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.