



ANNUAL REPORT 2000



SUMITOMO OSAKA CEMENT CO., LTD.

Financial Highlights (Consolidated)

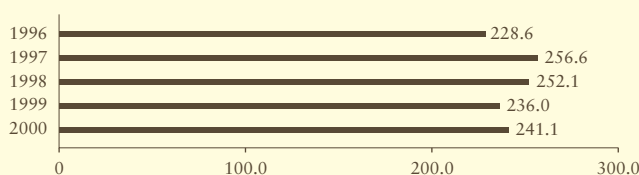
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31

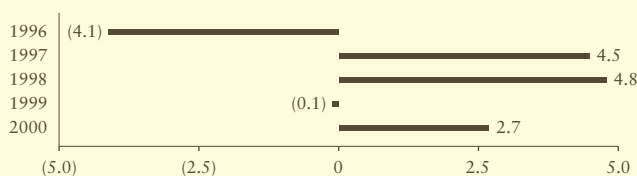
	Millions of yen					Thousands of U.S. dollars*
	1996	1997	1998	1999	2000	2000
Net sales	¥228,628	¥256,557	¥252,127	¥235,985	¥241,073	\$2,271,057
Net income (loss)	(4,144)	4,539	4,826	(148)	2,670	25,151
Shareholders' equity	111,556	116,797	119,314	112,429	111,556	1,050,930
Total assets	383,164	414,798	406,288	390,082	380,803	3,587,401
	Yen					U.S. dollars*
Per share:						
Net income (loss)	¥(9.06)	¥9.93	¥10.58	¥(0.34)	¥6.25	\$0.059
Cash dividends	3.00	5.00	5.00	3.00	5.00	0.047

*Please refer to Note 1 of the notes to consolidated financial statements.

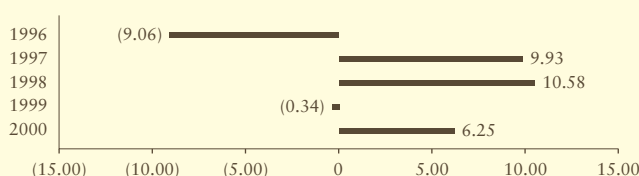
NET SALES (Billions of yen)



NET INCOME (LOSS) (Billions of yen)



NET INCOME (LOSS) PER SHARE (Yen)



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Yasuyuki Odagiri,
President



In fiscal 2000, ended March 31, 2000, Sumitomo Osaka Cement Co., Ltd. finally began to see quantitative results emerging from its Companywide measures to improve profitability.

BUSINESS ENVIRONMENT

Domestic demand for cement rose 1.1% to 71.5 million tons, as increased demand in the public sector led by strong public investment offset a decline in private-sector demand. Exports rose 0.1% from the previous fiscal year, on the back of robust sales to Taiwan. Total sales volumes of domestic cement manufacturers including exports edged up 0.5% to 78.0 million tons, but the overall market price remained sluggish.

THE YEAR IN REVIEW

Consolidated net sales for fiscal 2000 increased 2.2% to ¥241,073 million. This represents the first increase in sales for the Company in the last three years. We attribute this result to an increase in the sales volume of cement and the contributions made by two newly consolidated subsidiaries, in line with changes in the standards for consolidation.

During the fiscal year under review, we worked to realize competitive operations in our core cement business through a number of profitability-enhancing measures, including closing the Tamura Plant in Fukushima Prefecture on March 31, 2000. At the same time, we made efforts to strengthen profitability in more diverse businesses and streamline operations in a wide variety of areas.

Profitability was helped by higher sales in cement and cement-related businesses. In addition, our constant efforts to cut costs began to show results in the fiscal year under review. As a result, operating income rose substantially, increasing 52.9% to ¥12,185 million. In other expenses, the Company recorded a loss related to its closing of the Tamura Plant, and a loss on streamlining of affiliated companies, which had to be discontinued due to worsening business conditions in the cement industry. However, these expenses were largely offset by a gain on sales of securities. As a result, Sumitomo Osaka Cement posted net

income of ¥2,670 million in fiscal year 2000, compared with a net loss of ¥148 million in fiscal year 1999.

OUTLOOK

We expect to see a recovery in private-sector capital investment and corresponding growth in private-sector demand in the current term. However, public-sector demand will likely decline due to worsening regional government finances. As such, we believe domestic demand will remain sluggish in the current term.

To carry our fiscal 2000 successes forward into the current term, we are going to restructure our businesses for greater profitability and work to strengthen our corporate base. As the same time, we will continue making efforts to reduce costs in every aspect of production, distribution and marketing.

We believe net sales will decline amid a lackluster operating environment. However, we forecast substantial improvements in earnings in the current term.

In additional activities, Sumitomo Osaka Cement made some important changes in management at the Company's Annual Meeting of Shareholders held in June 2000, at which time President Hideomi Yamato was assigned to the position of Director Senior Advisor and Senior Managing Director Yasuyuki Odagiri was promoted to President.

We believe the operating environment surrounding our Company will remain severe. We ask our shareholders to lend their understanding and support to our business plan and our concrete proposals for growth.

小田切 康幸

Yasuyuki Odagiri, *President*

Cement and Cement-Related Products

Domestic sales volume of cement in Japan rose 4.1% to 14.0 million tons, while exports decreased 2.9% to 857 thousand tons. As a result, total sales volume of cement for fiscal 2000 increased 3.7% to 14.8 million tons. Sales in cement and cement-related products increased 3.5% to ¥204,623 million due to the increased sales volume and the positive effect of the newly consolidated company.

Extraordinary efforts were made to pursue further rationalization as follows in fiscal 2000. An optimum production system was constructed through the closing of the Tamura Plant and suspension of a portion of the rotary kilns in the inland plant, achieving significant cost reduction. In addition, we entered our business alliance with Ube-Mitsubishi Cement Co., Ltd., following Denki Kagaku Kogyo K.K., improving physical distribution.

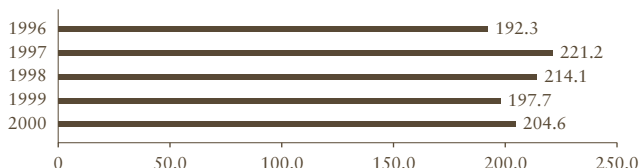
Consequently operating profit increased 140.8% to ¥10,007 million. Due to the start of operations at a new in-house power station at the Kochi Plant in July 1999, plants have gained self-sufficiency in electric power, resulting in substantial reductions in cost. Consequently, more than 70% of all the required electricity in all plants can now be self-supplied.

Amid sluggish demand and overall harsh market conditions, the Company is going to continue working to reduce costs and boost efficiency in all aspects of its core cement business, including production, marketing and distribution. We will continuously work to build up our optimum production system. At the same time, we are going to make every effort to enhance profitability and strengthen international competitiveness as well as our base for business operations through a new distribution and marketing system that radically departs from traditional lines of thinking.

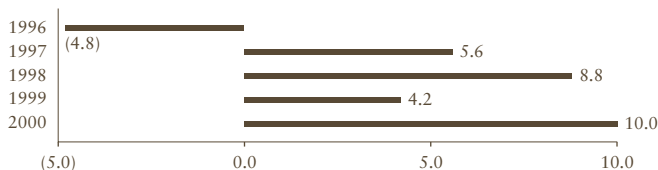
In cement-related products, we plan to strengthen our business providing repair materials for concrete structures, while continuing to revise unprofitable business areas.

In additional activities, the Company's Tochigi Plant obtained ISO 14001 certification in March 2000. Each of the Company's five cement plants now have this certification.

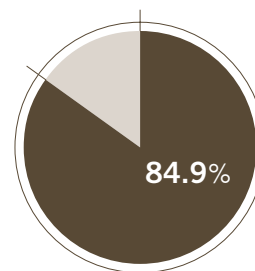
NET SALES (Billions of yen)



OPERATING INCOME (LOSS) (Billions of yen)



SHARE OF NET SALES



Other

Sales in the other segment decreased 4.9% to ¥36,450 million and operating income fell 45.4% to ¥2,106 million. Two factors were largely to blame for this result: a decline in demand for aggregate in the mineral products business, and a fall in demand for transparent coating solutions and fiber optic telecommunications components in new businesses.

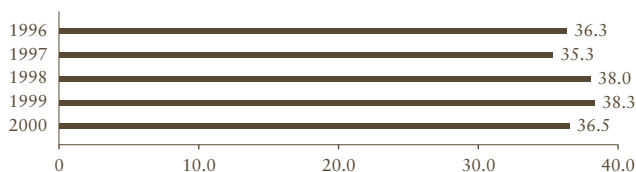
In mineral products, we finished a project begun in the previous fiscal year to introduce large-scale versions of heavy-mining machinery at the Shuho Quarry, and worked to improve its mining productivity rate.

In advanced materials, we completed construction of a new plant for mass production at the Ichikawa Office, and transferred silicone carbide ceramic (SiC) electronics materials, antibacterial solutions and "Boneceram" (artificial bones) functions to the new plant. As a result of these efforts, we upgraded our system to respond to expected future increases in demand for SiC-related products with concentration of large-scale hot presses and other manufacturing facilities at the plant. In addition, we introduced an automatic processing machine for bone ceramics operations, which cuts delivery times in half compared with existing methods. We plan to use the opening of the new plant to pursue further opportunities to expand our businesses in advanced materials.

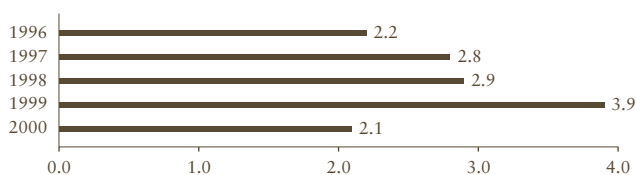
In optoelectronics, we established a new subsidiary in the United States, SOCC Optoelectronics (U.S.A.), Inc., to market fiber optic telecommunications components for use with wavelength division multiplexing (WDM) in North America on April 1, 2000. The Company plans to continue strengthening manufacturing capacity for fiber optic telecommunications components to respond to growing demand in that area.

In real estate rental operations, the Company completed construction of a home center in Tokyo's Koto-ku in October 1999, and a distribution center in Ichikawa City in Chiba Prefecture in November. Leasing of the two centers has already begun.

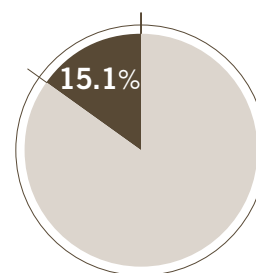
NET SALES (Billions of yen)



OPERATING INCOME (Billions of yen)



SHARE OF NET SALES



Financial Section

CONSOLIDATED BALANCE SHEETS

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES

MARCH 31, 1999 AND 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 17,339	¥ 14,451	\$ 136,137
Trade receivables:			
Accounts receivable	30,843	34,967	329,408
Notes receivable	29,639	28,612	269,540
Marketable securities (Notes 4 and 7)	33,090	30,539	287,701
Inventories (Note 5)	19,867	16,673	157,071
Short-term loans to unconsolidated subsidiaries and affiliates (Note 6)	494	1,630	15,359
Deferred tax assets (Note 9)	—	197	1,860
Other	5,720	5,004	47,133
Less: Allowance for doubtful receivables	(463)	(421)	(3,964)
Total current assets	136,529	131,652	1,240,245
Fixed assets:			
Property, plant and equipment (Note 7):			
Land	47,453	47,563	448,071
Buildings and structures	133,938	136,742	1,288,198
Machinery, equipment and tools	347,560	349,475	3,292,273
Quarry sites	18,331	21,475	202,305
Construction in progress	12,976	3,540	33,345
Less: Accumulated depreciation	(337,323)	(341,861)	(3,220,532)
Property, plant and equipment, net	222,935	216,934	2,043,660
Investments and other assets:			
Investments securities (Note 4)	6,807	8,370	78,853
Investments in unconsolidated subsidiaries and affiliates	5,160	4,607	43,399
Long-term loans receivable	3,947	2,216	20,872
Long-term loans to unconsolidated subsidiaries and affiliates (Note 6)	2,094	2,073	19,527
Deferred tax assets (Note 9)	—	1,097	10,338
Other	11,637	13,681	128,886
Less: Allowance for doubtful accounts	(4,009)	(4,734)	(44,600)
Total investments and other assets	25,636	27,310	257,275
Intangible fixed assets	4,982	4,907	46,221
Total	¥ 390,082	¥ 380,803	\$ 3,587,401

See the accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 7)	¥ 74,909	¥ 71,841	\$ 676,788
Commercial paper	18,000	10,000	94,206
Current portion of long-term debt (Note 7)	7,284	18,295	172,346
Trade payables:			
Accounts payable	28,048	25,550	240,699
Notes payable	11,951	11,524	108,566
Other	9,494	9,246	87,102
Accrued income taxes (Note 9)	661	850	8,008
Accrued expenses	4,717	6,063	57,114
Deferred tax liabilities (Note 9)	—	6	58
Other	2,997	2,315	21,812
Total current liabilities	158,061	155,690	1,466,699
Long-term liabilities:			
Long-term debt (Note 7)	109,624	98,834	931,083
Accrued severance benefits	1,615	2,238	21,083
Deferred tax liabilities (Note 9)	—	3,970	37,402
Other	6,735	6,686	62,976
Total long-term liabilities	117,974	111,728	1,052,544
Total liabilities	276,035	267,418	2,519,243
Minority interests	1,618	1,829	17,228
Contingent liabilities (Note 12)			
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorised: 1,470,130,000 shares			
Issued: 427,432,175 shares at March 31, 1999 and 2000 (Note 8)	41,654	41,654	392,408
Capital surplus (Note 8)	31,027	31,027	292,293
Retained earnings	39,750	38,999	367,397
Treasury stock, at cost	(2)	(124)	(1,168)
Total shareholders' equity	112,429	111,556	1,050,930
Total	¥390,082	¥380,803	\$3,587,401

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 1999 AND 2000

	Thousands of shares of common stock	Millions of yen				
		Common stock	Capital surplus	Legal reserve	Retained earnings	Treasury stock
Balance at March 31, 1998	450,231	¥41,654	¥35,591	¥ 7,172	¥34,898	¥ (1)
Legal reserve at April 1, 1998	—	—	—	(7,172)	7,172	—
Repurchase and retirement of treasury stock	(22,799)	—	(4,564)	—	—	—
Net loss for the year	—	—	—	—	(148)	—
Cash dividends paid	—	—	—	—	(2,203)	—
Directors' and statutory auditors' bonuses	—	—	—	—	(80)	—
Increase resulting from initial inclusion of a subsidiary in consolidation	—	—	—	—	54	—
Increase resulting from exclusion of a subsidiary from consolidation	—	—	—	—	57	—
Disposal of treasury stock	—	—	—	—	—	(1)
Balance at March 31, 1999	427,432	41,654	31,027	—	39,750	(2)
Net income for the year	—	—	—	—	2,670	—
Cash dividends paid	—	—	—	—	(214)	—
Directors' and statutory auditors' bonuses	—	—	—	—	(70)	—
Increase resulting from initial inclusion of subsidiaries and an affiliate in consolidation	—	—	—	—	22	—
Decrease resulting from exclusion of a subsidiary from consolidation	—	—	—	—	(243)	—
Cumulative effect of adoption of tax-effect accounting	—	—	—	—	(2,916)	—
Disposal of treasury stock	—	—	—	—	—	(122)
Balance at March 31, 2000	427,432	¥41,654	¥31,027	¥ —	¥38,999	¥(124)

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Legal reserve	Retained earnings	Treasury stock
Balance at March 31, 1999	\$392,408	\$292,293	\$ —	\$374,472	\$ (17)
Net income for the year	—	—	—	25,151	—
Cash dividends paid	—	—	—	(2,013)	—
Directors' and statutory auditors' bonuses	—	—	—	(659)	—
Increase resulting from initial inclusion of subsidiaries and an affiliate in consolidation	—	—	—	209	—
Decrease resulting from exclusion of a subsidiary from consolidation	—	—	—	(2,295)	—
Cumulative effect of adoption of tax-effect accounting	—	—	—	(27,468)	—
Disposal of treasury stock	—	—	—	—	(1,151)
Balance at March 31, 2000	\$392,408	\$292,293	\$ —	\$367,397	\$(1,168)

See the accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31, 1999 AND 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Operating activities:			
Net income (loss)	¥ (148)	¥ 2,670	\$ 25,151
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortisation	20,719	19,814	186,661
Allowance for doubtful receivables	(69)	899	8,471
Accrued severance benefits, net of payments	(2)	262	2,472
Gain on sales or disposal of property, plant and equipment, and marketable and investment securities, net	(2,331)	(6,397)	(60,266)
Loss on investments in unconsolidated subsidiaries and affiliates	3,048	2,219	20,906
Loss on closedown of a plant	—	3,486	32,836
Other	720	(725)	(6,826)
Changes in operating assets and liabilities:			
Trade receivables	894	(2,242)	(21,118)
Inventories	(2,453)	3,200	30,142
Other assets	133	(584)	(5,501)
Trade payables	2,173	(3,075)	(28,972)
Accrued income taxes	(2,123)	(106)	(1,002)
Accrued expenses	(118)	1,413	13,312
Other liabilities	(1,339)	168	1,584
Total adjustments	19,252	18,332	172,699
Net cash provided by operating activities	19,104	21,002	197,850
Investing activities:			
Proceeds from sales of property, plant and equipment	1,481	1,489	14,031
Purchases of property, plant and equipment	(15,926)	(17,541)	(165,248)
Proceeds from sales of marketable securities	5,744	10,336	97,373
Increase in marketable securities	(139)	(1,826)	(17,206)
Increase in investment securities	(143)	(1,403)	(13,213)
(Increase) decrease in investments in unconsolidated subsidiaries and affiliates	(1)	42	393
Decrease in short-term loans to unconsolidated subsidiaries and affiliates	725	346	3,260
Decrease in long-term loans receivable	528	416	3,921
Increase in long-term loans to unconsolidated subsidiaries and affiliates	(1,074)	(3,429)	(32,300)
Other	(323)	(74)	(709)
Net cash used in investing activities	(9,128)	(11,644)	(109,698)
Financing activities:			
Decrease in short-term loans	(18,168)	(1,883)	(17,736)
Increase (decrease) in commercial paper	2,000	(8,000)	(75,365)
Proceeds from long-term loans	9,160	5,807	54,706
Repayment of long-term loans	(7,714)	(8,341)	(78,573)
Proceeds from issuance of bonds	15,000	—	—
Redemption of bonds with warrants and convertible bonds	(8,819)	—	—
Cash dividends paid	(2,202)	(223)	(2,101)
Repurchase and retirement of treasury stock	(4,564)	—	—
Other	(8)	394	3,713
Net cash used in financing activities	(15,316)	(12,246)	(115,356)
Net decrease in cash and cash equivalents	(5,340)	(2,888)	(27,204)
Cash and cash equivalents at beginning of year	22,679	17,339	163,341
Cash and cash equivalents at end of year (Note 3)	¥ 17,339	¥ 14,451	\$ 136,137
Supplemental cash flow disclosures:			
Interest paid	¥ 4,843	¥ 4,457	\$ 41,985
Income taxes paid	3,293	1,022	9,629

See the accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

Sumitomo Osaka Cement Co., Ltd. (the "Company") maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted and applied in Japan.

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The U.S. dollar amounts are included solely for the convenience of the reader and are stated, as a matter of arithmetic computation only, at U.S.\$1.00=¥106.15, the exchange rate prevailing on March 31, 2000. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Any material differences between the cost of investments in consolidated subsidiaries and the underlying equity in their net assets at the dates of acquisition are amortised over five years. Significant investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates which are not accounted for by the equity method are carried at cost.

(b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

(c) Marketable securities and investment securities

Marketable securities and investment securities are stated at cost determined by the moving average method.

(d) Inventories

Inventories are stated at cost determined by the moving average method.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an estimated amount of the anticipated losses on bad debts plus the maximum amount which can be charged to income under the Japanese income tax laws.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is calculated by the declining-balance method for property, plant and equipment (except for the quarry sites, the cement production equipment at the Kouchi Plant and the in-house power generation facility at the Ako Plant) at rates based on the estimated useful lives of the respective assets as prescribed in the Japanese income tax laws. The ranges of useful lives are as follows: buildings and structures, 2 to 75 years; machinery, equipment and tools, 2 to 22 years. Quarry sites are depreciated by the units-of-production method. Depreciation of the cement production equipment at the Kouchi Plant and the in-house power generation facility at the Ako Plant is calculated by the straight-line method.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(g) Foreign currency translation

Foreign currency amounts are translated into Japanese yen on the basis of the rates of exchange in effect at the balance sheet date for current monetary assets and liabilities, and at historical rates for other assets and liabilities. Historical rates are used for the translation of income and expenses. Gains or losses resulting from the translation of foreign currency transactions are credited or charged to income as incurred.

(h) Accounting for leases

With the exception of leases which stipulate the transfer of ownership of the leased assets to the lessee, capital leases are accounted for by the same method of accounting as that followed for operating leases.

(i) Income taxes

Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and the operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws which will be in effects when the differences are expected to be settled.

Effective April 1, 1999, the Company changed its method of accounting for income taxes to adopting tax-effect accounting by the asset-liability method. Until the year ended March 31, 1999, income taxes were recorded on an accrual basis, but tax-effect accounting was not adopted. The effect of this change

was to increase net income by ¥196 million (\$1,847 thousand) and decrease retained earnings by ¥2,720 million (\$25,621 thousand) for the year ended March 31, 2000.

(j) Accrued severance benefits and pension plan

Employees of the Company are covered by its funded pension plan. Benefits under this plan are based on current basic salary rates and length of service. Payments to the pension fund, including current period costs and amortisation of prior service cost, are charged to income when paid.

Effective April 1, 1999, the Company changed the rate of amortisation of prior service cost from 12 per cent. to 31 per cent. The increase resulting from this change of the rate of amortisation (¥1,477 million, U.S.\$13,911 thousand) has been accounted for as amortisation of prior service cost.

The reserve for accrued severance benefits is to be reversed over seven years in accordance with the Japanese income tax laws.

Directors and statutory auditors are generally entitled to receive lump-sum payments based on compensation and years of service at the time of retirement. Such lump-sum retirement payments are covered by an unfunded retirement benefits plan, the liability for which is included in accrued severance benefits, and which amounted to ¥527 million and ¥846 million (U.S.\$7,869 thousand) for 1999 and 2000, respectively.

(k) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, appropriations of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors must be approved at a shareholders' meeting held within three months of the end of each fiscal year.

(l) Net income (loss) per share

Net income (loss) per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Cash and deposits	¥12,367	¥13,078	\$123,205
Times deposits with a maturity of over three months	(336)	(331)	(3,120)
Short-term investments with a maturity of three months or less	5,308	1,704	16,052
	¥17,339	¥14,451	\$136,137

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Marketable securities:			
Listed corporate stock	¥32,184	¥29,816	\$280,888
Other	906	723	6,813
	¥33,090	¥30,539	\$287,701
Investment securities:			
Listed corporate stock	¥ 6,807	¥ 7,962	\$ 74,804
Other	—	408	4,049
	¥ 6,807	¥ 8,370	\$ 78,853

The book and market value of marketable and investment securities at March 31, 1999 is presented in Note 3 to the non-consolidated financial statements.

The book and market value of marketable and investment securities at March 31, 2000 is summarised as follows:

	Millions of yen		
	Book value	Market value	Net realised gains (loss)
Marketable securities:			
Corporate stock	¥29,816	¥68,614	¥38,798
Other	653	671	18
	¥30,469	¥69,285	¥38,816
Investment securities:			
Corporate stock	¥ 5,467	¥ 48,593	¥43,126
Other	78	79	1
	5,545	48,672	43,127
	¥36,014	¥117,957	¥81,943

	Thousands of U.S. dollars		
	Book value	Market value	Net realised gains (loss)
Marketable securities:			
Corporate stock	\$280,888	\$ 646,390	\$365,502
Other	6,153	6,317	164
	\$287,041	\$ 652,707	\$365,666
Investment securities:			
Corporate stock	\$ 51,504	\$ 457,773	\$406,270
Other	734	747	12
	52,238	458,520	406,282
	\$339,279	\$1,111,227	\$771,948

Securities which have not been included in the market value information presented above are summarised as follows:

	Thousands of U.S. dollars	
	Millions of yen	U.S. dollars
Marketable securities:		
Unlisted national bonds	¥ 70	\$ 660
	¥ 70	\$ 660
Investment securities:		
Unlisted corporate stock	¥2,495	\$23,504
Unlisted foreign bonds	330	3,111
	¥2,825	\$26,615

5. INVENTORIES

Inventories at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Finished goods	¥ 6,361	¥ 4,792	\$ 45,143
Semi-finished goods	1,651	1,782	16,783
Work in process	4,011	3,220	30,333
Raw materials	3,500	2,657	25,030
Supplies	4,344	4,222	39,782
	¥19,867	¥16,673	\$157,071

6. LOANS TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Loans to unconsolidated subsidiaries and affiliates at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Short-term loans:			
Unconsolidated subsidiaries	¥394	¥ 293	\$ 2,763
Affiliates	100	1,337	12,596
	¥494	¥1,630	\$15,359
Long-term loans:			
Unconsolidated subsidiaries	¥1,984	¥ 743	\$ 6,997
Affiliates	110	1,330	12,530
	¥2,094	¥2,073	\$19,527

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represent overdrafts. The annual interest rates applicable to the loans outstanding at March 31, 1999 and 2000 ranged from 0.6 per cent. to 2.4 per cent. and from 0.5 per cent. to 2.4 per cent., respectively.

Long-term debt at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Loans with mortgage and collateral, principally from banks and insurance companies, due from 2000 to 2011	¥ 75,569	¥ 75,790	\$ 713,990
Bonds	40,000	40,000	376,825
Convertible bonds	1,339	1,339	12,614
	¥116,908	¥117,129	\$1,103,429
Less: current portion of long-term debt:			
Loans	¥ 7,284	¥ 8,295	\$ 78,140
Bonds	—	10,000	94,206
	7,284	18,295	172,346
	¥109,624	¥98,834	\$931,083

The annual interest rates applicable to the long-term loans outstanding at March 31, 1999 and 2000 ranged from 1.5 per cent. to 6.9 per cent. and from 1.7 per cent. to 8.3 per cent., respectively.

The aggregate annual maturities of long-term loans subsequent to March 31, 2000 are summarised as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2001	¥ 8,295	\$ 78,140
2002	10,717	100,962
2003	8,872	83,576
2004	9,687	91,255
2005 and thereafter	38,219	360,057
	¥75,790	\$713,990

On 2nd October, 1987, the Company issued 2.0 per cent. yen convertible bonds due 2002. The bonds are convertible into shares of common stock of the Company at the option of the holders at the current conversion price of ¥615.50 (U.S.\$5.80) per share.

Assets pledged as collateral for long-term debt at March 31, 1999 and 2000 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Property, plant and equipment, at net book value	¥75,215	¥84,433	\$795,416
Marketable securities	21,606	12,841	120,974
Other	776	845	7,953
	¥97,597	¥98,119	\$924,343

8. SHAREHOLDERS' EQUITY

Proceeds from the conversions of convertible bonds into common stock have been accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half each of such proceeds to the common stock and capital surplus accounts.

Under the Japanese Commercial Code, the Company is required to appropriate to the legal reserve a portion of retained earnings equal to at least 10 per cent. of any disbursements of cash appropriations of retained earnings (including bonuses to directors and statutory auditors as well as cash dividends paid) and, in the case of interim cash dividends paid, exactly 10 per cent. of interim cash dividends paid, until such reserve equals 25 per cent. of stated capital.

The legal reserve may be used to reduce a deficit or may be transferred to stated capital, but is not available for distribution as dividends.

9. INCOME TAXES

Income taxes applicable to the Company comprise corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 46 per cent. and 42 per cent. for the years ended March 31, 1999 and 2000, respectively.

A reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2000 is presented as follows:

Statutory tax rate	42.0%
Temporary differences which have not been brought to account	(16.8)
Permanently nondeductible expenses for income tax purposes	1.5
Other	5.0
Effective tax rate	31.7%

The significant components of the Company's deferred income tax assets and liabilities at March 31, 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Deferred tax assets:			
Net operating loss carryforwards	¥ 2,019		\$ 19,025
Estimated retirement allowances and other accrued expenses	1,095		10,315
Unrealized holding gains	375		3,536
Other	459		4,315
Less valuation allowance	(1,669)		(15,725)
	2,279		21,466
Deferred tax liabilities:			
Retained earnings	4,877		45,947
Other	84		781
	4,961		46,728
Deferred tax liabilities, net	¥ 2,682		\$ 25,262

10. LOSS ON INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Loss on investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 1999 and 2000 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Gain on sales of investments in common stock	¥ —	¥ (3)	\$ (30)
Write-down of investments in common stock	32	98	922
Provision for allowance for bad debts	2,571	889	8,375
Loss on liquidation of subsidiaries	416	1,235	11,639
Provision for allowance for loss on guarantees	29	—	—
	¥3,048	¥2,219	\$20,906

11. LOSS ON CLOSEDOWN OF A PLANT

The loss on the closedown of the Tamura Plant incurred during the year ended March 31, 2000 was as follows:

	Millions of yen	Thousands of U.S. dollars
Loss on disposal of property plant and equipment	¥3,466	\$32,652
Other related expenses	476	4,488
	¥3,942	\$37,140

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 1999 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Notes discounted and endorsed	¥ 4,156	¥ 4,094	\$ 38,563
Guarantees of loans and other	16,885	7,709	72,626
	¥21,041	¥11,803	\$111,189

13. LEASED ASSETS

The Company leases certain buildings and structures, machinery, equipment and tools.

Assets held at March 31, 1999 and 2000 under capital leases which do not transfer the ownership of such assets to the lessee are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Buildings and structures	¥1,987	¥1,887	\$17,780
Machinery, equipment and tools	15	10	92
	¥2,002	¥1,897	\$17,872

Income from leased assets and depreciation of leased assets for the years ended March 31, 1999 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Income from leased assets	¥318	¥318	\$2,996
Depreciation of leased assets	106	105	990

14. DERIVATIVES

The Company utilizes derivative financial instruments primarily to hedge its exposure to fluctuations in interest rates and foreign exchange rates. As a matter of policy, the Company does not speculate in derivatives.

The Company does not anticipate nonperformance by any of the counterparties to such transactions, all of whom are domestic financial institutions with high bond ratings.

Derivatives at March 31, 1999 are discussed in Note 14 to the non-consolidated financial statements. Derivatives at March 31, 2000 are summarised as follows:

	Millions of yen			
	Contract values or notional principal amounts	Market value	Net realised gains (loss)	
	Total	Over 1 year		
Interest rate transactions:				
Swaps				
Receive/floating; pay/fixed	¥5,000	¥5,000	¥ (37)	¥ (37)
	¥5,000	¥5,000	¥ (37)	¥ (37)

	Thousands of U.S. dollars			
	Contract values or notional principal amounts	Market value	Net realised gains (loss)	
	Total	Over 1 year		
Interest rate transactions:				
Swaps				
Receive/floating; pay/fixed	\$47,103	\$47,103	\$(346)	\$(346)
	\$47,103	\$47,103	\$(346)	\$(346)

15. RELATED PARTY TRANSACTIONS

The following summarises transactions between the Company and its subsidiaries and affiliates for the year ended March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Subsidiaries:		
Keiji Sumice Ready-Mixed Concrete Co., Ltd.		
Abandonment of claims	¥1,972	\$18,593
Loss on liquidation	755	7,117
Kobe Sumice Ready-Mixed Concrete Co., Ltd.		
Abandonment of claims	697	6,571
Loss on liquidation	126	1,187
Sanyo Sekizai Industry Co., Ltd.		
Abandonment of claims	67	630
Loss on liquidation	67	630
Affiliates:		
Chiba Roadmaster Co., Ltd.		
Abandonment of claims	136	1,280
Chubu Sumicon Co., Ltd.		
Abandonment of claims	95	900
Loss on liquidation	95	900

16. SUBSEQUENT EVENT

The following appropriations of retained earnings were approved at a meeting of the shareholders of the Company held on June 29, 2000:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥2,137	\$20,132
Transfer to legal reserve	221	2,082
Bonuses to directors and statutory auditors	70	659
	¥2,428	\$22,873

17. SEGMENT INFORMATION (BUSINESS SEGMENT)

The Company and its subsidiaries operate principally in two business segments: cement and cement-related products, and other businesses.

Operations in the cement and cement-related products segment involve the production and sale of cement, concrete and soil stabilizer. Operations in the other business segment involve production and civil engineering materials, new materials, optoelectronics, real estate and others. A summary of net sales, costs and expenses, operating income and other financial information by business segment for the years ended March 31, 1999 and 2000 is as follows:

	Millions of yen				
	1999				
	Cement and cement-related products	Other	Total	Eliminations and adjustments	Consolidated
Net sales:					
Outside customers	¥197,666	¥38,319	¥235,985	¥ —	¥235,985
Intersegment sales	1,342	6,394	7,736	(7,736)	—
Total	199,008	44,713	243,721	(7,736)	235,985
Costs and expenses	194,853	40,857	235,710	(7,693)	228,017
Operating income	¥ 4,155	¥ 3,856	¥ 8,011	¥ (43)	¥ 7,968
Assets					
Depreciation and amortisation	¥255,789	¥81,728	¥337,517	¥52,565	¥390,082
Capital expenditures	16,068	3,790	19,858	88	19,946
	12,324	4,293	16,617	(122)	16,495

	Millions of yen				
	2000				
	Cement and cement-related products	Other	Total	Eliminations and adjustments	Consolidated
Net sales:					
Outside customers	¥204,623	¥36,450	¥241,073	¥ —	¥241,073
Intersegment sales	895	5,896	6,791	(6,791)	—
Total	205,518	42,346	247,864	(6,791)	241,073
Costs and expenses	195,511	40,240	235,751	(6,863)	228,888
Operating income	¥ 10,007	¥ 2,106	¥ 12,113	¥ 72	¥ 12,185
Assets					
Depreciation and amortisation	¥248,079	¥86,427	¥334,506	¥46,297	¥380,803
Capital expenditures	15,465	3,924	19,389	27	19,416
	9,088	6,656	15,744	200	15,944

	Thousands of U.S. dollars				
	2000				
	Cement and cement-related products	Other	Total	Eliminations and adjustments	Consolidated
Net sales:					
Outside customers	\$1,927,680	\$343,377	\$2,271,057	\$ —	\$2,271,057
Intersegment sales	8,427	55,548	63,975	(63,975)	—
Total	1,936,107	398,925	2,335,032	(63,975)	2,271,057
Costs and expenses	1,841,839	379,084	2,220,923	(64,658)	2,156,265
Operating income	\$ 94,268	\$ 19,841	\$ 114,109	\$ 683	\$ 114,792
Assets					
Depreciation and amortisation	\$2,337,063	\$814,197	\$3,151,260	\$436,141	\$3,587,401
Capital expenditures	145,686	36,969	182,655	254	182,909
	85,611	62,704	148,315	1,885	150,200

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

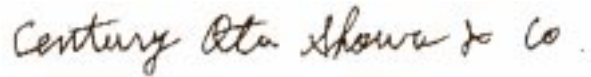
The Board of Directors and Shareholders
Sumitomo Osaka Cement Co., Ltd.

We have audited the consolidated balance sheets of Sumitomo Osaka Cement Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Sumitomo Osaka Cement Co., Ltd. and consolidated subsidiaries at 31st March, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2(i) to the consolidated financial statements, Sumitomo Osaka Cement Co., Ltd. has adopted a new accounting standard for tax-effect accounting in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.



Century Ota Showa & Co.

June 29, 2000

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Sumitomo Osaka Cement Co., Ltd. under Japanese accounting principles and practices.

NON-CONSOLIDATED BALANCE SHEETS
SUMITOMO OSAKA CEMENT CO., LTD.
MARCH 31, 1999 AND 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 9,433	¥ 5,300	\$ 49,931
Trade receivables:			
Accounts receivable	21,207	21,462	202,189
Notes receivable	15,080	16,006	150,785
Marketable securities (Notes 3 and 7)	32,051	29,281	275,847
Inventories (Note 4)	12,946	10,460	98,543
Short-term loans to subsidiaries and affiliates (Note 6)	1,156	5,033	47,412
Deferred tax assets (Note 9)	—	33	306
Other	5,408	3,992	37,609
Less: Allowance for doubtful receivables	(241)	(200)	(1,884)
Total current assets	97,040	91,367	860,738
Fixed assets:			
Property, plant and equipment (Note 7):			
Land	44,436	44,330	417,621
Buildings and structures	117,861	120,119	1,131,601
Machinery, equipment and tools	300,855	294,001	2,769,675
Quarry sites	17,385	20,527	193,381
Construction in progress	12,995	3,521	33,166
Less: Accumulated depreciation	(297,153)	(292,660)	(2,757,053)
Property, plant and equipment, net	196,379	189,838	1,788,391
Investments and other assets:			
Investment securities (Note 3)	6,493	7,818	73,647
Investments in subsidiaries and affiliates (Note 5)	12,557	12,342	116,273
Long-term loans receivable	3,907	2,173	20,470
Long-term loans to subsidiaries and affiliates (Note 6)	6,209	5,326	50,178
Other	8,015	9,675	91,148
Less: Allowance for doubtful accounts	(4,459)	(4,481)	(42,218)
Total investments and other assets	32,722	32,853	309,498
Intangible fixed assets	3,100	3,627	34,166
Total	¥ 329,241	¥ 317,685	\$ 2,992,793

See the accompanying notes to non-consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 7)	¥ 52,085	¥ 52,385	\$ 493,500
Commercial paper	18,000	10,000	94,206
Current portion of long-term debt (Note 7)	5,388	15,875	149,551
Trade payables:			
Accounts payable	17,064	16,135	151,997
Notes payable	1,172	964	9,078
Other	10,743	8,417	79,293
Allowance for loss on guarantees	1,366	179	1,686
Accrued income taxes (Note 9)	280	253	2,386
Accrued expenses	2,584	3,854	36,304
Other	468	260	2,464
Total current liabilities	109,150	108,322	1,020,465
Long-term liabilities:			
Long-term debt (Note 7)	98,878	87,141	820,925
Accrued severance benefits	1,014	983	9,262
Deferred tax liabilities (Note 9)	—	3,600	33,916
Other	5,719	6,010	56,614
Total long-term liabilities	105,611	97,734	920,717
Total liabilities	214,761	206,056	1,941,182
 Contingent liabilities (Note 12)			
 Shareholders' equity:			
Common stock, ¥50 par value:			
Authorised: 1,470,130,000 shares			
Issued: 427,432,175 shares at March 31, 1999 and 2000 (Note 8)	41,654	41,654	392,408
Capital surplus (Note 8)	31,027	31,027	292,293
Legal reserve (Note 8)	7,401	7,430	69,993
Retained earnings	34,398	31,518	296,917
Total shareholders' equity	114,480	111,629	1,051,611
Total	¥ 329,241	¥ 317,685	\$ 2,992,793

NON-CONSOLIDATED STATEMENTS OF INCOME

SUMITOMO OSAKA CEMENT CO., LTD.

YEARS ENDED MARCH 31, 1999 AND 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Net sales	¥163,248	¥159,874	\$1,506,111
Cost of sales	108,368	101,810	959,110
Gross profit	54,880	58,064	547,001
Selling, general and administrative expenses	47,082	47,261	445,228
Operating income	7,798	10,803	101,773
Other income (expenses):			
Interest and dividend income	1,497	1,193	11,241
Interest expense	(3,837)	(3,477)	(32,757)
Gain on sales or disposal of property, plant and equipment, net	348	332	3,124
Loss on investments in subsidiaries and affiliates, net (Note 10)	(4,500)	(4,609)	(43,423)
Gain on sales of securities	1,721	6,031	56,819
Loss on closedown of a plant (Note 11)	—	(3,943)	(37,146)
Special severance payments	—	(1,405)	(13,234)
Amortisation of prior service cost (Note 2(k))	—	(1,477)	(13,911)
Other, net	(2,131)	(2,088)	(19,673)
	(6,902)	(9,443)	(88,960)
Income before income taxes	896	1,360	12,813
Income taxes (Note 9):			
Current	670	360	3,391
Deferred	—	(45)	(422)
	670	315	2,969
Net income	¥ 226	¥ 1,045	\$ 9,844

	Yen		U.S. dollars (Note 1)
	1999	2000	2000
Per share (Note 2(m)):			
Net income	¥0.53	¥2.44	\$0.023

See the accompanying notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

SUMITOMO OSAKA CEMENT CO., LTD.

YEARS ENDED MARCH 31, 1999 AND 2000

	Thousands of shares of common stock	Millions of yen			
		Common stock	Capital surplus	Legal reserve	Retained earnings
Balance at March 31, 1998	450,231	¥41,654	¥35,591	¥7,172	¥36,684
Repurchase and retirement of treasury stock	(22,799)	—	(4,564)	—	—
Net income for the year	—	—	—	—	226
Cash dividends paid	—	—	—	—	(2,203)
Transfer to legal reserve (Note 8)	—	—	—	229	(229)
Directors' and statutory auditors' bonuses	—	—	—	—	(80)
Balance at March 31, 1999	427,432	41,654	31,027	7,401	34,398
Net income for the year	—	—	—	—	1,045
Cash dividends paid	—	—	—	—	(214)
Transfer to legal reserve (Note 8)	—	—	—	29	(29)
Directors' and statutory auditors' bonuses	—	—	—	—	(70)
Cumulative effect of adoption of tax-effect accounting	—	—	—	—	(3,612)
Balance at March 31, 2000	427,432	¥41,654	¥31,027	¥7,430	¥31,518

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Legal reserve	Retained earnings
Balance at March 31, 1999	\$392,408	\$292,293	\$69,720	\$324,050
Net income for the year	—	—	—	9,844
Cash dividends paid	—	—	—	(2,013)
Transfer to legal reserve (Note 8)	—	—	273	(273)
Directors' and statutory auditors' bonuses	—	—	—	(659)
Cumulative effect of adoption of tax-effect accounting	—	—	—	(34,032)
Balance at March 31, 2000	\$392,408	\$292,293	\$69,993	\$296,917

See the accompanying notes to non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

SUMITOMO OSAKA CEMENT CO., LTD.

MARCH 31, 2000

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

Sumitomo Osaka Cement Co., Ltd. (the "Company") maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted and applied in Japan.

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The U.S. dollar amounts are included solely for the convenience of the reader and are stated, as a matter of arithmetic computation only, at U.S.\$1.00=¥106.15, the exchange rate prevailing on March 31, 2000. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

(b) Marketable securities and investment securities

Marketable securities and investment securities are stated at cost determined by the moving average method.

(c) Investments in subsidiaries and affiliates

Investments in subsidiaries and affiliates are substantially carried at cost. Accordingly, income from subsidiaries and affiliates is recognised only when the Company receives dividends from them and unrealised intercompany profits arising from any transactions among the Company, its subsidiaries and affiliates have not been eliminated in the accompanying non-consolidated financial statements.

Appropriate write-downs are recorded for investments in subsidiaries and affiliates whose value has declined and which are not expected to recover such losses in the near future.

(d) Inventories

Inventories are stated at cost determined by the moving average method.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an estimated amount of the anticipated losses on bad debts plus the maximum amount which can be charged to income under the Japanese income tax laws.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is calculated by the declining-balance method for property, plant and equipment (except for the quarry sites, the cement production equipment at the Kouchi Plant and the in-house power generation facility at the Ako Plant) at rates based on the estimated useful lives of the respective assets as prescribed in the Japanese income tax laws. The ranges of the useful lives are as follows: buildings and structures, 2 to 75 years; machinery, equipment and tools, 2 to 22 years. Quarry sites are depreciated by the units-of-production method. Depreciation of the cement production equipment at the Kouchi Plant and the in-house power generation facility at the Ako Plant is calculated by the straight-line method.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(g) Amortisation

Amortisation of intangible assets is computed by the straight-line method. Issuance expenses for bonds are charged to income as incurred.

(h) Foreign currency translation

Foreign currency amounts are translated into Japanese yen on the basis of the rates of exchange in effect at the balance sheet date for current monetary assets and liabilities, and at historical rates for other assets and liabilities. Historical rates are used for the translation of income and expenses. Gains or losses resulting from the translation of foreign currency transactions are credited or charged to income as incurred.

(i) Accounting for leases

With the exception of leases which stipulate the transfer of ownership of the leased assets to the lessee, capital leases are accounted for by the same method of accounting as that followed for operating leases.

(j) Income taxes

Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and the operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates and laws which will be in effects when the differences are expected to be settled.

Effective April 1, 1999, the Company changed its method of accounting for income taxes to adopting tax effect accounting by the asset-liability method. Until the year ended March 31, 1999, income taxes were recorded on an accrual basis, but the tax-effect accounting was not adopted. The effect of this change was to increase net income by ¥45 million (\$422 thousand) and decrease retained earnings by ¥3,568 million (\$33,610 thousand) for the year ended March 31, 2000.

(k) Accrued severance benefits and pension plan

Employees of the Company are covered by its funded retirement pension plan. Benefits under this plan are based on current basic salary rates and length of service. Payments to the pension fund, including current period costs and amortisation of prior service cost, are charged to income when paid. The balance of the accumulated funded assets amounted to ¥5,624 million and ¥7,640 million (U.S.\$71,975 thousand) at March 31, 1999 and 2000.

Effective April 1, 1999, the Company changed the rate of amortisation of prior service cost from 12 per cent. to 31 per cent. The increase resulting from this change of the rate of amortisation (¥1,477 million, U.S.\$13,911 thousand) has been accounted for as amortisation of prior service cost.

Effective October 1, 1996, the funded pension plan of the former Sumitomo Cement and that of the former Osaka Cement were integrated. The balance of accrued severance benefits previously provided for the periodic cost of such benefits became excessive when the two funds were integrated. The excess of the reserve is to be reversed over seven years in conformity with the Japanese income tax laws.

Directors and statutory auditors are generally entitled to receive lump-sum payments based on compensation and years of service at the time of retirement. Such lump-sum retirement payments are covered by an unfunded retirement benefits plan, the liability for which is included in accrued severance benefits, and which amounted to ¥507 million and ¥577 million (U.S.\$5,441 thousand) for 1999 and 2000, respectively.

(l) Appropriation of retained earnings

Under the Commercial Code and the Articles of Incorporation of the Company, appropriations of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors must be approved at a shareholders' meeting held within three months of the end of each fiscal year. The appropriations of retained earnings reflected in the accompanying non-consolidated financial statements represent appropriations applicable to the immediately preceding financial year, which were duly approved at a shareholders' meeting and implemented during that year. Dividends are paid to shareholders of record at the end of the fiscal year.

As is customary practice in Japan, bonuses paid to directors and statutory auditors, which constitute a portion of the appropriations referred to above, are appropriated from retained earnings rather than charged to income for the year.

(m) Net income per share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year.

3. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Marketable securities:			
Listed corporate stock	¥31,533	¥29,209	\$275,169
National government bonds	7	7	65
Other	511	65	613
	¥32,051	¥29,281	\$275,847
Investment securities:			
Corporate stock	¥ 6,493	¥ 7,487	\$ 70,536
Other	—	331	3,111
	¥ 6,493	¥ 7,818	\$ 73,647

The book and market value of marketable and investment securities at March 31, 2000 is presented in Note 3 to the consolidated financial statements.

The book and market value of marketable and investment securities at March 31, 1999 is summarised as follows:

	Millions of yen		
	Book value	Market value	Net realised gains (loss)
Marketable securities:			
Corporate stock	¥31,535	¥66,203	¥34,668
Other	443	391	(52)
	¥31,978	¥66,594	¥34,616
Investment securities:			
Corporate stock	¥ 4,103	¥ 3,267	¥ (836)
	¥36,081	¥69,861	¥33,780

4. INVENTORIES

Inventories at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Finished goods	¥ 4,990	¥ 3,599	\$33,905
Semi-finished goods	1,473	1,400	13,187
Raw materials	2,976	2,194	20,673
Supplies	3,507	3,267	30,778
	¥12,946	¥10,460	\$98,543

5. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

Investments in subsidiaries and affiliates at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Subsidiaries	¥10,316	¥10,161	\$ 95,722
Affiliates	2,241	2,181	20,551
	¥12,557	¥12,342	\$116,273

6. LOANS TO SUBSIDIARIES AND AFFILIATES

Loans to subsidiaries and affiliates at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Short-term loans:			
Subsidiaries	¥1,056	¥3,696	\$34,816
Affiliates	100	1,337	12,596
	¥1,156	¥5,033	\$47,412
Long-term loans:			
Subsidiaries	¥6,099	¥ 3,996	\$37,649
Affiliates	110	1,330	12,529
	¥6,209	¥ 5,326	\$50,178
	¥7,365	¥10,359	\$97,590

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represent overdrafts. The annual interest rates applicable to the loans outstanding at March 31, 1999 and 2000 ranged from 0.5 per cent. to 1.7 per cent. and from 0.5 per cent. to 1.4 per cent., respectively.

Long-term debt at March 31, 1999 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Loans with mortgage and collateral, principally from banks and insurance companies, due from 2000 to 2011	¥ 62,922	¥ 61,672	\$580,989
Bonds	40,000	40,000	376,825
Convertible bonds	1,344	1,344	12,661
	¥104,266	¥103,016	\$970,475
Less: current portion of long-term debt:			
Loans	¥ 5,388	¥ 5,875	\$ 55,344
Bonds	—	10,000	94,206
	5,388	15,875	149,550
	¥98,878	¥87,141	\$820,925

The annual interest rates applicable to the long-term loans outstanding at March 31, 1999 and 2000 ranged from 1.7 per cent. to 6.4 per cent. and from 1.7 per cent. to 6.4 per cent., respectively.

The aggregate annual maturities of long-term loans subsequent to March 31, 2000 summarised are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2001	¥ 5,875	\$ 55,344
2002	7,461	70,287
2003	6,513	61,356
2004	8,364	78,793
2005 and thereafter	33,459	315,209
	¥61,672	\$580,989

On October 2, 1987, the Company issued 2.0 per cent. yen convertible bonds due 2002. The bonds are convertible into shares of common stock of the Company at the option of the holders at the current conversion price of ¥615.50 (U.S.\$5.80) per share.

Assets pledged as collateral for long-term debt at March 31, 1999 and 2000 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Property, plant and equipment, at net book value	¥59,798	¥69,804	\$657,599
Marketable securities	21,606	12,842	120,974
	¥81,404	¥82,646	\$778,573

8. SHAREHOLDERS' EQUITY

Proceeds from the conversion of convertible bonds into common stock have been accounted for in accordance with the provisions of the Commercial Code by crediting one-half each of such proceeds to the common stock and capital surplus accounts.

Under the Commercial Code, the Company is required to appropriate to the legal reserve a portion of retained earnings equal to at least 10 per cent. of any disbursements of cash appropriations of retained earnings (including bonuses to directors and statutory auditors as well as cash dividends paid) and, in the case of interim cash dividends paid, exactly 10 per cent. of interim cash dividends paid, until such reserve equals 25 per cent. of stated capital.

The legal reserve may be used to reduce a deficit or may be transferred to stated capital, but is not available for distribution as dividends.

9. INCOME TAXES

Income taxes applicable to the Company comprise corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 46 per cent. and 42 per cent. for the years ended March 31, 1999 and 2000, respectively.

A reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2000 was as follows:

Statutory tax rate	42.0%
Permanently nondeductible expenses for income tax purpose	(2.9)
Other	0.6
Effective tax rate	39.7%

The significant components of the Company's deferred income tax assets and liabilities at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Estimated retirement allowance and other accrued expenses	¥ 625	\$ 5,885
Other	256	2,416
	881	8,301
Deferred tax liabilities:		
Retained earnings	4,448	41,911
	4,448	41,911
Deferred tax liabilities, net	¥3,567	\$33,610

10. LOSS ON INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

Loss on investments in subsidiaries and affiliates for the years ended March 31, 1999 and 2000 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Gain on sales of investments in common stock	¥ —	¥ (11)	\$ (104)
Write-down of investments in common stock	32	98	922
Provision for allowance for bad debts, doubtful investments and loss on guarantees	4,052	889	8,375
Loss on liquidation of subsidiaries	416	1,236	11,639
Loss on support of subsidiaries	—	2,397	22,591
	¥4,500	¥4,609	\$43,423

11. LOSS ON CLOSEDOWN OF A PLANT

The loss on the closedown of the Tamura Plant incurred during the year ended March 31, 2000 was as follows:

	Millions of yen	Thousands of U.S. dollars
Loss on disposal of property plant and equipment	¥3,467	\$32,658
Other related expenses	476	4,488
	¥3,943	\$37,146

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 1999 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Guarantees of loans to:			
Subsidiaries and affiliates	¥17,969	¥15,983	\$150,573
Others	1,765	1,478	13,925
	¥19,734	¥17,461	\$164,498

13. LEASED ASSETS

The Company leases certain buildings and structures, machinery, equipment and tools.

Assets held at March 31, 1999 and 2000 under capital leases which do not transfer the ownership of such assets to the lessee are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Buildings and structures	¥1,987	¥1,887	\$17,780
Machinery, equipment and tools	15	10	92
	¥2,002	¥1,897	\$17,872

Income from leased assets and the depreciation of leased assets for the years ended March 31, 1999 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Income from leased assets	¥318	¥318	\$2,996
Depreciation of leased assets	106	105	990

14. DERIVATIVES

The Company utilizes derivative financial instruments primarily to hedge its exposure to fluctuations in interest rates and foreign exchange rates. As a matter of policy, the Company does not speculate in derivatives.

The Company does not anticipate nonperformance by any of the counterparties to such transactions, all of whom are domestic financial institutions with high bond ratings.

Derivatives at March 31, 2000 are discussed in Note 14 to the consolidated financial statements. Derivatives at March 31, 1999 are summarised as follows:

	Millions of yen			
	Contract values or notional principal amounts		Market value	Net realised gains (loss)
	Total	Over 1 year		
Currency and foreign exchange transactions:				
Forward foreign exchange contracts:				
Buy U.S. dollars	¥ 156	¥ —	¥154	¥ 2
	156	—	154	2
Interest rate transactions:				
Swaps				
Receive/floating; pay/fixed	5,000	5,000	(47)	(47)
	¥5,000	¥5,000	¥ (47)	¥(47)

15. SUBSEQUENT EVENT

The following appropriations of retained earnings were approved at a meeting of the shareholders of the Company held on June 29, 2000:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥2,137	\$20,132
Transfer to legal reserve	221	2,082
Bonuses to directors and statutory auditors	70	659
	¥2,428	\$22,873

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

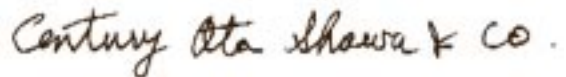
The Board of Directors and Shareholders
Sumitomo Osaka Cement Co., Ltd.

We have audited the non-consolidated balance sheets of Sumitomo Osaka Cement Co., Ltd. as of March 31, 2000 and 1999, and the related non-consolidated statements of income and shareholders' equity for each of the three years in the period ended March 31, 2000, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying non-consolidated financial statements, expressed in yen, present fairly the non-consolidated financial position of Sumitomo Osaka Cement Co., Ltd. at March 31, 2000 and 1999, and the non-consolidated results of its operations for each of the three years in the period ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2(j) to the non-consolidated financial statements, Sumitomo Osaka Cement Co., Ltd. has adopted a new accounting standard for tax-effect accounting in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.



Century Ota Showa & Co.

June 29, 2000

See Note 1 to the non-consolidated financial statements which explains the basis of preparation of the non-consolidated financial statements of Sumitomo Osaka Cement Co., Ltd. under Japanese accounting principles and practices.

Subsidiaries and Affiliates

DOMESTIC SUBSIDIARIES

CAP Co., Ltd.
Sumitomo Cement Computer Systems Co., Ltd.
Chiyoda Engineering Co., Ltd.
Hachinohe Cement Co., Ltd.
Wakayama Blast-Furnace Slag Cement Co., Ltd.
Sumice Kaiun Co., Ltd.
TAIYO SHIPPING Co., LTD.
Izumi Unyu Co., Ltd.
Koyo Unyu Co., Ltd.
Sumice Kenzai Co., Ltd.
Tokai Sumice Sales Co., Ltd.
Izumi Yogyo Co., Ltd.
Tokushima Kenzai Co., Ltd.
Tokyo SOC Co., Ltd.
Saitama SOC Co., Ltd.
Yokohama SOC Co., Ltd.
Ichikawa SOC Ready-Mixed Concrete Co., Ltd.

Showa Kashu Ready-Mixed Concrete Co., Ltd.
Nagoya SOC Co., Ltd.
Kansai Sumice Ready-Mixed Concrete Co., Ltd.
Chishima SOC Co., Ltd.
Hyogo Osaka Ready-Mixed Concrete Co., Ltd.
Higashi Kobe Osaka Ready-Mixed Concrete Co., Ltd.
Shin Yodo Ready-Mixed Concrete Co., Ltd.
Hanezuru Dolomite Industry Co., Ltd.
SO ENGINEERING Co., Ltd.
Oshioka Construction Industry Co., Ltd.
Shin Nippon Concrete Co., Ltd.
ESTEC Co., Ltd.
O.C. Kenzai Industrial Co., Ltd.
Mutsu Industry Co., Ltd.
Chuken Consultant Co., Ltd.
Izumi Lime Industry Co., Ltd.

Inasas Co., Ltd.
Shuho Mining Co., Ltd.
Kokura Kogyo Co., Ltd.
Sumitec Co., Ltd.
Oyokoden Laboratories Co., Ltd.

OVERSEAS SUBSIDIARIES

SUMICOM SDN BHD
Sumicem Opto-Electronics (Ireland) Limited
SOCC Optoelectronics (USA), Inc.

DOMESTIC AFFILIATES

Nittetsu Cement Co., Ltd.
Kyoto Sumice Remicon Co., Ltd.
Sumimetal Mining Co., Ltd.

OVERSEAS AFFILIATE

Far East Cement Co., Ltd.

Directors and Auditors

(As of June 29, 2000)

CHAIRMAN

Shoichi Tatamoto*

PRESIDENT

Yasuyuki Odagiri*

SENIOR MANAGING DIRECTOR

Kikuo Koshida

MANAGING DIRECTORS

Tatsutoku Honda
Norimitsu Kurumada
Tomikazu Sekiwa

DIRECTOR SENIOR ADVISOR

Hideomi Yamato

DIRECTORS

Takashige Moda
Yukuo Katsuki
Yoshikiyo Serizawa
Hideaki Igarashi
Yutaro Saito
Takao Noumi
Takaaki Todokoro
Naoshi Shigematsu
Kenji Takeda

STATUTORY AUDITORS

Rinzo Hayashi
Toshiro Miyajima
Hajime Kikuchi

AUDITOR

Yuichiro Miyake

*Representative Directors

Corporate Data
(As of March 31, 2000)

HEAD OFFICE

1, Kandamitoshiro-cho,
Chiyoda-ku, Tokyo 101-8677, Japan
Tel: 03-3296-9600
Facsimile: 03-3295-5156

ESTABLISHED

November 29, 1907

NUMBER OF EMPLOYEES

1,959

NETWORK

Domestic

Offices: Sapporo, Tohoku, Tokyo,
Hokuriku, Nagoya, Osaka, Shikoku,
Hiroshima, Fukuoka
Plants: Tochigi, Gifu, Ibuki, Ako, Kochi
New Technology Research Lab
Cement/Concrete Research Lab

Overseas

Representative Offices:
Hong Kong, New Jersey

PAID-IN CAPITAL

¥41,654,077 thousand

**NUMBER OF SHARES OF
COMMON STOCK ISSUED**

427,432,175

NUMBER OF SHAREHOLDERS

63,723

STOCK LISTINGS

Tokyo, Osaka, Nagoya, Kyoto,
Fukuoka, Sapporo

TRANSFER AGENT AND REGISTRAR

The Sumitomo Trust & Banking Co.,
Ltd.
5-33, Kitahama 4-chome,
Chuo-ku, Osaka 540-8639, Osaka

FISCAL YEAR-END

March 31

**ANNUAL MEETING OF
SHAREHOLDERS**

The annual meeting of the Company's
shareholders is held in June each year.

INDEPENDENT AUDITORS

Century Ota Showa & Co.

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1, Kandamitoshiro-cho, Chiyoda-ku, Tokyo 101-8677, Japan
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Telex: 2226781 SUMITC J
URL: <http://www.soc.co.jp>