Financial Review

Scope of Consolidation

The scope of these consolidated financial statements includes Sumitomo Osaka Cement, 35 consolidated subsidiaries and one equity-method affiliate.

Net Sales

During fiscal 2016, ended March 31, 2016, the Japanese economy saw continued gradual recovery supported by the government's economic policy, but the outlook remained unclear, reflecting concerns over worsening economic conditions in China and other emerging economies in Asia.

In the cement industry, due to a year-on-year drop in public-sector investment and changes in architectural construction methods, both public-sector and private-sector demand diminished. As a result, cement demand in Japan fell 6.3% year on year to 42,668 thousand metric tons. Exports, however, gained 12.3%. Consequently, total sales of cement produced by domestic manufacturers, including exports, edged down 2.8% year on year to 52,930 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 ¥234,192 million (US$2,078,382 thousand), largely unchanged from the previous fiscal year. This was because, while sales in the cement business fell year on year, sales in the cement-related products, optoelectronics, advanced materials, and others businesses increased. For more information on results by business segment, please refer to the Review of Operations (pages 5-6).

Profits

Operating income grew 6.3% year on year to ¥23,614 million (US$209,568 thousand) due to rises in earnings in the cement and other businesses. Net income attributable to owners of parent came to ¥16,110 million (US$142,975 thousand), up 20.8% from the previous fiscal year. Consequently, net income per share stood at ¥39.43.

Financial Position

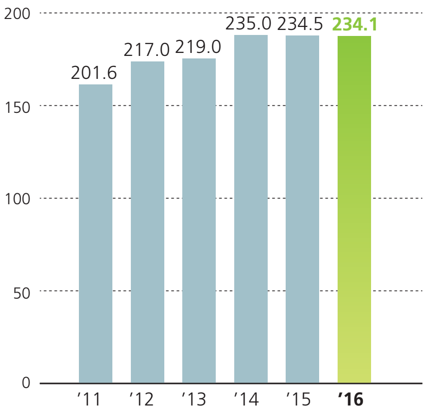
Total assets as of March 31, 2016, stood at ¥325,710 million (US$2,890,575 thousand), a decrease of ¥10,271 million from the previous fiscal year-end.

Current assets were down ¥1,862 million from the previous fiscal year-end to ¥100,189 million (US$889,149 thousand), attributable in part to a decrease in notes and accounts receivable. Total noncurrent assets fell ¥8,409 million from the previous fiscal year-end to ¥225,520 million (US$2,001,425 thousand), partly due to a decrease in investment securities. Within noncurrent assets, property, plant and equipment increased ¥1,508 million to ¥159,303 million (US$1,413,767 thousand), while investments and other assets declined ¥9,856 million to ¥63,914 million (US$567,219 thousand).

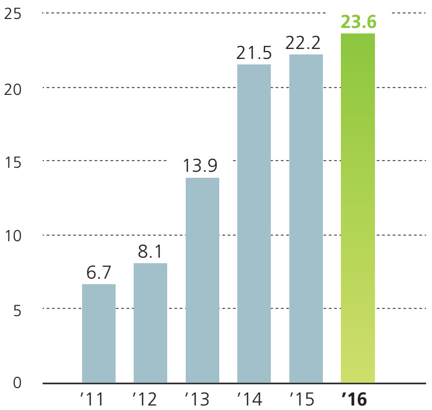
Total liabilities declined ¥11,764 million from the previous fiscal year-end to ¥148,462 million (US$1,317,562 thousand). Current liabilities increased ¥2,341 million to ¥90,996 million (US$807,565 thousand), largely due to an increase in the balance of the current portion of long-term loans. Long-term liabilities decreased ¥14,106 million to ¥57,466 million (US$509,996 thousand) as a result of such factors as decreases in bonds payable and deferred tax liabilities. Total interest-bearing debt declined ¥7,817 million compared with the previous fiscal year-end to ¥76,507 million (US$678,984 thousand), while the interest coverage ratio increased from 25.3 times at the end of the previous fiscal year to 33.4 times.

Net assets at the end of the fiscal year under review stood at ¥177,247 million (US$1,573,012 thousand), up ¥1,492 million

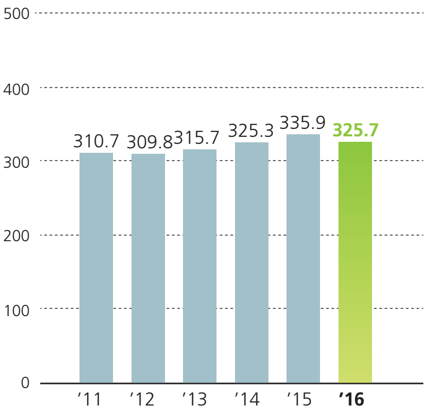
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Total Assets
(Billions of yen)



from a year earlier. This increase was mainly the result of a rise in retained earnings. Consequently, the shareholders' equity ratio climbed from 51.8% as of March 31, 2015, to 53.9% as of March 31, 2016.

Capital Expenditure, 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 increased ¥2,290 million, or 13.3%, from the previous fiscal year to ¥19,494 million. Depreciation and amortization came to ¥16,885 million, approximately unchanged year on year.

Cash Flow

Net cash provided by operating activities totaled ¥32,618 million (US$289,477 thousand), up ¥2,361 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 ¥15,691 million (US$139,255 thousand), down ¥352 million from the previous fiscal year, mainly reflecting purchases of property, plant and equipment. Net cash used in financing activities was ¥15,705 million (US$139,378 thousand), down ¥346 million from the previous fiscal year. Main cash outflows included the repayment of long-term loans payable and short-term bank loans as well as the acquisition of treasury stock.

As a result, cash and cash equivalents at the fiscal year-end increased ¥1,245 million, or 4.1%, year on year to ¥31,378 million (US$278,476 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 2016, an interim dividend of ¥4.0 per share and a year-end dividend of ¥4.0 were paid. Consequently, the full-year dividend payment totaled ¥8.0 per share.

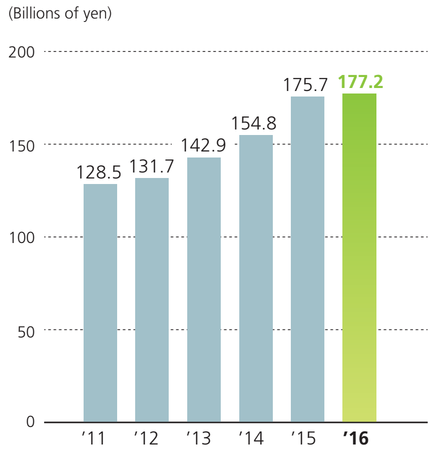
Fiscal 2017 Outlook

In the fiscal year ending March 31, 2017, despite ongoing risks associated with economic downturn in emerging Asian economies and other factors, the Japanese economy is expected to continue to gradually recover, backed by the government's economic policies.

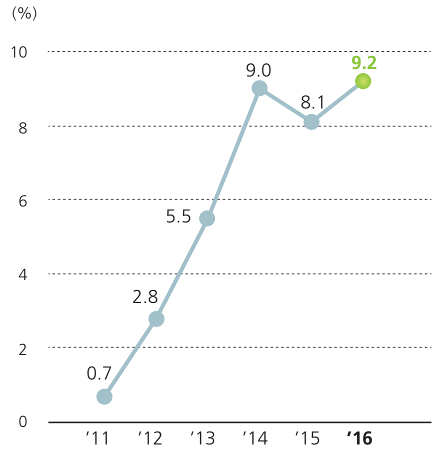
In the cement industry, public-sector demand is expected to fall due to shrinking public investment. However, private-sector demand is forecast to grow due to an increase in private housing investment triggered by a surge in demand ahead of a scheduled consumption tax hike. Accordingly, overall domestic 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 the stable supply of high-quality products 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 business, the Group will continue to examine the possibility of entering regions where markets are expected to

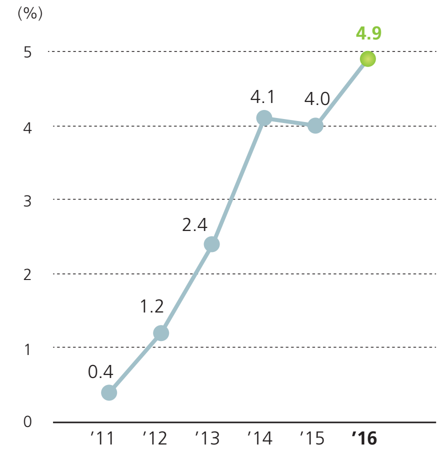
Net Assets



ROE (Return on Equity)



ROA (Return on Assets)



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, by utilizing recycled raw materials and fuels, the Group will continue to fulfill its social mission of contributing to the establishment of a recycling-oriented society and reducing its environmental impact.

For the fiscal year ending March 31, 2017, Sumitomo Osaka Cement expects net sales of ¥236,000 million, an increase of 0.8% year on year, ordinary income of ¥26,000 million, an increase of 5.9%, and net income attributable to owners of the parent of ¥17,200 million, an increase of 6.8% from the fiscal year under review. The Company plans to pay a full-year dividend of ¥9 per share.

The aforementioned figures are based on information available as of May 2016, 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 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.