



SUMITOMO OSAKA CEMENT CO., LTD.

ANNUAL REPORT

2001

YEAR ENDED MARCH 31, 2001

Cement

Mineral Resources

Cement-Related Products

Optoelectronic and Advanced Materials

Real Estate and Other

01 AR SOC

Financial Highlights (Consolidated)

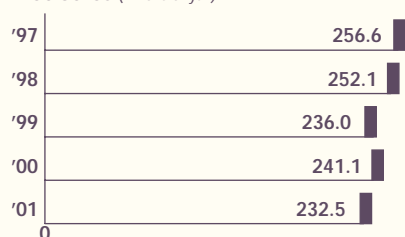
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31

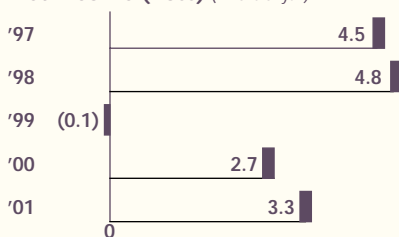
	Millions of yen					Thousands of U.S. dollars*
	1997	1998	1999	2000	2001	2001
Net sales	¥256,557	¥252,127	¥235,985	¥241,073	¥232,476	\$1,876,322
Net income (loss)	4,539	4,826	(148)	2,670	3,266	26,358
Shareholders' equity	116,797	119,314	112,429	111,556	111,435	899,393
Total assets	414,798	406,288	390,082	380,803	356,545	\$2,877,680
	Yen					U.S. dollars*
Per share:						
Net income (loss)	¥9.93	¥10.58	¥(0.34)	¥6.25	¥7.65	\$0.062
Cash dividends	5.00	5.00	3.00	5.00	5.00	0.040

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

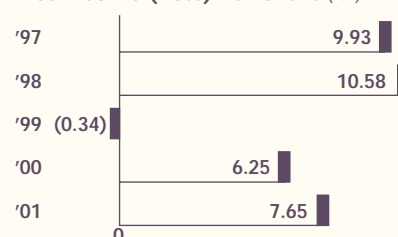
Net Sales (Billions of yen)



Net Income (Loss) (Billions of yen)



Net Income (Loss) Per Share (Yen)



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Corporate Data

Despite an extremely harsh operating environment, fiscal 2001, ended March 31, 2001, was a year of strengthened profitability for Sumitomo Osaka Cement Co., Ltd. and Group companies.



Yasuyuki Odagiri,
President

Business Environment

In the fiscal year under review, domestic demand for cement was 71.4 million tons, largely unchanged from the previous fiscal year, owing to a fall in public demand resulting from worsened government finances, which offset an increase in demand in the private sector. Exports declined 1.2% on account of reduced demand from Taiwan and Hong Kong. Total sales volume of domestic cement manufacturers including exports was down 0.4% to 77.7 million tons. Market prices remained generally sluggish.

The Year in Review

The Company recorded consolidated net sales of ¥232,476 million, a decrease of 3.6% compared with the previous fiscal year. Lower sales volumes of cement and the liquidation of unprofitable subsidiaries adversely affected net sales, despite contributions to sales from business scale expansion in diversified operations.

Operating income rose 34.1% to ¥16,340 million, reflecting cost-cutting measures in the cement business, an increase in sales of optoelectronic and advanced materials businesses, as well as the effect of streamlining operations.

Net income grew 22.3% to ¥3,266 million, despite recording the amortisation of transitional obligation for retirement benefits in accordance with the introduction of accounting standards for retirement benefits and the liquidation of some unprofitable businesses.

Outlook

Domestic cement industry demand is expected to remain weak, based on prospects for a continuing decline in demand from the public sector due to worsening local government finances and a decrease in private-sector demand in line with lower housing investment. We expect our operating environment to remain severe owing to persistently harsh market conditions. The Sumitomo Osaka Cement Group is making every effort to establish a solid management foundation, promote management that emphasizes efficiency and secure and expand profits. In addition, the Group is making aggressive efforts in environmental-related businesses by increasing the recycling of industrial waste. To meet the expectations of shareholders, customers and members of regional communities, we will focus efforts on rebuilding businesses and strengthening the corporate structure with a view to contributing to the advancement of society and the economy.

To achieve this goal, the Company is working to stabilize its core cement business base by bolstering competitiveness in production, sales and distribution by pursuing an optimal production structure, improving contract terms and promoting tie-ups in distribution.

We are also making efforts to expand other businesses through the selection and concentration of resource investment in promising fields, while advancing the timely development and commercialization of new products and technologies that match market needs.

On July 23, 2001, headquarters restarted operations after being relocated to Rokubancho, Chiyoda-ku, Tokyo.

We ask our shareholders for their continued support and understanding.

小田印康幸
Yasuyuki Odagiri, President

Cement

Total domestic cement demand remained virtually the same as the previous fiscal year, owing to weak public-sector demand against a background of contracting public spending, despite signs of a mild recovery in the private sector, especially in urban areas in the first half of the fiscal year. In this operating environment, the Company's domestic sales volume of cement edged up 0.3% to 14,027 thousand tons. However, as exports dropped 37.0% to 539 thousand tons due to weak demand from Taiwan and Hong Kong, the Company's total sales volume declined 1.9% to 14,567 thousand tons.

Sales of the cement segment fell 4.0% to ¥180,473 million, owing to the decrease in export volume and the liquidation of ready-mix concrete subsidiaries. Operating income increased 21.0% to ¥11,443 million, compared with the previous fiscal year. Sumitomo Osaka Cement made concerted efforts to reduce costs through such measures as streamlining distribution, including the development of an alliance with Ube-Mitsubishi Cement Co., Ltd. and the construction of a large-scale cement supply base at Niigata Port, in a joint project with Denki Kagaku Kogyo K.K.

The Company worked to improve cash flows by partially switching to cash settlement with shortened collection terms from the trade receivables method.

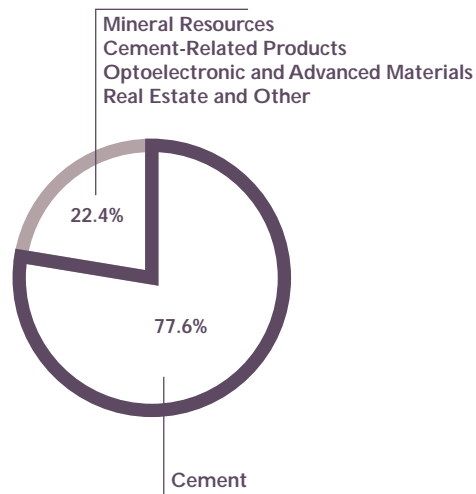
Net Sales (Billions of yen)



Operating Income (Billions of yen)



Share of Net Sales



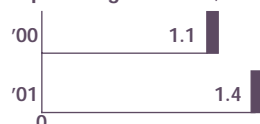
Mineral Resources

Net Sales (Billions of yen)



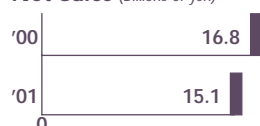
Despite higher exports of limestone and increased sales of calcium carbonate resulting from the commencement of full-scale operations of a shipping facility, sales for the mineral resources segment were down 0.7% to ¥11,794 million due to the adverse effects of stagnant domestic demand. Operating income rose 22.7% to ¥1,366 million as a result of efforts to reduce costs.

Operating Income (Billions of yen)



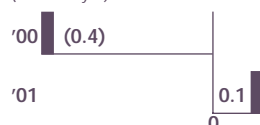
Cement-Related Products

Net Sales (Billions of yen)



While withdrawing from unprofitable businesses, we worked to expand business scale by developing a greater range of repair materials and products for bridges, tunnels, harbors, sewers and other large-scale concrete structures to meet the demands of users and the market. As a result, operating income totaled ¥140 million, compared with an operating loss of ¥350 million in the previous fiscal year. However, sales of this segment fell 10.1% to ¥15,122 million.

Operating Income (Loss)
(Billions of yen)



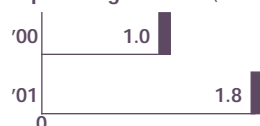
Optoelectronic and Advanced Materials

Net Sales (Billions of yen)



In the optoelectronic business, we focused efforts on expanding sales of optical communications components and optical information equipment. To cope with increased orders for optical communications components, the Company worked to expand production facilities, including those at subsidiaries, to allocate management resources in growth areas. In the advanced materials business, sales of transparent coating solutions and pulverized zirconia for optical communications components were strong. As a result, sales of optoelectronic and advanced materials grew 6.6% to ¥16,444 million, while operating income climbed 77.3% to ¥1,769 million.

Operating Income (Billions of yen)



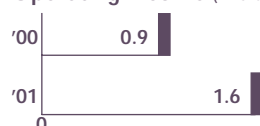
Real Estate and Other

Net Sales (Billions of yen)



As a result of a review of operations of subsidiaries, sales in real estate and other businesses declined 4.3% to ¥8,643 million. Operating income, however, increased 79.1% to ¥1,625 million, owing partly to new contracts concluded in real estate operations.

Operating Income (Billions of yen)



Financial Section

CONSOLIDATED BALANCE SHEETS

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
ASSETS			
Current assets:			
Cash and cash equivalents (Note 4)	¥ 14,451	¥ 19,017	\$ 153,486
Trade receivables:			
Accounts receivable	34,967	34,596	279,228
Notes receivable	28,612	18,146	146,453
Marketable securities (Notes 5 and 8)	30,539	—	—
Inventories (Note 6)	16,673	18,195	146,854
Short-term loans to unconsolidated subsidiaries and affiliates (Note 7)	1,630	1,749	14,114
Deferred tax assets (Note 10)	197	1,027	8,285
Other	5,004	5,793	46,761
Less: Allowance for doubtful receivables	(421)	(277)	(2,237)
Total current assets	131,652	98,246	792,944
Fixed assets:			
Property, plant and equipment (Note 8):			
Land	47,563	47,466	383,101
Buildings and structures	136,742	136,941	1,105,252
Machinery, equipment and tools	349,475	346,378	2,795,627
Quarry sites	21,475	21,478	173,350
Construction in progress	3,540	4,576	36,929
Less: Accumulated depreciation	(341,861)	(347,029)	(2,800,879)
Property, plant and equipment, net	216,934	209,810	1,693,380
Investments and other assets:			
Investment securities (Note 5 and 8)	8,370	27,578	222,580
Investments in unconsolidated subsidiaries and affiliates	4,607	4,548	36,706
Long-term loans receivable	2,216	2,194	17,711
Long-term loans to unconsolidated subsidiaries and affiliates (Note 7)	2,073	1,819	14,678
Deferred tax assets (Note 10)	1,097	1,317	10,630
Other	13,681	12,286	99,167
Less: Allowance for doubtful accounts	(4,734)	(5,647)	(45,577)
Total investments and other assets	27,310	44,095	355,895
Intangible fixed assets	4,907	4,394	35,461
Total	¥ 380,803	¥ 356,545	\$ 2,877,680

See accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	¥ 71,841	¥ 59,228	\$ 478,028
Commercial paper	10,000	11,000	88,781
Current portion of long-term debt (Note 8)	18,295	11,119	89,740
Trade payables:			
Accounts payable	25,550	27,127	218,943
Notes payable	11,524	9,063	73,148
Other	9,246	10,236	82,614
Accrued income taxes (Note 10)	850	3,815	30,789
Accrued expenses	6,063	4,354	35,145
Deferred tax liabilities (Note 10)	6	12	98
Other	2,315	1,914	15,454
Total current liabilities	155,690	137,868	1,112,740
Long-term liabilities:			
Long-term debt (Note 8)	98,834	91,085	735,152
Accrued severance benefits for employees (Note 14)	1,392	4,610	37,211
Accrued severance benefits for directors and statutory auditors	846	993	8,018
Deferred tax liabilities (Note 10)	3,970	2,407	19,429
Other	6,686	6,271	50,600
Total long-term liabilities	111,728	105,366	850,410
Total liabilities	267,418	243,234	1,963,150
Minority interests	1,829	1,876	15,137
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, 2000 and 2001 (Note 9)	41,654	41,654	336,191
Capital surplus (Note 9)	31,027	31,027	250,419
Retained earnings	38,999	38,990	314,685
Foreign currency translation adjustments (Note 2(g))	—	(123)	(994)
Treasury stock, at cost	(124)	(113)	(908)
Total shareholders' equity	111,556	111,435	899,393
Total liabilities and shareholder's equity	¥380,803	¥356,545	\$2,877,680

CONSOLIDATED STATEMENTS OF INCOME
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Net sales	¥241,073	¥232,476	\$1,876,322
Cost of sales	169,879	160,675	1,296,815
Gross profit	71,194	71,801	579,507
Selling, general and administrative expenses	59,009	55,461	447,625
Operating income	12,185	16,340	131,882
Other income (expenses):			
Interest and dividend income	854	806	6,507
Interest expense	(4,417)	(4,149)	(33,485)
Gain (loss) on sales or disposal of property, plant and equipment, net	140	(1,073)	(8,661)
Loss on investments in unconsolidated subsidiaries and affiliates (Note 11)	(2,219)	(1,377)	(11,112)
Gain on sales of securities	6,031	8,528	68,827
Loss on closedown of a plant	(3,942)	—	—
Special severance payments	(1,482)	—	—
Amortisation of prior service cost	(1,477)	—	—
Amortisation of transitional obligation for retirement benefits (Note 14)	—	(6,206)	(50,087)
Write-down of investments in common stock	—	(2,733)	(22,060)
Loss on termination of business operations	—	(2,197)	(17,731)
Other, net	(2,008)	(2,791)	(22,532)
	(8,520)	(11,192)	(90,334)
Income before income taxes	3,665	5,148	41,548
Income taxes (Note 10):			
Current	1,128	4,412	35,612
Deferred	(196)	(2,609)	(21,058)
	932	1,803	14,554
Minority interests in net income of consolidated subsidiaries	(63)	(79)	(636)
Net income	¥ 2,670	¥ 3,266	\$ 26,358

	Yen		U.S. dollars (Note 1)
	2000	2001	2001
Per share (Note 2(l)):			
Net income	¥6.25	¥7.65	\$0.062
Net income assuming dilution	—	7.65	0.062

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2000 and 2001

	Millions of yen					
	Thousands of shares of common stock	Common stock	Capital surplus	Retained earnings	Foreign currency translation adjustments	Treasury stock
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)
Net income for the year	—	—	—	3,266	—	—
Cash dividends paid	—	—	—	(3,205)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(70)	—	—
Net change during the year (Note 2(g))	—	—	—	—	(123)	—
Disposal of treasury stock	—	—	—	—	—	11
Balance at March 31, 2001	427,432	¥41,654	¥31,027	¥38,990	¥(123)	¥(113)

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	\$336,191	\$250,419	\$314,764	\$ —	\$(1,001)
Net income for the year	—	—	26,358	—	—
Cash dividends paid	—	—	(25,872)	—	—
Directors' and statutory auditors' bonuses	—	—	(565)	—	—
Net change during the year (Note 2(g))	—	—	—	(994)	—
Disposal of treasury stock	—	—	—	—	93
Balance at March 31, 2001	\$336,191	\$250,419	\$314,685	\$(994)	\$(908)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Operating activities:			
Net income	¥ 2,670	¥ 3,266	\$ 26,358
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	19,814	19,185	154,846
Allowance for doubtful receivables	899	1,741	14,054
Accrued severance benefits, net of payments	262	3,366	27,166
Gain on sales or disposal of property, plant and equipment, and marketable and investment securities, net	(6,397)	(7,795)	(62,917)
Loss on investments in unconsolidated subsidiaries and affiliates	2,219	1,377	11,112
Loss on closedown of a plant	3,486	—	—
Write-down of investments in common stock	—	2,733	22,060
Loss on termination of business operations	—	1,104	8,912
Deferred income taxes	(196)	(2,609)	(21,058)
Other	(529)	697	5,637
Changes in operating assets and liabilities:			
Trade receivables	(2,242)	10,599	85,544
Inventories	3,200	(1,522)	(12,285)
Other assets	(584)	(1,181)	(9,532)
Trade payables	(3,075)	(1,003)	(8,095)
Accrued income taxes	(106)	2,965	23,928
Accrued expenses	1,413	(1,708)	(13,787)
Other liabilities	168	(1,113)	(8,986)
Subtotal	18,332	26,836	216,599
Net cash provided by operating activities	21,002	30,102	242,957
Investing activities:			
Proceeds from sales of property, plant and equipment	1,489	1,060	8,552
Purchases of property, plant and equipment	(17,541)	(13,941)	(112,517)
Proceeds from sales of marketable securities	10,336	—	—
Increase in marketable securities	(1,826)	—	—
Proceeds from sales of investment securities	16	17,506	141,291
Increase in investment securities	(1,419)	(386)	(3,118)
Decrease in investments in unconsolidated subsidiaries and affiliates	42	343	2,768
(Increase) decrease in short-term loans to unconsolidated subsidiaries and affiliates	346	(173)	(1,394)
Decrease in long-term loans receivable	416	22	174
Increase in long-term loans to unconsolidated subsidiaries and affiliates	(3,429)	(18)	(142)
Other	(74)	(141)	(1,137)
Net cash provided by (used in) investing activities	(11,644)	4,272	34,477
Financing activities:			
Decrease in short-term loans	(1,883)	(12,613)	(101,803)
Increase (decrease) in commercial paper	(8,000)	1,000	8,071
Proceeds from long-term loans	5,807	3,754	30,296
Repayment of long-term loans	(8,341)	(8,679)	(70,045)
Redemption of bonds	—	(10,000)	(80,710)
Cash dividends paid	(223)	(3,214)	(25,937)
Other	394	(56)	(454)
Net cash used in financing activities	(12,246)	(29,808)	(240,582)
Net increase (decrease) in cash and cash equivalents	(2,888)	4,566	36,852
Cash and cash equivalents at beginning of year	17,339	14,451	116,634
Cash and cash equivalents at end of year (Note 4)	¥ 14,451	¥ 19,017	\$ 153,486
Supplemental cash flow disclosures:			
Interest paid	¥ 4,457	¥ 4,182	\$ 33,756
Income taxes paid	1,022	829	6,668

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2001

1. BASIS OF PREPARATION OF CONSOLIDATED 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=¥123.90, the exchange rate prevailing on March 31, 2001. 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

Until the year ended March 31, 2000, marketable securities and investment securities were stated at cost determined by the moving-average method.

Effective April 1, 2000, the Company has adopted a new accounting standard for financial instruments, including marketable securities and investment securities.

This standard requires all securities to be classified and accounted for, depending on management's intent, as follows: i) "trading securities," which are held for the purpose of earning capital gains in the near term, are stated at market value, and the related unrealized gain and loss are included in earnings, ii) "held-to-maturity debt securities," which are expected to be held to maturity with the positive intent and ability to hold to maturity are stated at amortized cost and iii) "available-for-sale securities," not classified in either of the aforementioned categories, are stated at market value with unrealized gain and loss, net of the applicable taxes, stated as a separate component of shareholders' equity. Until the year ended March 31, 2001, "available-for-sale securities," can still be stated at cost.

In accordance with the new standard, effective April 1, 2000, the Company classified all marketable securities and investment securities as "available-for-sale securities," and stated them at cost determined by the moving-average method.

The effect of this adoption was to decrease current assets by ¥30,539 million (\$246,485 thousand) and increase fixed assets by ¥30,539 million (\$246,485 thousand) as of the beginning of the year.

(d) Inventories

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

(e) Allowance for doubtful receivables

Until the year ended March 31, 2000, the allowance for doubtful receivables was provided at an estimated amount of the anticipated losses on bad debts plus the maximum amount which could be charged to income under the Japanese income tax laws.

Effective April 1, 2000, the Company has adopted a new accounting standard for financial instruments, including the allowance for doubtful receivables. In accordance with this standard, the allowance for doubtful receivables is provided at an estimated amount of the anticipated loss on bad debts plus an amount calculated at the average rate of historical losses on bad debts charged to income for the past three years.

The effect of this adoption was to increase net income by ¥74 million (\$597 thousand) for the year ended March 31, 2001.

(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 and the in-house power generation facility at the Ako Plant) at rates based on the estimated useful lives of the respective assets. 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 unit-of-production method. Depreciation of 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

Effective April 1, 2000, the Company has adopted a revised accounting standard for foreign currency transactions. In accordance with this revised standard, foreign currency amounts are translated into Japanese yen at the rates of exchange in effect at the balance sheet date for all assets and liabilities, and at the historical rates for shareholders' equity. Differences arising from such translations are shown as "Foreign currency translation adjustments" as a separate component of shareholders' equity.

Historical rates are used for the translation of income and expenses. Gain or loss resulting from the translation of foreign currency transactions is 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 carrying amounts of the existing assets and liabilities for financial reporting purposes 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 effect when the differences are expected to reverse.

(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.

Effective April 1, 2000, the Company has adopted a new accounting standard for employees' retirement benefits and accounted for accrued severance benefits based on the projected benefit obligations and the estimated pension plan at the ending of the year. The transitional obligation of ¥6,206 million (U.S.\$50,087 thousand), determined as of the beginning of the year, has been amortised for the year, and the unrecognized actuarial loss of ¥1,377 million (U.S.\$11,110 thousand) is being amortised for a period of 15 years which falls within the remaining years of service of the eligible employees and commences next year.

The effect of this adoption was to decrease net income by ¥3,346 million (\$27,006 thousand) for the year ended March 31, 2001.

Directors and statutory auditors are generally entitled to receive lump-sum payments based on their level of compensation and years of service at the time of retirement. Such lump-sum retirement payments are covered by an unfunded retirement benefits plan.

(k) Appropriation of retained earnings

Under the Commercial Code and the Articles of Incorporation of the Company, appropriations of retained earnings (primarily for the payment of cash dividends) 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 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.

Net income per share of common stock assuming dilution is based on the weighted average number of shares of common stock outstanding after consideration of the dilutive effect of common stock equivalents which include warrants and certain convertible bonds.

3. ACCOUNTING CHANGE

Effective April 1, 2000, the Company has changed its method of computing depreciation from the straight-line method to the declining-balance method for cement production equipment at the Kochi Plant. The effect of the change was to increase depreciation by ¥306 million (U.S.\$2,470 thousand) and to decrease income before income taxes by approximately the same amount for the year ended March 31, 2001.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Cash and deposits	¥13,078	¥17,648	\$142,441
Times deposits with a maturity of over three months	(331)	(304)	(2,451)
Short-term investments with a maturity of three months or less	1,704	1,673	13,496
	¥14,451	¥19,017	\$153,486

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	2001	2000	2001
Marketable securities:				
Listed corporate stock	¥29,816	¥ —	\$ —	—
Other	723	—	—	—
	¥30,539	¥ —	\$ —	—
Investment securities:				
Listed corporate stock	¥ 7,962	¥24,721	\$199,521	
Other	408	2,857	23,059	
	¥ 8,370	¥27,578	\$222,580	

The book and market value of marketable and investment securities at March 31, 2000 and 2001 is summarised as follows:

	Millions of yen		
	2000		
	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

	Millions of yen		
	2001		
	Book value	Market value	Net realised gains (loss)
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

	Millions of yen			
	2001			
	Book value	Market value	Net realised gains (loss)	Deferred tax liabilities
Investment securities classified as:				
available-for-sale	¥25,130	¥56,087	\$17,918	¥13,040
	¥25,130	¥56,087	\$17,918	¥13,040

	Thousand of U.S. dollars			
	2001			
	Book value	Market value	Net realised gains (loss)	Deferred tax liabilities
Investment securities classified as:				
available-for-sale	\$202,821	\$452,679	\$144,615	\$105,243
	\$202,821	\$452,679	\$144,615	\$105,243

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

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Investment securities:			
Unlisted corporate stock	¥2,495	¥2,098	\$16,933
Unlisted foreign bonds	330	350	2,826
	¥2,825	¥2,448	\$19,759

6. INVENTORIES

Inventories at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Finished goods	¥ 4,792	¥ 5,016	\$ 40,481
Semi-finished goods	1,782	1,834	14,800
Work in process	3,220	3,183	25,687
Raw materials	2,657	3,585	28,938
Supplies	4,222	4,577	36,948
	¥16,673	¥18,195	\$146,854

7. LOANS TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Loans to unconsolidated subsidiaries and affiliates at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Short-term loans:			
Unconsolidated subsidiaries	¥ 293	¥ 556	\$ 4,486
Affiliates	1,337	1,193	9,628
	¥1,630	¥1,749	\$14,114
Long-term loans:			
Unconsolidated subsidiaries	¥ 743	¥ 489	\$ 3,943
Affiliates	1,330	1,330	10,735
	¥2,073	¥1,819	\$14,678

8. 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, 2000 and 2001 ranged from 0.5 per cent. to 2.4 per cent. and from 0.1 per cent. to 2.4 per cent., respectively.

Long-term debt at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Loans with mortgages and collateral, principally from banks and insurance companies, due from 2000 to 2025	¥ 75,790	¥ 70,865	\$571,954
Bonds	40,000	30,000	242,131
Convertible bonds	1,339	1,339	10,807
	¥117,129	¥102,204	\$824,892
Less: current portion of long-term debt:			
Loans	¥ 8,295	¥11,119	\$ 89,740
Bonds	10,000	—	—
	18,295	11,119	89,740
	¥98,834	¥91,085	\$735,152

The annual interest rates applicable to the long-term loans outstanding at March 31, 2000 and 2001 ranged from 1.7 per cent. to 8.3 per cent. and from 1.3 per cent. to 8.3 per cent., respectively.

The aggregate annual maturities of long-term loans subsequent to March 31, 2001 are summarised as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥11,119	\$ 89,740
2003	9,740	78,613
2004	10,182	82,178
2005	7,363	59,429
2006 and thereafter	32,461	261,994
	¥70,865	\$571,954

On 2nd October, 1987, the Company issued 2.0 per cent. yen convertible bonds due 2002. These 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.\$4.97) per share.

Assets pledged as collateral for long-term debt at March 31, 2000 and 2001 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Property, plant and equipment, at net book value	¥84,433	¥76,493	\$617,374
Marketable securities	12,841	—	—
Investment securities	—	10,267	82,863
Other	845	1,071	8,648
	¥98,119	¥87,831	\$708,885

9. 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 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.

10. 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 42 per cent. for the years ended March 31, 2000 and 2001.

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2000 and 2001 is presented as follows:

	2000	2001
Statutory tax rate	42.0%	42.0%
Temporary differences which have not been subjected to tax-effect accounting	(16.8)	(7.5)
Expenses which are nondeductible for income tax purposes	1.5	1.2
Other	5.0	(0.7)
Effective tax rates	31.7%	35.0%

The significant components of the Company's deferred income tax assets and liabilities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets:			
Net operating loss carryforwards	¥ 2,019	¥ 1,703	\$ 13,743
Estimated severance benefits and other accrued expenses	1,095	2,735	22,077
Unrealized holding gains	375	438	3,535
Other	459	1,318	10,636
Less valuation allowance	(1,669)	(1,676)	(13,526)
	2,279	4,518	36,465
Deferred tax liabilities:			
Retained earnings	4,877	4,580	36,966
Other	84	14	110
	4,961	4,594	37,076
Deferred tax liabilities, net	¥ 2,682	¥ 76	\$ 611

11. LOSS ON INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Loss on investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 2000 and 2001 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Gain on sales of investments in common stock	¥ (3)	¥ (158)	\$ (1,275)
Write-down of investments in common stock	98	60	484
Provision for allowance for bad debts	889	645	5,204
Loss on liquidation of subsidiaries	1,235	830	6,699
	¥2,219	¥1,377	\$11,112

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Notes discounted and endorsed	¥ 4,094	¥4,428	\$35,741
Guarantees of loans and other	7,709	2,323	18,743
	¥11,803	¥6,751	\$54,484

13. LEASED ASSETS

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

Assets held at March 31, 2000 and 2001 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
	2000	2001	2001
Buildings and structures	¥1,887	¥1,788	\$14,431
Machinery, equipment and tools	10	6	44
	¥1,897	¥1,794	\$14,475

Income from leased assets and depreciation of leased assets for the years ended March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Income from leased assets	¥318	¥318	\$2,567
Depreciation of leased assets	105	104	836

14. RETIREMENTS BENEFITS FOR EMPLOYEES

The Company and consolidated subsidiaries have a defined benefit pension plan covering substantially all employees.

Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits.

Accrued severance benefits at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥14,001	\$112,999
Fair value of the pension fund	(8,014)	(64,678)
Unrecognized actuarial loss	(1,377)	(11,110)
Accrued severance benefits for employees, net	¥ 4,610	\$ 37,211

Retirement benefit expenses for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 820	\$ 6,618
Interest cost	383	3,095
Expected return on pension fund	(173)	(1,400)
Amortisation of transitional obligation	6,206	50,087
Net retirement benefit expenses	¥7,236	\$58,400

Assumptions used for the year ended March 31, 2001 were as follows:

Discount rate	3.5%
Expected rate of return on pension fund	3.5%
Amortisation period of prior service cost	—
Recognition period of actuarial loss	15 years
Amortisation period of transitional obligation	1 year

15. RELATED PARTY TRANSACTIONS

The following summarises the transactions between the Company and its unconsolidated subsidiaries and affiliates for the year ended March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Subsidiaries:		
So Ready-mixed Concrete Co., Ltd.		
Abandonment of claims	¥207	\$1,669
Abukuma Industry Co., Ltd.		
Abandonment of claims	735	5,934
Tamura Unyu Service Co., Ltd.		
Abandonment of claims	33	262
Tochigi Kannko Bus Co., Ltd.		
Abandonment of claims	96	772
Kyoei Ready-mixed Concrete Co., Ltd.		
Abandonment of claims	70	565
Loss on liquidation	70	565

16. SUBSEQUENT EVENT

The following appropriations of retained earnings were approved at a meeting of the shareholders of the Company held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,069	\$8,625
Transfer to legal reserve	114	920
Bonuses to directors and statutory auditors	70	565
	¥1,253	\$10,110

17. SEGMENT INFORMATION (BUSINESS SEGMENT)

Effective April 1, 2000, the Company changed its business segments from two to five segments.

The former segments were the following: cement and cement-related products and other.

The new segments are the following: cement, mineral resources, cement-related products, optoelectronic and advanced materials, and real estate and other.

A summary of net sales, cost and expenses, operating income and other financial information by business segment for the year ended March 31, 2000 and 2001 is as follows:

	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	¥248,079	¥86,427	¥334,506	¥46,297	¥380,803
Depreciation and amortisation	15,465	3,924	19,389	27	19,416
Capital expenditures	9,088	6,656	15,744	200	15,944

	Millions of yen							
	2001							
	Cement	Mineral resources	Cement-related products	Optoelectronic and advanced materials	Real estate and other	Total	Eliminations and adjustments	Consolidated
Net sales:								
Outside customers	¥180,473	¥11,794	¥15,122	¥16,444	¥ 8,643	¥232,476	¥ —	¥232,476
Intersegment sales	952	3,115	2,245	30	2,675	9,017	(9,017)	0
Total	181,425	14,909	17,367	16,474	11,318	241,493	(9,017)	232,476
Costs and expenses	169,982	13,543	17,227	14,705	9,693	225,150	(9,014)	216,136
Operating income	¥ 11,443	¥ 1,366	¥ 140	¥ 1,769	¥ 1,625	¥ 16,343	¥ (3)	¥ 16,340
Assets	¥221,198	¥26,691	¥16,777	¥21,073	¥38,459	¥324,198	¥ 32,347	¥356,545
Depreciation and amortisation	14,416	1,363	477	1,535	1,002	18,793	7	18,800
Capital expenditures	10,959	793	606	2,422	184	14,964	(84)	14,880

Thousands of U.S. dollars

2001								
	Cement	Mineral resources	Cement-related products	Optoelectronic and advanced materials	Real estate and other	Total	Eliminations and adjustments	Consolidated
Net sales:								
Outside customers	\$1,456,603	\$ 95,188	\$122,051	\$132,717	\$ 69,763	\$1,876,322	\$ —	\$1,876,322
Intersegment sales	7,682	25,144	18,117	243	21,593	72,779	(72,779)	0
Total	1,464,285	120,332	140,168	132,960	91,356	1,949,101	(72,779)	1,876,322
Costs and expenses	1,371,930	109,308	139,037	118,685	78,228	1,817,188	(72,748)	1,744,440
Operating income	\$ 92,355	\$ 11,024	\$ 1,131	\$ 14,275	\$ 13,128	\$ 131,913	\$ (31)	\$ 131,882
Assets	\$1,785,294	\$215,423	\$135,409	\$170,082	\$310,401	\$2,616,609	\$261,071	\$2,877,680
Depreciation and amortisation	116,354	11,002	3,851	12,386	8,086	151,679	56	151,735
Capital expenditures	88,454	6,401	4,891	19,549	1,483	120,778	(682)	120,096

The business segment information for the year ended March 31, 2000 based on the same segmentation as that of the current year as this year's is as follows:

Millions of yen								
2000								
	Cement	Mineral resources	Cement-related products	Optoelectronic and advanced materials	Real estate and other	Total	Eliminations and adjustments	Consolidated
Net sales:								
Outside customers	¥187,908	¥11,878	¥16,822	¥15,433	¥ 9,032	¥241,073	¥ —	¥241,073
Intersegment sales	581	3,113	2,576	4	2,978	9,252	(9,252)	0
Total	188,489	14,991	19,398	15,437	12,010	250,325	(9,252)	241,073
Costs and expenses	179,030	13,877	19,749	14,440	11,102	238,198	(9,310)	228,888
Operating income (loss)	¥ 9,459	¥ 1,114	¥ (351)	¥ 997	¥ 908	¥ 12,127	¥ 58	¥ 12,185
Assets	¥233,888	¥28,358	¥17,016	¥20,360	¥38,819	¥338,441	¥42,362	¥380,803
Depreciation and amortisation	14,373	1,614	564	1,216	1,120	18,887	529	19,416
Capital expenditures	8,680	1,882	294	2,485	2,312	15,653	291	15,944

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 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended March 31, 2001, 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 March 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in 2001 in the method of computing depreciation from the straight-line method to the declining-balance method for cement production equipment at the Kouchi Plant as described in Note 3, and the method of business segmentation as described in Note 17 to the consolidated financial statements.

As described in Note 2 to the consolidated financial statements, Sumitomo Osaka Cement Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for financial instruments, retirement benefits and foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 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 28, 2001

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. and consolidated subsidiaries under Japanese accounting principles and practices.

NON-CONSOLIDATED BALANCE SHEETS

SUMITOMO OSAKA CEMENT CO., LTD.

March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 5,300	¥ 8,221	\$ 66,350
Trade receivables:			
Accounts receivable	21,462	23,397	188,835
Notes receivable	16,006	8,757	70,674
Marketable securities (Notes 4 and 8)	29,281	—	—
Inventories (Note 5)	10,460	12,304	99,310
Short-term loans to subsidiaries and affiliates (Note 7)	5,033	5,701	46,010
Deferred tax assets (Note 10)	33	1,046	8,442
Other	3,992	4,779	38,579
Less: Allowance for doubtful receivables	(200)	(78)	(630)
Total current assets	91,367	64,127	517,570
Fixed assets:			
Property, plant and equipment (Note 8):			
Land	44,330	44,982	363,050
Buildings and structures	120,119	120,903	975,809
Machinery, equipment and tools	294,001	290,813	2,347,157
Quarry sites	20,527	20,542	165,798
Construction in progress	3,521	3,998	32,272
Less: Accumulated depreciation	(292,660)	(298,208)	(2,406,846)
Property, plant and equipment, net	189,838	183,030	1,477,240
Investments and other assets:			
Investment securities (Note 4 and 8)	7,818	26,119	210,810
Investments in subsidiaries and affiliates (Note 6)	12,342	11,153	90,018
Long-term loans receivable	2,173	1,724	13,911
Long-term loans to subsidiaries and affiliates (Note 7)	5,326	4,160	33,577
Other	9,675	8,614	69,517
Less: Allowance for doubtful accounts	(4,481)	(6,077)	(49,046)
Total investments and other assets	32,853	45,693	368,787
Intangible fixed assets	3,627	3,552	28,675
Total	¥ 317,685	¥ 296,402	\$ 2,392,272

See accompanying notes to the non-consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	¥ 52,385	¥ 42,885	\$346,126
Commercial paper	10,000	11,000	88,781
Current portion of long-term debt (Note 8)	15,875	7,486	60,419
Trade payables:			
Accounts payable	16,135	16,840	135,915
Notes payable	964	1,023	8,260
Other	8,417	9,939	80,221
Allowance for loss on guarantees	179	179	1,445
Accrued income taxes (Note 10)	253	3,202	25,847
Accrued expenses	3,854	2,286	18,453
Other	260	200	1,601
Total current liabilities	108,322	95,040	767,068
Long-term liabilities:			
Long-term debt (Note 8)	87,141	79,707	643,319
Accrued severance benefits for employees	406	3,141	25,354
Accrued severance benefits for directors and statutory auditors	577	611	4,930
Deferred tax liabilities (Note 10)	3,600	1,919	15,484
Other	6,010	5,801	46,823
Total long-term liabilities	97,734	91,179	735,910
Total liabilities	206,056	186,219	1,502,978
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, 2000 and 2001 (Note 9)	41,654	41,654	336,191
Capital surplus (Note 9)	31,027	31,027	250,419
Legal reserve (Note 9)	7,430	7,758	62,612
Retained earnings	31,518	29,744	240,072
Total shareholders' equity	111,629	110,183	889,294
Total liabilities and shareholders' equity	¥317,685	¥296,402	\$2,392,272

NON-CONSOLIDATED STATEMENTS OF INCOME

SUMITOMO OSAKA CEMENT CO., LTD.

Years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Net sales	¥159,874	¥156,457	\$1,262,768
Cost of sales	101,810	97,653	788,161
Gross profit	58,064	58,804	474,607
Selling, general and administrative expenses	47,261	44,635	360,252
Operating income	10,803	14,169	114,355
Other income (expenses):			
Interest and dividend income	1,193	1,177	9,501
Interest expense	(3,477)	(3,348)	(27,023)
Gain (loss) on sales or disposal of property, plant and equipment, net	332	(966)	(7,799)
Loss on investments in subsidiaries and affiliates, net (Note 11)	(4,609)	(5,776)	(46,620)
Gain on sales of securities	6,031	8,524	68,796
Loss on closedown of a plant	(3,943)	—	—
Special severance payments	(1,405)	—	—
Amortisation of prior service cost	(1,477)	—	—
Amortisation of transitional obligation for retirement benefits	—	(5,595)	(45,158)
Write-down of investments in common stock	—	(2,603)	(21,008)
Other, net	(2,088)	(2,901)	(23,403)
	(9,443)	(11,488)	(92,714)
Income before income taxes	1,360	2,681	21,641
Income taxes (Note 10):			
Current	360	3,546	28,620
Deferred	(45)	(2,696)	(21,753)
	315	850	6,867
Net income	¥ 1,045	¥ 1,831	\$ 14,774

	Yen		U.S. dollars (Note 1)
	2000	2001	2001
Per share (Note 2(m)):			
Net income	¥2.44	¥4.28	\$0.035

See accompanying notes to the non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

SUMITOMO OSAKA CEMENT CO., LTD.

Years ended March 31, 2000 and 2001

	Thousands of shares of common stock	Millions of yen			
		Common stock	Capital surplus	Legal reserve	Retained earnings
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 9)	—	—	—	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
Net income for the year	—	—	—	—	1,831
Cash dividends paid	—	—	—	—	(3,207)
Transfer to legal reserve (Note 9)	—	—	—	328	(328)
Directors' and statutory auditors' bonuses	—	—	—	—	(70)
Balance at March 31, 2001	427,432	¥41,654	¥31,027	¥7,758	¥29,744

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Legal reserve	Retained earnings
Balance at March 31, 2000	\$336,191	\$250,419	\$59,966	\$254,381
Net income for the year	—	—	—	14,774
Cash dividends paid	—	—	—	(25,872)
Transfer to legal reserve (Note 9)	—	—	2,646	(2,646)
Directors' and statutory auditors' bonuses	—	—	—	(565)
Balance at March 31, 2001	\$336,191	\$250,419	\$62,612	\$240,072

See accompanying notes to the non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
SUMITOMO OSAKA CEMENT CO., LTD.
March 31, 2001

1. BASIS OF PREPARATION OF NON-CONSOLIDATED 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=¥123.90, the exchange rate prevailing on March 31, 2001. 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

Until the year ended March 31, 2000, marketable securities and investment securities were stated at cost determined by the moving-average method.

Effective April 1, 2000, the Company has adopted a new accounting standard for financial instruments, including marketable securities and investment securities.

This standard requires all securities to be classified and accounted for, depending on management's intent, as follows: i) "trading securities," which are held for the purpose of earning capital gains in the near term, are stated at market value, and the related unrealized gains and losses are included in earnings, ii) "held-to-maturity debt securities," which are expected to be held to maturity with the positive intent and ability

to hold to maturity are stated at amortized cost and iii) "available-for-sale securities," not classified in either of the aforementioned categories, are stated at market value with unrealized gain and loss, net of applicable taxes, stated as a separate component of shareholders' equity. Until the year ended March 31, 2001, "available-for-sale securities," can still be stated at cost.

In accordance with this new standard, effective April 1, 2000, the Company classified all marketable securities and investment securities as "available-for-sale securities," and stated them at cost determined by the moving-average method.

The effect of this adoption was to decrease current assets by ¥29,281 million (\$236,329 thousand) and increase fixed assets by ¥29,281 million (\$236,329 thousand) as of the beginning of the year.

(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. 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 in the near future.

(d) Inventories

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

(e) Allowance for doubtful receivables

Until the year ended March 31, 2000, the allowance for doubtful receivables was provided at an estimated amount of the anticipated loss on bad debts plus the maximum amount which could be charged to income under the Japanese income tax laws.

Effective April 1, 2000, the Company has adopted a new accounting standard for financial instruments, including the allowance for doubtful receivables. In accordance with this standard, the allowance for doubtful receivables is provided at an estimated amount of the anticipated loss on bad debts plus an amount calculated at the average rate of historical losses on doubtful receivables charged to income for the past three years.

The effect of this adoption was to increase net income by ¥74 million (\$597 thousand) for the year ended March 31, 2001.

(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 and the in-house power generation facility at the Ako Plant) at rates based on the estimated useful lives of the respective assets. 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 unit-of-production method. Depreciation of 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

Effective April 1, 2000, the Company has adopted a revised accounting standard for foreign currency transactions. In accordance with this revised standard, foreign currency amounts are translated into Japanese yen at the rates of exchange in effect at the balance sheet date for all assets and liabilities.

Historical rates are used for the translation of income and expenses. Gain or loss resulting from the translation of foreign currency transactions is 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 carrying amounts of the existing assets and liabilities for financial reporting purposes 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 effect when the differences are expected to reverse.

(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.

Effective April 1, 2000, the Company has adopted a new accounting standard for employees' retirement benefits and has accounted for accrued severance benefits based on the projected benefit obligation and the estimated pension plan at the end of the year. The transitional obligation of ¥5,595 million (U.S.\$45,158 thousand), determined as of the beginning of the year, has been amortised for the year.

The effect of this adoption was to decrease net income by ¥2,826 million (\$22,806 thousand) for the year ended March 31, 2001.

Directors and statutory auditors are generally entitled to receive lump-sum payments based on their level of compensation and years of service at the time of retirement. Such lump-sum retirement payments are covered by an unfunded retirement benefits plan.

(l) Appropriation of retained earnings

Under the Commercial Code and the Articles of Incorporation of the Company, appropriations of retained earnings (primarily for the payment of cash dividends) 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. ACCOUNTING CHANGE

Effective April 1, 2000, the Company has changed its method of computing depreciation from the straight-line method to the declining-balance method for cement production equipment at the Kochi Plant. The effect of this change was to increase depreciation by ¥314 million (U.S.\$2,534 thousand) and to decrease income before income taxes by approximately the same amount for the year ended March 31, 2001.

4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	2001	2000	2001
Marketable securities:				
Listed corporate stock	¥29,209	¥ —	\$ —	—
National government bonds	7	—	—	—
Other	65	—	—	—
	¥29,281	¥ —	\$ —	—
Investment securities:				
Listed corporate stock	¥ 4,103	¥23,802	\$192,109	
National government bonds	—	7	56	
Other	3,715	2,310	18,645	
	¥ 7,818	¥26,119	\$210,810	

5. INVENTORIES

Inventories at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	2001	2000	2001
Finished goods	¥ 3,599	¥ 4,330	\$34,944	
Semi-finished goods	1,400	1,365	11,020	
Raw materials	2,194	3,226	26,036	
Supplies	3,267	3,383	27,310	
	¥10,460	¥12,304	\$99,310	

6. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

Investments in subsidiaries and affiliates at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	2001	2000	2001
Subsidiaries	¥10,161	¥ 9,088	\$73,352	
Affiliates	2,181	2,065	16,666	
	¥12,342	¥11,153	\$90,018	

7. LOANS TO SUBSIDIARIES AND AFFILIATES

Loans to subsidiaries and affiliates at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	2001	2000	2001
Short-term loans:				
Subsidiaries	¥3,696	¥4,508	\$36,381	
Affiliates	1,337	1,193	9,629	
	¥5,033	¥5,701	\$46,010	
Long-term loans:				
Subsidiaries	¥3,996	¥2,830	\$22,842	
Affiliates	1,330	1,330	10,735	
	¥5,326	¥4,160	\$33,577	

8. 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, 2000 and 2001 ranged from 0.5 per cent. to 1.4 per cent. and from 0.2 per cent. to 1.1 per cent., respectively.

Long-term debt at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	2001	2000	2001
Loans with mortgages and collateral, principally from banks and insurance companies, due from 2000 to 2025	¥ 61,672	¥55,849	\$450,760	
Bonds	40,000	30,000	242,131	
Convertible bonds	1,344	1,344	10,847	
	¥103,016	¥87,193	\$703,738	
Less: current portion of long-term debt:				
Loans	¥ 5,875	¥ 7,486	\$ 60,419	
Bonds	10,000	—	—	
	15,875	7,486	60,419	
	¥ 87,141	¥79,707	\$643,319	

The annual interest rates applicable to the long-term loans outstanding at March 31, 2000 and 2001 ranged from 1.7 per cent. to 6.4 per cent. and from 1.6 per cent. to 6.4 per cent., respectively.

The aggregate annual maturities of long-term loans subsequent to March 31, 2001 are summarised as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 7,486	\$ 60,419
2003	6,556	52,916
2004	8,363	67,496
2005	6,107	49,288
2006 and thereafter	27,337	220,641
	¥55,849	\$450,760

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.\$4.97) per share.

Assets pledged as collateral for long-term debt at March 31, 2000 and 2001 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Property, plant and equipment, at net book value	¥69,804	¥63,600	\$513,802
Marketable securities	12,842	—	—
Investment securities	—	10,267	82,863
	¥82,646	¥73,927	\$596,665

9. 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 of such proceeds to both 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.

10. INCOMETAXES

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 42 per cent. for the years ended March 31, 2000 and 2001.

A reconciliation of the statutory tax rate to the effective tax rates for the year ended March 31, 2000 and 2001 was as follows:

	2000	2001
Statutory tax rate	42.0%	42.0%
Expenses which are permanently nondeductible for income tax purposes	(2.9)	(1.0)
Other	0.6	(9.3)
Effective tax rates	39.7%	31.7%

The significant components of the Company's deferred income tax assets and liabilities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Deferred tax assets:			
Estimated retirement benefits and other accrued expenses	¥ 625	¥1,919	\$15,485
Other	256	1,286	10,379
	881	3,205	25,864
Deferred tax liabilities:			
Retained earnings	4,448	4,078	32,906
	4,448	4,078	32,906
Deferred tax liabilities, net	¥3,567	¥ 873	\$ 7,042

11. LOSS ON INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

Loss on investments in subsidiaries and affiliates for the years ended March 31, 2000 and 2001 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Gain on sales of investments in common stock	¥ (11)	¥ (149)	\$ (1,199)
Write-down of investments in common stock	98	418	3,377
Provision for allowance for bad debts, doubtful investments and loss on bad debts	889	2,433	19,631
Loss on liquidation of subsidiaries	1,236	3,074	24,811
Loss on support of subsidiaries	2,397	—	—
	¥4,609	¥5,776	\$46,620

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Guarantees of loans to:			
Subsidiaries and affiliates	¥15,983	¥11,495	\$92,774
Others	1,478	543	4,384
	¥17,461	¥12,038	\$97,158

13. LEASED ASSETS

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

Assets held at March 31, 2000 and 2001 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
	2000	2001	2001
Buildings and structures	¥1,887	¥1,788	\$14,431
Machinery, equipment and tools	10	6	44
	¥1,897	¥1,794	\$14,475

Income from leased assets and the depreciation of leased assets for the years ended March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Income from leased assets	¥318	¥318	\$2,567
Depreciation of leased assets	105	104	836

14. SUBSEQUENT EVENT

The following appropriations of retained earnings were approved at a meeting of the shareholders of the Company held on June 28, 2001:

	Millions of yen		Thousands of U.S. dollars
	2000	2001	2001
Cash dividends	¥1,069		\$8,625
Transfer to legal reserve	114		920
Bonuses to directors and statutory auditors	70		565
	¥1,253		\$10,110

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 2001, and the related non-consolidated statements of income and shareholders' equity for each of the two years in the period ended March 31, 2001, 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 financial position of Sumitomo Osaka Cement Co., Ltd. at March 31, 2000 and 2001, and the results of its operations for each of the two years in the period ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in 2001 in the method of computing depreciation from the straight-line method to the declining-balance method for cement production equipment at the Kouchi Plant as described in Note 3 to the non-consolidated financial statements.

As described in Note 2 to the non-consolidated financial statements, Sumitomo Osaka Cement Co., Ltd. has adopted new accounting standards for financial statements, retirement benefits and foreign currency transactions in the preparation of its non-consolidated financial statements for the year ended March 31, 2001.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2001 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 28, 2001

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.
SO ENGINEERING Co., Ltd.
Oshioka Construction Industry Co., Ltd.
Mutsu Industry Co., Ltd.
Chuken Consultant Co., Ltd.
ESTEC Co., Ltd.
O.C. Kenzai Industrial Co., Ltd.
Shin Nippon Concrete Co., Ltd.
Hanezuru Dolomite Industry 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 28, 2001)

CHAIRMAN

Shoichi Tatemoto*

PRESIDENT

Yasuyuki Odagiri*

SENIOR MANAGING DIRECTOR

Kikuo Koshida

MANAGING DIRECTORS

Tatsutoku Honda
Norimitsu Kurumada
Tomikazu Sekiwa
Takashige Moda

DIRECTORS

Yoshikiyo Serizawa
Hideaki Igarashi
Yutaro Saito
Takao Noumi
Takaaki Todokoro

Naoshi Shigematsu
Kenji Takeda
Kenichi Kubodera

STATUTORY AUDITORS

Rinzo Hayashi
Yukuo Katsuki

AUDITORS

Toshiro Miyajima
Yuichiro Miyake

*Representative Directors

Corporate Data

(As of March 31, 2001)

HEAD OFFICE

6-28, Rokubancho, Chiyoda-ku,
Tokyo 102-8465, Japan
Tel: 03-5211-4500
Facsimile: 03-3221-4652

ESTABLISHED

November 29, 1907

NUMBER OF EMPLOYEES

1,532

NETWORK

Domestic

Offices: Sapporo, Tohoku, 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

65,179

STOCK LISTINGS

Tokyo, Osaka, Nagoya, 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.

SUMITOMO OSAKA CEMENT CO., LTD.
6-28, Rokubancho, Chiyoda-ku, Tokyo 102-8465, Japan
Telephone: (03) 5211-4500 Facsimile: (03) 3221-4652
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