## 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.

Accounting irregularities were discovered at the High Functional Film Business Group, which operates within the Company's Advanced Materials segment. As a result, net sales, cost of sales and inventories recorded in the Company's financial statements for fiscal 2009 and fiscal 2010 were revised. These revisions led to a ¥571 million (US$6,956 thousand) decrease in the balance of retained earnings at the beginning of the fiscal year ended March 31, 2012.

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=¥82.19, the exchange rate prevailing on March 31, 2012. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Any material differences between the cost of investments in consolidated subsidiaries and the underlying equity in their net assets at the dates of acquisition are 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.

Two consolidated subsidiaries have a December 31 year end which differs from that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of the subsidiaries and the year end of the Company.

### (b) Cash and cash equivalents

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

### (c) Inventories

Inventories are stated principally at the lower of cost or market, cost being determined principally by the moving average method.

### (d) Allowance for doubtful receivables

Allowance for doubtful receivables is provided at an estimated amount of the anticipated loss on bad debts plus an amount calculated at the average rate of historical losses on bad debts charged to income for the past three years.

### (e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated mainly by the declining-balance method for property, plant and equipment at rates based on the estimated useful lives of the respective assets. The depreciation of buildings purchased on and after April 1, 1998, in-house power generation facility at the Ako Plant, the Kochi Plant and the Tochigi Plant, and property, plant and equipment of certain subsidiaries is calculated by the straight-line method. Leased assets under finance leases which do not transfer ownership of the leased property are depreciated or amortized by the straight-line method over the lease terms assuming no residual value. The useful lives range as follows: buildings and structures, 2 to 75 years; machinery, equipment and tools, 2 to 22 years. Quarry sites are depreciated by the unit-of-production method.

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

### (f) Investment securities

Securities are classified and accounted for, depending on management's intent, as follows: i) "trading securities," which are held for the purpose of earning capital gains in the short term, are stated at fair value, and the related unrealized gain or loss is included in earnings, ii) "held-to-maturity debt securities," which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost and iii) "available-for-sale securities," not classified in either of the aforementioned categories, are stated at fair value with unrealized gain and loss, net of the applicable taxes, stated as a separate component of accumulated other comprehensive income.

The Company classified all securities as "available-for-sale securities."

Available-for-sale securities with fair value are stated at average market value for the month ended on the balance sheet date. Other securities without a fair value are stated at cost determined by the moving-average method.

The difference between the acquisition cost and the carrying value of available-for-sale securities, net of the applicable taxes, is recognized in “unrealized gain (loss) on available-for-sale securities.” The cost of available-for-sale securities sold is computed based on the moving-average method.

### (g) Foreign currency translation

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the rates of exchange in effect at the balance sheet date for all assets and liabilities, and at the historical rates for the component of net assets excluding minority interests. Differences arising from such translations are shown as “foreign currency translation adjustments” as a separate component of accumulated other comprehensive income.

Exchange rates as of the subsidiaries’ balance sheet date are used for the translation of income and expenses. Gain or loss resulting from the translation of foreign currency transactions is credited or charged to income as incurred.

### (h) Leases

All finance lease transactions are capitalized and recognized as leased assets and lease obligations on the consolidated balance sheets, except for finance lease transactions executed on or before March 31, 2008 that do not involve a transfer of ownership, which are accounted by the same method as former fiscal years.

### (i) Income taxes

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

### (j) Provision for bonuses

Provision for bonuses is recorded based on a estimated amount.

### (k) Provision for retirement benefits

Employees of the Company are covered by its funded pension plan. Benefits under this plan are based on current basic salary rates and length of service.

Accrued severance benefits are stated based on the projected benefit obligation and the estimated assets in the pension plan at the end of the year. The unrecognized actuarial gain or loss is amortized over a period of 15 years, which falls within the remaining years of service of the eligible employees and is amortized from the year following the year in which the gain or loss was incurred.

Directors and statutory auditors are generally entitled to receive lump-sum retirement benefit payments based on their level of compensation and years of service at the time of retirement. Such lump-sum payments are covered by an unfunded retirement benefit plan and accrued at an amount to be required at the balance sheet date according to internal regulations.

### (l) Revenue recognition

The percentage-of-completion method is applied if the outcome of the construction activities can be accurately estimated as of the fiscal year-end. Otherwise, the completed-contract method shall be applied.

### (m) Appropriation of retained earnings

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

### (n) Net income per share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

### (o) Derivatives

The Company and consolidated subsidiaries enter into derivative agreements to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized to reduce interest rate risks on borrowings. The Company and consolidated subsidiaries do not enter into derivative agreements for trading or speculative purposes. Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but accounted for as if the interest rates applied to the interest rate swaps had originally applied to the underlying borrowings.

Identification of hedged items is made by transaction at the time when the Company and the consolidated subsidiaries enter into derivative agreements, and hedging instruments and the hedged items are separately recorded and maintained. The Company and the consolidated subsidiaries evaluate the effectiveness of derivatives based on either the difference between the accumulated amount of cash flows from the hedging instrument and from the corresponding hedged item or variance between the fair value of the hedging instrument and the hedged item except for interest rate swaps which meet specific matching criteria.

### (p) Asset retirement obligations

An asset retirement obligation is recorded at the time of acquisition or construction of a tangible fixed asset and when there is a statutory or similar obligation associated with the removal of such tangible fixed asset. The asset retirement obligation is measured at the discounted value of the liability at the time the tangible fixed asset is acquired or constructed and the amount of the liability is added to the book value of the relevant tangible fixed asset. The cost component of the obligation is depreciated over the remaining useful life of the tangible fixed asset.

## 3. ADDITIONAL INFORMATION

Effective April 1, 2011, the Company adopted the Accounting Standard for Accounting Changes and Error Corrections (Accounting Standards Board of Japan (ASBJ), Statement No. 24 issued on December 4, 2009) and the Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24 issued on December 4, 2009).

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Cash and deposits | ¥26,419 | **¥27,237** | **$331,392** |
| Time deposits with a maturity of over three months | (141) | **(143)** | **(1,743)** |
| | ¥26,277 | **¥27,093** | **$329,649** |

## 5. FINANCIAL INSTRUMENTS

### 1. Items Concerning the Status of Financial Instruments

### (a) Policies for Financial Instruments

The Sumitomo Osaka Cement Group (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 and to not engage in trading or speculative transactions.

### (b) 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 dates within one year. Furthermore, a certain portion of such payables are denominated in a foreign currency, associated with the import of raw materials, 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 date is 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 risk. However, to hedge such risk, 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, trade payables and loans are subject to liquidity risks (the risk that the Group may not be able to meet its obligations). The Group manages such risks by preparing monthly cash flow plans.

### (c) 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 transaction.

### 2. Estimated Fair Value of Financial Instruments

Consolidated balance sheet amounts, estimated fair values and their differences as of March 31, 2012 (the consolidated account closing date for the fiscal year under review) 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 | | |
|---|---|---|---|
| | **2012** | | |
| | Consolidated Balance Sheet Amounts | Fair Value | Difference |
| Cash and deposits | **¥ 27,237** | **¥ 27,237** | **¥ —** |
| Notes and accounts receivable —trade | **47,676** | **47,676** | **—** |
| Securities and Investment securities: | | | |
| Available-for-sale securities | **36,099** | **36,099** | **—** |
| Short-term loans receivable (Note 5) | **689** | **689** | **—** |
| Long-term loans receivable | **681** | **681** | **(0)** |
| Total assets | **112,383** | **112,383** | **(0)** |
| Notes and accounts payable —trade | **26,541** | **26,541** | **—** |
| Short-term loans payable | **33,839** | **33,839** | **—** |
| Bonds payable | **25,000** | **25,245** | **245** |
| Long-term loans payable | **57,369** | **57,790** | **420** |
| Total liabilities | **142,750** | **143,416** | **665** |
| Derivative transactions | **—** | **—** | **—** |
| Total derivative transactions | **—** | **—** | **—** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2012 | | |
| | Consolidated Balance Sheet Amounts | Fair Value | Difference |
| Cash and deposits | $ 331,392 | $ 331,392 | $ — |
| Notes and accounts receivable —trade | 580,082 | 580,082 | — |
| Securities and Investment securities: | | | |
| Available-for-sale securities | 439,219 | 439,219 | — |
| Short-term loans receivable (Note 5) | 8,386 | 8,386 | — |
| Long-term loans receivable | 8,290 | 8,286 | (3) |
| Total assets | 1,367,368 | 1,367,364 | (3) |
| Notes and accounts payable —trade | 322,928 | 322,928 | — |
| Short-term loans payable | 411,723 | 411,723 | — |
| Bonds payable | 304,173 | 307,154 | 2,980 |
| Long-term loans payable | 698,010 | 703,128 | 5,118 |
| Total liabilities | 1,736,835 | 1,744,934 | 8,098 |
| Derivative transactions | — | — | — |
| Total derivative transactions | — | — | — |

Note 1: Methods to determines the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and deposits, trade receivables and 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 fair value.

Securities and investment securities

The fair value of such securities is based on quoted market price.

Please refer to Note 6 securities, of these notes to the consolidated financial statements for information on securities classified by holding purpose.

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.

Trade payables and 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 fair value.

Bonds payable

The fair value of bonds issued by the Company is based on the quoted market price.

Long-term loans payable

Long-term loans payable 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 interest rates applicable to new borrowings. Long-term loans payable are hedged by interest rate swaps that meet the specific matching criteria.

Therefore, the fair value of such loans payable is estimated based on the present value of future cash flows estimated in accordance with the accounting treatment described in Note 2 (o) Derivatives.

Accordingly, such future cash flows include cash flows from applicable interest rate swap transactions as well as payment of principal and interest. Future cash flows are discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative Transactions

(a) Items not subject to hedge accounting: None

(b) Items subject to hedge accounting:

Information on derivative transactions subject to hedge accounting as of March 31, 2012 is as follows.

| Millions of yen | | | | | |
|---|---|---|---|---|---|
| Hedge accounting method | Type of derivative transaction | Major hedged items | Contracted amount | Amount due after one year | Fair value |
| Special accounting treatment for interest rate swaps | Interest swap transactions (Pay fixed; receive floating) | Long-term loans payable | ¥27,450 | ¥16,950 | * |

| Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|
| Hedge accounting method | Type of derivative transaction | Major hedged items | Contracted amount | Amount due after one year | Fair value |
| Special accounting treatment for interest rate swaps | Interest swap transactions (Pay fixed; receive floating) | Long-term loans payable | $333,982 | $206,229 | * |

* The fair value of the interest rate swaps is not shown since it is included in long-term loans payable (please refer to the abovementioned long-term loans payable).

Note 2: Financial instruments for which fair value is extremely difficult to determine as of March 31, 2012

| | Millions of yen |
|---|---|
| Classification | Consolidated Balance Sheet Amounts |
| Unlisted securities | ¥2,080 |
| Long-term loans receivable | 1,105 |

| | Thousands of U.S. dollars |
|---|---|
| Classification | Consolidated Balance Sheet Amounts |
| Unlisted securities | $25,316 |
| Long-term loans receivable | 13,453 |

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 available-for-sale securities.

In addition, the abovementioned long-term loans receivable are not included in long-term loans receivable of the preceding table because future cash flows cannot be estimated on a rational basis.

Note 3: Redemption schedule for receivables and securities with maturities at March 31, 2012.

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Within one year | Over one year and under five years | Over five years and under ten years | Over ten years |
| Cash and deposits | ¥27,204 | ¥ — | ¥ — | ¥ — |
| Trade receivables | 47,676 | — | — | — |
| Securities: | | | | |
| Available-for-sale securities | 0 | 0 | 201 | — |
| Short-term loans receivable | 689 | — | — | — |
| Long-term loans receivable | 8 | 579 | 7 | 85 |
| Total | ¥75,578 | ¥579 | ¥208 | ¥85 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Within one year | Over one year and under five years | Over five years and under ten years | Over ten years |
| Cash and deposits | $330,995 | $ — | $ — | $ — |
| Trade receivables | 580,082 | — | — | — |
| Securities: | | | | |
| Available-for-sale securities | 0 | 0 | 2,449 | — |
| Short-term loans receivable | 8,386 | — | — | — |
| Long-term loans receivable | 97 | 7,044 | 85 | 1,034 |
| Total | $919,561 | $7,044 | $2,534 | $1,034 |

## 6. SECURITIES

The acquisition cost and fair value of the securities classified as available-for-sale at March 31, 2011 and 2012 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Acquisition cost | Fair value | Unrealized gain | Unrealized loss |
| Classified as: | | | | |
| Available-for-sale | ¥12,915 | ¥36,082 | ¥23,534 | ¥(367) |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Acquisition cost | Fair value | Unrealized gain | Unrealized loss |
| Classified as: | | | | |
| Available-for-sale | ¥12,789 | ¥36,099 | ¥23,683 | ¥(373) |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Acquisition cost | Fair value | Unrealized gain | Unrealized loss |
| Classified as: | | | | |
| Available-for-sale | $155,609 | $439,219 | $288,153 | $(4,543) |

Proceeds from sales of investment securities for the years ended March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Proceeds | ¥316 | ¥200 | $2,442 |
| Gross realized gain | 102 | 91 | 1,107 |
| Gross realized loss | — | 4 | 50 |

A significant decline in the fair value of investment securities is recognized as an impairment loss if the decline is not considered recoverable. Losses on devaluation of investments classified as available-for-sale securities as a result of a permanent decline in value amounted to ¥28 million and ¥22 million (US$269 thousand) for the years ended March 31, 2011 and 2012, respectively.

## 7. SHORT-TERM BANK LOANS AND BONDS

The annual interest rates applicable to the loans outstanding at March 31, 2011 and 2012 ranged from 0.5% to 1.7% and from 0.2% to 2.0%, respectively.

Long-term debt at March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Loans, principally from banks and insurance companies, due from 2012 to 2024 (2011 to 2024 in 2011) | ¥64,297 | ¥57,396 | $ 698,010 |
| Bonds | 22,000 | 25,000 | 304,173 |
| | ¥86,298 | ¥82,369 | $1,002,184 |
| Less: Current portion of long-term debt: | | | |
| Loans | ¥ 9,369 | ¥21,169 | $ 257,565 |
| Bonds | 7,000 | 10,000 | 121,669 |
| | 16,369 | 31,169 | 379,234 |
| | ¥69,928 | ¥51,200 | $ 622,949 |

The annual interest rates applicable to the long-term loans outstanding at March 31, 2011 and 2012 ranged from 0.8% to 2.9% and from 0.8% to 2.9%, respectively.

The aggregate annual maturities of long-term loans subsequent to March 31, 2012 are summarized as follows:

| Years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 8,208 | $ 99,874 |
| 2014 | 12,839 | 156,213 |
| 2015 | 5,054 | 61,495 |
| 2016 | 4,234 | 51,523 |
| 2017 and thereafter | 5,863 | 71,338 |
| | ¥36,200 | $440,445 |

Assets pledged as collateral at March 31, 2011 and 2012 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Property, plant and equipment, at net book value | ¥28,624 | **¥25,120** | **$305,639** |
| Other | 430 | **534** | **6,507** |
| | ¥29,054 | **¥25,655** | **$312,146** |

The obligations secured by such collateral as at March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Short-term loans payable | ¥ 776 | **¥1,117** | **$13,592** |
| Current portion of long-term loans payable | 1,867 | **893** | **10,870** |
| Long-term loans payable | 4,826 | **3,684** | **44,831** |
| Other | 563 | **430** | **5,236** |
| | ¥8,032 | **¥6,125** | **$74,531** |

## 8. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Guarantees of loans and other | ¥199 | **¥158** | **$1,925** |

## 9. SHAREHOLDERS' EQUITY

The Corporation Law of Japan provides that an amount equal to 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve equals 25% of the common stock account.

## 10. LEASES

### (a) Finance leases

Finance leases commencing on or before March 31, 2008 continue to be accounted for in the same method as operating leases. The following amounts represent the acquisition costs, accumulated depreciation and amortization and net book value of the leased property at March 31, 2011 and 2012 which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Acquisition costs | | | |
| Machinery, equipment and vehicles | ¥420 | **¥160** | **$1,951** |
| Other | 132 | **61** | **751** |
| | 553 | **222** | **2,703** |
| Accumulated depreciation and amortization | | | |
| Machinery, equipment and vehicles | 317 | **131** | **1,598** |
| Other | 103 | **52** | **644** |
| | 421 | **184** | **2,243** |
| Net book value | | | |
| Machinery, equipment and vehicles | 102 | **29** | **352** |
| Other | 29 | **8** | **107** |
| | ¥131 | **¥ 37** | **$ 459** |

Lease payments relating to finance leases accounted for as operating leases amounted to ¥122 million and ¥70 million (US$852 thousand), which are equal to the depreciation and amortization expenses of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2011 and 2012, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 for finance leases accounted for as operating leases are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥19 | $242 |
| 2014 and thereafter | 17 | 217 |
| | ¥37 | $459 |

### (b) Operating leases

Future minimum lease payments subsequent to March 31, 2012 for non-cancelable operating leases are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2013 | ¥ 40 | $ 492 |
| 2014 and thereafter | 75 | 922 |
| | ¥116 | $1,414 |

## 11. INCOME TAXES

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2011 and 2012 is presented as follows.

| | 2011 | 2012 |
|---|---|---|
| Statutory tax rate | 41.0% | **41.0%** |
| Change in valuation allowance | 32.9 | **7.4** |
| Nondeductible expenses | 2.7 | **1.3** |
| Tax credit | (8.3) | **(7.5)** |
| Other | (4.2) | **(4.4)** |
| Effective tax rates | 63.7% | **37.8%** |

The significant components of the Company's deferred income tax assets and liabilities at March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Deferred tax assets: | | | |
| Net operating loss carry forwards | ¥ 698 | **¥ 1,567** | **$ 19,077** |
| Impairment loss on noncurrent assets | 2,549 | **2,354** | **28,652** |
| Estimated severance benefits and other accrued expenses | 1,375 | **1,426** | **17,358** |
| Depreciation | 182 | **169** | **2,068** |
| Unrealized holding gain | 730 | **678** | **8,255** |
| Other | 1,923 | **1,840** | **22,389** |
| Gross deferred tax assets | 7,459 | **8,038** | **97,800** |
| Less valuation allowance | (3,917) | **(4,369)** | **(53,169)** |
| Total deferred tax assets | ¥ 3,541 | **¥ 3,668** | **$ 44,631** |
| Deferred tax liabilities: | | | |
| Difference between cost of investments and their underlying net equity at fair value | ¥ (1,966) | **¥ (1,641)** | **$ (19,977)** |
| Unrealized gain on available-for-sale securities | (9,471) | **(8,367)** | **(101,802)** |
| Other | (524) | **(638)** | **(7,772)** |
| Total deferred tax liabilities | (11,962) | **(10,647)** | **(129,552)** |
| Deferred tax liabilities, net | ¥ (8,420) | **¥ (6,979)** | **$ (84,921)** |

The Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures (Act No. 114 of 2011) and the Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake (Act No. 117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective fiscal years beginning on or after April 1, 2012.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities changed from 41.0% to 38.0% for temporary differences expected to be realized or settled in the period from April 1, 2012 to March 31, 2015 and from 41.0% to 36.0% for temporary differences expected to be realized or settled from fiscal years beginning April 1, 2015. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities, net by ¥1,260 million (US$15,341 thousand) and deferred income taxes by ¥98 million (US$1,203 thousand), and increase unrealized gain on available-for-sale securities by ¥1,162 million (US$14,138 thousand) as of and for the year ended March 31, 2012.

## 12. OTHER COMPREHENSIVE INCOME

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2012.

| Year Ended March 31, 2012 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Unrealized gain (loss) on available-for-sale securities: | | |
| Amount arising during the year | ¥ 202 | $ 2,475 |
| Reclassification adjustments for gains and losses included in net income | (64) | (787) |
| Amount before tax effect | 138 | 1,688 |
| Tax effect | 1,105 | 13,445 |
| Unrealized gain (loss) on available-for-sale securities | 1,244 | 15,136 |
| Foreign currency translation adjustments: | | |
| Amount arising during the year | (8) | (107) |
| Share of other comprehensive income of affiliates accounted for using the equity method | | |
| Amount arising during the year | (0) | (4) |
| Total other comprehensive income | ¥1,234 | $15,024 |

## 13. RETIREMENT BENEFITS FOR EMPLOYEES

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

Accrued severance benefits at March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| Projected benefit obligation | ¥(14,816) | **¥(14,856)** | **$(180,763)** |
| Fair value of the pension fund | 10,858 | **10,600** | **128,973** |
| Unrecognized actuarial loss | 2,955 | **2,936** | **35,722** |
| Prepaid pension expenses | 54 | **71** | **870** |
| Provision for retirement benefits | ¥ (1,058) | **¥ (1,392)** | **$ (16,937)** |

Retirement benefit expenses for the years ended March 31, 2011 and 2012 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Service cost | ¥ 825 | **¥ 878** | **$10,686** |
| Interest cost | 240 | **239** | **2,911** |
| Expected return on pension fund assets | (191) | **(182)** | **(2,218)** |
| Recognized actuarial loss | 345 | **370** | **4,506** |
| Net retirement benefit expenses | ¥1,220 | **¥1,305** | **$15,886** |

Assumptions adopted for the years ended March 31, 2011 and 2012 are as follows:

| | 2011 | **2012** |
|---|---|---|
| Discount rate | 2.0% | **2.0%** |
| Expected rate of return on pension fund assets | 2.0% | **2.0%** |
| Period over which actuarial loss is recognized | 15 years | **15 years** |

## 14. LOSS ON IMPAIRMENT OF NONCURRENT ASSETS

For the years ended March 31, 2011 and 2012, the Company and certain consolidated subsidiaries recognized ¥1,357 million and ¥610 million (US$7,431 thousand), respectively, of losses on impairment of fixed assets as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Idle assets | ¥ 14 | **¥305** | **$3,714** |
| Business assets | 1,343 | **305** | **3,717** |
| | ¥1,357 | **¥610** | **$7,431** |

As for idle assets, their grouping of assets is based on the corresponding property unit, and for business assets, on the smallest segments used in management accounting.

The Company and consolidated subsidiaries recognize impairment losses if the undiscounted expected future cash flows are less than carrying amounts of the assets.

In such case, the carrying amounts of the assets are written down to their recoverable amounts. The recoverable amounts in these asset groups were calculated using respective net selling prices based primarily on appraisal valuations or discounted expected future cash flows.

## 15. LOSS ON DISASTER

Loss on disaster for the years ended March 31, 2011 and 2012 referred mainly to the restoration costs for fixed assets damaged by the Great East Japan Earthquake and the disposal losses on inventories.

## 16. SUBSEQUENT EVENTS

The following appropriations of retained earnings were approved at the meeting of the shareholders of the Company held on June 28, 2012:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends | ¥1,665 | $20,261 |

## 17. FAIR VALUE OF INVESTMENT AND RENTAL PROPERTY

The Company and certain subsidiaries own rental warehouses, rental office buildings (including the surrounding land), idle land and other properties in Osaka prefecture and other areas. During the fiscal year ended March 31, 2012, rental income from rental property was ¥856 million (US$10,426 thousand) (rental income was recorded as sales and rental costs were recorded as cost of sales), net gains from sales of rental property amounted to ¥8 million (US$109 thousand) (recorded as other income) and impairment loss amounted to ¥305 million (US$3,714 thousand) (recorded as other expenses).

The carrying amount of rental property and corresponding fair value as of March 31, 2012 and changes in carrying amount during the fiscal year are as follows:

| Millions of yen | | | |
|---|---|---|---|
| Consolidated balance sheet amounts | | | Fair value as of March 31, 2012 |
| As of March 31, 2011 | Net change | As of March 31, 2012 | |
| ¥20,964 | ¥(354) | ¥20,610 | ¥29,666 |

| Thousands of U.S. dollars | | | |
|---|---|---|---|
| Consolidated balance sheet amounts | | | Fair value as of March 31, 2012 |
| As of March 31, 2011 | Net change | As of March 31, 2012 | |
| $255,077 | $(4,310) | $250,766 | $360,953 |

Notes: 1. The consolidated balance sheet amounts represent the acquisition cost less accumulated depreciation and cumulative impairment loss.

2. The fair value (which includes adjustments using relevant indices) is estimated by the Company in accordance with standard for real estate appraisal for important assets, estimated based on value calculated for property tax for other assets.

## 18. SEGMENT INFORMATION

For the years ended March 31, 2011 and 2012:

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:

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

Information on the reportable segments as of and for the years ended March 31, 2011 and 2012 is as follows:

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | | |
| | Cement | Mineral resources | Cement-related products | Optoelectronics | Advanced materials | Others | Total | Eliminations and adjustments | Consolidated |
| Net sales: | | | | | | | | | |
| Outside customers | ¥158,128 | ¥11,031 | ¥14,680 | ¥3,897 | ¥8,296 | ¥ 5,610 | ¥201,644 | ¥ — | ¥201,644 |
| Intersegment sales | 3,242 | 3,952 | 2,084 | 18 | 0 | 5,244 | 14,542 | (14,542) | — |
| Total | 161,371 | 14,983 | 16,764 | 3,915 | 8,296 | 10,855 | 216,187 | (14,542) | 201,644 |
| Segment profit or loss | 5,419 | 357 | 261 | 270 | (203) | 668 | 6,773 | (34) | 6,738 |
| Segment assets | 206,392 | 31,885 | 11,794 | 4,322 | 9,935 | 29,235 | 293,565 | 17,181 | 310,746 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 16,343 | 2,440 | 548 | 211 | 421 | 791 | 20,756 | (14) | 20,741 |
| Amortization of goodwill | 239 | 34 | (59) | — | — | 2 | 217 | — | 217 |
| Capital expenditures | 11,416 | 2,741 | 487 | 107 | 101 | 151 | 15,005 | 35 | 15,040 |

Notes: 1. Eliminations and adjustments for segment profit and loss include ¥(34) million of elimination of inter-segment profit and loss.

2. Eliminations and adjustments for segment assets include ¥(9,590) million of elimination of inter-segment profit and loss and ¥26,771 million of corporate assets.

3. Eliminations and adjustments for depreciation and amortization include ¥(35) million of elimination of inter-segment profit and loss and ¥20 million of depreciation and amortization for corporate assets, which are not allocable to a reportable segment.

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012** | | | | | | | | |
| | Cement | Mineral resources | Cement-related products | Optoelectronics | Advanced materials | Others | Total | Eliminations and adjustments | Consolidated |
| Net sales: | | | | | | | | | |
| Outside customers | **¥169,902** | **¥11,359** | **¥15,108** | **¥3,556** | **¥10,075** | **¥ 7,043** | **¥217,044** | **¥ —** | **¥217,044** |
| Intersegment sales | **2,971** | **4,242** | **1,819** | **18** | **0** | **4,910** | **13,962** | **(13,962)** | **—** |
| Total | **172,873** | **15,601** | **16,927** | **3,574** | **10,075** | **11,953** | **231,006** | **(13,962)** | **217,044** |
| Segment profit or loss | **6,816** | **644** | **132** | **144** | **(100)** | **485** | **8,123** | **13** | **8,136** |
| Segment assets | **204,234** | **32,394** | **11,998** | **3,497** | **9,180** | **30,680** | **291,986** | **17,903** | **309,890** |
| Other items: | | | | | | | | | |
| Depreciation and amortization | **15,808** | **2,194** | **549** | **228** | **403** | **821** | **20,006** | **(269)** | **19,736** |
| Amortization of goodwill | **211** | **34** | **(59)** | **1** | **—** | **—** | **188** | **—** | **188** |
| Capital expenditures | **9,084** | **2,860** | **267** | **569** | **196** | **1,730** | **14,709** | **—** | **14,709** |

| | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | | | |
| | Cement | Mineral resources | Cement-related products | Optoelectronics | Advanced materials | Others | Total | Eliminations and adjustments | Consolidated |
| Net sales: | | | | | | | | | |
| Outside customers | $2,067,186 | $138,205 | $183,818 | $43,267 | $122,586 | $ 85,698 | $2,640,762 | $ — | $2,640,762 |
| Intersegment sales | 36,156 | 51,618 | 22,135 | 220 | 4 | 59,743 | 169,879 | (169,879) | — |
| Total | 2,103,343 | 189,824 | 205,954 | 43,488 | 122,590 | 145,442 | 2,810,642 | (169,879) | 2,640,762 |
| Segment profit or loss | 82,934 | 7,843 | 1,609 | 1,757 | (1,217) | 5,905 | 98,833 | 165 | 98,998 |
| Segment assets | 2,484,908 | 394,139 | 145,985 | 42,556 | 111,702 | 373,293 | 3,552,585 | 217,826 | 3,770,411 |
| Other items: | | | | | | | | | |
| Depreciation and amortization | 192,341 | 26,698 | 6,690 | 2,780 | 4,906 | 9,995 | 243,414 | (3,276) | 240,137 |
| Amortization of goodwill | 2,576 | 415 | (718) | 22 | — | — | 2,296 | — | 2,296 |
| Capital expenditures | 110,529 | 34,809 | 3,260 | 6,924 | 2,393 | 21,058 | 178,974 | — | 178,974 |

Notes: 1. Eliminations and adjustments for segment profit and loss include ¥(13) million ($(165) thousand) of elimination of inter-segment profit and loss.

2. Eliminations and adjustments for segment assets include ¥(10,545) million ($(128,309) thousand) of elimination of inter-segment profit and loss and ¥28,448 million ($346,135 thousand) of corporate assets.

3. Eliminations and adjustments for depreciation and amortization include ¥(34) million ($(428) thousand) of elimination of inter-segment profit and loss and ¥20 million ($251 thousand) of depreciation and amortization for corporate assets, which are not allocable to a reportable segment.

Geographical information

Information regarding geographical areas is omitted for the years ended March 31, 2011 and 2012, because sales and total assets in the Japan area constitute more than 90% of all geographical areas.

Impairment loss on fixed assets by reportable segment for the years ended March 31, 2011 and 2012 is summarized as follows:

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | | |
| | Cement | Mineral resources | Cement-related products | Optoelectronics | Advanced materials | Others | Total | Eliminations and adjustments | Consolidated |
| Loss on impairment of fixed assets | ¥265 | ¥4 | ¥— | ¥— | ¥— | ¥1,082 | ¥1,352 | ¥5 | ¥1,357 |

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | | | |
| | Cement | Mineral resources | Cement-related products | Optoelectronics | Advanced materials | Others | Total | Eliminations and adjustments | Consolidated |
| Loss on impairment of fixed assets | ¥328 | ¥75 | ¥— | ¥— | ¥— | ¥— | ¥403 | ¥207 | ¥610 |

| | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | | | |
| | Cement | Mineral resources | Cement-related products | Optoelectronics | Advanced materials | Others | Total | Eliminations and adjustments | Consolidated |
| Loss on impairment of fixed assets | $3,994 | $918 | $— | $— | $— | $— | $4,912 | $2,519 | $7,431 |