



SUMITOMO OSAKA CEMENT

# Annual Report 2017

For the year ended March 31, 2017

# The Sumitomo Osaka Cement Group

## [PHILOSOPHY]

We aim to be a business group that helps preserve the global environment and contributes to the sustainment and ongoing development of a prosperous society through tireless technological innovation and wide-ranging business activities.

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## Highlights for the Year Ended March 31, 2017 (Consolidated)

Sales

¥**234.1** billion

(-0.1% YoY)

Operating Income

¥**21.5** billion

(-8.8% YoY)

Profit Attributable to Owners of Parent

¥**16.2** billion

(+0.6% YoY)

Return on Equity (ROE)

**8.8%**

Total Assets

¥**336.8** billion

Equity Ratio

**57.7%**

Free Cash Flow

¥**11.5** billion

Employees

**2,973**

## To Our Stakeholders

### Performance in the year ended March 31, 2017

Sumitomo Osaka Cement's net sales totaled ¥234,062 million, which was largely unchanged from the previous year due to a decline in revenue from the Mineral Resources, Cement-Related Products and Other businesses, which offset the increase in revenue generated by the Cement business.

As for profit, ordinary income fell ¥1,933 million compared to the previous fiscal year to ¥22,627 million due to weaker profitability of the Cement and other businesses. However, profit attributable to owners of parent increased ¥99 million compared to the previous fiscal year to ¥16,210 million because we recorded gains on sales of noncurrent assets, among other factors.

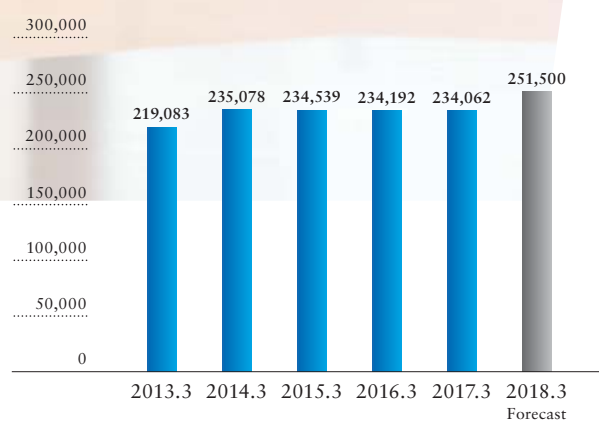
see → the Financial Review on page 20 and  
the Business Overview on page 10.

### Outlook for the year ending March 31, 2018

The full-year earnings forecast indicates net sales of ¥251,500 million (up 7.4% year on year), ordinary income of ¥23,000 million (up 1.6% year on year), and profit attributable to owners of parent of ¥15,500 million (down 4.4% year on year).

### Sales

(Millions of yen)



## Our Businesses and Growth Strategy

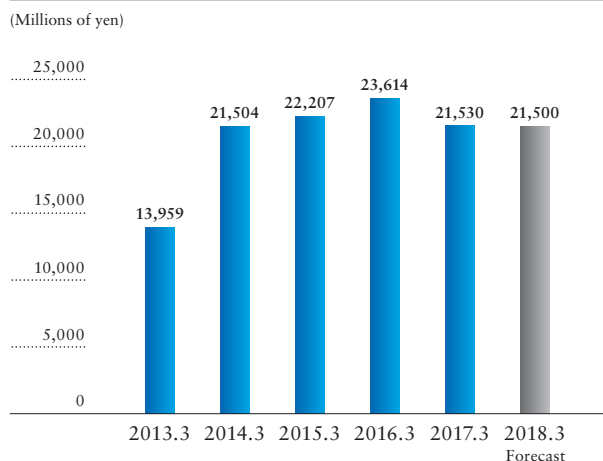
For over 100 years since our founding in 1907, Sumitomo Osaka Cement has played an important role in public works projects and social infrastructure development through the consistent provision of cement products. Today, we have grown into a major corporate group comprising 45 subsidiaries and 12 affiliates, with a diverse business portfolio that includes mineral resources, cement-related products, photoelectric, including optoelectronics and nanoparticle materials, and battery materials.

The domestic cement market, one of the core markets of the Group, has steadily declined since peaking in the year ended March 31, 1991, and the value of this market in the year ended March 31, 2017 is now just 48% of the peak. Although growth in domestic demand for cement over the long-term is unlikely given Japan's declining population, demand is expected to materialize over the interim due to aging infrastructure, Japan's national resilience initiatives to prepare for future disasters as well as the 2020 Tokyo Olympic and Paralympic Games and the construction of the Chuo Shinkansen linear train line.

Given this business climate, we established a new three-year medium-term management plan spanning from fiscal 2017 to fiscal 2019<sup>(Note)</sup> that also focuses on where society and the company will be in ten years' time. Therefore, I would like to take this opportunity to convey to all of our shareholders and stakeholders more details about the Group's direction and strategy.

(Note) Fiscal 2017 refers to the accounting year ending March 31, 2018. Fiscal 2019 refers to the accounting year ending March 31, 2020.

### Operating Income



### Review of the previous Medium-term Management Plan

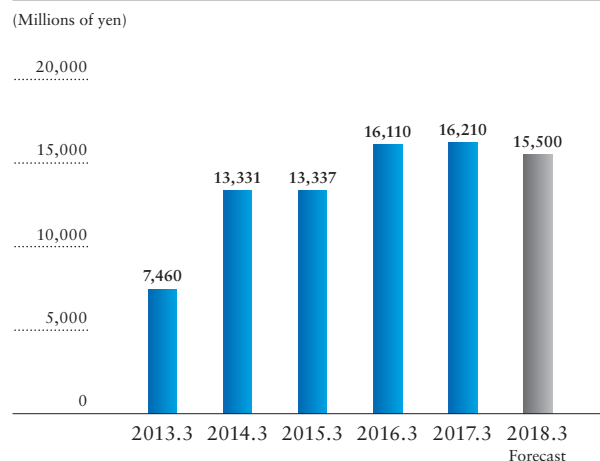
First, I would like to look back on the previous medium-term management plan that ended as of March 31, 2017. We recorded profit attributable to owners of parent of ¥16.2 billion, which was 11% higher than the plan of ¥14.6 billion, but we fell short of our targets for net sales (¥234.1 billion versus ¥250 billion), operating income (¥21.5 billion versus ¥26 billion) and ordinary income (¥22.6 billion versus ¥26 billion).

The Cement business fell short of its profit targets because of declining domestic demand. Furthermore, the assumed growth in the repair market did not materialize as quickly as believed, while overseas expansion targeting Southeast Asia had to be put on hold. However, although the Advanced Materials business fell short of its targets, we were able to build a system where growth in mainstay products helped to generate stable profits in both Optoelectronics and Advanced Materials.

	2017.3 results	2017.3 plan	Change
Domestic demand	41.780 million t	48 million t	-6.22 million t
Coal prices	\$80/t	\$100\$/t	\$20/t
Sales	¥234.1 billion	¥250 billion	93.6%
Operating income	¥21.5 billion	¥26 billion	82.7%
Ordinary income	¥22.6 billion	¥26 billion	86.9%
Profit	¥16.2 billion	¥14.6 billion	111.0%
Capital expenditures (3-year total)	¥57.6 billion	¥53 billion	+¥4.6 billion
Benchmark free cash flow (3-year total)	¥42.6 billion	¥15.4 billion	+¥27.2 billion
ROA*	6.8%	8.1%	-1.3Point

\* Ordinary income/Total assets

### Net Income Attributable to Owners of the Parent



# Fiscal 2017 – 2019 Medium-term Management Plan

## Business climate

Domestic cement demand is expected to reach a peak of 44,000 thousand metric tons during the years ending March 31, 2019 and 2020, driven by the full-scale start of construction work, set to begin in the year ending March 31, 2018, related to the 2020 Tokyo Olympic and Paralympic Games. During the year ending March 31, 2021 and beyond, demand should remain stable based on the Government of Japan's national resilience plan that calls for afforestation and water conservation, and as a result, we expect demand to gradually decline instead of fall off sharply. As for other Cement-related businesses, we have completed major investments in the Mineral Resources business and have now shifted to profiting from these investments, and in the Cement-Related Products business, we anticipate steady growth in future demand for maintenance and repair work for social infrastructure, and as a result we have added capacity at our repair products plant in 2015 to prepare for this market growth.

The markets for the mainstay products of the Optoelectronics and Advanced materials businesses, both found within the High-Performance Product business, are niche markets that are expected to see continuing growth in the future, while our market share is high for both as well. Meanwhile, the Optoelectronics business is expected to continue seeing sharp

growth in transmission equipment given rising transmission volumes. As a leader in LiNbO<sub>3</sub> external optical modulators, we are building a stable earnings base while building solid relationships with customers by meeting their needs.

In the Advanced Material business, the semiconductor market will continue to grow due to advancements in high-speed processing and increased storage capacity. As a result, demand for semiconductor manufacturing equipment is expected to increase, and consequently the market for our mainstay product of electrostatic chucks (ESC) should grow as well. We are striving to identify customer needs, produce and ship products that meet these needs in a timely manner, and expand the business.

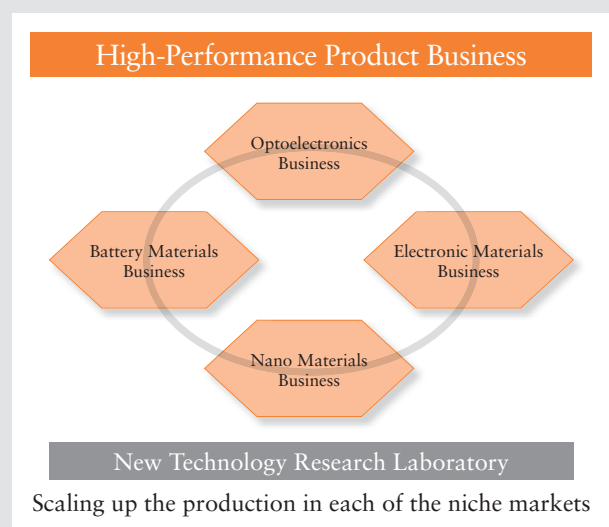
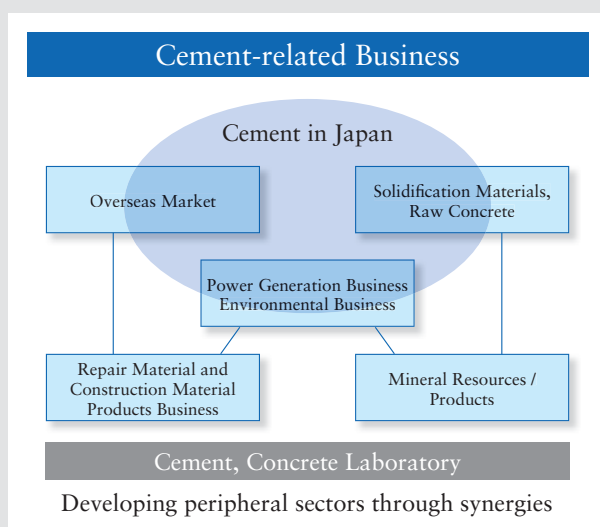
The Battery Materials business, which turned a profit in the year ended March 31, 2017, is expected to see future growth in the global market, but many companies are entering this business, meaning intense competition will likely continue. Harnessing the excellent safety and durability of the lithium iron phosphate batteries we have developed, we are working to enter new applications while also further expanding their use in stationary and vehicle-mounted applications.

## Approach for the future

Given this business climate facing our businesses, we have

### ■ Approach for the future

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



defined an approach to take for the next ten years within our medium-term management plan covering fiscal 2017 to fiscal 2019. Under this approach, we are aiming to become a corporate group on a steady growth trajectory, by expanding our presence in the markets of both the Cement-Related business and High-Performance Product business.

The Cement-related business, which mainly targets construction markets, and High-Performance Product Business, which mainly targets ICT infrastructure and semiconductor markets, lack mutual correlation that is affected by the external environment, and therefore, we hope to build a business portfolio that can continually grow in a stable manner across the entire Group by working to grow each of these business segments individually.

Under our philosophy, we aim to be a business group that helps preserve the global environment and contributes to the sustainment and ongoing development of a prosperous society through tireless technological innovation and wide-ranging business activities. Over the years, we have worked collectively as a Group in order to develop our businesses in a sustainable manner. By clarifying our approach for the future within our new medium-term management plan, we want to share our future vision for sustainable growth and hope to work side by side with stakeholders to achieve this growth across the entire Group.

### Basic policy of the Medium-term Management Plan

Based on this approach for the future, our basic policy is to implement our growth strategy steadfastly, positioning this medium-term management plan as the best opportunity for growth. Considering the need to grow both business segments, there is a need to take action before domestic cement demand declines, and now represents the best chance, since the High-Performance Product business is now able to turn a consistent profit.

Undoubtedly, it will be difficult to achieve growth with the Cement-related business only, but we plan to open up markets by fully harnessing the synergistic effects of our experience with markets, customers, facilities and know-how. As for overseas cement markets, we consider these to form a single market and we will utilize our synergies to open up this market.

The High-Performance Product business is enjoying growth in the markets for its mainstay products. As the markets grows, we plan to add production capacity to achieve even greater growth as well as open up new businesses in peripheral domains.

#### ■ Approach in each business field

**Cement-related Business**

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

**High-Performance Product Business**

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

### Full support of growth strategies

**Administration Department**

Market strategy / Intellectual Property strategy /  
Enhanced investment management / IoT utilization, IR deployment

## Business Strategy

### Overseas strategy for the Cement business

The first step is to achieve a stable increase in exports. We aggressively invest in export facilities and secure markets with continuous long-term demand in order to grow the overseas cement business, which is expected to see growth compared to the domestic cement business, which is expected to gradually decline in the future. These efforts will result in a stable operating ratio for kilns and the steady acceptance of industrial waste.

The second step will involve working to expand markets from two perspectives. First, we will expand in geographic terms by penetrating peripheral regions located close to current export markets. Second, we will market related products in regions where we export cement while also promoting our environmental-related business.

Through these measures, ultimately, we will aim to establish our presence in the cement business of Southeast Asia.

### Peripheral businesses in the Cement-related business segment

Although there is little growth potential in the Cement-related business on a stand-alone basis, we do expect to be able to grow the market by realizing synergies with other businesses and through cooperation.

The environmental business will play an important role in building a recycling-based society, and for this reason we plan to expand it aggressively going forward. Toward that end, we will promote recycling at our current cement plants, while also looking to roll out our industrial waste processing technologies outside of Japan, mainly in Asia, and our industrial waste treatment service without the use of kilns that will make it

possible to grow our environmental business even if cement production volume declines. In other businesses, we will open up untapped markets through tie-ups within the Group or with customers to take advantage of their people, facilities and know-how.

As for the soil business, we will increase sales and marketing strengths and efficiencies of the Group to improve customer satisfaction by managing information in a unified manner. In the Cement-Related products business, we will work with affiliated companies to establish an integrated ordering process for repair work spanning from inquiry and design to materials and construction in an effort to expand the business domain.

### Reinforce the business foundation of the Cement-related business segment

To implement the medium-term management plan and achieve growth, we plan on rolling out the following measures based on the understanding that enhancing the base of our Cement-related business will result in a source of profit and cash flow.

First, we will further streamline logistics. We have already streamlined logistics in various forms, but there is still room for further improvement. We will take this opportunity to review our logistics system in an effort to reduce costs related to service stations and ships. Next, we will make capital expenditures that help to create a lower cost structure. This will involve capital investments needed for the business to survive even when domestic cement demand declines in the future.

See [page 8](#) for details

### Targets based on the Medium-term Management Plan

Net sales **¥270 billion**

Ordinary income **¥30 billion**

		(Billions of yen)	
		Plan for fiscal 2019	Compared to fiscal 2016
Net sales	Cement-related Business	229.9	109%
	High-Performance Product Business	32.3	189%
	Others	6.2	122%
	Total	268.4	115%
Operating income	Cement-related Business	21.2	116%
	High-Performance Product Business	5.6	263%
	Others	1.5	129%
	Total	28.3	132%
Ordinary income		30.0	133%
Net income		20.0	123%

## Strategy for the High-Performance Product business

As for the High-Performance Product business, we plan to scale up production of our mainstay products. LiNbO<sub>3</sub> external optical modulators in the Optoelectronics business, electronic materials (electrostatic chucks) for semiconductor manufacturing equipment in the Advanced Material business, and lithium iron phosphate batteries in the Battery Materials business each occupy a niche market, but our technological development has managed to turn these into growth areas. These markets are expected to see additional growth, so by investing in ways to scale up production based on market growth, we will aim to obtain the top share in each of these markets. When making these investments, we will work closely with major end users in technological development to ensure investments are successful.

See  page 9 for details

## Development of new businesses and new products

The Group's High-Performance Product business has grown thus far by earning the trust of users through technological development in which resources were concentrated on target markets. Looking forward, to ensure management stability and unlock further growth, we will step up research and development, including the use of outside resources, in an effort to continually grow the entire business segment. In doing so, we will avoid segments with little correlation to existing products and segments where the market is large, but with intense competition. The plan calls for expansion into peripheral domains located close to existing products. Although plain in nature, this approach will help us to ensure the continuous growth of the entire business.

See  page 9 for details

## Aggressive investment underpinning our growth strategy

We have committed to investing ¥73 billion over the three-year period of the medium-term management plan. This marks a ¥20 billion increase (or 38%) over the total of ¥53 billion spent during the previous medium-term management plan. I would like to explain the key points of these investments below.

First is investments focused on our growth strategy. As an example from the Cement-related business, we will invest ¥6 billion to improve export facilities at the Kochi Plant and ¥1.8 billion to increase silo capacity (applying for multi-purpose) at the Onahama Service Station. All told, we will spend ¥13 billion on investments, which is an increase of ¥11 billion compared to the previous medium-term management plan. For the High-Performance Product business, we will invest ¥6 billion in facilities for increasing production of LiNbO<sub>3</sub> external

optical modulators and electrostatic chucks (ESC), which is an increase of ¥3.5 billion versus the previous medium-term management plan.

Second, we will significantly increase investments for the High-Performance Product business. We spent ¥7 billion during the previous medium-term management plan, which will now be increased to ¥11 billion. We have actually already begun these investments ahead of schedule in fiscal 2016, so total spending is expected to equate to ¥15 billion over the four-year period from fiscal 2016 to fiscal 2019.

Third, and finally, we will enhance maintenance and upgrades to reinforce our business base. This will include a long-term renewal plan for plants, mines, service stations, and ready-mixed concrete as well as a systematic plan to replace tankers.

## Returning profits to shareholders

We recognize that dividends represent the basis of shareholder returns, and with this in mind, we decided to increase the dividend payout ratio from around 25% previously to around 30% this fiscal year. We plan to allocate ¥75.5 billion of the ¥107.2 billion operating cash flow generated during the three-year period of our medium-term management plan to investments. Accordingly, free cash flow will total ¥31.7 billion, and if we maintain a dividend payout ratio of around 30%, the remaining cash flow will be ¥16.9 billion. These funds will be utilized for additional investments in growth, share buybacks, and M&A. We will closely monitor various aspects of our external environment to ensure that we make the right decisions at the right time with regard to these funds.

## Numerical targets

Based on the above measures, our goal is to achieve net sales of ¥270 billion and ordinary income of ¥30 billion in the fiscal year ending March 31, 2020, which is the final year of our medium-term management plan covering fiscal 2017 to fiscal 2019. In terms of management indicators, we are targeting an increase in ROA of 2.2% compared to the fiscal year ended March 31, 2017, to 9% and increase in ROE of 1.2%, to 10%.

This concludes my summary of the new medium-term management plan, under which the entire Sumitomo Osaka Cement Group will collectively work to achieve the above goals starting from this fiscal year. I ask for the understanding of our stakeholders with regard to the path the Sumitomo Osaka Cement Group will follow to achieve its future vision.

July 2017



Fukuichi Sekine, President

## Special Feature: Highlights under the Medium-Term Management Plan

### Equipment investment

We will aggressively invest in the Cement-related business and High-Performance Product business as part of our growth strategy based on the basic policy of the medium-term management plan.

#### ■ Capital expenditures plan as per the medium-term management plan (3-year total)

(Billions of yen)

	Cement-related business	High-Performance Product business	Total
Growth strategy	13.0	6.0	19.0
Cost reduction, enhanced framework	12.0	3.0	15.0
Maintenance / upgrades, other	37.0	2.0	39.0
Total	62.0	11.0	73.0
Depreciation (3-year total)			56.9

#### Cement-related business

The overseas cement strategy occupies part of our overall growth strategy. It will involve significantly scaling up export facilities at our major silo located at the Kochi Plant in order to steadily increase exports in a consistent manner. We will aim to open up markets by positioning overseas markets as a single Cement-related market.

We will also make aggressive investments and expand logistics streamlining to further solidify the business base of the Cement-related business, which will be a source of profits and cash flow in the future as well.

##### Expansion of logistics rationalization

Reduce logistics costs drastically by reviewing current logistics system

##### Aggressive Investments

##### Cost reduction investments

Install high-efficiency AQC at all plants (Gifu, Ako)  
 Improve recycling-related facilities (each plant)  
 Coal transportation using our own ship scheduled to start service in March 2018

##### Infrastructure development investments

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

##### Maintenance upgrade

Conduct major repairs in planned manner

#### Topic 1 Cost reduction investments

##### Install high-efficiency AQC at all plants

We have already introduced high-efficiency air-quenching coolers (AQC) at five of our eight kilns, including Hachinohe Cement, that help to conserve energy by significantly boosting heat recovery efficiency. Under the new medium-term management plan, we will install AQCs at the two kilns of the Gifu Plant and the one kiln of the Ako Plant in an effort to achieve more energy-efficient operations.

##### Improve recycling-related facilities

We will invest in the expansion of desalination equipment used in our recycling-related facilities. We will expand the volume of high-chlorine industrial waste we receive by improving recycling-related facilities so that we can increase the recycling volume.

##### Coal transportation using our own ship

The Group owns a bulk coal carrier vessel, and SOC Logistics Co., Ltd., an affiliated company that provides marine transportation, engages in the transport of coal in certain instances. We will work to lower transportation costs by shifting coal transport from outside marine transportation companies to companies within the Group.

## Topic 2 Infrastructure development investments

### Increase slag mill for manufacturing solidification materials

We will introduce a vertical roller slag mill at our mainstay Kochi Plant in order to revamp the manufacturing process for soil improvement materials (solidification materials) and increase production volume. We will fully work toward capturing demand for soil improvement materials in Japan's three major urban areas, including Kanto, where strong demand is expected in the run up to the 2020 Tokyo Olympic and Paralympic Games, given the rising need for soil liquefaction prevention and soil improvement work in recent years.

## High-Performance Product business

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

	Products	Address with increased production	Market forecast
Optoelectronics Business	Optical communications components for new transmission methods	<ul style="list-style-type: none"> <li>● Enhance production capacity of high value-added products in phases to suit demand</li> <li>● Planned capacity in final year of medium-term management plan to be more than double the current level</li> </ul>	<ul style="list-style-type: none"> <li>● Modulator market set to grow due to increased transmission capacity in China and around the world</li> <li>25% average growth rate expected</li> </ul>
Electronic Materials Business	Electronic materials for semiconductor manufacturing equipment	<ul style="list-style-type: none"> <li>● Production capacity being increased to suit the increasing demand for semiconductor manufacturing equipment (operational from Nov. 2017)</li> <li>30% increase in capacity</li> </ul>	<ul style="list-style-type: none"> <li>● The growing semiconductor market means a larger market for equipment to meet faster production speeds and increased storage capacity</li> <li>7% average growth rate expected</li> </ul>
Battery Materials Business	Rechargeable battery cathode materials	<ul style="list-style-type: none"> <li>● Capacity increased at SOC Vietnam (operating from April 2017)</li> <li>1,000t⇒2,000t/year</li> <li>Further increase in production possible to suit demand</li> </ul>	<ul style="list-style-type: none"> <li>● The growing LiB market means an increased market size globally for both stationary and vehicle-mounted LFP</li> <li>10% average growth rate expected</li> </ul>

### New business and new product development

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

### Comparison of R&D expenses

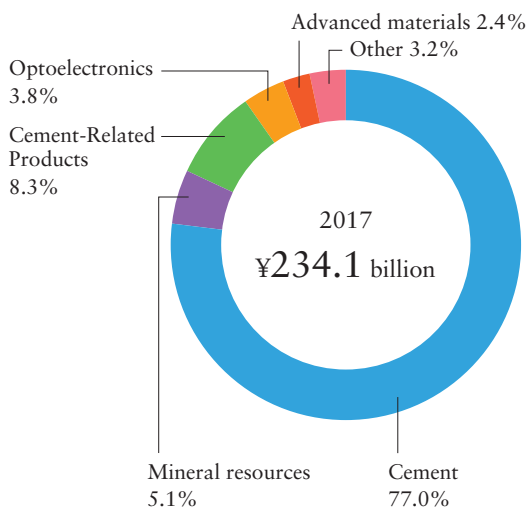
(Billions of yen)

	Fiscal 2014-16 medium-term plan	Fiscal 2017-19 medium-term plan
Cement-related	4.1 →	3.8
High-Performance Product	5.4 ↗	6.7
Total	9.5 ↗	10.5

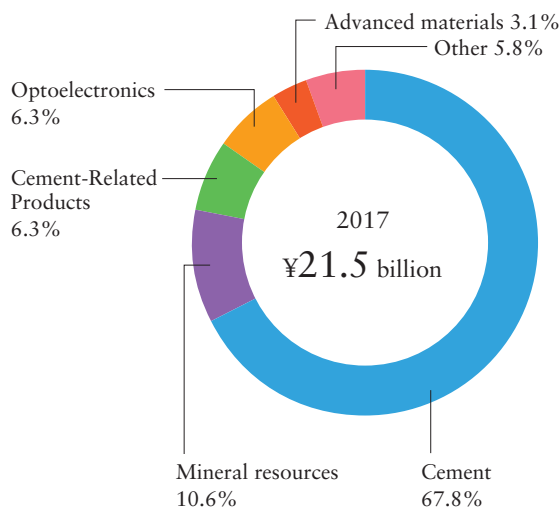
Optoelectronics Business	Use of LN modulators to expand into markets located at a medium-range
Advanced Materials Business	Development of a full lineup of cosmetics materials and establish titanium dioxide business
Battery Materials Business	Highly developing the specifications of LFP cathode materials and advancing them to high-voltage models

# Business Overview (years ended March 31)

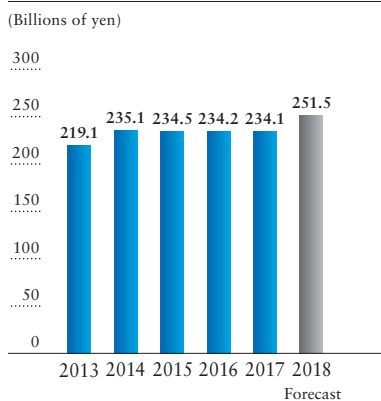
**Breakdown of net sales**



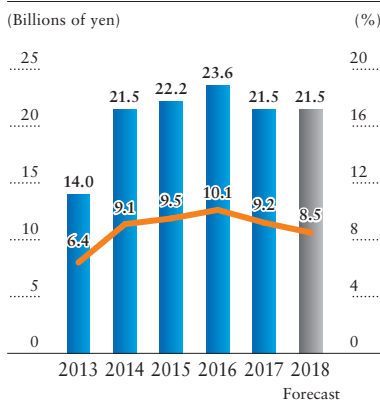
**Breakdown of operating income**



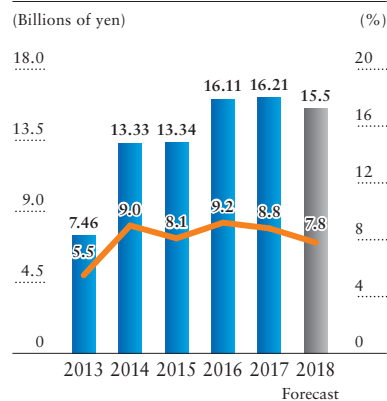
**Net sales**



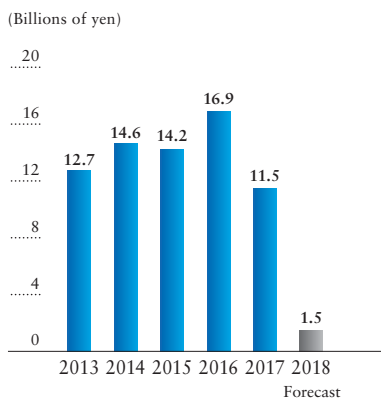
**Operating income and operating margin**



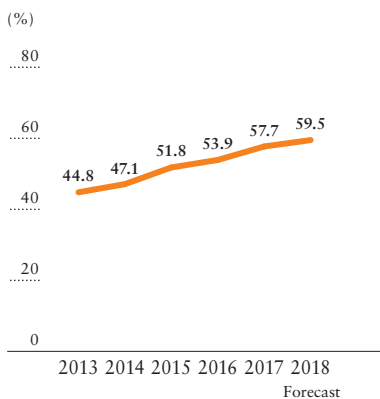
**Net income attributable to owners of the parent and ROE**



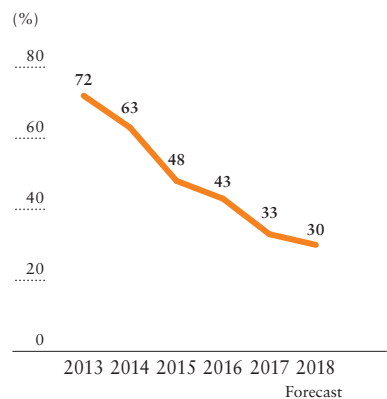
**Free cash flow**



**Equity ratio**



**D/E ratio**



## Cement



### Main products

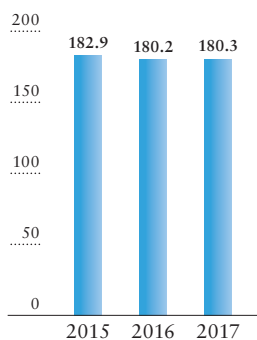
- Assorted cements
- Cement-related solidification materials
- Supply of electrical power
- Recycling of raw materials and fuel
- Ready-mixed concrete

### Financial Results

The total sales volume of cement exceeded the previous year, and as a result, net sales increased ¥171 million, or 0.1% year on year, to ¥180,326 million. However, segment profits fell ¥1,910 million, or 11.6% year on year, to ¥14,606 million due to the soaring cost of coal as well as higher transportation costs, among other factors.

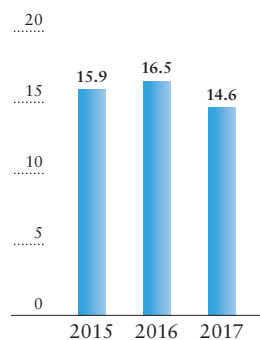
#### Net sales

(Billions of yen)



#### Segment profits

(Billions of yen)



## Mineral Resources



### Main products

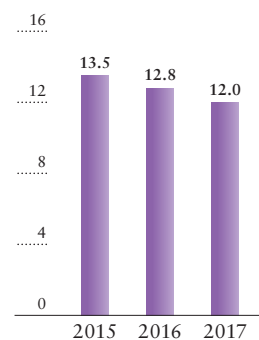
- Limestone
- Dolomite
- Calcium carbonate
- Aggregate
- Silica powder

### Financial Results

Net sales dropped ¥779 million, or 6.1% year on year, to ¥12,019 million due to sales volume of limestone and aggregate falling below the level from the previous year. However, segment profits increased ¥39 million, or 1.7% year on year, to ¥2,290 million thanks to lower extraction costs, and other factors.

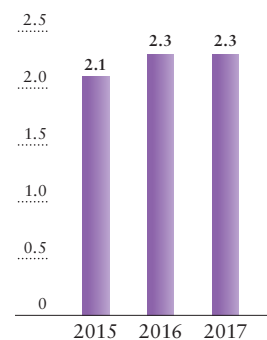
#### Net sales

(Billions of yen)



#### Segment profits

(Billions of yen)



## Cement-Related Products



### Main products

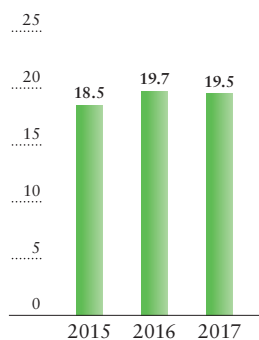
- Repairing and reinforcing products for concrete structures
- Materials for coping with heavy metal pollution
- Cathodic protection for concrete structures (ELGARD SYSTEM)
- Artificial marine reefs

### Financial Results

Net sales declined ¥230 million, or 1.2% year on year, to ¥19,475 million due a drop off in soil improvement work, and segment profits fell ¥287 million, or 17.5% year on year, to ¥1,360 million.

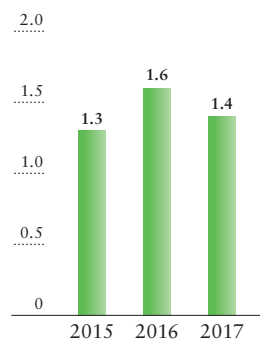
#### Net sales

(Billions of yen)



#### Segment profits

(Billions of yen)



## Optoelectronics



### Main products

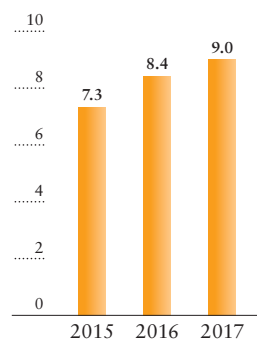
- Optical communications components and optical measurement equipment

### Financial Results

Net sales rose ¥617 million, or 7.4% year on year, to ¥8,981 million thanks to higher sales volume of optical communications components for new transmission methods. Segment profits jumped ¥274 million, or 25.1% year on year, to ¥1,364 million.

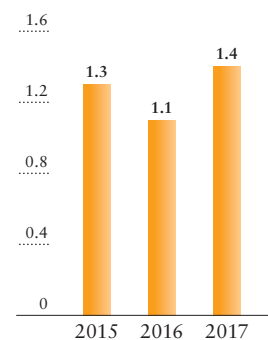
#### Net sales

(Billions of yen)



#### Segment profits

(Billions of yen)



## Advanced Materials



### Main products

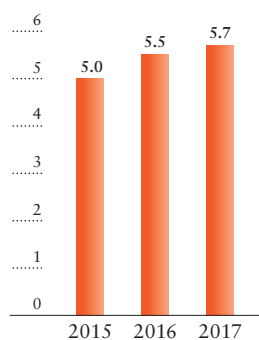
- Ceramic components for semiconductor manufacturing equipment
- Functional films
- Nanoparticle materials

### Financial Results

Net sales rose ¥164 million, or 3.0% year on year, to ¥5,709 million thanks to higher sales volume of ceramic components for semiconductor manufacturing equipment. However, segment profits dropped ¥668 million, or 50.1% year on year, to ¥664 million owing to an increase in depreciation as well as a drop in sales volume of cosmetic ingredients and heat shielding films.

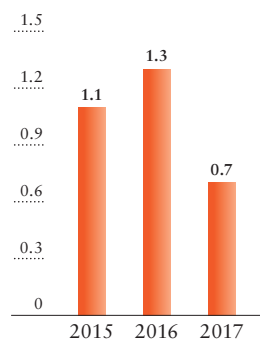
#### Net sales

(Billions of yen)

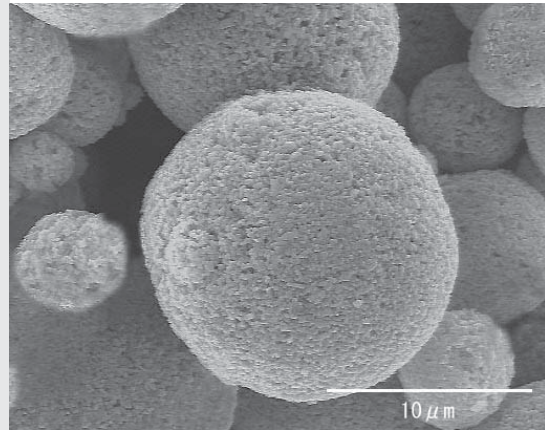


#### Segment profits

(Billions of yen)



## Other



### Main products and services

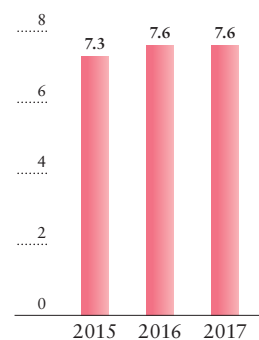
- Secondary battery cathode materials
- Leasing of real estate
- Engineering
- Software development

### Financial Results

Net sales declined ¥73 million, or 1.0% year on year, to ¥7,551 million due to a drop in construction of electrical facilities, and other factors. However, segment profits jumped ¥481 million, or 62.9% year on year, to ¥1,246 million driven by higher sales volume of rechargeable battery cathode materials and cost reductions, among other factors.

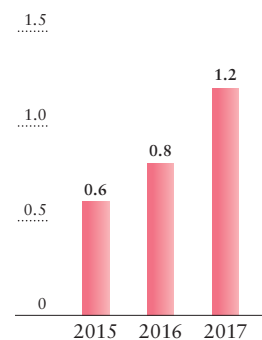
#### Net sales

(Billions of yen)



#### Segment profits

(Billions of yen)



## R&D and IP

Under the basic philosophy of continually developing original technologies, the Sumitomo Osaka Cement Group engages in a wide range of proactive R&D activities. These range from new technology and new product development in our core cement and concrete business to the peripheral cement-related products, to R&D in the new Optoelectric and Advanced Materials business segments based on our core technologies.

### I Cement/Concrete Laboratory

The Cement/Concrete Laboratory develops new technologies and products in a broad range of fields, including high-performance concrete, concrete paving technology, as well as ultra-rapid hardening materials and methods.

#### Basic Policy for the 2017 Plan

“Increase the earnings of the Cement-related business and enter into untapped areas by using new technologies and new products developed based closely on user needs.”

- 1) Commercialize core technologies for cement and concrete
- 2) Create a series of ultra-rapid hardening repairing and reinforcing products
- 3) Develop technologies for mitigating environmental impact

#### New Product and New Technology Development

##### (1) Concrete that increases productivity

In the development of high-performance concrete, we are working on developing technologies that address the needs of the construction industry. Concrete that increases productivity greatly reduces casting time by adding mineral components or specialty additives to Portland cement, which reduces construction costs and also offers the two merits of enabling quick completion of casting and strong crack resistance.

##### (2) Ultra-rapid hardening materials

We are also proactively working on the development of technologies for repair and reinforcement of concrete structures.

We offer a lineup of ultra-rapid hardening cement, including jet cement and mild jet cement, which deliver high strength in a short period of time. By combining this ultra-rapid hardening cement with fiber reinforcement technologies and polymer cement technologies, we developed Refre Morset SF, an ultra-rapid cross-section restoration material for repairing concrete floors. This product can be used for a range of applications, from small-scale work to large-scale projects using a mobile plant truck, resulting in the commercialization of repairing materials and methods for a wide array of applications.

These repairing materials and methods are being used to repair and reinforce social infrastructure at an early stage.

### I New Technology Research Laboratory

The New Technology Research Laboratory works to usher in innovations in the energy, environment, information communication and electronics domains. It focuses on the development of optoelectronics devices and equipment with an eye on optical ICT as well as the development of semiconductor manufacturing equipment components, energy

storage and generation equipment components, and various functional materials with an eye on nanoparticle material technology. The work that takes place at the New Technology Research Laboratory underpins the Optoelectronics, Advanced Materials and Battery Materials businesses.

#### R&D Policy for the Fiscal 2017 Business Plan

“Maintain and reinforce existing businesses while expanding into peripheral businesses by strengthening cutting-edge technical prowess in core technologies and key strategic technology domains.”

- 1) Enhance manufacturing capabilities by reinforcing process engineering
- 2) Reinforce core technologies aimed at expanding peripheral business domains
- 3) Accelerate R&D using outside resources

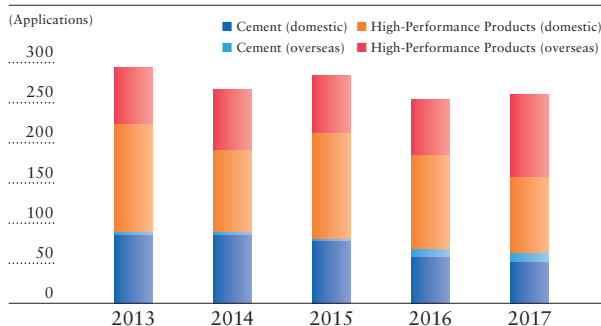
### I Intellectual Properties

Intellectual properties underpin both the Cement-related business and High-Performance Product business from the standpoint of IP management.

#### Basic Policy on IP for the Medium-Term Management Plan

Following the basic policy of reinforcing competencies key to our growth strategy in terms of IP under coordinated business and development strategies, we will aim to build a competitive patent portfolio to protect our businesses from various angles, including our core technologies and applied technologies.

Changes in total number of patent applications (years ended March 31)



We are working to increase patent applications and establishment of patent rights in the United States, China, and Korea, among other countries, following the globalization of our operations, especially in the High-Performance Product business segment. We filed a total of 114 patent applications outside of Japan in the year ended March 31, 2017.

## CSR Initiatives

Sumitomo Osaka Cement is working on a wide range of initiatives aimed at environmental conservation, recognizing that it is a member of society. These initiatives include preventing environmental problems, promoting greater energy efficiency, and active recycling of various industrial waste with the goal to achieve zero net emissions.

### Acceptance of waste from disaster-affected areas at our cement plants

The Sumitomo Osaka Cement Group accepts waste from disaster-affected areas at its cement plants in an effort to assist with the recovery and reconstruction of these communities. Until 2014, we accepted waste and debris from the Great East Japan Earthquake for recycling at our Tochigi Plant and Group company Hachinohe Cement Co., Ltd. originating from a wide area inside and outside Aomori Prefecture. In 2015, at our Tochigi Plant, we accepted waste (rice and tatami mats) from Joso City resulting from the collapse of the dike along the Kinugawa River caused by torrential rains that hit the Kanto and Tohoku regions. In 2016, at Hachinohe Cement Co., Ltd., we accepted wood waste from Kuji City, Iwate Prefecture resulting from Typhoon Mindulle that caused extensive damage mainly in the Tohoku region.



Hachinohe Cement Co., Ltd.

### Supporting the reconstruction effort by accepting debris and waste from the earthquake that struck Kumamoto

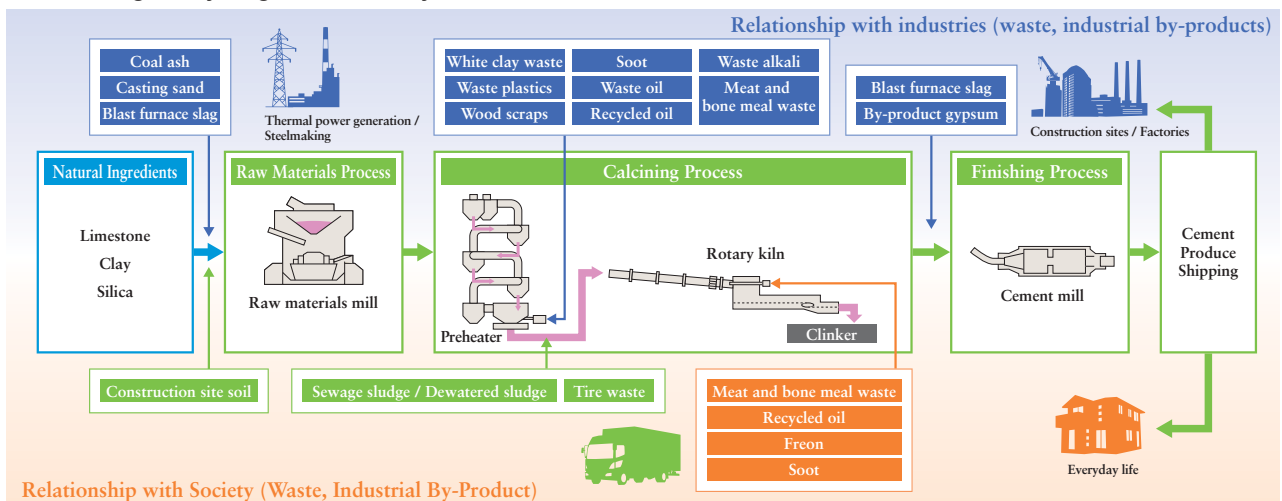
We accepted wood waste from houses that collapsed during the April 2016 earthquake that struck Kumamoto at our Kochi Plant in an effort to support the reconstruction effort. This waste was transported from the disaster-affected area by ship and truck and is now being reused as fuel for our cement kiln. The waste is fully recycled, as the ash from the incineration process is used as a raw material in cement. The cement made from these materials is being shipped throughout Japan, including the disaster-affected area, for the reconstruction of communities and for infrastructure such as dikes that will help to reduce the risk and damage of future natural disasters.

Going forward, we will leverage our long-standing waste processing technologies to produce a stable supply of cement for community rebuilding efforts and for strengthening Japan's national resilience.



Wood waste storage warehouse at the Kochi Plant

### Promoting a recycling-based society



# CORPORATE GOVERNANCE

We believe that the primary objective of corporate governance is to constantly enhance corporate value by increasing management efficiency and by securing soundness and transparency in every phrase of business activities. We recognize the fulfillment of this aim as our most important management issue. Additionally, we have adopted the company auditor system and established the Sumitomo Osaka Cement Corporate Governance Policy in order to achieve sustainable growth and enhance corporate value over the medium to long-term.

## Status of meeting bodies and internal control system

### Board of Directors and executive officers

The Board of Directors consists of eight Directors, including two Outside Directors and convenes meetings at least once monthly to make decisions regarding material matters affecting management and to receive reports on the status of business operations. We have also introduced the executive officer system in order to separate management decision making and supervision from actual execution and to raise management efficiencies by reinforcing each function, speeding up decision making and clarifying authority and accountability.

### Reason for election of Outside Directors

Kunitaro Saida	Mr. Saida has served as the Superintendent Public Prosecutor of the Osaka High Public Prosecutors Office and has experience as an outside director and outside corporate auditor for other companies. As a result, we have determined that Mr. Saida can utilize his excellent discernment and broad experiences to fulfill his duties appropriately.
Akira Watanabe	Mr. Watanabe has been a university professor, dean, and president, while he has also been involved in university administration and operations. As a result, we have determined that Mr. Watanabe can utilize his excellent discernment and broad experiences to fulfill his duties appropriately.

There are no instances where either Outside Director has a conflict of interest with general shareholders, and their independence has been verified.

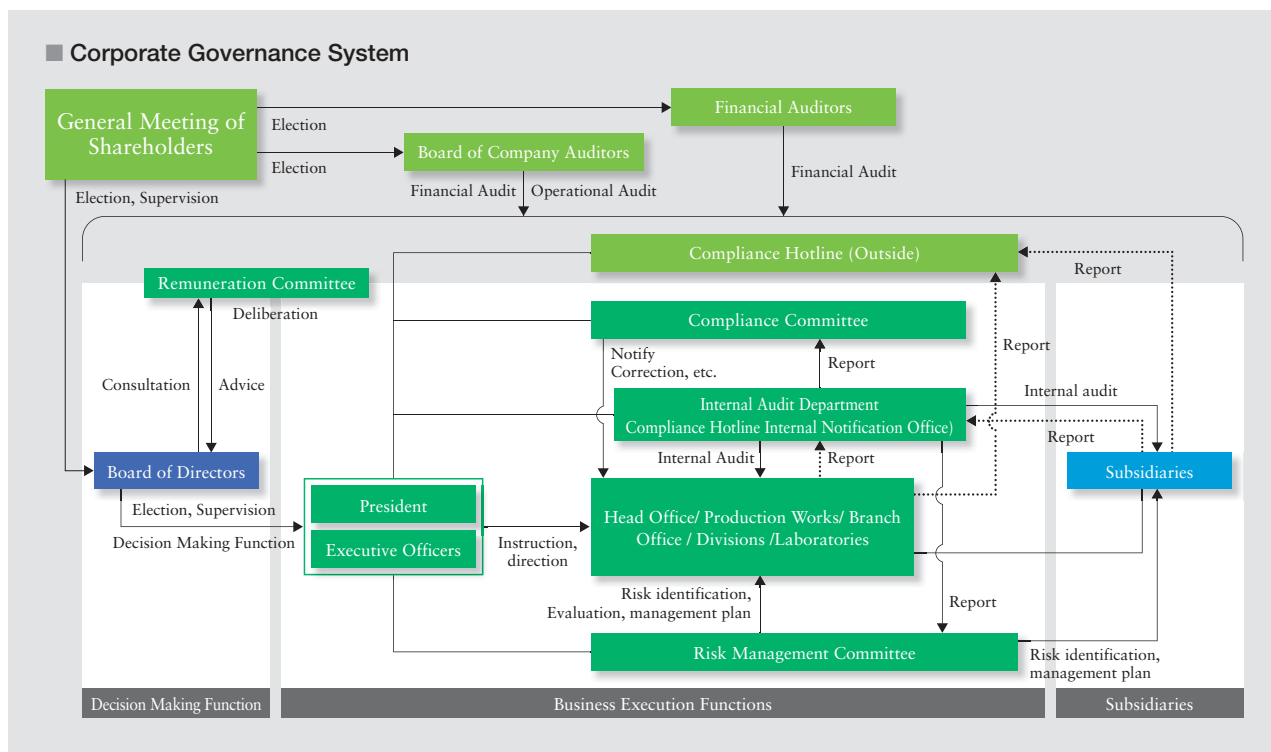
### Board of Company Auditors

The Board of Company Auditors consists of five Company Auditors, three of which are Outside Company Auditors. Company Auditors take part in Board of Corporate Auditor meetings convened at least once monthly as well as attend other important company meetings, including meetings of the Board of Directors.

### Reason for election of Outside Company Auditors

Fuminori Tomosawa	Mr. Tomozawa has been a university professor and served as a member of the Science Council of Japan. As a result, we have determined that Mr. Tomozawa can utilize his excellent discernment and broad experiences to carry out audits from an objective standpoint.
Shoji Hosaka	Mr. Hosaka has served as a director and company auditor for other companies. As a result, we have determined that Mr. Hosaka can utilize his excellent discernment and broad experiences to carry out audits from an objective standpoint.
Kazuo Suzuki	Mr. Suzuki has broad experiences and advanced knowledge of corporate management from his many years as a Certified Public Accountant. As a result, we have determined that Mr. Suzuki can utilize this to carry out audits from an objective standpoint.

There are no instances where any of the Outside Company Auditors has a conflict of interest with general shareholders, and their independence has been verified.



## Remuneration Committee

The Remuneration Committee, as an advisory body to the Board of Directors, deliberates on the remuneration of Directors and executive committee members, taking into account Directors' performance and contribution to the sustainable growth of the Company, from the standpoint of the validity of remuneration standards and the objectivity and transparency of performance evaluations, and then makes recommendations to the Board of Directors.

## Compliance

We have established the Compliance Committee chaired by the President to establish, spread and elevate the compliance awareness of all executives and employees of the Sumitomo Osaka Cement Group, including executive officers, contract employees and temporary employees. Also, we have formulated the Regulations of the Compliance Committee in order to clarify the roles and responsibilities of the committee.

### Compliance Committee

The Compliance Committee creates a compliance action plan every fiscal year and monitors its progress.

Compliance audits are carried out by the Internal Audit Department mentioned below, with the results reported to the Compliance Committee. The Compliance Committee takes appropriate action, when necessary, based on the results, and reports the results of audits to the Board of Directors and Company Auditors.

## Risk management

We have established the Risk Management Committee, chaired by the President, in order to identify, evaluate and respond to risks facing the entire Group. Additionally, we have formulated the Regulations of the Risk Management Committee in order to clarify the roles and responsibilities of the committee.

### Risk Management Committee

The Risk Management Committee prepares an action plan for risk management every fiscal year and monitors its progress. Audits on the status of risk management are carried out by the Internal Audit Department, with the results reported to the Risk Management Committee.

The Risk Management Committee takes appropriate action, when necessary, based on the results, and reports the results of audits to the Board of Directors and Company Auditors.

## Information security

### Basic policy on the protection of personal information

Following the basic principles of Japan's Act on the Protection of Personal Information, we consider the appropriate handling of personal information to be an important management task,

and as such, we have established our own basic policy. We determine policies and the in-house organizational structure for the protection of personal information in accordance with this basic policy.

### Policy on the Protection of Personal Information

#### (1) Acquisition

Sumitomo Osaka Cement obtains personal information using legal and fair means.

#### (2) Use

Sumitomo Osaka Cement shall use personal information within the scope of the purpose of use indicated when the information is obtained wherever necessary for its business operations.

#### (3) Provision to third-parties

Sumitomo Osaka Cement shall never provide personal information to third parties without the prior consent of the individual, except instances where prescribed by laws and ordinances.

#### (4) Management

1. Sumitomo Osaka Cement shall manage the personal information in its possession in a secure manner while maintaining its accuracy.
2. Sumitomo Osaka Cement shall take appropriate information security measures to prevent the loss, destruction, modification or divulgence of the personal information in its possession.
3. Sumitomo Osaka Cement shall never divulge personal information caused by taking it offsite or transmitting it.

#### (5) Disclosure, revision, suspension of use, and deletion, etc.

Sumitomo Osaka Cement shall respond promptly when an individual requests that his/her own personal information in the company's possession be disclosed, revised, suspended from being used, or deleted.

### Organizational structure for protecting personal information

#### (1) Personal Information Protection Manager

Sumitomo Osaka Cement shall appoint a Personal Information Protection Manager who will promote and ensure thorough protection of personal information.

#### (2) Making it known to all executives and employees

Sumitomo Osaka Cement shall make the protection and appropriate handling of personal information known to all executives and employees

#### (3) Establishment of regulations, etc.

Sumitomo Osaka Cement, in order to implement this policy, shall establish company regulations on the protection of personal information and ensure that all of its executives and employees are familiar with and execute the regulations to promote the protection of personal information.

## Our Management Team (As of June 29, 2017)

### Board of Directors

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**Fukuichi Sekine**  
President, Representative  
Director



**Yushi Suga**  
Representative Director,  
Executive Vice President



**Katsuji Mukai**  
Director, Senior Managing  
Executive Officer



**Isao Yoshitomi**  
Director, Senior Managing  
Executive Officer



**Shigemi Yamamoto**  
Director, Senior Managing  
Executive Officer



**Toshihiko Onishi**  
Director, Managing  
Executive Officer



**Kunitaro Saida**  
Outside Director



**Akira Watanabe**  
Outside Director

### Board of Company Auditors

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**Akio Sekine**  
Company Auditor (Full-time)



**Kaname Ito**  
Company Auditor (Full-time)



**Fuminori Tomosawa**  
Outside Company Auditor



**Shoji Hosaka**  
Outside Company Auditor



**Kazuo Suzuki**  
Outside Company Auditor

### Executive Officers

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**Yasuo Fujiwara**  
Managing Executive Officer

**Hirotsune Morohashi**  
Managing Executive Officer

**Shintarou Ooshima**  
Managing Executive Officer

**Ryoji Doi**  
Managing Executive Officer

**Hiroyuki Sakakibara**  
Executive Officer

**Ryoji Ogi**  
Executive Officer

**Tomonori Nonomura**  
Executive Officer

**Toshio Imai**  
Executive Officer

**Mikio Konishi**  
Executive Officer

**Hideki Aoki**  
Executive Officer

**Norifumi Uchimura**  
Executive Officer

**Masashi Shimo**  
Executive Officer

**Toru Shimada**  
Executive Officer

# CONSOLIDATED FINANCIAL DATA

## Six-Year Summary

Years ended March 31

						Millions of yen	Thousands of U.S. dollars (Note 3)
	2012	2013	2014	2015	2016	2017	2017
<b>For the year:</b>							
Net sales	¥217,044	¥219,083	¥235,078	¥234,539	¥234,192	¥234,062	\$2,086,306
Cost of sales	172,609	170,042	177,606	177,158	175,474	176,812	1,576,009
Selling, general and administrative expenses	36,297	35,082	35,966	35,172	35,103	35,719	318,383
Operating income	8,136	13,959	21,504	22,207	23,614	21,530	191,913
Profit attributable to owners of parent	3,645	7,460	13,331	13,337	16,110	16,210	144,487
<b>Net cash provided by operating activities</b>							
Net cash provided by operating activities	¥ 23,243	¥ 30,015	¥ 32,537	¥ 30,256	¥ 32,618	¥29,231	\$ 260,553
Net cash used in investing activities	(16,314)	(17,362)	(17,950)	(16,043)	(15,691)	(17,700)	(157,772)
Free cash flow	6,929	12,653	14,587	14,213	16,927	11,531	102,781
Net cash used in financing activities	(6,111)	(15,173)	(7,967)	(16,051)	(15,705)	(16,123)	(143,711)
Cash and cash equivalents at end of year	27,093	25,078	31,928	30,132	31,378	26,672	237,746
<b>At year-end:</b>							
Net assets	¥131,782	¥142,976	¥154,821	¥175,754	¥177,247	¥195,869	\$1,745,868
Total assets	309,890	315,734	325,328	335,981	325,710	336,790	3,001,969
<b>Per share data (yen/dollars):</b>							
Profit	¥ 8.76	¥ 17.92	¥ 32.03	¥ 32.05	¥ 39.43	¥ 39.93	\$ 0.356
Cash dividends	4.00	5.00	5.00	6.50	8.00	10.0	0.09
Net assets	313.21	340.14	368.5	418.68	432.67	478.48	4.265
<b>Financial ratios:</b>							
ROE (Return on equity)	2.8%	5.5%	9.0%	8.1%	9.2%	8.8%	
ROA (Return on assets) (Note 1)	1.2%	2.4%	4.1%	4.0%	4.9%	6.8%	
Equity ratio (Note 2)	42.1%	44.8%	47.1%	51.8%	53.9%	57.7%	
Number of employees	2,769	2,834	2,821	2,844	2,915	2,973	

### Notes

1. ROA (Return on assets) = Ordinary income / Total assets

2. Equity = Total net assets – Share subscription rights – Non-controlling interests

3. U.S. dollar amounts have been translated from yen at the rate of ¥112.19=US\$1 as of March 31, 2017.

# Financial Review

## Net Sales

In the cement industry, public sector and private sector capital expenditures remained largely on par with the previous year, while both public-sector and private-sector demand diminished due to the effects of changes in architectural construction methods and unseasonable weather, among other factors. As a result, cement demand in Japan declined 2.1% year on year to 41,777 thousand metric tons. Exports, however, increased 8.9%. Consequently, total sales of cement produced by domestic manufacturers, including exports, edged up 0.2% year on year to 53,027 thousand metric tons.

Under these circumstances, the Sumitomo Osaka Cement Group worked to provide a stable supply of cement and other products while promoting Group-wide efforts aimed at sustainable development, such as cost reduction measures.

As a result, consolidated net sales during the fiscal year under review came to ¥234,062 million (US\$2,086,306 thousand), largely unchanged from the previous fiscal year. This was because, while sales in the Cement business rose year on year, sales in the Mineral Resources, Cement-Related Products, and Other businesses dropped.

## Profits

Operating income declined ¥2,084 million year on year to ¥21,530 million (US\$191,913 thousand) and ordinary income dropped ¥1,933 million year on year to ¥22,627 million (US\$201,684 thousand) due to a dip in the earnings of the Cement and Other businesses. However, profit attributable to owners of parent increased ¥99 million year on year to ¥16,210 million (US\$144,487 thousand), thanks to the profits on Gains on sales of noncurrent assets. (See pages 2 and 10 to 13.)

## Financial Position

Total assets as of March 31, 2016 stood at ¥336,790 million (US\$3,001,969 thousand), an increase of ¥11,080 million from the previous fiscal year-end.

Current assets were down ¥417 million from the previous fiscal year-end to ¥99,771 million (US\$889,307 thousand), attributable in part to a decrease in cash and deposits. Total noncurrent assets rose ¥11,498 million from the previous fiscal year-end to ¥237,019 million (US\$2,112,661 thousand), partly due to an increase in investment securities.

Total liabilities declined ¥7,541 million from the previous fiscal year-end to ¥140,921 million (US\$1,256,100 thousand). Current liabilities dropped ¥14,462 million to ¥76,534 million (US\$682,182 thousand), mainly due to a decrease in Current portion of bonds. Noncurrent liabilities increased ¥6,921 million to ¥64,387 million (US\$573,918 thousand), attributable mainly to an increase in Bonds payable.

Net assets at the end of the fiscal year under review stood

at ¥195,869 million (US\$1,745,868 thousand), up ¥18,621 million from a year earlier. This increase was mainly the result of a rise in retained earnings.

## Cash Flows

Cash and cash equivalents at end of period decreased ¥4,705 million, and the cash balance at the fiscal year-end totaled ¥26,672 million (US\$237,746 thousand), marking a decline of 15.0% year on year.

### Cash flow from operating activities

Net cash provided by operating activities totaled ¥29,231 million (US\$260,553 thousand), down ¥10.4% from the previous fiscal year. This decrease is attributed to retained earnings reflecting such factors as profit before income taxes and non-controlling interests of ¥22,845 million and depreciation and amortization of ¥17,043 million.

### Cash flow from investing activities

Net cash used in investing activities amounted to ¥17,700 million (US\$157,772 thousand), up 12.8% year on year. This mainly reflects purchases of non-current assets totaling ¥20,378 million.

### Cash flow from financing activities

Net cash used in financing activities was ¥16,123 million (US\$143,711 thousand), up 2.7% from the previous fiscal year. Main cash outflows included Repayment of long-term loans payable of ¥9,529 million and Redemption of bonds of ¥10,000 million, which offset Proceeds from issuance of bonds of ¥5,000 million.

## Dividend Policy

Sumitomo Osaka Cement believes that earnings distributions to shareholders should be determined in accordance with the Company's business results. As a cement manufacturer, it is essential for the Company to continuously improve facilities while investing in facility renewal in order to secure future earnings.

To this end, the Company considers it vital to expand its reserves.

Based on this viewpoint, the Company will determine a stable and continuous dividend based on a comprehensive view of various elements related to overall business management. The Company's goal is to achieve a consolidated annual dividend payout ratio of around 25% for the year ended March 31, 2017 and around 30% for the year ending March 31, 2018.

The Company's basic policy has been to provide a year-end dividend once per year for each business year; however, the Company has decided to offer an interim dividend as well based on the conditions.

For fiscal 2017, an interim dividend of ¥5.0 per share and a year-end dividend of ¥5.0 were paid. Consequently, the annual dividend payment totaled ¥10.0 per share.

## Fiscal 2017 Outlook

In the cement industry, private sector investment in home construction is declining, but private sector capital expenditures will increase on the back of construction work for the upcoming 2020 Tokyo Olympic and Paralympic Games. As a result, private sector demand is expected to trend at levels seen in the previous year. In addition, public sector investments are on the rise, so public sector demand is expected to increase as well. As a result, overall domestic demand for cement is expected to increase.

### Medium-term Management Plan

In the year ending March 31, 2018, the Group will launch a new medium-term management plan covering the years from fiscal 2017 to fiscal 2019. Under this plan, the Group will work to achieve the future goal of achieving stable and continuous growth by expanding markets in the Cement-related business and High-Performance Product business. Financial targets include return on assets (ROA) of 9% and return on equity (ROE) of 10%. (See pages 3 to 9 for more details.)

## Business Risks

### Decrease in Domestic Demand for Cement

In the Sumitomo Osaka Cement Group's mainstay cement business, domestic demand is significantly impacted by public investment and private-sector capital expenditure in Japan. Therefore, in the event that public works spending or private sector capital expenditure deteriorate at a pace that exceeds the Company's forecasts, the Group's financial condition, results and cash flows may be substantially affected. However, given that cement is an indispensable material contributing to social capital, it is projected that demand above a certain level can be consistently secured in the medium to long term. Based on an anticipated decline in domestic demand for the foreseeable future, the Sumitomo Osaka Cement Group has restructured its production framework by closing certain cement plants in prior years and will continue to implement various cost reductions and revisions of sales prices.

### Increase in Raw Material and Fuel Prices

The Group's mainstay product of cement requires a variety of raw materials and fuels, including limestone, clay and coal. Therefore, price hikes in raw materials and fuels used in the cement manufacturing process have the potential to significantly affect the Group's financial condition, results and cash flows. However, the Group's own mine can provide an extremely a stable supply of limestone, the primary raw material of cement, over the long term. On the other hand, the price of coal, the primary raw fuel used in cement production, may potentially increase due to future circumstances. The Group is making efforts to limit the effects of fuel costs on its performance by improving cement

sales prices to reflect operating cost increases caused by rising expenses of coal procurement.

### Collection of Debt

The Sumitomo Osaka Cement Group does business with major customers in the construction and retail industries for its mainstay cement products and concrete. In the event that the performance of such major customers rapidly deteriorates and the Group is unable to collect receivables, its financial condition, results and cash flows may be seriously affected. The Sumitomo Osaka Cement Group is therefore working to strengthen credit administration by holding down accounts receivable through direct sales at cement service stations and by seeking to secure liquidity guarantees from customers.

### Plant Operations

Because cement plants contain large-scale equipment and facilities, in the event of a significant incident, fire, accident, natural disaster, electric outage or other unforeseen circumstance that may interfere with plant operations, the Group's financial condition, results and cash flows may be significantly affected due to excessive recovery time and costs. However, the Group conducts regular inspections and disaster-prevention patrols at all of its plants in order to ensure stable operations based on its production plan. Accordingly, the Group estimates the possibility of such an occurrence to be low. Further, Sumitomo Osaka Cement has six cement plants nationwide (four operated by the Company; two by affiliated companies), and should operations at one plant be interrupted, the Group will respond by shifting orders among the other cement plants and by purchasing needed cement from business partners to ensure stable supply.

### Impairment of Property, Plant and Equipment

In the event that the Group is unable to recover its investment due to decreased profitability or a decline in the market value of property, plant and equipment following the application of impairment accounting, Sumitomo Osaka Cement will be required, based upon future earnings plans and related forecasts, to write down the book value of fixed assets to a price that may be recovered. At the moment, the Group has recorded all required impairment accounting for its property, plant and equipment. However, impairment loss may be caused by changes in future land prices and operating conditions, and the Group's financial condition and results may be significantly affected.

# Consolidated Balance Sheets

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2016 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Current assets:</b>			
Cash and deposits	¥ 31,536	¥ 26,828	\$ 239,138
Notes and accounts receivable—trade	45,660	48,877	435,665
Merchandise and finished goods	6,589	6,076	54,162
Work in process	2,532	2,679	23,882
Raw materials and supplies	10,133	11,548	102,933
Deferred tax assets	1,701	1,630	14,536
Short-term loans receivable	234	194	1,736
Other	1,850	2,000	17,832
Allowance for doubtful accounts	(50)	(64)	(579)
<b>Total current assets</b>	<b>100,189</b>	<b>99,771</b>	<b>889,307</b>
<b>Non-current assets:</b>			
<b>Property, plant and equipment:</b>			
Buildings and structures	162,776	163,936	1,461,241
Accumulated depreciation	(112,557)	(115,500)	(1,029,509)
Buildings and structures, net	50,219	48,436	431,732
Machinery, equipment and vehicles	408,574	417,096	3,717,771
Accumulated depreciation	(357,234)	(365,436)	(3,257,295)
Machinery, equipment and vehicles, net	51,340	51,660	460,475
Land	37,962	37,899	337,817
Construction in progress	3,955	8,952	79,795
Other	34,362	34,883	310,930
Accumulated depreciation	(18,537)	(18,830)	(167,841)
Other, net	15,825	16,053	143,089
<b>Total property, plant and equipment</b>	<b>159,303</b>	<b>163,002</b>	<b>1,452,911</b>
<b>Intangible assets:</b>			
Goodwill	5	—	—
Other	2,297	2,310	20,592
<b>Total intangible assets</b>	<b>2,303</b>	<b>2,310</b>	<b>20,592</b>
<b>Investments and other assets:</b>			
Investment securities	54,393	62,280	555,138
Long-term loans receivable	2,906	2,871	25,594
Deferred tax assets	715	695	6,199
Net defined benefit asset	320	346	3,084
Other	6,095	5,664	50,491
Allowance for doubtful accounts	(518)	(151)	(1,350)
<b>Total investments and other assets</b>	<b>63,914</b>	<b>71,707</b>	<b>639,157</b>
<b>Total noncurrent assets</b>	<b>225,520</b>	<b>237,019</b>	<b>2,112,661</b>
<b>Total assets</b>	<b>¥325,710</b>	<b>¥336,790</b>	<b>\$3,001,969</b>

See accompanying notes to the consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Current liabilities:</b>			
Notes and accounts payable—trade	¥ 25,882	¥ 28,650	\$ 255,377
Short-term loans payable	25,987	21,898	195,191
Current portion of long-term loans payable	9,392	7,352	65,537
Current portion of bonds	10,000	—	—
Income taxes payable	4,669	3,654	32,573
Provision for bonuses	2,269	2,326	20,734
Other	12,794	12,651	112,767
Total current liabilities	90,996	76,534	682,182
<b>Noncurrent liabilities:</b>			
Bonds payable	5,000	10,000	89,134
Long-term loans payable	26,127	24,966	222,536
Deferred tax liabilities	11,945	14,549	129,690
Provision for directors' retirement benefits	176	153	1,365
Provision for loss on dissolution of the employees' pension fund	405	—	—
Provision for PCB waste disposal costs	—	247	2,205
Net defined benefit liability	3,076	2,987	26,626
Asset retirement obligations	768	1,074	9,577
Other	9,967	10,409	92,782
Total noncurrent liabilities	57,466	64,387	573,918
Total liabilities	148,462	140,921	1,256,100
<b>Net assets:</b>			
<b>Shareholders' equity:</b>			
Capital stock	41,654	41,654	371,281
Capital surplus	29,282	29,284	261,022
Retained earnings	84,274	96,830	863,096
Treasury stock	(4,801)	(4,831)	(43,062)
Total shareholders' equity	150,409	162,937	1,452,338
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	25,255	31,141	277,581
Foreign currency translation adjustment	644	556	4,963
Remeasurements of defined benefit plans	(669)	(430)	(3,835)
Total accumulated other comprehensive income	25,230	31,268	278,709
<b>Non-controlling interests</b>	1,607	1,662	14,820
Total net assets	177,247	195,869	1,745,868
Total liabilities and net assets	¥325,710	¥336,790	\$3,001,969

# Consolidated Statements of Income and Comprehensive Income

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Net sales</b>	¥234,192	¥234,062	\$2,086,306
Cost of sales	175,474	176,812	1,576,009
Gross profit	58,717	57,250	510,296
Selling, general and administrative expenses	35,103	35,719	318,383
<b>Operating income</b>	23,614	21,530	191,913
<b>Non-operating income:</b>			
Interest income	71	54	485
Dividend income	2,299	1,960	17,476
Equity in earnings of affiliates	251	201	1,792
Rent income	153	148	1,326
Other	469	519	4,633
Total non-operating income	3,246	2,884	25,713
<b>Non-operating expenses:</b>			
Interest expenses	953	798	7,118
Foreign exchange losses	510	289	2,579
Other	836	700	6,244
Total non-operating expenses	2,300	1,788	15,942
<b>Ordinary income</b>	24,560	22,627	201,684
<b>Extraordinary income:</b>			
Gain on sales of noncurrent assets	637	892	7,958
Gain on sales of investment securities	4	566	5,045
Gain on sales of shares of subsidiaries and affiliates	249	–	–
Total extraordinary income	890	1,458	13,004
<b>Extraordinary losses:</b>			
Loss on retirement of noncurrent assets	1,395	683	6,090
Loss on sales of noncurrent assets	37	2	23
Loss on valuation of investment securities	11	1	14
Loss on sales of investment securities	0	–	–
Impairment loss	165	15	135
PCB waste disposal costs	–	237	2,120
Settlement package	–	300	2,674
Total extraordinary losses	1,610	1,240	11,058
Profit before income taxes and non-controlling interests	23,839	22,845	203,630
Profit taxes-current	7,881	6,629	59,088
Profit taxes-deferred	(200)	(55)	(490)
Total income taxes	7,680	6,574	58,598
Profit before non-controlling interests	16,159	16,271	145,032
Profit attributable to non-controlling interests	48	61	545
Profit attributable to owners of parent	¥ 16,110	¥ 16,210	\$ 144,487

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Profit</b>	¥ 16,159	¥ 16,271	\$145,032
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	(6,476)	5,885	52,457
Foreign currency translation adjustment	206	(87)	(781)
Remeasurements of defined benefit plans	(567)	239	2,133
Share of other comprehensive income of affiliates accounted for using equity method	(2)	1	10
Total other comprehensive income	(6,840)	6,038	53,820
<b>Comprehensive income</b>	9,318	22,309	198,852
<b>Comprehensive income attributable to:</b>			
Comprehensive income attributable to owners of parent	9,269	22,247	198,305
Comprehensive income attributable to non-controlling interests	¥ 48	¥ 61	\$ 547

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2016 and 2017

	Shareholders' equity					Total
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Millions of yen						
<b>Balance at April 1, 2015</b>	¥41,654	¥29,282	¥71,451	¥ (267)		¥142,121
Change of items during period	-	-	-	-	-	-
Dividends from surplus	-	-	(3,288)	-	-	(3,288)
Profit attributable to owners of parent for the period	-	-	16,110	-	-	16,110
Purchase of treasury stock	-	-	-	(4,534)	-	(4,534)
Disposal of treasury stock	-	0	-	0	-	0
Other, net	-	-	-	-	-	-
Total change of items during period	-	0	12,822	(4,533)	-	8,288
<b>Balance at March 31, 2016</b>	¥41,654	¥29,282	¥84,274	(4,801)		150,409
Dividends from surplus	-	-	(3,653)	-	-	(3,653)
Profit attributable to owners of parent for the period	-	-	16,210	-	-	16,210
Purchase of treasury stock	-	-	-	(29)	-	(29)
Disposal of treasury stock	0	-	-	0	-	0
Change in treasury stock of parent arising from transactions with non-controlling shareholders	1	-	-	-	-	1
Other, net	-	-	-	-	-	-
Total change of items during period	-	1	12,556	(29)	-	12,528
<b>Balance at March 31, 2017</b>	¥41,654	¥29,284	¥96,830	¥(4,831)		¥162,937

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total		
Millions of yen						
<b>Balance at April 1, 2015</b>	¥31,735	¥437	¥(101)	¥32,071	¥1,562	¥175,754
Change of items during period	-	-	-	-	-	-
Dividends from surplus	-	-	-	-	-	(3,288)
Profit attributable to owners of parent for the period	-	-	-	-	-	16,110
Purchase of treasury stock	-	-	-	-	-	(4,534)
Disposal of treasury stock	-	-	-	-	-	0
Other, net	(6,479)	206	(567)	(6,840)	44	(6,795)
Total change of items during period	(6,479)	206	(567)	(6,840)	44	1,492
<b>Balance at March 31, 2016</b>	¥25,255	¥644	¥(669)	¥25,230	¥1,607	¥177,247
Dividends from surplus	-	-	-	-	-	(3,653)
Profit attributable to owners of parent for the period	-	-	-	-	-	16,210
Purchase of treasury stock	-	-	-	-	-	(29)
Disposal of treasury stock	-	-	-	-	-	0
Change in treasury stock of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	1
Other, net	5,886	(87)	239	6,037	55	6,093
Total change of items during period	5,886	(87)	239	6,037	55	18,621
<b>Balance at March 31, 2017</b>	¥31,141	¥556	¥(430)	¥31,268	¥1,662	¥195,869

	Shareholders' equity					Total
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Thousands of U.S. dollars (Note 1)						
<b>Balance at March 31, 2016</b>	\$371,281	\$261,011	\$751,173	\$(42,799)		\$1,340,667
Dividends from surplus	-	-	(32,564)	-	-	(32,564)
Profit attributable to owners of parent for the period	-	-	144,487	-	-	144,487
Purchase of treasury stock	-	-	-	(266)	-	(266)
Disposal of treasury stock	-	0	-	3	-	3
Change in treasury stock of parent arising from transactions with non-controlling shareholders	-	10	-	-	-	10
Other, net	-	-	-	-	-	-
Total change of items during period	0	10	111,922	(262)	-	111,670
<b>Balance at March 31, 2017</b>	\$371,281	\$261,022	\$863,096	\$(43,062)		\$1,452,338

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total		
Thousands of U.S. dollars (Note 1)						
<b>Balance at March 31, 2016</b>	\$225,115	\$ 5,744	\$(5,968)	\$224,891	\$14,324	\$1,579,883
Dividends from surplus	-	-	-	-	-	(32,564)
Profit attributable to owners of parent for the period	-	-	-	-	-	144,487
Purchase of treasury stock	-	-	-	-	-	(266)
Disposal of treasury stock	-	-	-	-	-	3
Change in treasury stock of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	10
Other, net	52,466	(781)	2,133	53,818	496	54,314
Total change of items during period	52,466	(781)	2,133	53,818	496	165,985
<b>Balance at March 31, 2017</b>	\$277,581	\$ 4,963	\$(3,835)	\$278,709	\$14,820	\$1,745,868

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
<b>Cash flows from operating activities:</b>			
Profit before income taxes and non-controlling interests	¥ 23,839	¥ 22,845	\$ 203,630
Depreciation and amortization	16,885	17,043	151,919
Impairment loss	165	15	135
Amortization of goodwill	37	4	39
Increase (decrease) in net defined benefit liability	236	230	2,052
Increase (decrease) in provision for directors' retirement benefits	(22)	(23)	(208)
Increase (decrease) in allowance for doubtful accounts	(29)	(97)	(869)
Interest and dividends income	(2,371)	(2,015)	(17,961)
Interest expenses	953	798	7,118
Foreign exchange losses (gains)	491	139	1,239
Equity in earnings of affiliates	(251)	(201)	(1,792)
Gain on sales of noncurrent assets	(637)	(892)	(7,958)
Loss on sales of noncurrent assets	37	2	23
Loss on retirement of noncurrent assets	262	50	451
Loss (gain) on sales of investment securities	(3)	(566)	(5,045)
Loss (gain) on sales of shares of subsidiaries and affiliates	(249)	–	–
Loss on valuation of investment securities	11	1	14
Decrease (increase) in notes and accounts receivable-trade	1,708	(3,040)	(27,103)
Decrease (increase) in inventories	(202)	(1,075)	(9,589)
Increase in notes and accounts payable-trade	(1,573)	2,723	24,272
Other, net	280	(58)	(523)
Subtotal	39,569	35,883	319,844
Interest and dividends income received	2,371	2,015	17,968
Interest expenses paid	(976)	(802)	(7,151)
Income taxes paid	(8,346)	(7,865)	(70,108)
Net cash provided by operating activities	32,618	29,231	260,553
<b>Cash flows from investing activities:</b>			
Purchase of noncurrent assets	(17,680)	(20,378)	(181,646)
Proceeds from sales of noncurrent assets	1,325	1,141	10,177
Purchase of investment securities	(8)	(13)	(121)
Proceeds from sales of investment securities	53	1,419	12,651
Payments of loans receivable	(494)	(193)	(1,725)
Collection of loans receivable	220	270	2,414
Other, net	892	53	477
Net cash used in investing activities	(15,691)	(17,700)	(157,772)
<b>Cash flows from financing activities:</b>			
Profit attributable to non-controlling interests	(6,669)	(4,085)	(36,416)
Profit attributable to owners of parent	8,562	6,240	55,621
Repayment of long-term loans payable	(9,712)	(9,529)	(84,939)
Proceeds from issuance of bonds	–	5,000	44,567
Redemption of bonds	–	(10,000)	(89,134)
Proceeds from sales of treasury stock	0	0	3
Purchase of treasury stock	(4,534)	(29)	(266)
Cash dividends paid	(3,288)	(3,653)	(32,564)
Cash dividends paid to non-controlling shareholders	(4)	(4)	(36)
Other, net	(59)	(61)	(547)
Net cash used in financing activities:	(15,705)	(16,123)	(143,711)
Effect of exchange rate change on cash and cash equivalents	23	(113)	(1,014)
Net increase (decrease) in cash and cash equivalents	1,245	(4,705)	(41,946)
Cash and cash equivalents at beginning of period	30,132	31,378	279,692
Cash and cash equivalents at end of period	¥ 31,378	¥ 26,672	\$ 237,746

See accompanying notes to the consolidated financial statements.

# Notes to Consolidated Financial Statements

SUMITOMO OSAKA CEMENT CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2016 and 2017

## 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 of the Company and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include certain 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 US\$1.00=¥112.19, the exchange rate prevailing on March 31, 2017.

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

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 amortized 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.

## 3. Scope of consolidation

(1) Number of consolidated subsidiaries: 37

Because the names of significant consolidated subsidiaries are described in "1. Company overview 4. Overview of affiliates", this information is omitted.

(2) Names of main non-consolidated subsidiaries

SOC AMERICA INC.

(Reason for exclusion from the scope of consolidation)

The total assets, net sales, net income or loss, and retained earnings (amounts corresponding to equity) of the companies excluded from the scope of consolidation are all small in scale and do not have a material effect on the consolidated financial statements. These companies are therefore excluded from the scope of consolidation.

## 4. Application of the equity method

(1) Number of non-consolidated equity-method subsidiaries: 0

(2) Number of equity-method affiliates: 2

Because the names of equity-method affiliates are described in "1. Company overview 4. Overview of affiliates", this information is omitted.

(3) Names of significant non-consolidated subsidiaries and affiliates not accounted for under the equity method

SOC AMERICA INC.

Hachinohe Biomass Power Generation Co., Ltd.

Right Grand Investments Limited

Forcecharm Investments Limited

(Reasons for not applying the equity method)

The net income or loss and retained earnings (amounts corresponding to equity) of the companies to which the equity method is not applied are all small in size and do not have a material effect on the consolidated financial statements. These companies are therefore excluded from the scope of application of the equity method.

## 5. Matters concerning the fiscal years of consolidated subsidiaries

The consolidated subsidiaries SOC VIETNAM CO., LTD, Dongguan Sumi Sou Optoelectronics Technology Co., LTD, and Sumilong Nanotechnology Materials (SHENZHEN) Co., LTD. have a December 31 fiscal year-end date. Because the difference with the consolidated fiscal year-end date is within three months, the financial statements as of the fiscal year-end date of the consolidated subsidiaries are used in the preparation of the consolidated financial statements. Note that the required adjustments for consolidation have been made for material transactions that have occurred up until the consolidated fiscal year-end date.

## 6. Matters concerning accounting policies

### (1) Valuation standards and methods for significant assets

Securities

Stocks of subsidiaries and affiliates

Stated at cost using the moving-average method.

Available-for-sale securities

Securities with readily determinable market values

Stated at fair value based on the average market value during the final month of the period (valuation differences are directly reflected in net assets, and cost of sales is calculated using the moving-average method).

Securities without readily determinable market values

Stated at cost using the moving-average method.

Derivatives

Stated at market value.

Inventories

Inventories are stated principally at cost using the moving-average method (the carrying amount on the balance sheet is calculated by book value method based on decreases in profitability).

Note that inventories are stated at individual cost for certain consolidated subsidiaries (the carrying amount on the balance sheet is calculated by the book value method based on decreases in profitability).

## **(2) Depreciation and amortization methods of significant assets**

### *Property, plant and equipment (excluding leased assets)*

Depreciation is calculated using the declining-balance method. (Note that the depreciation of the in-house power generation facility at the Ako Plant, the Kochi Plant and Tochigi Plant, and property, plant and equipment of certain consolidated subsidiaries is calculated by the straight-line method, and quarry sites are depreciated by the unit-of-production method.) In addition, depreciation of buildings (excluding building-attached facilities) acquired on or after April 1, 1998, and building-attached facilities and structures acquired on or after April 1, 2016 is calculated by the straight-line method. The main useful lives are as follows:

Buildings and structures: 2 to 75 years

Machinery, equipment and tools: 2 to 22 years

### *Intangible fixed assets (excluding lease assets)*

#### Mining rights

Calculated by the unit-of-production method.

#### Others

Amortized by the straight-line method.

Note that the straight-line method is used for software (in-house use) based on the in-house usage period (five years).

### *Leased assets*

Leased assets under finance leases transactions that do not transfer ownership

The straight-line method is applied for useful lives for the lease period, with a residual value of zero (residual value guarantee amount if there is a residual value guarantee agreement).

## **(3) Criteria for posting significant reserves**

### *Allowance for doubtful receivables*

To prepare for losses on doubtful receivables, the expected uncollectible amount is posted based on the loss ratio for general receivables and an individual examination of the collectability of specific doubtful receivables.

### *Provision for bonuses*

A provision for bonuses for employees is recorded based on the estimated payment amount.

### *Provision for directors' retirement benefits*

To prepare for payments of retirement bonuses for directors, consolidated subsidiaries provide reserves in amounts equal to the full amounts to be paid at the end of the fiscal year based on internal rules.

### *Provision for loss on dissolution of employees' pension fund*

To prepare for loss on dissolution of employees' pension fund, certain consolidated subsidiaries provide a reserve equal to the estimated amount of loss.

### *Provision for PCB waste disposal costs*

To prepare for payment of disposal costs for PCB (polychlorinated biphenyl) waste, the estimated expenses for disposal, collection, and transport are posted.

## **(4) Accounting method for retirement benefits**

### (1) Period allocation method for the projected retirement benefit obligation

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year using the benefit calculation method.

### (2) Amortization of actuarial gain or loss

Actuarial gain or loss is amortized pro rata in the fiscal years following the year in which the difference occurs by the straight-line method over the specified number of years (15 years) within the average remaining years of service of the employees.

### (3) Application of the simplified method for small businesses

For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses in which the necessary retirement benefit provisions for voluntary resignations at the end of the fiscal year are recorded as retirement benefit obligations.

## **(5) Criteria for posting significant revenues and expenses**

Criteria for posting net sales of completed construction contracts and cost of sales of completed construction contracts

The percentage-of-completion method (the percentage of completion is determined using the ratio of cost incurred to the estimated total cost) is applied for the portion of progress at the end of the current fiscal year for construction work for which the outcome is deemed certain. Otherwise, the completed-contract method shall be applied.

## **(6) Accounting method for significant hedges**

### (1) Hedge accounting method

The special treatment is applied for interest rate swaps as certain requirements are fulfilled.

### (2) Hedging instruments and hedged items

Hedging instruments and hedged items for which hedge accounting was applied during the current fiscal year are as follows.

Hedging instruments: interest rate swaps

Hedged items: loans payable

### (3) Hedging policy

Hedged items are identified by transaction for assets or liabilities, and the hedged items and hedging instruments that are identified in a hedging relationship are separately managed based on hedge designation at the time of the hedged transaction.

### (4) Assessment of hedge effectiveness

The effectiveness of hedges is assessed by comparing the cumulative change of cash flows or fair value of both hedging instruments and corresponding hedged items. However, the assessment of effectiveness is not conducted for interest rate swaps for which the special treatment is applied.

## **(7) Amortization method and amortization period for goodwill**

Goodwill is amortized by the straight-line method over five years from the fiscal year of occurrence.

## **(8) Scope of funds contained within the consolidated statement of cash flows**

Cash on hand, deposits that can be withdrawn at any time and easily

be converted to cash, and short-term investments that have maturities within three months of acquisition that are exposed to only a minimal price fluctuation risk are posted.

#### (9) Other material items relating to the preparation of the consolidated financial statements

Accounting for consumption taxes

The tax exclusion method is used as the accounting treatment for consumption taxes and local consumption taxes. However, non-deductible consumption taxes related to assets are reported as expenses for the fiscal year in which they are incurred.

#### (Changes in accounting policy)

Accompanying a revision to the Corporate Tax Act of Japan, the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 32, June 17, 2016) has been applied from the current fiscal year ended March 31, 2017, and accordingly, the depreciation method for building-attached facilities and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The impact of this change on profit or loss for the current fiscal year ended March 31, 2017 was immaterial.

#### (Additional information)

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) has been applied from the current fiscal year ended March 31, 2017.

#### (Consolidated balance sheets)

##### \*1. Pledged assets and secured liabilities

Pledged assets and secured liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Current deposits	¥ 676	¥ 687	\$ 6,124
Property, plant and equipment			
Buildings and structures	7,592	7,212	64,286
Machinery, equipment and vehicles	11,204	12,327	109,879
Land	4,426	4,426	39,456
Other	234	233	2,082
Total assets pledged	¥24,134	¥24,886	\$221,828

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Accounts payable trade	¥ 511	¥ 880	\$ 7,843
Short-term loans payable	712	502	4,479
Current portion of long-term loans payable	902	529	4,715
Long-term loans payable	3,644	4,369	38,943
Total liabilities secured by such collateral	¥5,772	¥6,280	\$55,981

##### \*2. Items for non-consolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Investment securities (stocks)	¥3,338	¥3,549	\$31,633

##### \*3. Reduction entry

As of March 31, 2016

The reduction entry amounts corresponding to national subsidies were ¥509 million for buildings and structures, ¥4,415 million for machinery, equipment and vehicles, ¥310 million for land, ¥5 million for other tangible fixed assets, and ¥0 million for other intangible fixed assets. These reduction entry amounts have been deducted from the carrying amounts of the assets presented on the consolidated balance sheets.

As of March 31, 2017

The reduction entry amounts corresponding to national subsidies were ¥528 million (US\$4,712 thousand) for buildings and structures, ¥4,416 million (US\$39,370 thousand) for machinery, equipment and vehicles, ¥310 million (US\$2,769 thousand) for land, ¥5 million (US\$51 thousand) for other tangible fixed assets, and ¥0 million (US\$7 thousand) for other intangible fixed assets. These reduction entry amounts have been deducted from the carrying amounts of the assets presented on the consolidated balance sheets.

##### \*4. Contingent liabilities

Guarantee obligations on bank loans, etc., are as follows:

(1) Guarantee obligations on bank loans (including re-guarantees)

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
K. Wah Construction Materials Ltd.	¥1,378	¥1,289	\$11,493
Others (1 company)	55	356	3,179
Total	¥1,434	¥1,646	\$14,673

(2) Guarantee obligations on product purchase obligations from a ready-made concrete co-operative

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Tsukamoto Kenzai Co., Ltd.	¥27	¥18	\$165
Others (3 companies)	6	20	185
Total	¥34	¥39	\$350

#### (Consolidated statements of income)

The main components of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Sales costs	¥10,233	¥10,540	\$93,953
Allowances and bonuses	8,156	8,028	71,560
Transfer to provision for bonuses	1,111	1,084	9,670
Retirement benefit expenses	611	591	5,271
Transfer to provision for retirement benefits for officers	32	41	369
R&D expenses	3,060	2,969	26,468

##### \*2. R&D expenses included in general and administrative expenses

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
	¥3,060	¥2,969	\$26,468

### \*3. Main gain on sales of fixed assets

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Land	¥136	<b>¥503</b>	<b>\$4,487</b>
Buildings and structures	4	<b>273</b>	<b>2,440</b>
Machinery, equipment and vehicles	484	<b>115</b>	<b>1,026</b>

### \*4. Main loss on retirement of fixed assets

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Buildings and structures	¥ 175	<b>¥ 41</b>	<b>\$ 367</b>
Machinery, equipment and vehicles	55	<b>21</b>	<b>194</b>
Machinery, equipment and vehicles removal costs	1,132	<b>636</b>	<b>5,669</b>

### \*5. Main loss on sales of fixed assets

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Land	¥29	<b>¥1</b>	<b>\$17</b>
Buildings and structures	3	<b>0</b>	<b>4</b>

### \*6. Impairment loss

Based on the categories of business assets and idle assets, the Group groups its business assets based on the smallest units used in management accounting and groups idle assets based on the corresponding asset.

Business assets that are rental properties for the real estate business are grouped based on the corresponding property unit.

For the fiscal year ended March 31, 2016

For idle assets and assets for the ready-mix concrete production business held by the Group with a recoverable amount lower than the carrying amount, the carrying amount has been reduced to the recoverable amount, and this reduction has been recorded as an impairment loss (¥165 million) under extraordinary loss.

A breakdown of impairment losses is as follows.

Classification	Location	Type	Impairment loss millions of yen
Idle assets	Tamura City, Fukushima Prefecture, etc.	Land and quarry sites	148
Assets for the ready-mix concrete production business	Toda City, Saitama Prefecture	Machinery, equipment and buildings	17

\*Breakdown of impairment losses for each type

Classification	Breakdown (millions of yen)
Idle assets	Land 140, quarry sites 8
	Total 148
Assets for the ready-mix concrete production business	Machinery and equipment 12, buildings 2, other intangible fixed assets 1
	Total: 17

Recoverable amounts are measured using respective net selling prices.

Net selling prices for land are assessed based on real estate appraisal valuations, and reasonable estimates are made for other fixed assets.

For the fiscal year ended March 31, 2017

This information is omitted as it lacks materiality.

### (Consolidated Statements of Comprehensive Income)

\*Reclassification adjustments and tax effects related to other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Valuation difference for available-for-sale securities:			
Amount incurred during the current fiscal year	¥(10,139)	<b>¥ 9,095</b>	<b>\$ 81,072</b>
Reclassification adjustments	55	<b>(566)</b>	<b>(5,045)</b>
Before adjustment for tax effects	(10,083)	<b>8,529</b>	<b>76,026</b>
Tax effects	3,607	<b>(2,644)</b>	<b>(23,568)</b>
Valuation difference for available-for-sale securities	(6,476)	<b>5,885</b>	<b>52,457</b>
Foreign currency translation adjustments:			
Amount incurred during the current fiscal year	206	<b>(87)</b>	<b>(781)</b>
Remeasurements of defined benefit plans:			
Amount incurred during the current fiscal year	(1,100)	<b>85</b>	<b>765</b>
Reclassification adjustments	279	<b>261</b>	<b>2,326</b>
Before adjustment for tax effects	(820)	<b>346</b>	<b>3,091</b>
Tax effects	252	<b>(107)</b>	<b>(958)</b>
Remeasurements of defined benefit plans	(567)	<b>239</b>	<b>2,133</b>
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount incurred during the current fiscal year	(2)	<b>1</b>	<b>10</b>
Total other comprehensive income	¥ (6,840)	<b>¥ 6,038</b>	<b>\$ 53,820</b>

### (Consolidated Statements of Changes in Net Assets)

For the fiscal year ended March 31, 2016

1. Type and total number of outstanding shares and treasury shares

	Number of shares at beginning of the fiscal year (thousands of shares)	Increase during the fiscal year (thousands of shares)	Decrease during the fiscal year (thousands of shares)	Number of shares at the end of the fiscal year (thousands of shares)
Outstanding shares				
Common stock	417,432	–	–	417,432
Total	417,432	–	–	417,432
Treasury stock				
Common stock (note)	1,383	10,100	1	11,483
Total	1,383	10,100	1	11,483

(Note) A breakdown of increases and decreases in common stock held as treasury stock is as follows:

Acquisition of treasury stock through a resolution of the Board of Directors on May 14, 2015: 10,000 thousand shares  
Increase due to the acquisition of shares in amounts of less than one trading unit: 100 thousand shares  
Decrease due to sales of shares in amounts of less than one trading unit: 1 thousand shares

2. Information on dividends

(1) Amount of dividends paid

(Resolution)	Type of shares	Total dividend amount (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Ordinary General Meeting of Shareholders held on June 26, 2015	Common stock	1,664	4.0	March 31, 2015	June 29, 2015
Board of Directors Meeting held on November 5, 2015	Common stock	1,623	4.0	September 30, 2015	December 3, 2015

(2) Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ended March 31, 2017

(Resolution)	Type of shares	Total dividend amount (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2016	Common stock	1,623	Retained earnings	4.0	March 31, 2016	June 30, 2016

For the fiscal year ended March 31, 2017

1. Type and total number of outstanding shares and treasury shares

	Number of shares at beginning of the fiscal year (thousands of shares)	Increase during the fiscal year (thousands of shares)	Decrease during the fiscal year (thousands of shares)	Number of shares at the end of the fiscal year (thousands of shares)
Outstanding shares				
Common stock	417,432	–	–	417,432
Total	417,432	–	–	417,432
Treasury stock				
Common stock (note)	11,483	65	0	11,548
Total	11,483	65	0	11,548

(Note) A breakdown of increases and decreases in common stock held as treasury stock is as follows:  
 Increase due to the acquisition of shares in amounts of less than one trading unit: 65 thousand shares  
 Decrease due to sales of shares in amounts of less than one trading unit: 0 thousand shares

2. Information on dividends

(1) Amount of dividends paid

(Resolution)	Type of shares	Total dividend amount (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2016	Common stock	1,623	4.0	March 31, 2016	June 30, 2016
Board of Directors Meeting held on November 8, 2016	Common stock	2,029	5.0	September 30, 2016	December 2, 2016

(Resolution)	Type of shares	Total dividend amount (thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2016	Common stock	14,473	0.036	March 31, 2016	June 30, 2016
Board of Directors Meeting held on November 8, 2016	Common stock	18,090	0.045	September 30, 2016	December 2, 2016

(2) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ending March 31, 2018

(Resolution)	Type of shares	Total dividend amount (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2017	Common stock	2,029	Retained earnings	5.0	March 31, 2017	June 30, 2017

(Resolution)	Type of shares	Total dividend amount (thousands of U.S. dollars)	Source of dividends	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Ordinary General Meeting of Shareholders held on June 29, 2017	Common stock	18,090	Retained earnings	0.045	March 31, 2017	June 30, 2017

## (Consolidated Statements of Cash Flows)

\*Reconciliation between cash and cash equivalents at end of period and the carrying amount on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Cash and deposits at end of fiscal year	¥31,536	¥26,828	\$239,138
Time deposits with a maturity of over three months	(158)	(156)	(1,391)
Cash and cash equivalents at end of period	¥31,378	¥26,672	\$237,746

## (Lease transactions)

### 1. Finance lease transactions (lessee)

Finance lease transactions that do not transfer ownership

(1) Leased assets

Property, plant and equipment

Mainly consist of production facilities (machinery and vehicles) in the cement and mineral resources businesses

(2) Depreciation method of leased assets

The depreciation methods of leased assets used for the preparation of the consolidated financial statements are as described under "6. Matters concerning accounting policies (2) Depreciation and amortization methods of significant assets".

### 2. Operating lease transactions

Future lease payments for non-cancelable operating leases

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Within one year	¥133	¥142	\$1,270
Over 1 year	217	159	1,417
Total	¥351	¥301	\$2,688

## (Financial instruments)

For the fiscal year ended March 31, 2016

1. Matters concerning the status of financial instruments

(1) Policies for financial instruments

The Group procures necessary funds primarily through bank loans and the issuance of bonds in accordance with capital expenditure plans and financial plans mainly to engage in the business of producing and selling cement. Temporary surpluses are invested in low-risk financial instruments and bank loans provide short-term working capital. It is the Group's policy to use derivatives as a way to avoid the below-stated risks but not to engage in trading or speculative transactions.

(2) Types and risks of financial instruments and risk management

Trade receivables, such as notes and accounts receivable, are subject to credit risk in relation to customers. In accordance with its internal policies for managing such risk, the Company has established a system that manages the due dates and outstanding balances by each customer. Securities and investment securities are composed of mainly stocks associated with business and capital alliances, and are subject to market risk.

Trade payables, such as notes and accounts payable, usually have a payment due date within one year. Furthermore, a certain portion of such payables is denominated in foreign currencies, associated with the import of raw materials, and is thus subject to exchange rate fluctuation risk. However, such risks are minor. Loans, bonds and lease obligations related to finance lease transactions are taken out principally for the purpose of making capital investments. Such obligations' redemption dates are a maximum of 14 years from the balance sheet date. A certain portion of said liabilities have variable interest rates and are subject to interest rate fluctuation risk. However, to hedge such risks, the interest rates are fixed through the use of derivative transactions (interest rate swap transactions). Evaluation of the effectiveness of derivatives is omitted since all of the interest rate swap transactions meet the specific matching criteria.

Derivative transactions are entered into and managed in accordance with internal policies, which determine the authority to undertake such transactions. To minimize credit risk, derivative transactions are entered into only with highly rated financial institutions.

Furthermore, while trade payables and loans are subject to liquidity risk, the Group manages such risks by preparing monthly cash flow plans for each company.

(3) Supplemental explanation of the estimated fair value of financial instruments

The values of contracts related to derivative transactions as stated in "2. Estimated fair value of financial instruments" do not by themselves indicate the market risk associated with the respective derivative transactions.

2. Estimated fair value of financial instruments

Consolidated balance sheet amounts, estimated fair values and their differences as of March 31, 2016 are as follows. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (see Note 2).

Millions of yen			
	Consolidated balance sheet amounts	Fair value	Difference
(1) Cash and deposits	¥31,536	¥31,536	¥-
(2) Notes and accounts receivable—trade	45,660	45,660	-
(3) Securities and investment securities	49,269	49,269	-
(4) Short-term loans receivable	234	234	-
(5) Long-term loans receivable	74	81	7
<b>Total assets</b>	<b>126,775</b>	<b>126,783</b>	<b>7</b>
(1) Notes and accounts payable—trade	25,882	25,882	-
(2) Short-term loans payable	25,987	25,987	-
(3) Bonds payable	15,000	15,057	57
(4) Long-term loans payable	35,520	36,068	548
<b>Total liabilities</b>	<b>102,390</b>	<b>102,996</b>	<b>605</b>
Derivative transactions	-	-	-
<b>Total derivative transactions</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥-</b>

(Note 1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

- (1) Cash and deposits, (2) Notes and accounts receivable—trade and (4) Short-term loans receivable  
Since these items are settled in the short-term, their fair value approximates the carrying amount. Therefore, the carrying amount is used to estimate market value.  
(3) Securities and investment securities

The fair value of such securities is based on quoted market prices. Please refer to "Securities", of these notes to the consolidated financial statements for information on securities classified by holding purpose.

- (5) Long-term loans receivable  
Long-term loans receivable are classified by remaining length of time to maturity. The fair values are estimated based on the present value of future cash flows discounted by the contracted rates as adjusted considering the rate for Japanese government-issued bonds.

Liabilities

- (1) Notes and accounts payable—trade and (2) Short-term loans payable  
Since these items are settled in the short-term, their market value approximates the carrying amount. Therefore, the carrying amount is used to estimate fair value.  
(3) Bonds payable  
The fair value of bonds issued by the Company is based on the quoted market price.  
(4) Long-term loans payable  
Long-term loans payable are classified by remaining length of time to maturity. The market values are estimated based on the present value of future cash flows discounted by the contracted rates as adjusted considering the rate for Japanese government-issued bonds. Long-term loans payable with floating rate interest are subject to special treatment with interest rate swaps (refer to "Derivative transactions" below), the total of principal and interest that is treated together with the hedged long-term loan is discounted by the interest reasonably expected to be applied for a similar type of loan.

Derivative transactions

Refer to "Derivative transactions" of these notes.

- (Note 2) Financial instruments for which fair value is extremely difficult to determine

Millions of yen	
Classification	Consolidated balance sheet amounts
Unlisted securities (*1)	¥1,745
Long-term loans receivable (*2)	2,832

(\*1) Unlisted securities have no available market price and the estimation of future cash flows is expected to entail excessive costs. Consequently, their market value is recognized as extremely difficult to estimate and, unlisted securities are not included in "Assets (3) Securities and investment securities".

The Group recognized an impairment loss of ¥11 million on unlisted shares during the current fiscal year ended March 31, 2016.

(\*2) Certain long-term loans receivable are not included in "Assets (5) Long-term loans receivable" because future cash flows cannot be estimated reliably and their market value is recognized as extremely difficult to estimate.

- (Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

Millions of yen				
	Within one year	Over one year and under five years	Over five years and under ten years	Over ten years
Cash and deposits	¥31,510	¥-	¥-	¥-
Notes and accounts receivable—trade	45,660	-	-	-
Securities and investment securities	-	-	-	-
Held-to-maturity securities	-	-	-	-
Redeemable available-for-sale securities	-	-	-	-
Short-term loans receivable	234	-	-	-
Long-term loans receivable	10	4	59	74
<b>Total</b>	<b>¥77,415</b>	<b>¥4</b>	<b>¥59</b>	<b>¥74</b>

- (Note 4) Redemption schedule for bonds and long-term loans payable with future redemption dates

Millions of yen						
	Within one year	Over one year and under two years	Over two years and under three years	Over three years and under four years	Over four years and under five years	Over five years
Short-term loans payable	¥25,987	¥-	¥-	¥-	¥-	¥-
Bonds payable	10,000	-	-	5,000	-	-
Long-term loans payable	9,392	6,863	4,893	6,798	2,447	5,124
<b>Total</b>	<b>¥45,380</b>	<b>¥6,863</b>	<b>¥4,893</b>	<b>¥11,798</b>	<b>¥2,447</b>	<b>¥5,124</b>

For the fiscal year ended March 31, 2017

1. Matters concerning the status of financial instruments

(1) Policies for financial instruments

The Group procures necessary funds primarily through bank loans and the issuance of bonds in accordance with capital expenditure plans and financial plans mainly to engage in the business of producing and selling cement. Temporary surpluses are invested in low-risk financial instruments and bank loans provide short-term working capital. It is the Group's policy to use derivatives as a way to avoid the below-stated risks but not

to engage in trading or speculative transactions.

(2) Types and risks of financial instruments and risk management

Trade receivables, such as notes and accounts receivable, are subject to credit risk in relation to customers. In accordance with its internal policies for managing such risk, the Company has established a system that manages the due dates and outstanding balances by each customer. Securities and investment securities are composed of mainly stocks associated with business and capital alliances, and are subject to market risk.

Trade payables, such as notes and accounts payable, usually have payment due dates within one year. Furthermore, a certain portion of such payables are denominated in foreign currencies, associated with the import of raw materials, and are thus subject to exchange rate fluctuation risks. However, such risks are minor. Loans, bonds and lease obligations related to finance lease transactions are taken out principally for the purpose of making capital investments. Such obligations' redemption dates are a maximum of 16 years from the balance sheet date. A certain portion of said liabilities have variable interest rates and are subject to interest rate fluctuation risks. However, to hedge such risks, the interest rates are fixed through the use of derivative transactions (interest rate swap transactions). Evaluation of the effectiveness of derivatives is omitted since all of the interest rate swap transactions meet the specific matching criteria.

Derivative transactions are entered into and managed in accordance with internal policies, which determine the authority to undertake such transactions. To minimize credit risk, derivative transactions are entered into only with highly rated financial institutions.

Furthermore, while trade payables and loans are subject to liquidity risk, the Group manages such risks by preparing monthly cash flow plans for each company.

(3) Supplemental explanation of the estimated fair value of financial instruments

The values of contracts related to derivative transactions as stated in "2. Estimated fair value of financial instruments" do not by themselves indicate the market risk associated with the respective derivative transactions.

2. Estimated fair value of financial instruments

Consolidated balance sheet amounts, estimated fair values and their differences as of March 31, 2017 are as follows. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (see Note 2).

	Millions of yen		
	Consolidated balance sheet amounts	Market value	Difference
(1) Cash and deposits	¥ 26,828	¥ 26,828	¥ -
(2) Notes and accounts receivable—trade	48,877	48,877	-
(3) Securities and investment securities Available-for-sale securities	56,953	56,953	-
(4) Short-term loans receivable	194	194	-
(5) Long-term loans receivable	56	61	5
Total assets	¥132,911	¥132,916	¥ 5

Millions of yen

	Consolidated balance sheet amounts	Market value	Difference
(1) Notes and accounts payable—trade	28,650	28,650	5
(2) Short-term loans payable	21,898	21,898	-
(3) Bonds payable	10,000	10,008	8
(4) Long-term loans payable	32,319	32,601	282
Total liabilities	¥92,868	¥93,159	¥290
Derivative transactions	-	-	-
Total derivative transactions	¥ -	¥ -	¥ -

Thousands of U.S. dollars

	Consolidated balance sheet amounts	Market value	Difference
(1) Cash and deposits	\$ 239,138	\$ 239,138	\$ -
(2) Notes and accounts receivable—trade	435,665	435,665	-
(3) Securities and investment securities	507,654	507,654	-
(4) Short-term loans receivable	1,736	1,736	-
(5) Long-term loans receivable	507	552	(45)
Total assets	\$1,184,701	\$1,184,746	\$ (45)
(1) Notes and accounts payable—trade	255,377	255,377	-
(2) Short-term loans payable	195,191	195,191	-
(3) Bonds payable	89,134	89,205	(71)
(4) Long-term loans payable	288,073	290,594	(2,521)
Total liabilities	\$ 827,777	\$ 830,369	\$(2,592)
Derivative transactions	-	-	-
Total derivative transactions	\$ -	\$ -	\$ -

(Note 1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

- (1) Cash and deposits, (2) Notes and accounts receivable—trade and (4) Short-term loans receivable  
Since these items are settled in the short-term, their fair market value approximates the carrying amount. Therefore, the carrying amount is used to estimate market value.
- (3) Securities and investment securities  
The market value of such securities is based on quoted market prices. Please refer to "Securities" of these notes to the consolidated financial statements for information on securities classified by holding purpose.
- (5) Long-term loans receivable  
Long-term loans receivable are classified by the remaining length of time to maturity. The fair values are estimated based on the present value of future cash flows discounted by the contracted rates as adjusted considering the rate for Japanese government-issued bonds.

Liabilities

- (1) Notes and accounts payable—trade and (2) Short-term loans payable  
Since these items are settled in the short-term, their fair market value approximates the carrying amount. Therefore, the carrying amount is used to estimate market value.
- (3) Bonds payable  
The fair value of bonds issued by the Company is based on the quoted market price.
- (4) Long-term loans payable  
Long-term loans payable are classified by the remaining length of time to maturity. The market values are estimated based on the present value of future cash flows discounted by the contracted rates as adjusted considering the rate for Japanese government issued bonds. Long-term loans payable with floating rate interest are subject to special treatment with interest rate swaps (refer to "Derivative transactions" below), the total of principal and interest that is treated together with the hedged long-term loan is discounted by the interest reasonably expected to be applied for a similar type of loan.

Derivative transactions

Refer to "Derivative transactions" of these notes.

(Note 2) Financial instruments for which fair value is extremely difficult to determine

	Millions of yen	Thousands of U.S. dollars
Classification	Consolidated balance sheet amounts	Consolidated balance sheet amounts
Unlisted securities <sup>(*)</sup>	¥1,778	\$15,850
Long-term loans receivable <sup>(**)</sup>	2,815	25,087

<sup>(\*)</sup> Unlisted securities have no available market price and the estimation of future cash flows is expected to entail excessive costs. Consequently, their fair value is recognized as extremely difficult to estimate and, unlisted securities are not included in "Assets (3) Securities and investment securities".

The Group recognized an impairment loss of ¥11 million on unlisted shares during the fiscal year ended March 31, 2017.

<sup>(\*\*)</sup> Certain long-term loans receivable are not included in "Assets (5) Long-term loans receivable" because future cash flows cannot be estimated reliably and their fair value is recognized as extremely difficult to estimate.

(Note 3) Redemption schedule for receivables and redeemable securities with future redemption dates

Millions of yen				
	Within one year	Over one year and under five years	Over five years and under ten years	Over ten years
Cash and deposits	¥26,804	¥-	¥-	¥-
Notes and accounts receivable-trade	48,877	-	-	-
Securities and investment securities	-	-	-	-
Held-to-maturity securities	-	-	-	-
Redeemable available-for-sale securities	-	-	-	-
Short-term loans receivable	194	-	-	-
Long-term loans receivable	1	3	52	-
<b>Total</b>	<b>¥75,877</b>	<b>¥3</b>	<b>¥52</b>	<b>¥-</b>

Thousands of U.S. dollars				
	Within one year	Over one year and under five years	Over five years and under ten years	Over ten years
Cash and deposits	\$238,919	\$-	\$-	\$-
Notes and accounts receivable-trade	435,665	-	-	-
Securities and investment securities	-	-	-	-
Held-to-maturity securities	-	-	-	-
Redeemable available-for-sale securities	-	-	-	-
Short-term loans receivable	1,736	-	-	-
Long-term loans receivable	9	33	463	-
<b>Total</b>	<b>\$676,330</b>	<b>\$33</b>	<b>\$463</b>	<b>\$-</b>

(Note 4) Redemption schedule for bonds and long-term loans payable with future redemption dates

Millions of yen						
	Within 1 year	Over one year and under two years	Over two years and under three years	Over three years and under four years	Over four years and under five years	Over five years
Short-term loans payable	¥21,898	¥-	¥-	¥-	¥-	¥-
Bonds payable	-	-	5,000	-	-	5,000
Long-term loans payable	7,352	6,121	7,984	3,564	2,893	4,403
<b>Total</b>	<b>¥29,251</b>	<b>¥6,121</b>	<b>¥12,984</b>	<b>¥3,564</b>	<b>¥2,893</b>	<b>¥9,403</b>

Thousands of U.S. dollars						
	Within 1 year	Over one year and under two years	Over two years and under three years	Over three years and under four years	Over four years and under five years	Over five years
Short-term loans payable	\$195,192	\$-	\$-	\$-	\$-	\$-
Bonds payable	-	-	44,567	-	-	44,567
Long-term loans payable	65,538	54,560	71,170	31,771	25,787	39,248
<b>Total</b>	<b>\$260,729</b>	<b>\$54,560</b>	<b>\$115,737</b>	<b>\$31,771</b>	<b>\$25,787</b>	<b>\$83,816</b>

## (Securities)

### 1. Available-for-sale securities

As of March 31, 2016

millions of yen				
Type	Consolidated balance sheet amounts	Acquisition cost	Difference	
(1) Stocks	¥49,261	¥12,727	¥36,533	
(2) Bonds				
National government bonds, local government bonds, etc.	-	-	-	
Corporate bonds	-	-	-	
Others	-	-	-	
(3) Others				
Subtotal	49,261	12,727	36,533	

millions of yen				
Type	Consolidated balance sheet amounts	Acquisition cost	Difference	
(1) Stocks	8	9	(1)	
(2) Bonds				
National government bonds, local government bonds, etc.	-	-	-	
Corporate bonds	-	-	-	
Others	-	-	-	
(3) Others				
Subtotal	8	9	(1)	
<b>Total</b>	<b>¥49,269</b>	<b>¥12,737</b>	<b>¥36,532</b>	

As of March 31, 2017

Millions of yen				
Type	Consolidated balance sheet amounts	Acquisition cost	Difference	
(1) Stocks	¥56,943	¥11,881	¥45,062	
(2) Bonds				
National government bonds, local government bonds, etc.	-	-	-	
Corporate bonds	-	-	-	
Others	-	-	-	
(3) Others				
Subtotal	56,943	11,881	45,062	
(1) Stocks	10	10	(0)	
(2) Bonds				
National government bonds, local government bonds, etc.	-	-	-	
Corporate bonds	-	-	-	
Others	-	-	-	
(3) Others				
Subtotal	10	10	(0)	
<b>Total</b>	<b>¥56,953</b>	<b>¥11,892</b>	<b>¥45,061</b>	

Thousands of U.S. dollars				
Type	Consolidated balance sheet amounts	Acquisition cost	Difference	
(1) Stocks	\$507,562	\$105,904	\$401,657	
(2) Bonds				
National government bonds, local government bonds, etc.	-	-	-	
Corporate bonds	-	-	-	
Others	-	-	-	
(3) Others				
Subtotal	507,562	105,904	401,657	
(1) Stocks	91	97	(6)	
(2) Bonds				
National government bonds, local government bonds, etc.	-	-	-	
Corporate bonds	-	-	-	
Others	-	-	-	
(3) Others				
Subtotal	91	97	(6)	
<b>Total</b>	<b>\$507,654</b>	<b>\$106,002</b>	<b>\$401,651</b>	

## 2. Sales of available-for-sale securities

For the fiscal year ended March 31, 2016

Type	Millions of yen		
	Proceeds from sales	Total gains on sales	Total losses on sales
(1) Stocks	¥53	¥4	¥0
(2) Bonds			
National government bonds, local government bonds, etc.	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
(3) Others	-	-	-
Total	¥53	¥4	¥0

For the fiscal year ended March 31, 2017

Type	Millions of yen		
	Proceeds from sales	Total gains on sales	Total losses on sales
(1) Stocks	¥1,420	¥566	¥-
(2) Bonds			
National government bonds, local government bonds, etc.	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
(3) Others	-	-	-
Total	¥1,420	¥566	¥-

Type	Thousands of U.S. dollars		
	Proceeds from sales	Total gains on sales	Total losses on sales
(1) Stocks	\$12,662	\$5,045	\$-
(2) Bonds			
National government bonds, local government bonds, etc.	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
(3) Others	-	-	-
Total	\$12,662	\$5,045	\$-

## (Derivative transactions)

### 1. Derivative transactions not subject to hedge accounting

None.

### 2. Derivative transactions subject to hedge accounting

Interest rate related

As of March 31, 2016

Hedge accounting method	Types of transactions	Major hedged items	Millions of yen		
			Contract amount	Contract amount over one year	Fair value
Special accounting treatment for interest rate swaps	Interest rate swap transactions Pay fixed; receive floating	Long-term loans payable	¥15,450	¥10,525	-

(Note) Because the special treatment of interest rate swaps is treated together with the hedged long-term loans payable, the market value is included in the market value of the relevant long-term loans payable.

As of March 31, 2017

Hedge accounting method	Types of transactions	Major hedged items	Millions of yen		
			Contract amount	Contract amount over one year	Market value
Special accounting treatment for interest rate swaps	Interest rate swap transactions Pay fixed; receive floating	Long-term loans payable	¥11,771	¥8,371	Notes:

Hedge accounting method	Types of transactions	Major hedged items	Thousands of U.S. dollars		
			Contract amount	Contract amount over one year	
Special accounting treatment for interest rate swaps	Interest rate swap transactions Pay fixed; receive floating	Long-term loans payable	\$104,920	\$74,614	Notes:

(Note) Because the special treatment of interest rate swaps is treated together with the hedged long-term loans payable, the market value is included in the market value of the relevant long-term loans payable.

## (Retirement benefits)

### 1. Outline of retirement benefits system

In order to pay employee retirement benefits, the Company and its domestic consolidated subsidiaries have funded and unfunded defined benefit and defined contribution retirement plans.

For the defined benefit and retirement lump-sum payment plans of certain domestic consolidated subsidiaries, the net retirement benefit liability and retirement benefit cost are calculated using the simplified method.

### 2. Defined benefit plans

(1) Reconciliation of beginning and ending balances of projected benefit obligation (excluding plans using the simplified method)

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Beginning balance of projected benefit obligation	¥13,190	¥13,916	\$124,046
Service cost	726	¥773	6,890
Interest cost	104	27	245
Actuarial gains and losses	825	(166)	(1,485)
Payment of retirements benefits	(930)	(789)	(7,034)
Ending balance of projected benefit obligation	¥13,916	¥13,761	\$122,663

(2) Reconciliation of beginning and ending balances of pension assets (excluding plans using the simplified method)

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Beginning balance of pension assets	¥11,985	¥11,642	\$103,778
Expected return on pension assets	239	232	2,075
Actuarial gains and losses	(274)	(80)	(720)
Employer contribution	612	595	5,309
Payment of retirements benefits	(920)	(777)	(6,933)
Ending balance of pension assets	¥11,642	¥11,612	\$103,509

(3) Reconciliation of beginning and ending balances of net defined benefit liability using the simplified method

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Beginning balance of net defined benefit liability	¥ 617	¥ 481	\$4,291
Retirement benefit expenses	194	207	1,850
Retirement benefit payment	(102)	(105)	(940)
Plan contributions	(101)	(93)	(834)
Other	(126)	2	19
Ending balance of net defined benefit liability	¥ 481	¥ 492	\$4,387

(4) Reconciliation of projected benefit obligations and pension assets at end of year with net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	ended March 31, 2016	ended March 31, 2017	ended March 31, 2017
Projected benefit obligation of funded plan	¥ 15,018	¥ 14,848	\$ 132,354
Pension assets	(13,181)	(13,148)	(117,194)
	1,837	1,700	15,159
Projected benefit obligation of unfunded plan	918	940	8,381
Net amount of liabilities and assets on the consolidated balance sheet	2,755	2,641	23,541
Net defined benefit liability	3,076	2,987	26,626
Net defined benefit asset	(320)	(346)	(3,084)
Net amount of liabilities and assets on the consolidated balance sheet	¥ 2,755	¥ 2,641	\$ 23,541

(5) Breakdown of retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Service cost	¥ 726	¥ 773	\$ 6,890
Interest cost	104	27	245
Expected return on pension assets	(239)	(232)	(2,075)
Amortization of actuarial loss	279	261	2,326
Retirement benefit cost calculated using simplified method	194	207	1,850
Retirement benefit cost of defined benefit pension plan	¥1,066	¥1,036	\$ 9,238

(6) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans (before tax effects) in other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Actuarial gains and losses	¥(820)	¥346	\$3,091
Total	¥(820)	¥346	\$3,091

(7) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans (before tax effects) in accumulated other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Unrecognized actuarial gains and losses	¥970	¥623	\$5,558
Total	¥970	¥623	\$5,558

(8) Matters concerning pension assets

(1) Breakdown of main pension assets

The ratio of the main types of pension assets to total pension assets is as follows:

	as of March 31, 2016	as of March 31, 2017
Bonds	49%	53%
Stocks	30%	25%
General accounts	17%	17%
Other	5%	5%
Total	100%	100%

(2) Method for determining the expected long-term investment return  
In determining the expected long-term investment return for pension assets, estimates are made in consideration of the

current and expected distributions of pension assets, and the current and expected long-term return rate from the various assets that compose the pension assets.

(9) Matters concerning actuarial assumptions

Principal actuarial assumptions

	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017
Discount rate	0.8%	0.2%
Expected long-term investment return	2.0%	2.0%
Expected rates of salary increases	3.4% to 5.4%	3.4% to 5.4%

(Stock options)

Not applicable.

(Accounting for income taxes)

1. Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Deferred tax assets			
Impairment loss	¥ 3,636	¥ 2,394	\$ 21,346
Tax loss carryforwards	934	1,477	13,166
Provision for bonuses	732	739	6,587
Unrealized gain	548	516	4,600
Net defined benefit liability	1,051	938	8,364
Accrued business tax	340	256	2,284
Allowance for doubtful receivables	154	42	381
Other	1,205	1,396	12,447
Subtotal for deferred tax assets	8,603	7,761	69,178
Valuation allowance	(4,986)	(4,193)	(37,377)
Total deferred tax assets	3,616	3,567	31,801
Deferred tax liabilities			
Valuation difference on available-for-sale securities	(11,333)	(13,978)	(124,596)
Liability reserves under the Act on Special Measures Concerning Taxation	(1,178)	(1,176)	(10,482)
Other	(633)	(638)	(5,689)
Total deferred tax liabilities	(13,145)	(15,792)	(140,768)
Deferred tax liabilities, net	¥ (9,528)	¥(12,225)	\$ (108,967)

(Note) Net deferred tax liabilities for the previous fiscal year and current fiscal year include the following items in the consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	as of March 31, 2016	as of March 31, 2017	as of March 31, 2017
Current assets - deferred tax assets	¥ 1,701	¥ 1,630	\$ 14,536
Noncurrent assets - deferred tax assets	715	695	6,199
Noncurrent liabilities - deferred tax liabilities	(11,945)	(14,549)	(129,690)

2. Significant components of material differences between the statutory effective tax rate and the effective tax rate after the application of tax effect accounting

	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017
Statutory effective tax rate	-	31.0%
(Adjustment)		
Adjustments that are not temporary differences	-	0.3
Valuation allowance	-	(1.0)
Tax credit	-	(0.7)
Other	-	(0.8)
Effective tax rate after the application of tax effect accounting	-	28.8%

(Note) Because the difference between the statutory effective tax rate and the effective tax rate after the application of tax effect accounting was less than 5% for the fiscal year ended March 31, 2016, the reconciliation is omitted.

## (Rental real estate)

The Company and certain subsidiaries own rental distribution warehouses, rental office buildings (including the surrounding land), idle land, and other properties in Osaka Prefecture and other areas. During the previous fiscal year ended March 31, 2016, rental income from rental property assets was ¥1,016 million (rental income is recorded under sales and rental costs are recorded under cost of sales), net gains from sales of rental property amounted to ¥107 million (recorded under extraordinary gain) and impairment loss was ¥148 million (recorded under extraordinary loss). During the current fiscal year ended March 31, 2017, rental income from rental property assets was ¥956 million (US\$8,527 thousand) (rental income is recorded under sales and rental costs are recorded under cost of sales), net gains from sales of rental property amounted to ¥774 million (US\$6,906 thousand) (recorded under extraordinary gain), and impairment loss was ¥15 million (US\$135 thousand) (recorded under extraordinary loss).

The carrying amount of rental property, and changes in carrying amount and fair value are as follows:

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Consolidated balance sheet amounts			
Opening balance	¥22,910	<b>¥23,015</b>	<b>\$205,144</b>
Change during the fiscal year	104	<b>50</b>	<b>445</b>
Closing balance	23,015	<b>23,065</b>	<b>205,590</b>
Fair value at the end of the fiscal year	¥30,958	<b>¥31,352</b>	<b>\$279,458</b>

(Notes) 1. Consolidated balance sheet amounts represent acquisition costs less accumulated depreciation and amortization as well as accumulated impairment loss.

2. The market value (which includes adjustments using relevant indices) is calculated using the standard for real estate appraisal for significant assets, and is estimated based on the value calculated for property tax for other assets.

## (Segment information)

Segment information

I. For the fiscal year ended March 31, 2016

1. Overview of reporting segments

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Company's reportable segments are composed of products and services based on the Cement segment and departments. The Company's six reportable segments are: Cement, Mineral Resources, Cement-Related Products, Optoelectronics, Advanced Materials, and Others.

Main products for each reportable segment are as follows:

Reporting segments	Main products
Cement	Assorted cement, ready-mix concrete, cement-related solidification materials, supply of electrical power, and recycling of raw materials and fuel
Mineral Resources	Limestone and mineral products
Cement-Related Products	Repairing and reinforcing products for concrete structures, and secondary products of concrete
Optoelectronics	Optical communications devices and components, and optical measurement equipment
Advanced Materials	Ceramic products, plasma display panels (PDPs) filters, and nanoparticle materials
Others	Leasing of real estate, engineering, development of software, and secondary cell materials

2. Calculation method for net sales, profit or loss, assets, liabilities, and other amounts for each reportable segment

The accounting methods for the reportable segments are, in general, the same as those described in the "Basis of preparation of consolidated financial statements".

Segment profit of each reporting segment is an amount based on operating income. Intersegment profits and transfers are based on prevailing market prices.

3. Information on net sales, profit or loss, assets, liabilities, and other items by reporting segment

	Reporting segments						Total	Note 1	Note 2
	Cement	Mineral Resources	Cement-Related Products	Optoelectronics	Advanced Materials	Other		Eliminations and adjustments	Consolidated
Net sales and operating income									
Net sales									
(1) Net sales to outside customers	¥180,154	¥12,798	¥19,705	¥8,364	¥5,544	¥7,624	¥234,192	¥ -	¥234,192
(2) Intersegment sales or transfers	3,126	4,234	2,226	-	-	4,660	14,248	(14,248)	-
Total	183,281	17,033	21,932	8,364	5,544	12,284	248,440	(14,248)	234,192
Segment profit (or loss)	16,516	2,250	1,648	1,090	1,333	765	23,605	8	23,614
Segment assets	215,935	31,565	14,303	7,767	5,635	30,687	305,896	19,814	325,710
Other items									
Depreciation expense	12,883	1,700	485	687	294	873	16,924	(1)	16,922
Amortization of goodwill	30	-	-	7	-	-	37	-	37
Increase in property, plant and equipment and intangible assets	15,097	2,223	743	735	281	412	19,494	-	19,494

Notes: 1. Eliminations and adjustments are described below.

(1) Eliminations and adjustments for segment profit and loss of ¥8 million include elimination of inter-segment profit and loss.

(2) Eliminations and adjustments for segment assets of ¥19,814 million include ¥33,099 million of corporate assets, which are not allocable to a reportable segment, and (¥13,285 million) of elimination of inter-segment profit and loss. Corporate assets mainly consist of long-term investment funds (investment securities) and assets attributable to administrative divisions.

(3) Eliminations and adjustments for depreciation and amortization of (¥1 million) include ¥9 million of depreciation and amortization for corporate assets and (¥11 million) of elimination of inter-segment profit and loss.

2. Segment profit (or loss) has been adjusted to the operating income reported in the consolidated statements of income.

## II. For the fiscal year ended March 31, 2017

### 1. Overview of reporting segments

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions about resource allocation and to assess performance.

The Company's reportable segments are composed of products and services based on the Cement segment and departments. The Company's six reportable segments are: Cement, Mineral Resources, Cement-Related Products, Optoelectronics, Advanced Materials, and Others.

Main products for each reportable segment are as follows:

Reporting segments	Main products
Cement	Assorted cement, ready-mix concrete, cement-related solidification materials, supply of electrical power, and recycling of raw materials and fuel

Mineral Resources	Limestone and mineral products
Cement-Related Products	Repairing and reinforcing products for concrete structures, and secondary products of concrete
Optoelectronics	Optical communications devices and components, and optical measurement equipment
Advanced Materials	Ceramic products, plasma display panels (PDPs) filters, and nanoparticle materials
Other	Leasing of real estate, engineering, development of software, and secondary cell materials

### 2. Calculation method for net sales, profit or loss, assets, liabilities, and other amounts for each reportable segment

The accounting methods for the reportable segments are, in general, the same as those described in the "Basis of preparation of consolidated financial statements".

Segment profit of each reporting segment is an amount based on operating income. Intersegment profits and transfers are based on prevailing market prices.

### 3. Information on net sales, profit or loss, assets, liabilities, and other items by reporting segment

	Reporting segments							Millions of yen	
	Cement	Mineral Resources	Building Materials	Optoelectronics	Advanced Materials	Other	Total	Note 1	Note 2
								Adjustment amount	Consolidated
Net sales and operating income									
Net sales									
(1) Net sales to outside customers	¥180,326	¥12,019	¥19,475	¥8,981	¥5,709	¥ 7,551	¥234,062	¥ -	¥234,062
(2) Intersegment sales or transfers	3,468	3,747	2,363	-	-	4,554	14,134	(14,134)	-
Total	183,794	15,766	21,839	8,981	5,709	12,105	248,196	(14,134)	234,062
Segment profit (or loss)	14,606	2,290	1,360	1,364	664	1,246	21,533	(2)	21,530
Segment assets	221,963	31,626	14,212	8,952	6,225	32,561	315,542	21,248	336,790
Other items									
Depreciation expense	12,797	1,741	500	798	370	839	17,047	(3)	17,043
Amortization of goodwill	(1)	-	-	5	-	-	4	-	4
Increase in property, plant and equipment and intangible assets	14,719	1,992	343	1,301	820	1,729	20,908	-	20,908

	Reporting segments							Thousands of U.S. dollars	
	Cement	Mineral Resources	Building Materials	Optoelectronics	Advanced Materials	Other	Total	Note 1	Note 2
								Adjustment amount	Consolidated
Net sales and operating income									
Net sales									
(1) Net sales to outside customers	\$1,600,339	\$106,669	\$172,839	\$79,706	\$50,666	\$67,013	\$2,077,233	\$ -	\$2,077,233
(2) Intersegment sales or transfers	30,783	33,254	20,977	-	-	40,419	125,435	(125,435)	-
Total	1,631,122	139,923	193,817	79,706	50,666	107,432	2,202,669	(125,435)	2,077,233
Segment profit (or loss)	129,625	20,324	12,078	12,111	5,898	11,065	191,102	(22)	191,079
Segment assets	1,969,859	280,679	126,129	79,446	55,249	288,973	2,800,338	188,577	2,988,915
Other items									
Depreciation expense	113,572	15,456	4,439	7,086	3,284	7,452	151,292	(34)	151,258
Amortization of goodwill	(10)	-	-	50	-	-	39	-	39
Increase in property, plant and equipment and intangible assets	130,631	17,687	3,052	11,547	7,282	15,351	185,552	-	185,552

Notes: 1. Eliminations and adjustments are described below.

- Eliminations and adjustments for segment profit and loss of (¥2 million)(US\$23 thousand) include elimination of inter-segment profit and loss.
  - Eliminations and adjustments for segment assets of ¥21,248 million (US\$189,400 thousand) include ¥36,333 million (US\$323,853 thousand) of corporate assets, which are not allocable to a reportable segment, and (¥15,084 million) (US\$134,452 thousand) of elimination of inter-segment profit and loss. Corporate assets mainly consist of long-term investment funds (investment securities) and assets attributable to administrative divisions.
  - Eliminations and adjustments for depreciation and amortization of (¥3 million)(US\$34 thousand) include ¥9 million (US\$83 thousand) of depreciation and amortization for corporate assets and (¥13 million) (US\$117 thousand) of elimination of inter-segment profit and loss.
2. Segment profit (or loss) has been adjusted to the operating income reported in the consolidated statements of income.

## Related information

For the fiscal year ended March 31, 2016

### 1. Information by product and service

Because similar information is disclosed in segment information, this information is omitted.

### 2. Geographical information

#### Net sales

Because net sales in the Japan area constitute more than 90% of net sales stated in the consolidated statement of income, information regarding geographical areas is omitted.

#### Property, plant and equipment

Because property, plant and equipment located in Japan accounts for over 90% of the property, plant and equipment stated in the consolidated balance sheets, information regarding geographical areas is omitted.

For the fiscal year ended March 31, 2017

### 1. Information by product and service

Because similar information is disclosed in segment information, this information is omitted.

### 2. Information by region

#### Net sales

Because net sales in the Japan area constitute more than 90% of net sales stated in the consolidated statement of income, information regarding geographical areas is omitted.

#### Property, plant and equipment

Because property, plant and equipment located in Japan accounts for over 90% of the property, plant and equipment stated in the consolidated balance sheets, information regarding geographical areas is omitted.

## [Impairment loss on fixed assets by reportable segment]

For the fiscal year ended March 31, 2016

	Reporting segments							Adjustment amount	Consolidated
	Cement	Mineral Resources	Building Materials	Optoelectronics	Advanced Materials	Other	Total		
Impairment loss	¥54	¥7	¥-	¥-	¥-	¥-	¥62	¥103	¥165

(Notes) The adjustment amount is the amount related to idle assets, etc., included in corporate assets.

For the fiscal year ended March 31, 2017

Because this information lacks materiality, it is omitted.

Information relating to goodwill amortization and unamortized balance by reporting segment

For the fiscal year ended March 31, 2016

	Reporting segments						Total	Adjustment amount	Consolidated
	Cement	Mineral Resources	Building Materials	Optoelectronics	Advanced Materials	Other			
Depreciation in the fiscal year	¥30	¥-	¥-	7	¥-	¥-	37	¥-	37
Balance at the end of the fiscal year	0	-	-	5	-	-	5	-	5

For the fiscal year ended March 31, 2017

Because this information lacks materiality, it is omitted.

Information relating to gain on negative goodwill by reporting segment

For the fiscal year ended March 31, 2016

Not applicable.

For the fiscal year ended March 31, 2017

Not applicable.

## (Related party transaction information)

For the fiscal year ended March 31, 2016

Not applicable.

For the fiscal year ended March 31, 2017

Not applicable.

## (Per share information)

	Millions of yen		Thousands of U.S. dollars
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Net assets per share	¥432.67	¥478.48	\$4.265
Profit per share	39.43	39.93	0.356

Notes: 1. Diluted profit per share is not presented, since there is no dilutive stock.

2. The basis for the calculation of profit per share is as follows.

	Millions of yen		Thousands of U.S. dollar
	April 1, 2015 to March 31, 2016	April 1, 2016 to March 31, 2017	April 1, 2016 to March 31, 2017
Profit attributable to owners of parent	¥16,110	¥16,210	\$144,487
Amount not attributable to common shareholders	-	-	-
Profit attributable to owners of parent attributable to common stock	16,110	16,210	144,487
Average outstanding shares during the fiscal year (shares)	408,588,044	405,918,499	

## (Significant subsequent events)

Not applicable.

# Independent Auditor's Report



Ernst & Young ShinNihon LLC  
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## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sumitomo Osaka Cement Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Osaka Cement Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

*Ernst & Young ShinNihon LLC*

June 29, 2017  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

## Company Information (as of March 31, 2017)

Company	Sumitomo Osaka Cement Co., Ltd.
Established	November 29, 1907
Head Office	6-6-28 Rokubancho, Chiyoda-ku, Tokyo 102-8465 Telephone number 03-5211-4500
Employees	2,973

### ■ Primary Group Companies

Name	Sector
Hachinohe Cement Co., Ltd.	Cement manufacturing
Wakayama Koro Cement Co., Ltd.	Blast furnace cement manufacturing
SOC Logistics Co., Ltd.	Coastal shipping services
SOC Marine Co., Ltd.	Ship leasing and cargo handling services
Taiyo Holdings Co., Ltd.	Holding company
Taiyo Kisen Co., Ltd.	Ship leasing
Izumi Unyu Co., Ltd.	Truck transport of specified cargoes
Sumice Kenzai Co., Ltd.	Cement and ready-mixed concrete wholesaling
Tokai Sumice Co., Ltd.	Cement and ready-mixed concrete wholesaling
Kitaura SOC Co., Ltd.	Cement and ready-mixed concrete wholesaling
Izumi Industry Ltd.	Crushed rock wholesaling and contract manufacturing of cement
Tokyo SOC Co., Ltd.	Ready-mixed concrete manufacturing
SOC Engineering Co., Ltd.	Equipment and facility installation
Chuken Consulting Co., Ltd.	Construction consulting
Shuho Kogyo Co., Ltd.	Limestone excavation and sales
Shiga Kosan Co., Ltd.	Limestone excavation and sales
Estec Co., Ltd.	Civil engineering
SNC Co., Ltd.	Concrete product manufacturing and civil engineering
Kurimoto Concrete Industries Co., Ltd.	Manufacture and sales of hume pipes and other concrete products
Sumitec Co., Ltd.	Optical communications equipment and digital equipment manufacturing
Cap Co., Ltd.	Real estate leasing, construction material sales, and non-life insurance agency operations
Sumitomo Cement Computer Systems Co., Ltd.	Information services
Chiyoda Engineering Co., Ltd.	Construction of electrical facilities
SOC VIETNAM CO., LTD.	Rechargeable battery cathode materials manufacturing

## Stock Information (as of March 31, 2017)

Stock exchange listing	Tokyo Stock Exchange
Total number of authorized shares	1,470,130,000
Total number of shares outstanding	417,432,175 (11,548,481 shares of treasury stock)
Shareholders	28,051

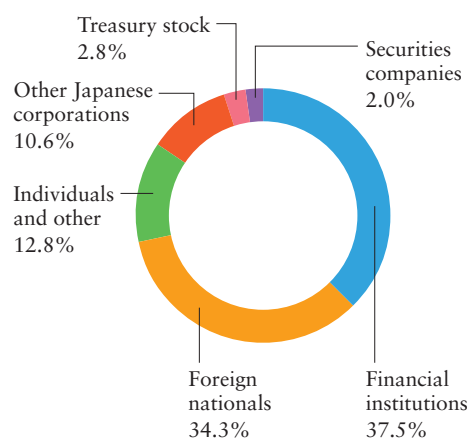
### ■ Status of Major Shareholders

Name	Number of shares owned (thousands of shares)	Ownership ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	42,285	10.4
Japan Trustee Services Bank, Ltd. (Trust Account)	29,542	7.3
NORTHERN TRUST CO.(AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	14,208	3.5
NORTHERN TRUST CO.(AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	9,641	2.4
The Nomura Trust & Banking Co., Ltd. (Trust Account)	8,597	2.1
Sumitomo Life Insurance Company	8,520	2.1
Sumitomo Corporation	7,185	1.8
Japan Trustee Services Bank, Ltd. (Trust Account 5)	7,147	1.8
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	6,786	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,547	1.6

(Notes)

1. The Company holds 11,548,481 shares of treasury stock, which is excluded from the major shareholders above.
2. The ownership ratio is calculated after deducting treasury stock from the total number of shares outstanding.

### ■ Breakdown of shareholders



 **SUMITOMO OSAKA CEMENT CO., LTD.**

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