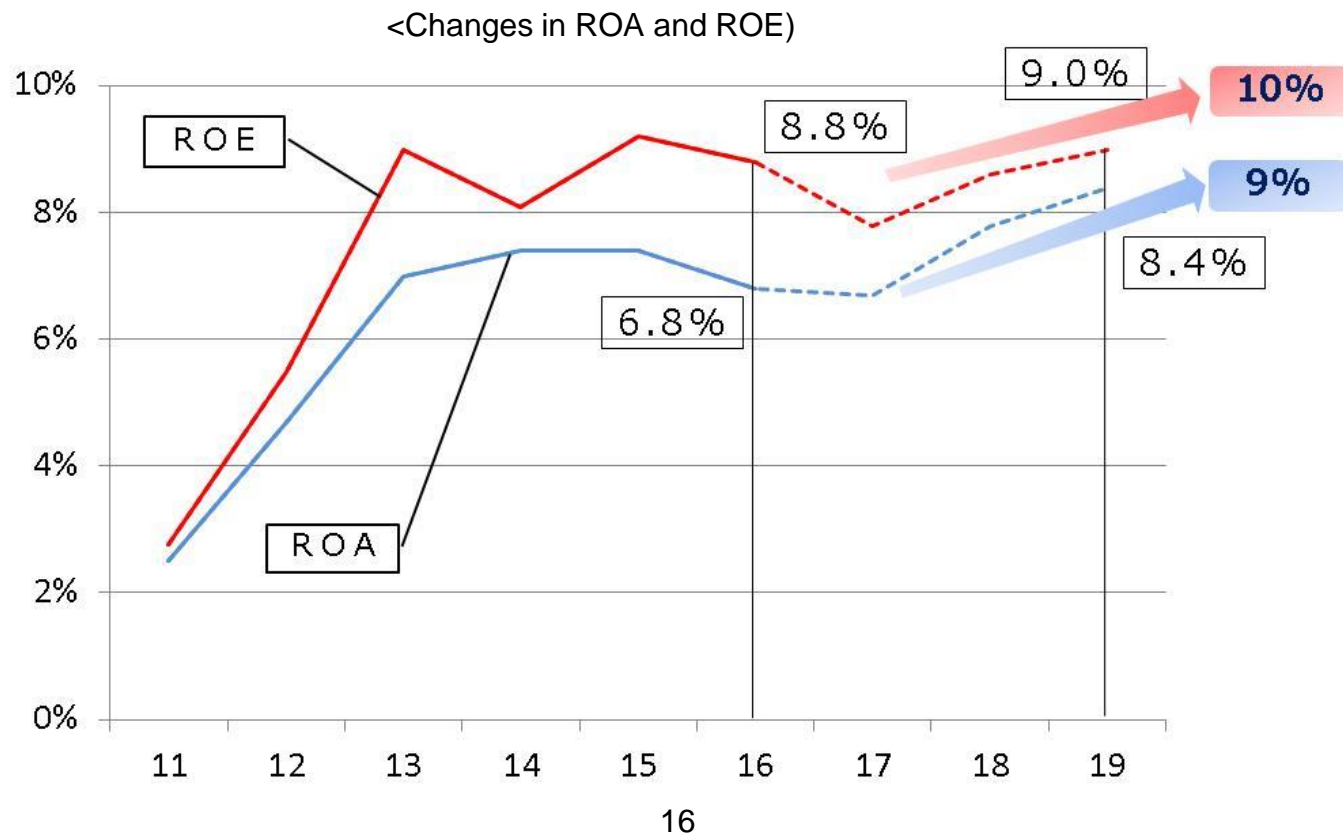
Utilization of debt financing capacity considered in case of future acquisitions

3. Numerical Plan (4. Management Indicators)

KPI Targets

ROA (Return on Assets) 9%

ROE (Return on Equity) 10%



Forward-Looking Statements

This material contains forward-looking statements that reflect Sumitomo Osaka Cement Co., Ltd.'s current views and judgments with respect to current plans, strategies and beliefs. They are based upon currently available information, and do not constitute promises, commitments or guarantees. The forward-looking statements involve both real and potential risks and uncertainties that can cause actual events and results to differ materially from those anticipated in these statements.