eREX
9517 Tokyo Stock Exchange First Section

14-Dec.-16

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Making steady progress both in the current results and the medium-term management plan

eREX <9517> (hereafter, also "the Company") is an independent electricity provider, known as a power producer and supplier, or PPS, operating an electricity retail business. Leveraging its advantages of a competitive base load power supply and a flexible sales strategy, the Company is targeting high growth from the full liberalization of the electricity market from April 2016 onward.

In the 1H FY3/17 results, net sales were ¥13,965mn (up 24.9% year-on-year (y-o-y)) and operating income was ¥1,461mn (up 207.9%), for major increases in both sales and profits. The factors behind these results were that on the one hand the Company steadily expanded the number of contracts both for large customers in the high-voltage sector and general households and other customers in the low-voltage sector, and on the other hand it was able to procure power stably and inexpensively. In terms of progress made, it achieved significantly more than 50% of its full fiscal year profit forecasts, and expectations are rising that results will further improve as we approach the winter season, which is the peak demand period.

The Company also made steady progress in implementing Dash 1000, its medium-term management plan. Securing its own power supply is the core part of the plan, and toward this the Saiki power plant began commercial operations from November as scheduled, and currently the prerequisites are in place for it to achieve its revenue targets during the period of the medium-term management plan (DASH 1000). Furthermore, it subsequently announced plans to construct both the Ofunato and Buzen power plants as prerequisites to achieve net sales of ¥100bn. Both are expected to be highly competitive power plants with a power output of 75MW, which will make them the largest-scale biomass power plants in Japan, and they will mainly use palm kernel shells (PKS) as the fuel. The aim is to complete both power plants by the fall of 2019, and construction on them is expected to start in the current 2H.

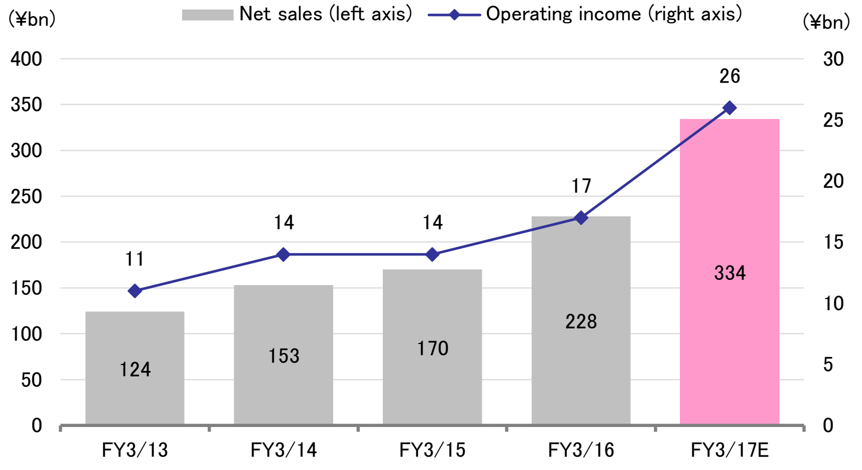
Results are also forecast to trend steadily in the future. In the high-voltage sector, the ratio of highly profitable customers is increasing with the steady progress being made in acquiring contracted customers through sales agencies. This trend and its positive effect on results can already be confirmed in 1H FY3/17. In the low-voltage sector, the Company is aiming to acquire contracts through business alliances, including with LPG sales companies. Currently, its alliance partners have more than three million customers (which are potential customers for the Company). At the end of September 2016, it had approximately 25,000 contracted customers, and it seems certain to achieve its target for the end of this fiscal year of 53,000 customers.

At FISCO, we think that if the current pace of increase in customer numbers continues in the next fiscal year, the Company will be able to achieve the FY3/18 results targets it set out in Dash 1000 without too much difficulty. The sense of stability for securing the power to meet demand was also improved due to the Saiki power plant becoming operational. The power generated at Saiki will be allocated to retail electricity sales due to the expansion in customer numbers in this sector, while the surplus power will be sold wholesale on the Japan Electric Power Exchange (JEPX). This is also expected to be a factor pushing-up profits. The Company is focusing on generating profits from its surplus-power procurement by optimizing its customer portfolio, and at FISCO, we think that within its Dash 1000 results targets, the likelihood of achieving its profit targets is particularly high.

Check Point

- Has upwardly revised the target for contracts in the low-voltage sector to 53,000
- Plans to construct 75MW-class biomass power plants in Ofunato City and Buzen City
- Outlook for FY3/17 is double-digit increases in sales and profits

Business Trends



Analysis of the 1H FY3/17 results

The number of contracts acquired in the low-voltage sector is progressing at a pace higher than targeted

(1) Overview of the 1H FY3/17 results

In the Company's 1H FY3/17 results, net sales were ¥13,965mn (up 24.9% y-o-y), operating income was ¥1,461mn (up 207.9%), ordinary income was ¥1,417mn (up 228.9%), and net income attributable to the owners of the parent (hereafter, net income) was ¥1,012mn (up 233.7%), for major increases in both sales and profits.

The Company did not announce initial forecasts for 1H, but looking at the rate of progress for the 1H results compared to the full fiscal year forecasts, the progress made in net sales was slightly low, at 41.7%, but each of the profit items greatly exceeded 50%, with operating income at 54.8%, ordinary income at 57.8%, and net income at 71.0%, suggesting progress is being made at a pace higher than targeted.

1H FY3/17 Results Overview

(¥mn)

	FY3/16		FY3/17				
	1H	Full fiscal year result	1H	y-o-y	Rate of progress	Full fiscal year forecast	y-o-y
Net sales	11,177	22,877	13,965	24.9%	41.7%	33,466	46.3%
Operating income	474	1,723	1,461	207.9%	54.8%	2,664	54.6%
Operating income margin	4.2%	7.5%	10.5%	-	-	8.0%	-
Ordinary income	430	1,614	1,417	228.9%	57.8%	2,451	51.9%
Net income attributable to the owners of the parent	303	1,112	1,012	233.7%	71.0%	1,426	28.2%

Source: Prepared by FISCO

Net sales increased, as following the full liberalization of electric power retailing from April 2016, customer numbers grew in both the high-voltage sector and the low voltage sector, which is mainly comprised of sales to households. The reasons why the rate of progress for net sales was low compared to that for the profit items, was that the fuel cost adjustment amount declined due to the fall in the prices of crude oil and other fuels, and also that the trading prices on JEPX fell in the wholesale sector.

In terms of electricity-sales customers, the number of contracted customers in the high-voltage sector grew from approximately 8,000 at the end of March 2016 to around 9,400 at the end of September, while the number of contracted customers in the low voltage sector rose to approximately 25,000 at the end of September following the start of this business in April. The Company was also able to acquire many highly profitable customers in the high-voltage sector in the current 1H, which was another reason why profits increased significantly.

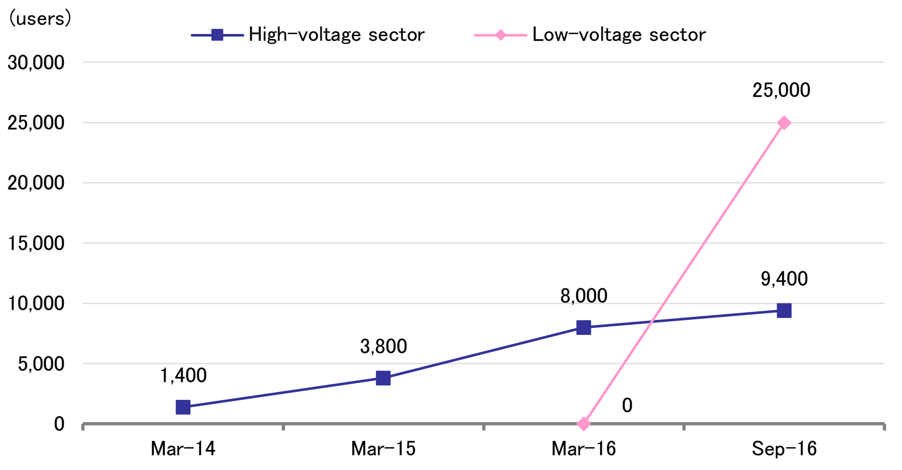
In terms of profits, the fact that the cost of sales was ¥11,087mn and the y-o-y increase was kept down to 11.4% contributed to the increase in profits. The factors behind this were that although the amount of purchased electricity increased, the Company was able to procure electricity at a lower price than in the same period in the previous fiscal year. This was because in April 2016, the method of calculating the imbalance cost (the settlement amount between the PPS and each regional power company for the shortage or surplus of electricity) was changed, which contributed to the cost reductions in the current 1H. As a result of keeping down the increase in the cost of sales, the gross margin rose 134.4% y-o-y to ¥2,878mn.

SG&A expenses reached ¥1,416mn due to increases in personnel numbers and sales-agency commissions, but the y-o-y increase remained at 88.1%, greatly below the rate of increase of the gross margin. As a result, operating income rose 207.9% y-o-y to ¥1,461mn.

(2) Trends in the main KPI

For sales, the Company adopts a sales-agency system, and the number of agencies increased from around 1,200 at the end of March 2016 to approximately 1,300 at the end of September. As mentioned above, the number of electricity retail sales contracted customers is around 9,400 in the high-voltage sector and approximately 25,000 in the low-voltage sector. In the high-voltage sector, the number has continued to increase at a pace of 200 to 400 customers per month, and currently it is maintaining this pace. In the low-voltage sector, the Company is targeting having 53,000 contracted customers by the end of March 2017, and the rate of progress is at a pace above this target.

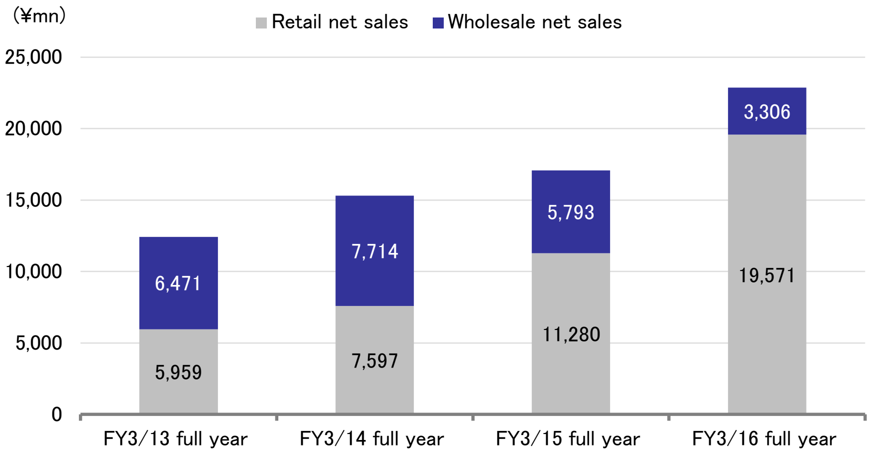
Trends in the number of customers



Source: prepared by FISCO from Company materials

The Company sells electricity through two routes; retail and wholesale. Retail sales are directly with the contracted customers, while wholesale business is from transactions on JEPX. In the last few years, the percentage of sales from retail has been rising due to the increase in the number of electricity retail contracts and the decline in transaction prices on JEPX because of the fall in the price of crude oil.

Trends in the breakdown of net sales by sales route



Source: prepared by FISCO from Company materials

■ Progress made in Dash 1000, the medium-term management plan

Set numerical targets, including an operating income margin of 10% and ROE of 20%

(1) Overview of Dash 1000

The Company newly formulated Dash 1000 to be its medium-term management plan for the three year period of FY3/17 to FY3/19, which is currently being implemented. As indicated by the title, it has positioned the three years of the plan to steadily advance preparations to achieve net sales of ¥1000mn in 4 to 5 years' time.

The results targets in Dash 1000, the new medium-term management plan, are significantly higher than those in the previous medium-term management plan. The targets for the plan's final fiscal year of FY3/19 are net sales of ¥67,339mn, operating income of ¥7,354mn, and an operating income margin of 10.9%. An operating income margin of 10% has been set as the profit target, ROE (return on equity) of 20% as the financial target, and a dividend payout ratio of 20% as the dividend target.

Dash 1000 Results Target

(¥mn)

	FY3/16	FY3/17		FY3/18		FY3/19		FY3/16-FY3/19
	Result	Target	y-o-y	Target	y-o-y	Target	y-o-y	CAGR
Net sales	22,877	33,466	46.3%	51,280	53.2%	67,339	31.3%	43.3%
Operating income	1,723	2,664	54.6%	5,311	99.4%	7,354	38.5%	62.2%
Operating income margin	7.5%	8.0%	-	10.4%	-	10.9%	-	-
Ordinary income	1,614	2,451	51.9%	5,076	107.1%	7,085	39.6%	63.7%
Net income	1,112	1,426	28.2%	3,336	133.9%	4,754	42.5%	62.3%

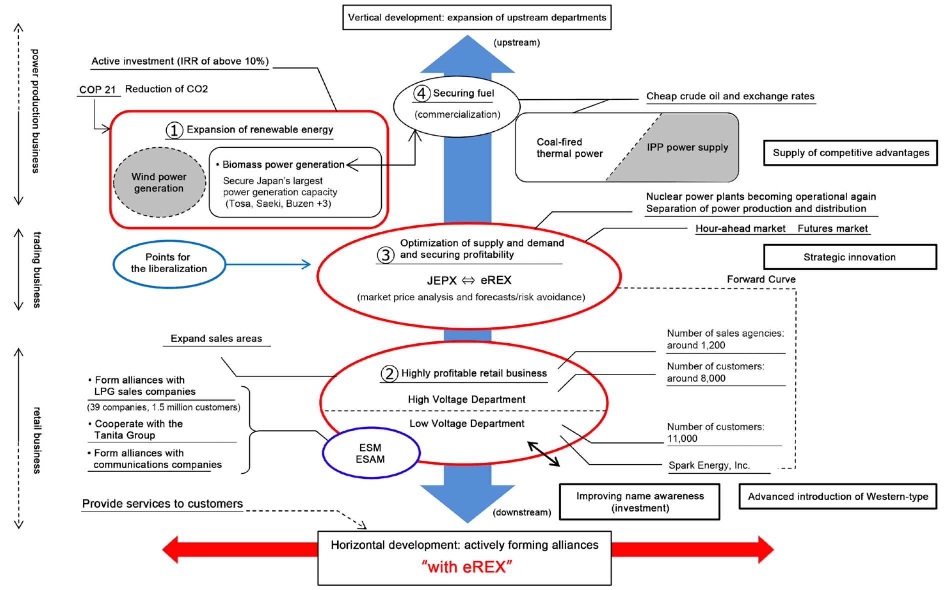
Note: year-on-year values and profit margin values were calculated based on the unit of millions of yen

Source: prepared by FISCO based on the Company's briefing materials

The Company is aiming to achieve a vertical deployment, from the fuel procurement business in the upstream power generation through to the downstream electricity retail sales and subsequent customer services. In order to realize this, it has set five priority measures to implement during the period of the current medium-term management plan. Within them, at FISCO we think that the measures to secure the power supply and the sales strategy are particularly important.

■ Progress made in Dash 1000, the medium-term management plan

Vertical Development from the Fuels Business to Customer Services



Source: reprinted from the Company's briefing materials

The Dash 1000 priority measures

	Priority measures	Specific developments, targets, etc.
1	Secure competitive power sources and develop a profit-driven retail business	Aim to be the largest domestic producer of power from biomass as a non-fossil fuel power source, and to achieve a middle-ranking position among the top 10 PPSs for the amount of electricity sold
2	Optimize the power production business, the wholesale business, and the retail business	Newly establish and commercialize a trading department with appropriate risk management
3	Implement vertical development from the fuels business to customer services	With increasing and strengthening the biomass power plant facilities as the core, implement vertical development from the upstream sector, including the fuels business, to the downstream sector, of customer services
4	Implement a horizontal development as the alliance strategy (With eREX)	Co-creation with many business partners
5	Establish a management structure	Strengthen sales agencies, increase the probability of realizing an efficient management system, activate the organization and personnel, and enhance the governance system

Source: Prepared by FISCO

Aiming for the upwardly revised target of 53,000 contracted customers in the low-voltage sector

(2) Progress made in the sales strategy

a) The overall situation

The Company is making extremely steady progress for its sales strategy. In the high-voltage sector, since it was first established, it has adopted a sales-agency system and currently has over 1,300 sales agencies working to acquire new customers. As previously described, as of March 2016 it had approximately 8,000 contracted customers in the high-voltage sector, but by September this number had risen to around 9,400. In terms of the types of customer, the percentage of customers who are highly profitable for the Company is rising, and this also contributed to the increase in profits in the current 1H results.

In the low-voltage sector, which was liberalized in April 2016 and in which general households and small-scale stores are the main customers, the Company is working to acquire new customers through alliances in each region with customer-focused companies. As of the end of September, these alliance partners had approximately 3 million customers (who are potential customers for the Company), and up to the present time the growth in the number of contracted customers has been at a pace exceeding the initial target. At the end of September 2016, the number of contracted customers had reached approximately 25,000, while the Company is aiming to have 53,000 contracted customers by the end of March 2017.

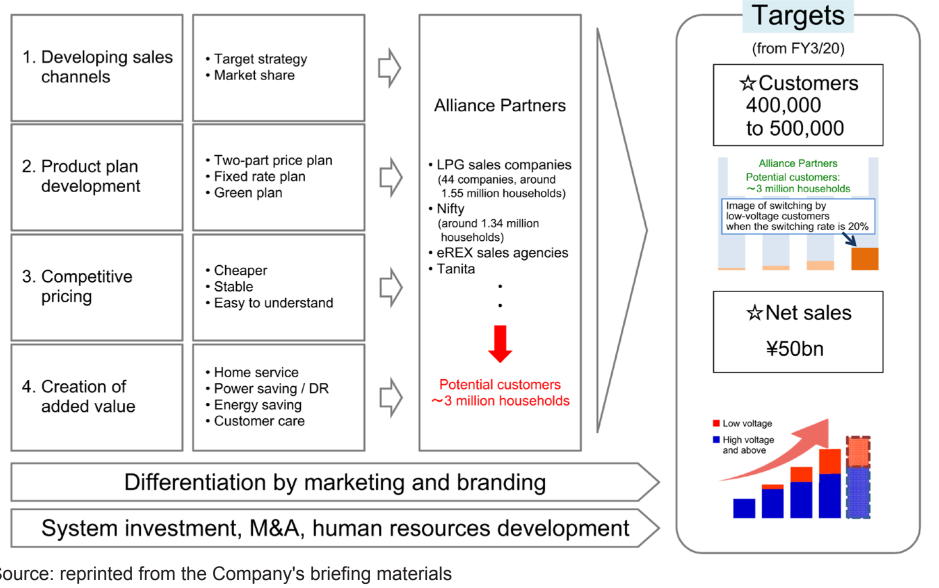
Alliance partners to acquire low-voltage sector customers

Attributes	Number of customers
LP gas sales companies	39 companies, approximately 1.5 million customer households
Cable television companies	Customers, 200,000 to 300,000 customer households
Real-estate companies	Properties managed, about 150,000
	Brokerage properties, about 240,000
Tanita	User members, 200,000 people
Communications companies	User members,1.4 million contracts

Note: includes those currently in discussions toward an agreement
Source: prepared by FISCO from the Company's briefing materials

The low-voltage sector business strategy

☆A marketing strategy utilizing alliances with customer-focused companies and a vertical deployment



Source: reprinted from the Company's briefing materials

b) Entry into electricity retail sales in Okinawa

A key topic for the Company's sales strategy in this fiscal period is its entry into the electricity retail sales business in Okinawa. It has established Okinawa Gas New Power Co. (hereafter Okinawa Gas NP) as a joint venture with Okinawa Gas Co., Ltd. (investment ratios: the Company 60%, Okinawa Gas 40%).

The Company decided to enter into Okinawa in October 2015 and conducted an investigation toward launching this business. It finally decided that an alliance with a leading local company would be essential in order to conduct local-based sales and it selected Okinawa Gas to be its alliance partner for this. Okinawa Gas is the sole city gas supplier in the prefecture, and it supplies city gas mainly in Naha City. It also supplies LG gas to the southern part of the prefecture.

The registration of Okinawa Gas NP as a PPS was completed in August 2016, and it began supplying power from October 1. The position of Okinawa Gas NP is that it is a PPS, the same as eREX, and it concludes contracts with customers as a power supplier. The structure for the actual acquisition of customers is that Okinawa Gas mainly seeks to acquire them from its own existing customers, with Okinawa Gas NP acting as the sales agency. Conversely, for the power supply, as Okinawa cannot procure power from JEPX (because it is not connected to the mainland by cable), it is procured from the backup power of The Okinawa Electric Power Company and from photovoltaic power generation companies in the prefecture.

The significance of the Company entering into Okinawa includes the fact that there is little competition because securing a power supply is specialty business. While the market scale is not that large, it is expected to become a profitable business due to the lack of competition. While on the one hand, awareness of electricity liberalization does not seem to be as high in Okinawa as it is on the mainland, on the other hand the potential demand for inexpensive energy is considered to be strong. Going forward, attention will be focused on whether the Company achieves rapid growth in contracted customer numbers while utilizing the customer base of Okinawa Gas.

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Plans to construct 75MW-class biomass power plans in Ofunato City and Buzen City

(3) Progress made in securing the power supply

The Company secures its power supply from three routes; it generates it itself, and it purchases it from IPP (independent power producers) and from JEPX. In order to realize sustainable growth as a PPS, it is essential that it establishes and enhances its own power generation facilities. It is able to secure a cost-competitive base load power supply from the biomass power generated by the Tosa power plant (organizationally, it is a wholly-owned subsidiary of eREX New Energy Co., Ltd.) using PKS as the fuel, and the Company plans to construct additional power plants that will utilize this technology.

Overview of the biomass power plants plan

	FY3/14	FY3/17	FY3/20~		
	Tosa	Saiki	Ofunato project disclosed on July 29	Buzen project disclosed in September 29	Investigations into the 2 projects to start in the future
Power output [MW]	20	50	75	75	50~150
Power production efficiency	31%	36%	39%	39%	↑
Fuel	PKS	PKS	Biomass	Biomass	
Investment amount [¥100mn]	35	167	235	250	Feasibility study is underway
The Company's investment ratio	100% (All sold by eREX)	70% (All sold by eREX)	35% (All sold by eREX)	65%	
The amount invested by the Company [¥100mn]	0.1 (completed)	34.3 (completed)	14.0	45.0	↓
Financing method	Corporate loan	Corporate loan	Corporate loan	Project financing	Project financing (検討中)

1) Highly likely to recover investment. Adheres to an investment standard of IRR of 10% or above
2) Stably supply of fuel and avoids the risk of price fluctuations
(long contract, spot contracts, external sales, responds to exchange-rate fluctuations)
3) Stable financing using financing techniques
(project financing, investment structure, secured a three-year commitment loan)

Source: reprinted from the Company's briefing materials

The biggest topic for FY3/17 is the start of commercial operations at the Saiki power plant. The Company succeeded in starting operations at the Saiki power plant, which is the first in a planned series of expansions, on schedule in November 2016. The management company is eREX New Energy Saiki Co., Ltd. and the Company's investment stake is 70% (the remainder is held by the TOSHIBA CORPORATION <6502> Group at 20%, and TonenGeneral Sekiyu K.K. <5012> at 10%). The power plant is located within the grounds of the TAIHEIYO CEMENT CORPORATION's <5233> Saiki plant, and it is a circulating fluidized bed-type plant that uses PKS as the main fuel, the same as the Tosa power plant. Its rated output is 50MW, which is 2.5 times the 20MW output of Tosa power plant. As it is the same type of plant as the Tosa power plant, it is able to utilize the operational technologies and fuel-procurement expertise that have been accumulated at the Tosa power plant, and it seems that it has been able to operate stably and at full capacity as soon as it became operational. The Company collects and sells all of the power that it generates.

Following on from Saiki, the Company plans to construct 75MW-class biomass power plants in both Ofunato City in Iwate Prefecture and Buzen City in Fukuoka Prefecture. It has previously officially announced the launch of both projects.

a) The Ofunato project
On July 29, 2016, the Company officially announced the construction of the Ofunato power plant. The details are that the Company jointly invested with TAIHEIYO CEMENT to establish Ofunato Hatsuden Co., Ltd. (Capital, ¥4bn. Investment ratio; the Company, 35%, TAIHEIYO CEMENT, 65%), and a biomass power plant with a power output of 75MW will be constructed on the grounds of TAIHEIYO CEMENT's Ofunato plant.

The power plant will be a circulating fluidized bed-type, the same as the Tosa and Saiki power plants, and the fuel ratio will also be the same, at 90% biomass and 10% coal. The plan is to use PKS and also empty fruit bunch (EFB) as the biomass fuels. TAIHEIYO CEMENT has succeeded in converting EFB into fuel for power generation through a joint development with Saraya Co., Ltd., and a Thai company.

The total cost of the project is expected to be ¥23.5bn and the plan is to procure the required funds through borrowing. The schedule is for the construction work to start in FY3/17 2H and to finish in the fall of 2019, with the Company to collect and sell to external customers all of the power generated.

b) The Buzen project

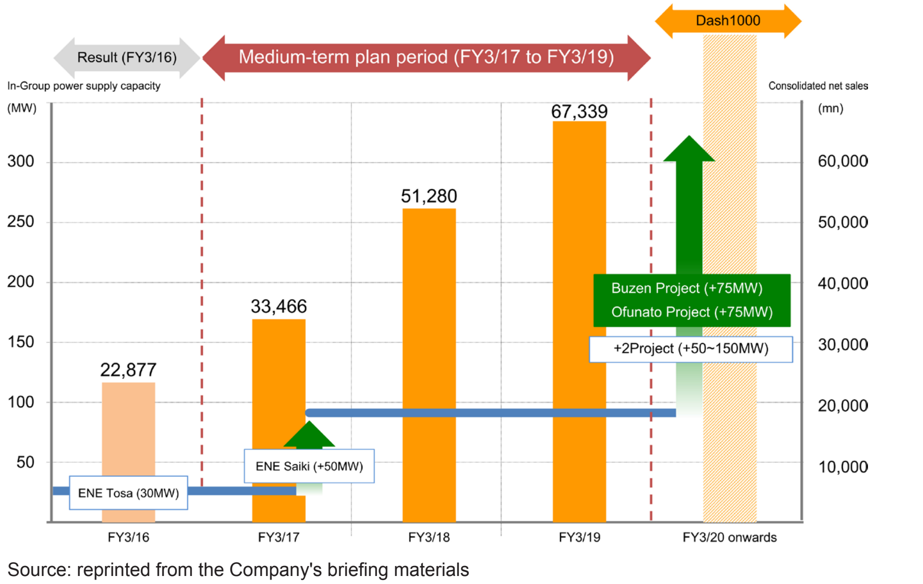
On November 10, 2016, the Company announced another biomass power plant in Buzen City. Specifically, it announced that Kyuden Mirai Energy Company, Incorporated, and Kyudenko Corporation <1959> have invested in Buzen New Energy Co., Ltd. which the Company established in October 2016, and that these three companies will undertake the project to construct Japan's largest ever biomass power plant. The planned investment ratio is that the Company will invest 65%, Kyuden Mirai Energy 27%, and Kyudenko 8%.

The plant, which will be called the Buzen Biomass Power Plant, will be constructed on the grounds of Kyushu Kouatsu Concrete Industries Co., Ltd. It will be a biomass power plant that uses PKS and wood pellets as the fuel, and it is scheduled to have a power output of 75MW and generate approximately 500,000MWh of power per year. This would make it the largest-scale biomass power plant in Japan. The aim is to start the construction work in March 2017 toward the launch of commercial operations from the fall of 2019.

The investment amount is considered to be around ¥25bn, although the details have not been officially announced. To procure the funds, the plan is for the Company to employ project financing for the first time. The funds to repay project financing are the profits from the relevant project, so in this case, Buzen New Energy will be required to repay it, not the Company. This approach also has the advantage that the credit facility can be maintained. It is considered that the Company wants to use the Buzen New Energy experience as a model case and to use it for the multiple projects it is planning for the future.

The Company plans to construct a further two power plants in addition to the Saiki power plant that became operational this fiscal year and the Ofunato and Buzen power plants that are scheduled to become operational in 2019. Going forward, it seems that the Company will carry out the investigations toward undertaking these projects and create the detailed designs while observing factors such as the pace of increase in the number of contracted customers. These plants are being positioned in the next facilities expansion plan as essential in order to achieve the target of net sales of ¥100bn, so when back calculating and also on considering the construction period, at FISCO we think that the partners, the scheme, and the details of the plans will be determined and formally announced during FY3/18, and their construction will begin after that.

Trends in power generation capacity and net sales growth



Source: reprinted from the Company's briefing materials

Results Outlook

Outlook is for double-digit increases in sales and profits in FY3/17

(1) FY3/17 Full-year outlook

The Company's forecasts for the FY3/17 full year are net sales of ¥33,466mn (up 46.3% y-o-y), operating income of ¥2,664mn (up 54.6%), ordinary income of ¥2,451mn (up 51.9%), and net income attributable to the owners of the parent of ¥1,426mn (up 28.2%).

At FISCO, we think that in profits, it is highly likely that the full fiscal year results will exceed their forecasts. Net sales are determined by the product of sales price and quantity sold (amount of electricity), and as stated in the analysis of the 1H results, we think it possible that the results will fall below the Company's forecasts due to the decline in wholesale prices on JEPX from the impact of the reduction in the price of crude oil.

Conversely, profits are determined by the product of profit margin and sales volume. The downside risk for sales volume is considered to be small as customer numbers are steadily increasing. In terms of the profit margin, while on the one hand the procurement price from JEPX is trending at a low level, on the other hand the retail prices in both the high voltage and low voltage sectors are stable, so the Company should be able to secure a sufficient profit margin. In SG&A expenses, personnel expenses and sales-agency commissions are again expected to rise in 2H, but it is considered that the same as in 1H, these rises will be moderate compared to the increase in the gross margin. On considering all of these factors, we think it is highly likely that the Company will achieve its operating income forecast.

As previously stated, the Saiki power plant commenced operations in 2H. There are two points to focus on for the Saiki power plant. First is the point of whether or not smooth operations can be maintained. Second is that when the Saiki power plant became operational, the power supplied by the Company instantly increased, some of which will be allocated to wholesale business on JEPX. But conducting retail sales for this amount as soon as possible will have a positive effect on revenue. In other words, the second point to focus on in the current 2H is can the Company acquire customers for the power generated at Saiki, and how will it do so. As explained above, the risks on the operations side at the Saiki power plant are small as it can utilize the expertise and knowledge acquired at the Tosa power plant. Therefore, at FISCO we think that securing demand is more important.

(2) The approach for FY3/18

It is highly likely that the trend of higher sales and profits will continue in FY3/18, and the key point would seem to be whether the Company succeeds or fails in achieving the results targets set in Dash 1000.

In Dash 1000, the FY3/18 net sales target is ¥51,280mn (up 53.2% y-o-y). As seen in the 1H FY3/17 results, even if the amount of electricity sold steadily increases, net sales can still fall below the target due to the electricity unit price being lower than expected. Therefore, rather than net sales, the important point becomes whether or not the Company can achieve its initial target for the amount of retail electricity sales.

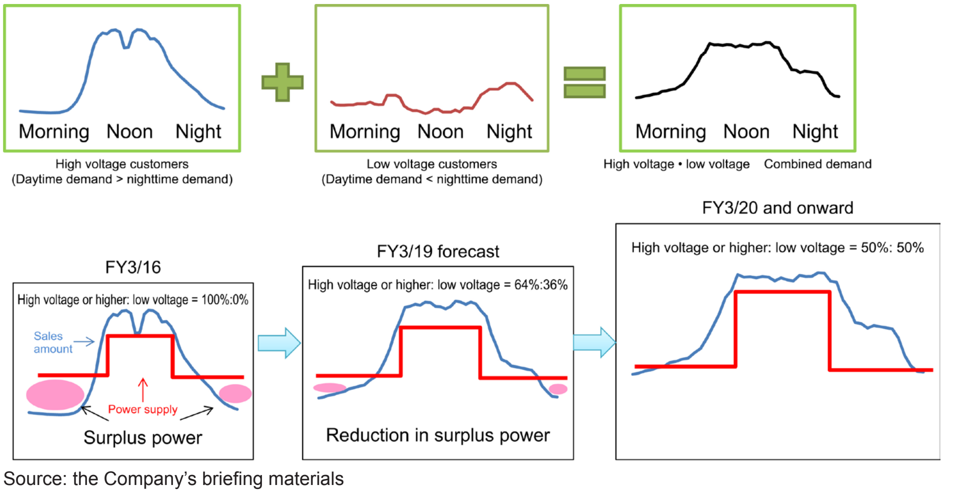
According to the Dash 1000 briefing materials, the target for the amount of retail electricity sales is for it to increase approximately 40% y-o-y in FY3/18 to reach around 2,000GWh. Within this amount, the plan is to double the percentage from the low-voltage sector, from 14% to 29%. This would be a y-o-y increase in the amount of electricity sales in the low-voltage sector of close to 300%. It is thought that the Company plans to increase the number of low-voltage sector contracted customers from 53,000 at the end of March 2017 to 120,000 by the end of March 2018. If it achieves this figure, then it will also have achieved its target for the amount of retail electricity sales in the low-voltage sector.

Conversely, it is estimated that the target for the amount of electricity sales for the high-voltage sector is a y-o-y increase of around 15% in FY3/18. In the 6 month period from the end of March 2016 to the end of September, the number of high-voltage sector contracted customers increased from approximately 8,000 to around 9,400. On adding the increase in the current 2H, at FISCO we think it is fully possible that the Company will achieve its electricity sales target for the high-voltage sector without too much difficulty.

Simply stated, profits are determined by the product of the difference between the average sales price and the average procurement price (the profit margin) and the amount of electricity sales. The amount of electricity sales is as described previously when discussing net sales. The Company's profit margin is expected to grow compared to in the current fiscal period through the progress it is making in optimizing its customer portfolio. This is from raising demand for its electricity and flattening the peaks and troughs in demand by skillfully mixing demand from the high-voltage sector, where the difference between daytime demand and nighttime demand is high, and demand from the low-voltage sector, where demand remains comparatively flat over the daytime and nighttime periods. The progress made in this optimization will generate profits–or in other words, expand the profit margin–from the procurement of surplus electricity. It will take some time before the Company realizes the ideal form it is aiming for, but it can be expected to make steady progress alongside the increase in customer numbers in both the high voltage and low voltage sectors.

Through expanding the customer base in this way, the increase in the amount of retail electricity sales and the improvement to the profit structure will coincide with the Company securing a power supply from the Saiki power plant becoming operational. Therefore at FISCO, we think that it is highly likely to achieve the FY3/18 results targets, particularly for profits, that it set in Dash 1000.

Optimization of the customer portfolio



Source: the Company's briefing materials

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Simplified Consolidated Income Statement

(¥mn)

	FY3/13 Full-year	FY3/14 Full-year	FY3/15 Full-year	FY3/16 Full-year	FY3/17 1H	FY3/17 Full-year (E)
Net sales	12,428	15,311	17,074	22,877	13,965	33,466
y-o-y	-	23.2%	11.5%	34.0%	24.9%	46.3%
Gross profits	-	2,684	2,676	3,730	2,878	-
y-o-y	-	-	-0.3%	39.3%	134.4%	-
Gross margin	-	17.5%	15.7%	16.3%	20.6%	-
SG&A expenses	-	1,276	1,201	2,006	1,416	-
y-o-y	-	-	-5.9%	67.1%	88.1%	-
Operating expenses ratio	-	8.3%	7.0%	8.8%	10.1%	-
Operating income	1,159	1,407	1,475	1,723	1,461	2,664
y-o-y	-	21.4%	4.9%	16.8%	207.9%	54.6%
Operating income margin	9.3%	9.2%	8.6%	7.5%	10.5%	8.0%
Ordinary income	1,164	1,390	1,132	1,614	1,417	2,451
y-o-y	-	19.4%	-18.6%	42.5%	228.9%	51.9%
Net income attributable to the owners of the parent	679	815	922	1,112	1,012	1,426
y-o-y	-	19.9%	13.2%	20.6%	233.7%	28.2%
EPS adjusted for stock split (¥)	81.90	98.22	89.33	80.35	61.11	87.61
Dividend adjusted for stock split	9.00	9.00	20.00	25.00	-	25.00
BPS adjusted for stock split (¥)	326.05	415.27	732.18	846.94	870.33	-

Simplified Consolidated Balance Sheet

(¥mn)

	FY3/14	FY3/15	FY3/16	1H FY3/17
Current assets	5,252	9,787	13,406	11,903
Cash and deposits	2,601	5,187	9,525	6,200
Trade receivables	1,652	1,649	1,996	3,277
Inventories	183	189	244	356
Other	814	2,761	1,639	2,068
Fixed assets	4,588	8,170	13,759	21,910
Tangible fixed assets	3,843	6,417	12,730	19,258
Intangible fixed assets	31	36	130	261
Investment, etc.	713	1,715	897	2,390
Deferred assets	-	26	36	34
Total assets	9,840	17,984	27,202	33,848
Current liabilities	2,585	2,591	3,096	6,603
Accounts payable	1,304	1,432	1,650	2,445
Short-term debt, etc.	488	488	396	2,540
Other	792	670	1,049	1,617
Fixed liabilities	3,799	5,042	9,373	11,448
Long-term debt	2,738	3,939	8,214	10,223
Other	1,060	1,102	1,159	1,225
Shareholders' equity	3,447	9,980	13,784	14,434
Capital	625	3,465	4,947	5,079
Capital surplus	-	2,844	4,326	4,465
Retained earnings	2,822	3,670	4,510	5,115
Non-controlling shareholders' equity	8	369	947	1,361
Total net assets	3,455	10,349	14,732	15,796
Total liabilities and net assets	9,840	17,984	27,202	33,848

Simplified Consolidated Cash Flow Statement

(¥mn)

	FY3/14	FY3/15	FY3/16	1H FY3/17
Cash flow from operating activities	845	1,505	818	596
Cash flow from investing activities	-3,280	-6,514	-4,182	-7,168
Cash flow from financing activities	1,848	6,947	7,502	4,306
Cash and deposits translation difference	0	1	0	1
Change in cash and deposits	-587	1,785	4,138	-2,265
Cash and deposits at the start of the fiscal year	3,068	2,481	4,267	8,405
Cash and deposits at the end of the fiscal year	2,481	4,267	8,405	6,140

Shareholder Returns

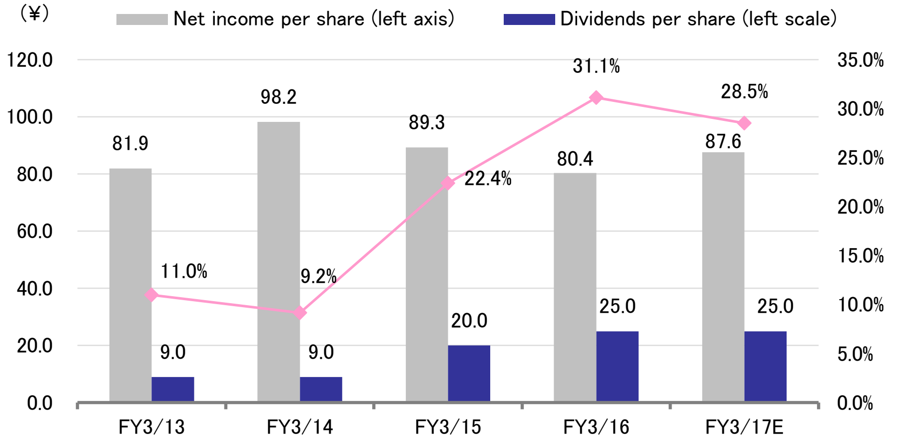
The forecast dividend per share for FY3/17 is ¥25, unchanged y-o-y

The Company basically returns profits to shareholders in the form of dividends. The level of dividend is based on a targeted dividend payout ratio of 20% under the medium-term business plan.

In FY3/16, the Company paid an ordinary dividend of ¥20 plus a commemorative dividend of ¥5 for a total dividend per share of ¥25 (up ¥5 y-o-y). For FY3/17 also, it has announced a forecast dividend of ¥25, which is unchanged y-o-y.

The Company is forecasting that net income attributable to the owners of the parent will rise 28.2% in this fiscal year. While it is possible that it will increase the dividend commensurate with this high increase in profitability, it is also the case that the Company is currently implementing a number of large-scale capital investment projects. This capital investment is undoubtedly in order to achieve future growth, so at FISCO we think it would be fully justified to prioritize capital investment over dividends.

Trends in net income per share, dividends per share, and the dividend payout ratio



Source: prepared by FISCO from Company materials

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The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.