Financial Review

Scope of Consolidation

The scope of these consolidated financial statements includes Sumitomo Osaka Cement, 37 consolidated subsidiaries and one equity-method affiliate.

Net Sales

The Japanese economy during the fiscal year under review remained severe due to the impact of the Great East Japan Earthquake, which struck in March 2011. Nevertheless, there were signs of a gradual recovery amid the restoration of supply chains and the effect of governmental economic policies.

In the cement industry, despite a moderate decline in public-sector demand caused mainly by decreases in national public works-related budgets, private-sector demand increased as investment in private housing in urban areas picked up. As a result, cement demand in Japan grew 2.5% year on year to 42,650 thousand metric tons. Exports also increased 0.4% compared with the previous fiscal year. Consequently, the total sales volume of cement produced by domestic manufacturers, including exports, climbed 1.8% year on year to 51,918 thousand metric tons.

Under these circumstances, the Sumitomo Osaka Cement Group worked to rapidly restore facilities damaged by the Great East Japan Earthquake. At the same time, we focused on improving prices in the cement business while reducing costs and expanding businesses Groupwide with the aim of maintaining sustainable development.

As a result, consolidated net sales during fiscal year under review increased 7.6% year on year to ¥217,044 million (US$2,640,762 thousand) due largely to higher revenue in the cement business. For more information on results by business segment, please refer to the Review of Operations, pages 4 and 5.

Profits

Operating income grew 20.7% year on year to ¥8,136 million (US$98,998 thousand) due to a rise in earnings primarily in the cement business. Net income surged 296.1% compared with the previous fiscal year to ¥3,645 million (US$44,359 thousand). Consequently, net income per share stood at ¥8.76.

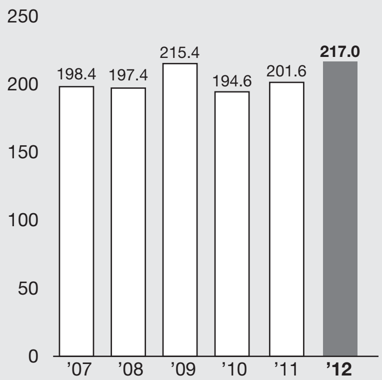
Financial Position

Total assets as of March 31, 2012 stood at ¥309,890 million (US$3,770,411 thousand), a decrease of ¥856 million from the previous fiscal year-end. Current assets increased ¥4,992 million from the previous fiscal year-end to ¥97,069 million (US$1,181,032 thousand), attributable primarily to a rise in accounts receivable. Fixed assets fell ¥5,848 million from the previous fiscal year-end to ¥212,821 million, mainly as a result of declines in machinery and vehicles. Within fixed assets, property, plant and equipment decreased ¥7,705 million to ¥158,802 million (US$1,932,135 thousand).

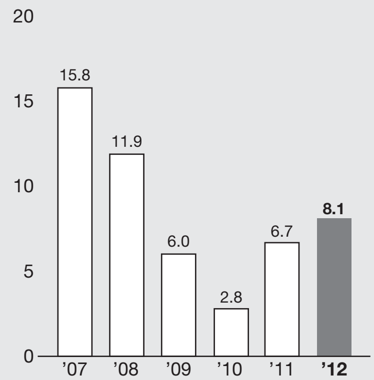
Total liabilities declined ¥4,097 million from the previous fiscal year-end to ¥178,107 million (US$2,167,020 thousand). Current liabilities increased ¥16,174 million to ¥105,899 million (US$1,288,472 thousand) largely due to a rise in the balance of corporate bonds scheduled to be reimbursed within one year. Long-term liabilities decreased ¥20,271 million to ¥72,207 million (US$878,547 thousand) as a result of such factors as a fall in long-term debt. Total interest-bearing debt declined ¥4,367 million to ¥116,209 million (US$1,413,907 thousand) compared with the previous fiscal year-end, while the interest coverage ratio increased from 9.9 times in the previous fiscal year to 12.0 times.

Net assets at the end of the fiscal year under review stood at ¥131,782 million (US$1,603,391 thousand), up ¥3,241 million from a year earlier. This increase was mainly the result of a rise

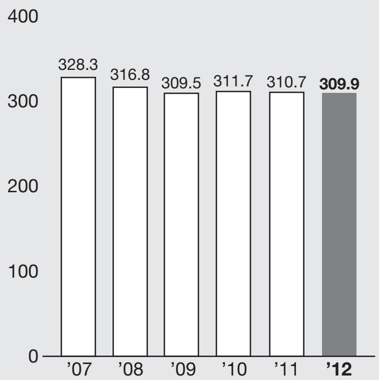
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Total Assets
(Billions of yen)



in retained earnings. Consequently, the shareholders' equity ratio edged up from 40.9% as of March 31, 2011 to 42.1% as of March 31, 2012.

Capital Investment, Depreciation and Amortization

The Company is taking steps to stabilize its business foundation in the cement business by making further efforts to streamline production and distribution. In other business fields, the Company implements capital investment based on its medium- and long-term management strategies to expand revenues by allocating key management resources to growth fields.

As a result, total capital expenditures undertaken throughout the Group decreased ¥330 million, or 2.2% from the previous fiscal year, to ¥14,709 million as of March 31, 2012. Depreciation and amortization fell ¥1,004 million, or 4.8%, to ¥19,746 million.

Cash Flow

Net cash provided by operating activities totaled ¥23,243 million (US$282,804 thousand), up ¥1,694 million from the previous fiscal year. Cash inflows were primarily composed of internal reserves, beginning with depreciation and amortization. Net cash used in investing activities amounted to ¥16,314 million (US$198,494 thousand), up ¥1,265 million from the previous fiscal year, mainly reflecting purchases of property, plant and equipment. Net cash used in financing activities was ¥6,111 million (US$74,354 thousand), down ¥4,880 million from the previous fiscal year. This change in cash outflows mainly reflected the repayment of long-term bank loans.

As a result, cash and cash equivalents at the fiscal year-end increased ¥815 million, or 3.0% year on year, to ¥27,093 million (US$329,639 thousand).

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 earnings distribution from the viewpoint of overall business management.

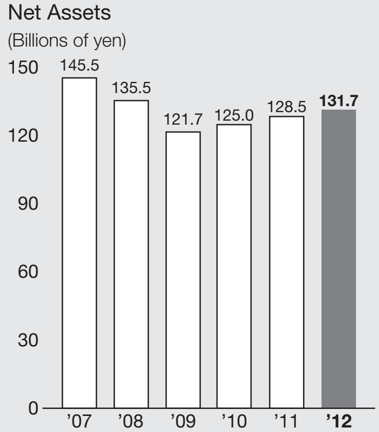
For fiscal 2012, interim dividends were not paid. Consequently, the year-end dividend was ¥4.00 per share, while the full-year dividend payment totaled ¥4.00 per share, unchanged from the previous fiscal year.

Fiscal 2013 Outlook

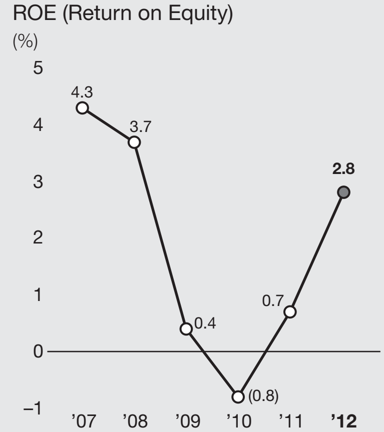
In the fiscal year ending March 31, 2013, the Japanese economy is expected to make a solid recovery owing mainly to the effect of reconstruction measures implemented in the aftermath of the Great East Japan Earthquake. However, future economic conditions remain uncertain due to the existence of risks that are having a dampening effect on the economy, including the European sovereign debt crisis, high crude oil prices and power supply restrictions.

In the cement industry, although the Company expects private-sector demand to remain on par with that seen in fiscal 2012, domestic demand is anticipated to increase on the back of a forecasted positive turnaround in public-sector demand, reflecting disaster-related reconstruction demand.

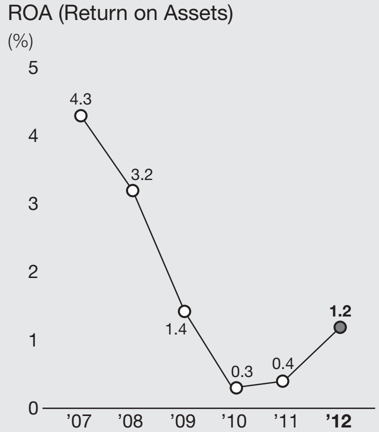
Net Assets



ROE (Return on Equity)



ROA (Return on Assets)



Amid such circumstances, the Sumitomo Osaka Cement Group will focus on establishing optimal production and distribution systems to meet demand in the domestic cement business while working to set appropriate sales prices. With regard to the overseas cement business, the Group will continue to examine the possibility of penetrating regions that are expected to grow in the future in order to facilitate new business expansion. In other business fields, the Group will investigate various measures to increase its business scale and profits through such actions as expanding overseas production and sales.

In consideration of its social mission, the Group will continue to actively contribute to the establishment of a recycling-oriented society by utilizing recycled raw materials and fuels, strive to decrease its environmental impact, and accept and treat disaster waste produced during the Great East Japan Earthquake.

For the fiscal year ending March 31, 2013, Sumitomo Osaka Cement expects net sales of ¥216,000 million, a decrease of 0.5% year on year, operating income of ¥11,500 million, a jump of 41.3%, and net income of ¥5,000 million, a rise of 37.1% from the fiscal year under review. The Company plans to pay a full-year dividend of ¥5.00 per share.

The aforementioned figures are based on information available as of May 2012, and therefore may differ in accordance with various factors in the future. Major possible risk factors are described as follows:

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 and 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 restructured production structures 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 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 on its performance by improving cement sales prices to reflect operating cost increases caused by rising expenses for coal procurement.

• Collection of Debt

The Sumitomo Osaka Cement Group has 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 cement plants and by purchasing needed cement from business partners in an effort 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 to write down the book value of fixed assets to a price that may be recovered, based upon future earnings plans and related forecasts. At the current moment, the Group has recorded all impairment accounting of property, plant and equipment, which is required. 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.