Financial Review

Scope of Consolidation

The scope of these consolidated financial statements includes Sumitomo Osaka Cement, 36 consolidated subsidiaries and one equity-method affiliate.

Net Sales

During the fiscal year under review, supported by government economic policy, the Japanese economy saw continued gradual recovery, despite weak consumer spending as a result of the 2014 consumption tax hike.

In the cement industry, due to year-on-year drops in public-sector investment and private housing investment as well as a shortage of skilled workers, both public-sector and private-sector demand diminished. As a result, cement demand in Japan fell 4.5% year on year to 45,551 thousand metric tons. Exports, however, gained 10.8%. Consequently, the total sales of cement produced by domestic manufacturers, including exports, edged down 1.8% year on year to 54,469 thousand metric tons.

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

As a result, consolidated net sales during the fiscal year under review came to ¥234,539 million (US$1,945,579 thousand), largely unchanged from the previous fiscal year, reflecting sales in the cement business that were also roughly level year on year. For more information on results by business segment, please refer to the Review of Operations (pages 5-6).

Profits

Operating income grew 3.3% year on year to ¥22,207 million (US$184,220 thousand) due to rises in earnings in the mineral resources, optoelectronics, and advanced materials businesses that offset declines in earnings in the cement and cement-related products businesses. Net income came to ¥13,337 million (US$110,640 thousand), on par with the previous fiscal year. Consequently, net income per share stood at ¥32.05.

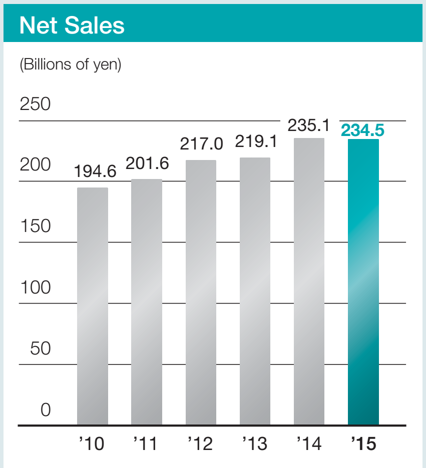
Financial Position

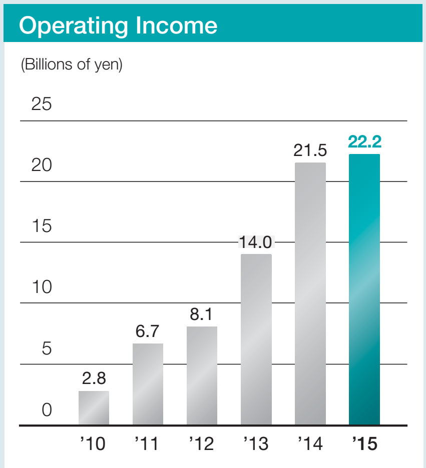
Total assets as of March 31, 2015, stood at ¥335,981 million (US$2,787,073 thousand), an increase of ¥10,653 million from the previous fiscal year-end.

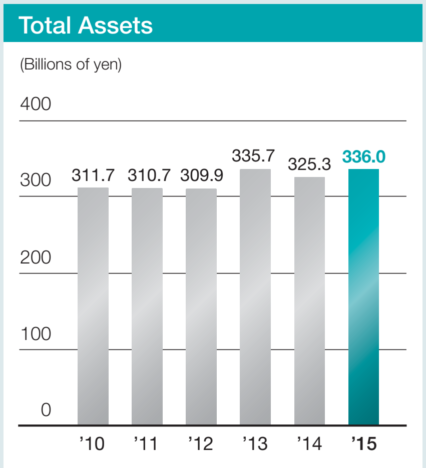
Current assets were up ¥626 million from the previous fiscal year-end to ¥102,051 million (US$846,550 thousand), attributable in part to an increase in inventories. Total noncurrent assets rose ¥10,027 million from the previous fiscal year-end to ¥233,930 million (US$1,940,522 thousand), mainly as a result of an increase in investment securities. Within noncurrent assets, property, plant and equipment decreased ¥2,011 million to ¥157,795 million (US$1,308,959 thousand), while investments and other assets rose ¥12,730 million to ¥73,770 million (US$611,949 thousand).

Total liabilities declined ¥10,280 million from the previous fiscal year-end to ¥160,227 million (US$1,329,134 thousand). Current liabilities decreased ¥10,707 million to ¥88,654 million (US$735,417 thousand), largely due to decreases in the balance of the current portion of long-term loans payable and current portion of bonds. Long-term liabilities increased ¥427 million to ¥71,572 million (US$593,716 thousand) as a result of such factors as an increase in bonds payable. Total interest-bearing debt declined ¥13,822 million compared with the previous fiscal year-end to ¥84,325 million (US$699,507 thousand), while the interest coverage ratio increased from 23.5 times in the previous fiscal year to 25.3 times.

Net assets at the end of the fiscal year under review stood at ¥175,754 million (US$1,457,938 thousand), up ¥20,933 million







from a year earlier. This increase was mainly the result of rises in retained earnings and unrealized gain on available-for-sale securities. Consequently, the shareholders' equity ratio climbed from 47.1% as of March 31, 2014, to 51.8% as of March 31, 2015.

Capital Investment, Depreciation and Amortization

The Company is stabilizing its business foundation in the cement business by further streamlining production and distribution. In other business fields, the Company is investing capital based on its medium-and long-term management strategies to expand revenues by allocating key management resources to growth fields. Total capital expenditures undertaken throughout the Group in the fiscal year under review decreased ¥383 million, or 2.2%, from the previous fiscal year to ¥17,204 million. Depreciation and amortization rose ¥290 million, or 1.7%, to ¥16,889 million.

Cash Flow

Net cash provided by operating activities totaled ¥30,256 million (US$250,989 thousand), down ¥2,280 million from the previous fiscal year. In addition to income before income taxes and minority interests, cash inflows were primarily due to retained earnings reflecting such factors as depreciation and amortization. Net cash used in investing activities amounted to ¥16,043 million (US$133,088 thousand), down ¥1,906 million from the previous fiscal year, mainly reflecting purchases of property, plant and equipment. Net cash used in financing activities was ¥16,051 million (US$133,151 thousand), up ¥8,084 million from the previous fiscal year. Main cash outflows included the repayment of long-term loans payable.

As a result, cash and cash equivalents at the fiscal year-end decreased ¥1,796 million, or 5.6%, year on year to ¥30,132 million (US$249,961 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, seeking to maintain a stable consolidated annual dividend payout ratio of 20% or above.

For fiscal 2015, an interim dividend of ¥2.5 per share and a year-end dividend of ¥4.0 were paid. Consequently, the full-year dividend payment totaled ¥6.5 per share.

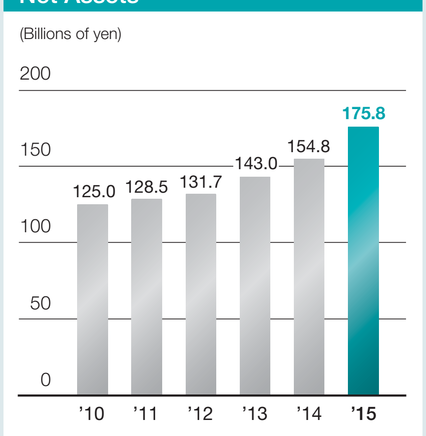
Fiscal 2016 Outlook

In the fiscal year ending March 31, 2016, while risks associated with global economic downturn and other factors remain, the Japanese economy is expected to continue to gradually recover, backed by the fall in crude oil prices and the government's economic policies.

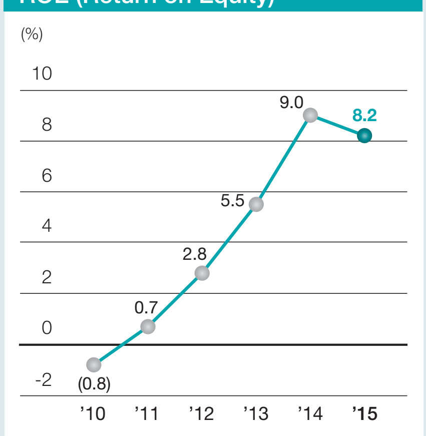
In the cement industry, private-sector demand is forecast to grow, with private capital investment expected to gradually expand on the back on the yen's depreciation and the low price of crude oil. However, public-sector demand is expected to be affected by shrinking public investment. Accordingly, overall domestic demand is expected to remain largely unchanged year on year.

Amid such circumstances, in the domestic cement business, the Sumitomo Osaka Cement Group will focus on ensuring supply stability by establishing flexible production, sales and distribution systems to meet fluctuations in demand while working to set appropriate sales prices. With regard to the overseas cement

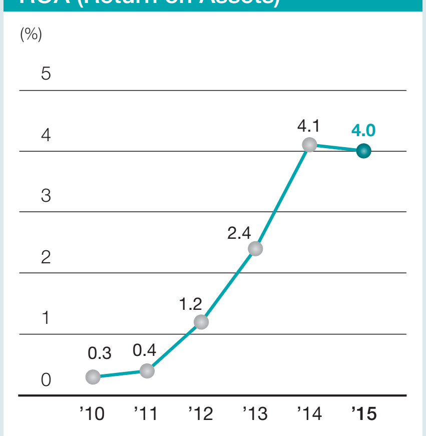
Net Assets



ROE (Return on Equity)



ROA (Return on Assets)



business, the Group will continue to examine the possibility of entering regions where markets are expected to grow. In other business fields, the Group will implement the focused distribution of management resources and implement other measures to increase its business scale and profits.

The Sumitomo Osaka Cement Group will continue to rigorously pursue compliance. At the same time, in line with 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 and strive to reduce its environmental impact.

For the fiscal year ending March 31, 2016, Sumitomo Osaka Cement expects net sales of ¥238,00 million, an increase of 1.5% year on year, ordinary income of ¥25,000 million, an increase of 2.5%, and net income of ¥14,500 million, an increase of 8.7% from the fiscal year under review. The Company plans to pay a full-year dividend of ¥7 per share.

The aforementioned figures are based on information available as of May 2015, 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 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 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 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 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 that 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.