Financial Review

Net Sales

In the cement industry, private sector capital expenditures increased, causing private sector demand to rise, but public sector demand remained largely on par with the previous year, due to the impacts felt from skilled worker shortages and other factors. As a result, cement demand in Japan increased slightly 0.2% year on year to 41,876 thousand metric tons. Exports, too, increased 2.4%. Consequently, total sales of cement produced by domestic manufacturers, including exports, edged up 0.9% year on year to 53,508 thousand metric tons.

Under these circumstances, the Sumitomo Osaka Cement Group launched the Fiscal 2017-2019 Medium-term Management Plan in the year ended March 31, 2018. In the Cement-Related Products business, we worked on various measures related to overseas cement strategy, expansion in peripheral sectors, and reinforcement of business foundation, while in the High-Performance Product Products business, we focused on accommodating increased production of mainstay core products and development of new businesses and new products.

As a result, consolidated net sales during the fiscal year under review came to ¥244,826 million (US$2,304,465 thousand), up 4.6% over the previous year, driven by an increase in revenue in the Cement business.

Profits

Operating income declined ¥2,540 million year on year to ¥18,990 million (US$178,751 thousand) and ordinary income dropped ¥2,473 million year on year to ¥20,153 million (US$189,702 thousand) due to worsening production costs in the Cement business. And, profit attributable to owners of parent fell ¥1,550 million year on year to ¥14,659 million (US$137,981 thousand). (See pages 2~3 and 6 to 8.)

Financial Position

Total assets as of March 31, 2018 stood at ¥340,980 million (US$3,209,528 thousand), an increase of ¥4,189 million from the previous fiscal year-end. This increase was mainly attributed to an increase in property, plant and equipment.

Total liabilities at the end of the fiscal year under review declined ¥4,099 million from the previous fiscal year-end to ¥136,822 million (US$1,287,866 thousand). This decrease was mainly due to a decrease in interest-bearing liabilities.

Net assets at the end of the fiscal year under review stood at ¥204,157 million (US$1,921,662 thousand), up ¥8,288 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 under review increased ¥26,470 million from operating activities and decreased ¥24,753 million from investing activities, and decreased ¥6,626 million from financing activities. It means that cash and cash equivalents at end of period under review decreased ¥4,600 million year on year. As a result, the cash balance at the fiscal year-end totaled ¥22,072 million (US$207,756 thousand), marking a decline of 17.2% year on year.

Cash flow from operating activities

Net cash provided by operating activities totaled ¥26,470 million (US$249,152 thousand), down ¥9.4% 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 ¥19,733 million and depreciation and amortization of ¥17,661 million.

Cash flow from investing activities

Net cash used in investing activities amounted to ¥24,753 million (US$232,992 thousand), up 39.8% year on year. This mainly reflects purchase of noncurrent assets totaling ¥25,585 million.

Cash flow from financing activities

Net cash used in financing activities was ¥6,626 million (US$62,370 thousand), down 58.9% from the previous fiscal year. This decrease is attributed to the payment of dividends of ¥4,261 million.

Dividend Policy

Sumitomo Osaka Cement believes that earnings distributions to shareholders should be determined in accordance with the Company's earnings. 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. Based on this viewpoint, the Company will make decisions with regards to a stable and continuous dividend holistically based on its overall management situation. The Company's goal is to achieve a consolidated annual dividend payout ratio of around 30% following the Fiscal 2017-2019 Medium-term Management Plan.

For fiscal 2018, an interim dividend of ¥5.5 per share and a year-end dividend of ¥5.5 were paid per share. Consequently, the annual dividend payment totaled ¥11.0 per share.

Fiscal 2018 Outlook

The cement industry faces the impacts of the ongoing skilled worker shortage, but public sector investment will increase, causing public sector demand to remain largely unchanged. Both private sector investment in home construction and private sector capital expenditures will increase. Because of that, private sector demand is expected to rise, giving way to an increase in domestic demand.

The full-year earnings forecast for the fiscal year ending March 31, 2019 calls for net sales of ¥255,000 million (up 4.2% year on year), operating income of ¥20,000 million (up 5.3% year on year), ordinary income of ¥20,650 million (up 2.5% year on year, and profit attributable to owners of parent of ¥14,000 million (down 4.5% year on year).

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 over 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 have the potential to increase cement manufacturing costs, significantly affecting the Group's financial condition, results and cash flows. However, the Group's own mine can provide an extremely stable supply of limestone, a primary raw material of cement, over the long term. On the other hand, the price of coal, a primary raw fuel used in cement production, may potentially increase due to future circumstances. The Group is making efforts to pass on the effects of fuel costs to cement sales prices to mitigate impacts on performance 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 it incurs losses on receivables due to irrecoverable debt, the Group's 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

The Sumitomo Osaka Cement Group's 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 a 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.