

eREX

9517 TSE Mothers

14-Jan.-16

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## ■ Targeting high growth amidst the shift to full liberalization of the electricity market from 2016

eREX <9517> 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 toward full liberalization of the electricity market from 2016 onward.

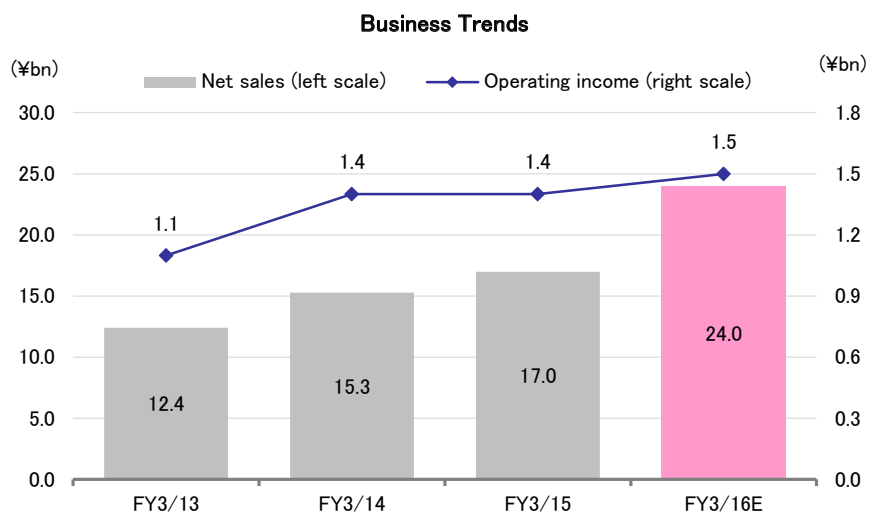
With the commencement of full liberalization of the retail electricity market (allowing sales of electricity to households and other low voltage customers) imminent, the Company is accelerating preparations. From a sales perspective, through a joint venture with a US company that is a frontrunner in the low voltage sector, it established a company that would become the core of the sales operation. Starting from this joint venture, the Company is steadily making progress on preparations by founding sales companies that will form the actual sales units with a domestic trading house group and other measures. Further, given the Company's flexibility derived from use of an agency system, it is able to maximize its strengths, and aims to succeed in the low voltage sector.

It is also making progress from the power procurement perspective. Aiming to be operational from the Autumn of 2016, it is progressing the construction of a biomass power plant in Saiki City, Oita Prefecture. Additionally, it has commenced work on a feasibility study (business viability report) on the construction of a biomass power plant in Buzen City, Fukuoka Prefecture. Also, looking to secure stable supply of biomass raw materials it has established the Saiki Biomass Center, and started construction works on a fuel yard facility.

Its current results are sound. In 1H FY3/16 results profits are exceeding the Company's undisclosed internal budget plan and progressing steadily. Currently, it is retailing electricity to customers in the high voltage sector (supermarkets, office buildings and other operators), with the growth in customer numbers accelerating. The 5,820 users at the end of September exceeded 6,000 at the beginning of October and 7,000 in December. With further growth from the high voltage sector coupled with income from the low voltage sector from April next year, the Company is aiming to achieve ¥50bn in sales in the near term. The current medium-term business plan is positioned as a milestone toward this target, but we feel that there is ample probability of reaching ¥50 billion within the current plan timeframe.

## ■ Check Point

- New construction underway on Saiki power plant, aiming for 80,000 kW output capacity in Autumn 2016
- Strengthening operations in collaboration with Spark Energy
- The number of users is steadily expanding, with the rate of expansion significantly exceeding the plan

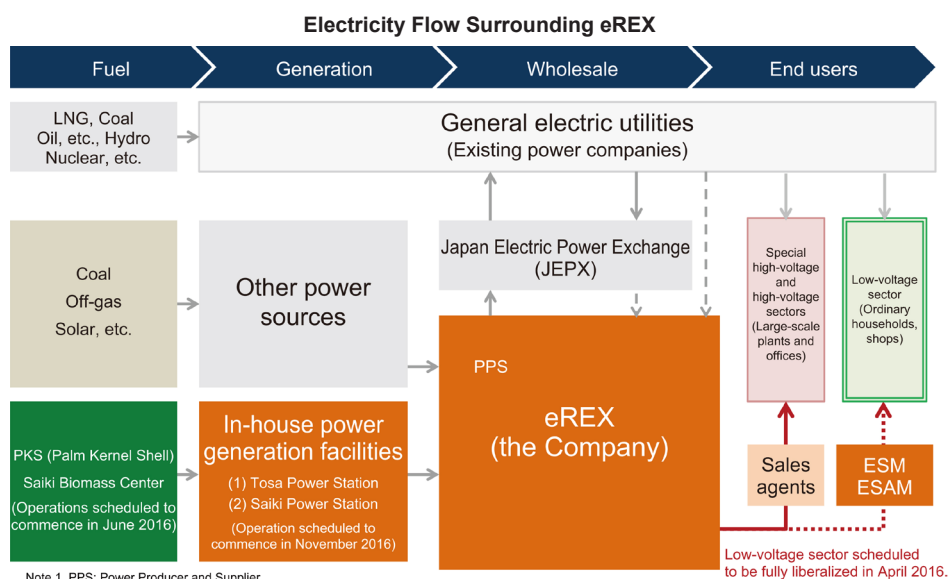


## ■ Corporate outline

### Not only relying on external purchasing for power procurement but also undertaking in-house power generation

The Company was established in 1999 as part of the diversification of Nittan Exco Ltd. Initially named "Nittan Energy Co., Ltd.," the Company changed to its current name the following year. In response to the creation of the PPS system in 2000, the Company submitted notification to the Ministry of Economy, Trade and Industry of its status as a PPS in January 2001, starting an electricity retail business.

The Company operates as a PPS, conducting wholesale sales of electricity as well as retail sales to users. Previously, Tokyo Electric Power Company, Incorporated <9501> and other major electricity providers (known as "General electric utilities" under the scheme) supplied electricity under regional monopolies. However, during the transition toward the liberalization of the electricity market, the PPS scheme was established in 2000, and the Company started electricity retailing operations as the third operator to register under the scheme from 2001.



Source: 1H FY3/16 earnings presentation materials

Just as a typical retailer procures products and sells them, for the Company electricity is the product, with the key points being the procurement and sale of electricity. The differences between electricity retailers and other retailers are that in terms of power procurement it relies not only on external procurement but also produces power in-house; and electricity, unlike other typical products, cannot be stored.

From a power procurement perspective, the Company procures electricity through three channels: in-house generation, power producers and the Japan Electric Power Exchange (herein JEPX). On the other hand, from a power sales perspective, it has two sales channels; direct retail sales to users, and wholesale sales of electricity to JEPX.

We will set out the details below, however, the key point from a procurement perspective is attaining a balance between in-house production and external procurement. Specifically, it means determining a power source configuration, that takes into account how to obtain a balance between securing a stable supply system, forecasting demand, and achieving a flexible cost structure. From a sales perspective the key points include the balance between wholesale and retail, developing a portfolio of retail consumers, selection of sales area, and the development of sales structures and networks. In particular, at this point in time, the paramount concern is how to respond to full liberalization of the retail electricity market scheduled for April 2016 is for the entire industry, including the Company.

#### History of Electricity Business Regulatory Reforms

	System Reforms
1995	Entry permit system lifted for wholesale electricity business through IPPs. Became possible for general electric utilities to procure electricity from IPPs through tenders.
2000	PPS system established to enable companies other than general electric utilities to retail electricity to users over 2,000 kW.
2003	Promoting distributed power: Became possible to supply power to users through own distribution lines, subject to liberalization.
	Creation of wholesale power exchange: The government authorized the establishment of a market to trade wholesale power through facilities around Japan.
	Liberalization scope expanded: The government liberalized electricity retailing for contracts of sale to power users over 500 kW in April 2004 and over 50 kW in April 2005.
2013	The Japanese Cabinet decided on the Policy on Electricity System Reform, which led to the policy for full liberalization of the electricity retailing business.
2014	The Electricity Business Act was partially amended, leading to the formal decision to fully liberalize power retailing.
2016	Start of full liberalization of electricity retailing: Liberalization of retailing in the low voltage sector (50 kW or below) to regular households and small-scale retail shops.
Around 2018-2020	Legal unbundling of power transmission and distribution sectors and retail fee system to be abolished.

Source: Prepared by FISCO

## ■ Full liberalization of electricity retailing and medium-term growth strategies

### The low voltage sector has the largest demand, representing approximately 40% of total domestic power demand

#### (1) General principles

Liberalization under the systemic reforms to the power industry that started in 1995, has been introduced in stages from the special high voltage sector (in principle 2,000 kW or above) to the high voltage sector (50-2,000 kW) and then the retail sector, with the liberalization of the low voltage sector (up to 50 kW) leading to complete liberalization of electricity retailing, and ushering in a significant point of delineation.

The low voltage sector has the largest demand, representing approximately 40% of total domestic power demand, with every PPS, including the Company, feeling that liberalization of low voltage retailing offers a significant chance to grow, and with all engaged in preparations of their sales strategies.

Also, to increase sales, securing power sources is an essential element. Given that, if the weighting of external power sources is too great the risk of losing operational stability rises, the argument becomes one of securing of in-house power sources.

#### Electricity Markets by Scale and Shift to Liberalization

	Special high voltage	High voltage	Low voltage
Ratio of electricity demand	Approx. 25%	Approx. 35%	Approx. 40%
Timing of market liberalization	Apr. 2000	Apr. 2004	Apr. 2016
Main users	Large-scale plants and offices	Small- to medium-sized plants, supermarkets	Ordinary households, convenience stores and shops
Supply voltage	20,000 V or above	6,000 V or above	100-200 V
Demand scale	2,000 kW or above	50 kW to 2,000 kW	Up to 50 kW

Source: Prepared by FISCO

## (2) Sales strategies

### (i) Responses for the low voltage sector: business alliances

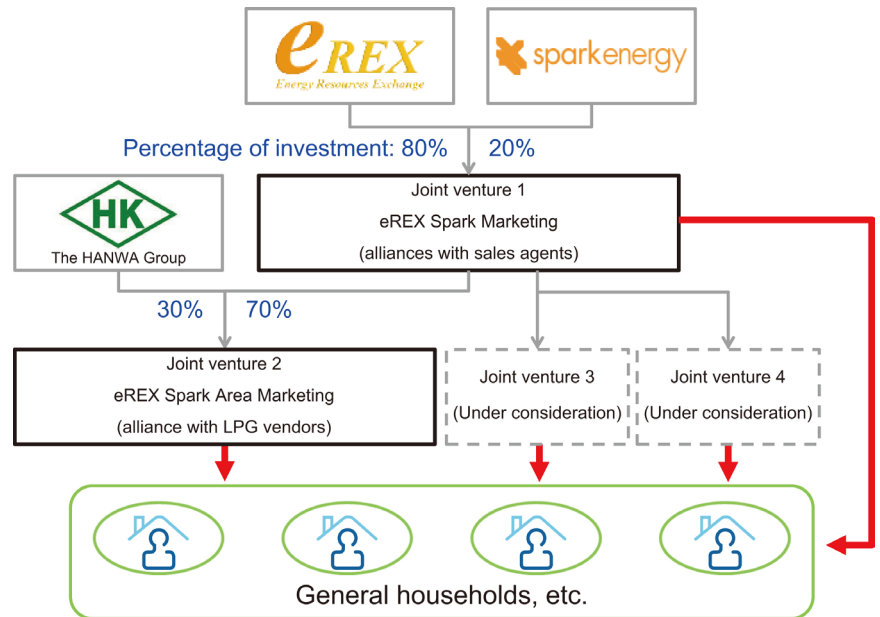
Entry into the low voltage sector and success therein is the most important issue in the Company's medium- to long-term growth strategy. The specific course of action taken by the Company was to form business alliances with a US firm that is a frontrunner in the field of low voltage liberalization and with a domestic trading house group.

Initially, it established a joint venture, eREX Spark Marketing Co., Ltd. (herein ESM), with US Spark Energy, Inc. (herein Spark Energy). In entering the low voltage sector, the role played by ESM is to act as the brains for specific sales strategies. That company selected Spark Energy as a partner, rating highly that it possesses know-how in respect of using the internet and telemarketing, door-to-door sales, and utilization of the electricity trading exchange.

Subsequently, with ESM as the axis, it established eREX Spark Area Marketing Co., Ltd. (herein ESAM) with the HANWA Co., Ltd. Group <8078>. ESAM, through cooperation with the HANWA Group, is expected to fulfill the role of actual sales units in retail electricity sales by allying with LPG vendors in each region domestically. The number of customers covered by LPG vendors appears to be exceeding 300,000 households in total, with ESAM aiming to engage them as power customers. According to a media statement announced on December 16, ESAM had already entered in outsourcing agreements with over 10 LPG vendors, and thus we assume that it is positioned to be able to approach nearly 300,000 potential customers.

Apart from ESAM, ESM is considering establishing multiple joint ventures. In respect of sales schemes and joint ventures counterparties also, it appears that they will be completely different to those in the ESAM case. Further announcements are awaited.

### Outline of alliances with the US company and domestic trading house group



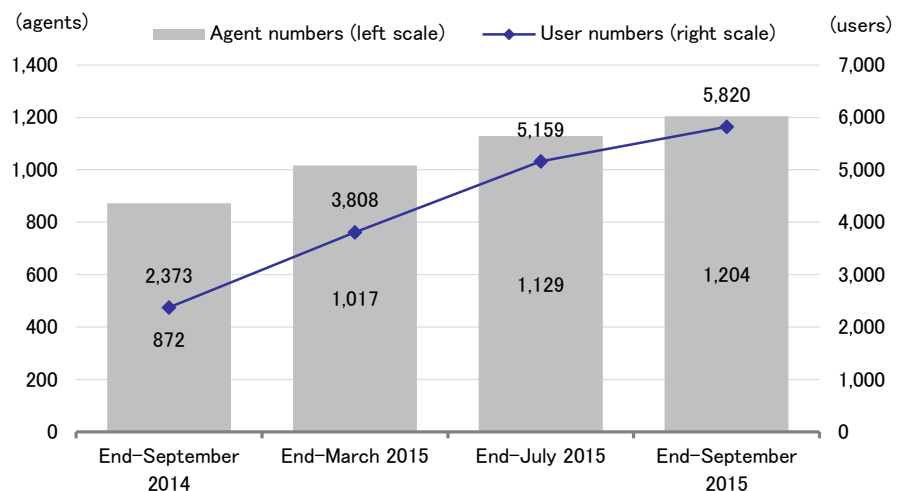
Source: 1H FY3/16 results briefing materials

### (ii) Flexible sales: utilizing an agent system

A characteristic and strength of the Company is its flexible sales strategy. For all PPS operators, including the Company, customers for electricity sales can be broadly categorized into retail and wholesale. Retail sales are direct sales to end users; wholesale sales are sales to JEPX. The wholesale price was high in the past and the majority of the Company's electricity sales were wholesale; however, with the decline in wholesale prices, the Company is now increasing the amount of electricity sold in the high-margin retail sector. From the sense of urgency in the change of its retail and wholesale configuration we may discern the Company's flexibility.

Also in retail sales, the Company demonstrates this flexibility. It has adopted an agent system for retail sales. The number of agents at the end of September 2015 was 1,204, increasing from a year previously by 332 agents (38%). Basically, agent attributes are entities with chief electrical engineers among staff, or individuals possessing those qualifications. The Company is independent and, in combination with using an agent system, enjoys an extremely high degree of freedom in developing sales strategy measures, which we feel is a potent weapon in entering the low voltage sector.

### Agent and user number trends



Source: Prepared by FISCO from briefing materials, website and other sources



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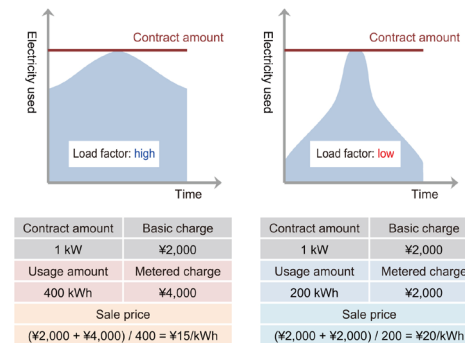
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The Company's structure of utilizing agents is as set below. Like other PPS operators, the Company sells electricity at cheap prices from existing power utilities. Hypothetically, if we assume that the Company's selling price is at a level 5% below the existing power utility, agents will contract with power users to sell at a price 3% below the existing power utility price. As a result the user enjoys an electricity bill 3% lower than the existing power utility price, the agent may obtain the 2% spread as commission, and the Company itself can sell power at a stable price, based on its business plan. The key point is that the agents given discretion in respect of the discount rate for the customers. We feel that this discretionary freedom acts as an incentive for agents.

The Company's strategy is to thoroughly implement profit-focused management by leveraging its independence and strength in its agent system as noted above, as well as its strength in low cost, in-house power generation as we will describe below.

### Load Factor and Electricity Charge

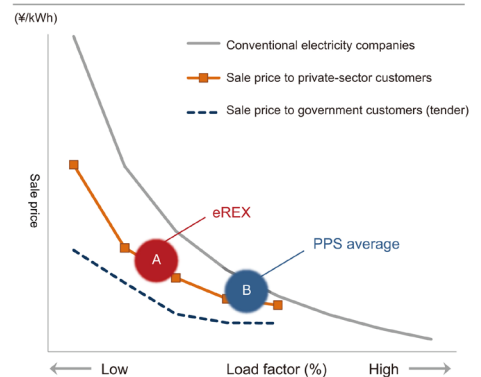
Load factor and electricity charge



(Note) Load factor = Annual electricity usage / electricity contract  $\times$  24 hours  $\times$  365 days

Source: 1H FY3/16 earnings presentation materials

Load Factor and Sale Price



### (iii) Sales area strategy: In addition to a nationwide roll-out, Okinawa is also under consideration

The Company's sales areas, starting from the Kyushu and Kanto areas, expanded steadily to six regions currently. It is comprised of Kyushu, Kanto, Tohoku, Chubu, Kansai and Chugoku.

### History of sales area expansion

	The Company's sales area expansion trends
2001	Started retailing electricity in the Kyushu area (April)
	Started retailing electricity in the Kanto area (November)
2010	Started retailing electricity in the Tohoku area (February)
2014	Started retailing electricity in the Chubu area (April)
2015	Started retailing electricity in the Kansai area (April)
	Started retailing electricity in the Chugoku area (October)

Source: Prepared by FISCO from Annual Securities Report and media releases

In the remaining areas, from the perspective of securing power sources, we feel that Hokkaido must carry low priority. Further, in Hokuriku, because electricity prices have traditionally been low, all PPS operators have been unable to establish any competitive advantages, and for the Company also it undoubtedly carries a low degree of priority.

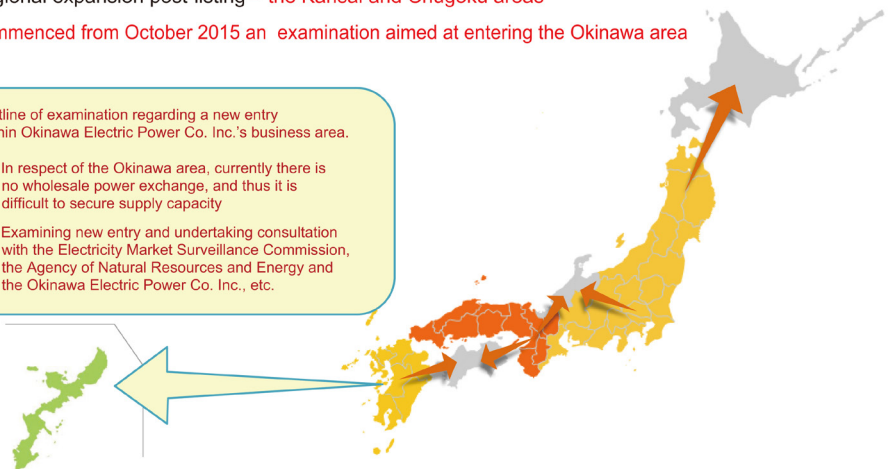
Against this backdrop, the Company is drawing attention because it is eying Okinawa. The Company put out a release on October 30 in respect of commencing an examination aimed at entering Okinawa. Despite transmission costs being high and many PPS operators baulking at entering Okinawa, citing factors such as it not having a wholesale exchange, the Company appears to be exploring the potential for entry into that market.

### Sales area map

- Regional expansion post-listing – the Kansai and Chugoku areas
- Commenced from October 2015 an examination aimed at entering the Okinawa area

Outline of examination regarding a new entry within Okinawa Electric Power Co. Inc.'s business area.

- ✓ In respect of the Okinawa area, currently there is no wholesale power exchange, and thus it is difficult to secure supply capacity
- ✓ Examining new entry and undertaking consultation with the Electricity Market Surveillance Commission, the Agency of Natural Resources and Energy and the Okinawa Electric Power Co. Inc., etc.



Source: 1H FY3/16 earnings presentation materials

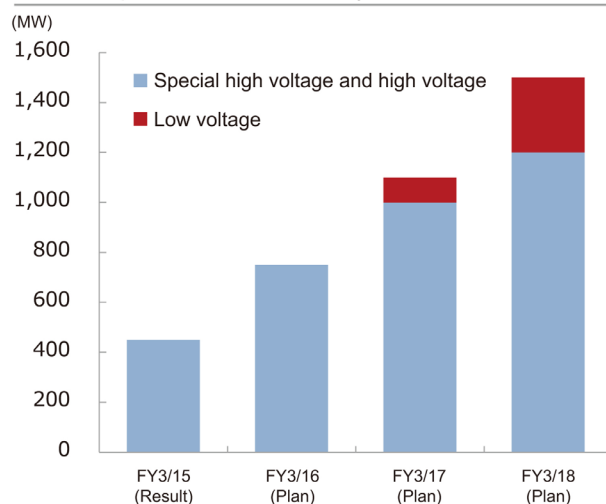
### (iv) High voltage sector growth strategy

While the Company has positioned the low voltage sector as its highest priority issue, it should keep in mind that there is still significant growth potential in the high voltage sector also.

The entry into the low voltage sector is without question an enormous opportunity, however, given that the impact of reduction to general household electricity bills is in the order of several hundred to one thousand yen, the cautious view that it will take time to become popular is also well entrenched. On the other hand, in the special high and high voltage sector for commercial usage, the monetary amounts are large, and because it is easy for economic rationalization to function, for PPS operators these are arguably an easier customers to sell to. The Company, in light of these circumstances, has set at the core of its strategy to increase sales in the high voltage sector along with entry into the low voltage sector.

### Plan to Capture Contract Electricity

#### Plan to capture contract electricity

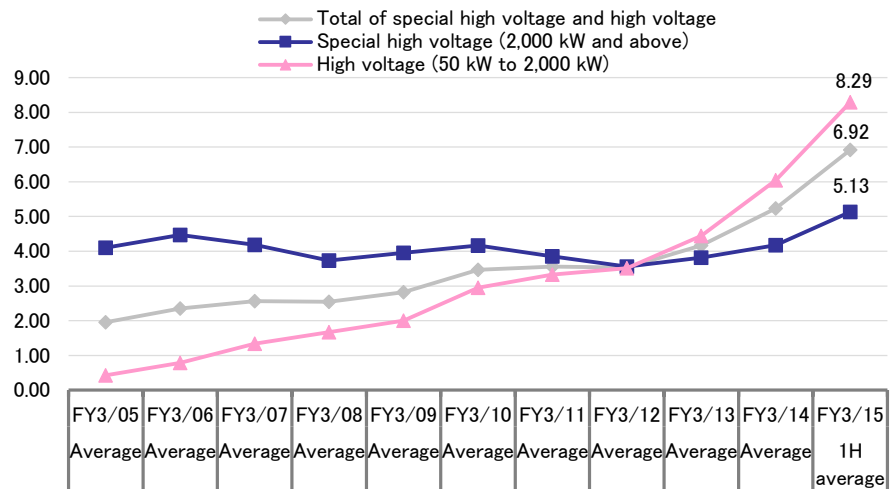


Source: 1H FY3/16 earnings presentation materials

From a statistical perspective also, the Company's expected figures in the high voltage sector are justifiable. The share of electricity demand represented by PPS operators has in the ten years since liberalization to date remained, in both the special high voltage and high voltage sectors, at less than 10%. Looking at a combination of the two, it is around 7% as of 2015. In the high voltage sector, which the Company's forte, the pace of growth is relatively rapid, however, that notwithstanding it remains at around 8%. This means that there is still significant room to improve in the high voltage sector, and we feel that the high voltage sector offers a suitable market as a source of growth for the Company.



### PPS Share of Electricity Demand



Source: Created by FISCO based on statistics from the Ministry of Economy, Trade and Industry

## New construction underway on Saiki power plant, aiming for 80,000 kW output capacity in Autumn 2016

### (3) Power procurement strategy

#### (i) Power plant construction plan

Recently, the Company is also accelerating power procurement. The Company is currently tackling the construction of the Saiki power plant which is undertaken by its subsidiary eREX New Energy Saiki (herein ENE Saiki). As with the existing Tosa power plant it will be a biomass power plant that uses Palm Kernel Shell (PKS) as its fuel. The rated output is planned to be 50,000 kW, with it planned to be operational in Autumn 2016. Combined with eREX Energy's Tosa power plant, which is currently in operation, it will provide an 80,000 kW output capacity in Autumn 2016.

#### Tosa power plant & Saiki power plant overview

eREX New Energy		eREX New Energy Saiki Co., Ltd.	
Location	Kochi City, Kochi Prefecture	Location	Saiki City, Oita Prefecture
Method of power generation	Biomass power generation	Method of power generation	Biomass power generation
Fuel	PKS	Fuel	PKS
Output power	Rated output approx. 29,500 kW	Output power	Rated output 50,000 kW
Features		Features	
Located in Taiheiyo Cement Corporation's Tosa Plant First PKS biomass power generation plant in Japan Advantage as a base-load power source due to ability to maintain stable amount of electricity		Located on the former Taiheiyo Cement Corporation Oita Factory site in Saiki Newly constructed circulating fluidized bed type boiler (same type as the Saiki power plant) Received expertise in operational techniques and fuel procurement from eREX New Energy's Tosa Power Station Stable operation with fuel procurement using the PKS Center	

Source: Prepared by FISCO from briefing materials

The Company's in-house power plant facilities are distinguished by being PKS biomass power producers. Power produced using PKS may use the fixed purchasing price Feed-in Tariff (FIT) system.



Following on from the Saiki power plant, the Company is proceeding to consider a plant in Buzen City, Fukuoka Prefecture. A release has already been made in respect of commencing a study regarding the Buzen City power plant, with a public announcement having been issued that a four party memorandum of understanding had been exchanged with Kyushu Electric Power Co., Inc.'s 100% owned subsidiary Kyuden Mirai Energy Company, Incorporated, Kyushu Kouatsu Concrete Industries CO.,LTD., and the Buzen Development and Environmental Energy Corporation, with respect to commencing a feasibility study aimed at commercialization of the project.

#### (ii) Fuel supply systems

Fuel for the Company's in-house power generation is at present mainly PKS, and it is believed that the PKS supply and demand balance, which tends towards a buyer's market, will continue for the time being. It is expected that the exporters, Indonesia and Malaysia, will continue to produce in excess of 10 million tons per annum. On the other hand, the importing countries, including Japan, South Korea, Singapore and Thailand, are thought to have a total demand volume of about one to three million tons. However, the Company, in anticipation of more in-house power generation in the future, is also taking measures for the procurement of alternative raw materials to be power sources.

Eyeing fuel supply for Buzen and future power plants, the Company in August established a fuel supply subsidiary called Saiki Biomass Center. It aims to complete construction on its fuel yard in October 2016 and broke ground this November. Just as it is clear from the timing for completion of construction and location that the primary purpose is the stable supply of raw materials for the Tosa and Saiki power plants, it is conjectured that supply to the Buzen power plant, for which studies have already commenced, is also under consideration.

#### Overview of the Saiki Biomass Center

Company outline	
Company name	Saiki Biomass Center
Investment	eREX 100%
Purpose of operations	Manufacture, sale, import and export, transportation and storage operations of power production fuel and other raw materials
Fuel yard storage site	Saiki City, Oita Prefecture
Construction schedule for fuel yard facility	
November 2015	Commencement of construction for fuel yard facility
June 2016	Partial completion, start operations
October 2016	Total completion
November 2016	Fully operational

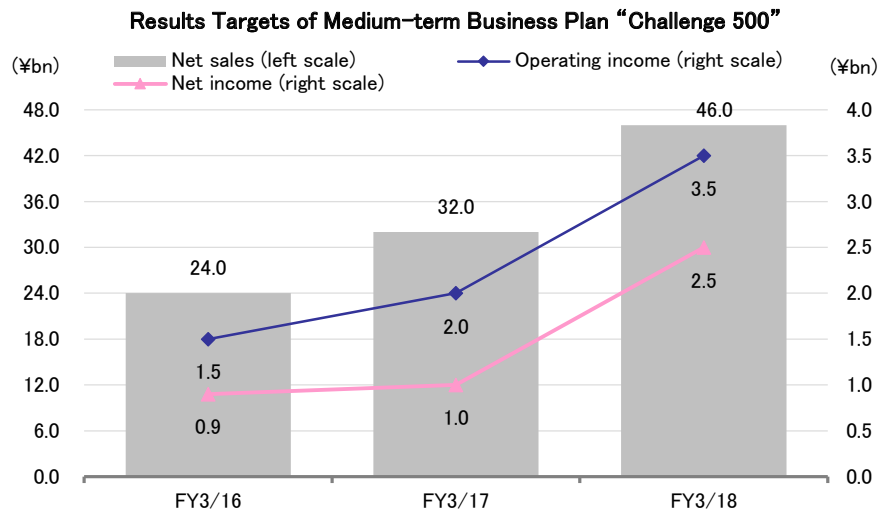
Source: Prepared by FISCO from media releases

## Strengthening operations in collaboration with Spark Energy

#### (4) Medium-term Management Plan targets

The Company has a three-year medium-term business plan covering the period from FY3/16 to FY3/18. With the core concept of "Challenge," the plan period has been positioned as a time for preparing for growth in net sales to ¥50.0bn and net income to ¥4.0bn and to be entering the low-voltage household market following the full liberalization of the electricity market.

The Company has set the following medium-term numerical targets for FY3/18, the final year of the plan: net sales of ¥46.0bn, operating income of ¥3.5bn, net income of ¥2.5bn and return on equity (ROE) of 20.4%. Beyond this time, the Company's management targets are to achieve net sales of ¥50.0bn, ROE of 20% and a dividend payout ratio of 20%.



Source: Prepared by FISCO from media releases

The Company's basic strategies under the medium-term plan follow two main themes: 1) In sales, enter the small, low-voltage user market, centered on households; 2) In electricity procurement, the main strategies are to develop in-house power generation and to strengthen electricity trading expertise through JEPX and procurement capacity. An important point to note is that the Company is strengthening these aspects through its partnership with Spark Energy of the US, where electricity liberalization is well advanced.

#### Basic Strategies of the Medium-Term Business Plan

(1) Establish retail sales structure as the priority strategic business	
a)	Enter the ¥6.9tr low-voltage household user market that will be opened up in April 2016 and maintain a highly profitable structure.
b)	When entering the low-voltage household user market, make full use of the sales agent system.
c)	Aim to strengthen relationships with US companies that have pioneered and succeeded under free competition.
d)	In line with response to expansion of the liberalized sales sectors, expand sales areas after sufficient investigation and discussion.
(2) Expand supply system and focus on fuel strategy	
a)	Secure the largest biomass power generation capacity in Japan for the Company's in-house power generation.
b)	With regard to biomass fuels, secure stable supply and pursue lower and more competitive fuel prices.
c)	With regard to expertise in trading on the exchange, which is expected to become increasingly active, enhance procurement capabilities by deepening relationships with leading US company.

Source: Prepared by FISCO from media releases

Progress under the current medium-term business plan is arguably extremely sound. As noted previously, the Company is steadily proceeding with measures, including development of sales systems and power source procurement, towards full liberalization in electricity retailing. In respect of users (customers) also, new acquisition of customers, which at present are in the high voltage sector, is also proceeding smoothly. This medium-term business plan is positioned as a preparatory period to attain net sales of ¥50bn, however, the current impression is that the likelihood of attaining net sales of ¥50bn in the final year of the plan, FY3/18, has risen significantly.

## ■ Financial Results

### The number of users is steadily expanding, with the rate of expansion significantly exceeding the plan

#### (1) 1H FY3/16

In 1H FY3/16 the Company had net sales of ¥11,177mn (+44.0% YoY), operating income of ¥474mn (-37.0%), ordinary income of ¥430mn (-41.3%), and net income attributable to the owners of the parent of ¥303mn (-40.9%), resulting in increased sales but lower earnings. While the Company has not publicly announced 1H targets, in these 1H results, profits exceeded those in their internal plans.

#### 1H FY3/16 Results Overview

	FY3/15		FY3/16				(¥mn)
	1H	Full-year	1H	y-o-y	Progress	Full-year (E)	
Net sales	7,762	17,074	11,177	44.0%	46.4%	24,086	
Operating income	753	1,475	474	-37.0%	31.4%	1,510	
Operating income margin	9.7%	8.6%	4.2%	-	-	6.3%	
Ordinary income	734	1,132	430	-41.3%	30.7%	1,405	
Net income attributable to the owners of the parent	513	922	303	-40.9%	32.4%	936	

Source: Prepared by FISCO from earnings reports

In net sales, with the wholesale electricity price declining due to the impact of downturns in crude oil prices, the Company reduced the sales volume of wholesale electricity. This was absorbed by retail electricity sales performing well and exceeding the plan, with overall performance being almost in line with the plan.

In terms of profits, gross margin declined mainly due to an increase in electricity procurement caused by periodic maintenance at the Tosa power plant and lower wholesale prices. Meanwhile, as a result of higher revenues, gross profit increased ¥47mn (+4.0% YoY). However, as a result of SG&A rising ¥325mn (+76.3%), operating income fell ¥278mn (-37.0%). The major factors behind the increase in SG&A included increased staff costs and office space in line with operational expansion.

#### (2) FY3/16 Full-year outlook

In respect of full-year FY3/16, the Company expects net sales of ¥24,086mn (+41.1% YoY), operating income of ¥1,510mn (+2.4%), ordinary income of ¥1,405mn (+24.1%), and net income attributable to the owners of the parent of ¥936mn (+1.5%). These forecasts are unchanged from the beginning of the period.

It is expected that trends in 2H will be similar to those in 1H. In other words, within wholesale and retail the shift towards retail will proceed further. The number of users, which are arguably a forward indicator of the Company's results, are expanding steadily, exceeding 6,000 at the beginning of October 2015, and leading to it exceeding 7,000 by December. This pace of expansion is significantly above the Company's plan.

It is expected that profit margins in 2H will improve, given that, on the one hand while staff will continue to increase, the rate of increases in SG&A will slow compared with the 1H, and it is thought that the pace of net sales expansion will accelerate. The target appears to be somewhat higher in 2H FY3/16, however, we feel that there is ample likelihood of it being attained.

## Income Statement

	FY3/13	FY3/14	FY3/15	FY3/16		
	Full-year	Full-year	Full-year	1H	2H (E)	Full-year (E)
Net sales	12,428	15,311	17,074	11,177	12,909	24,086
y-o-y	-	23.2%	11.5%	44.0%	38.6	41.1%
Gross profits	-	2,684	2,676	1,227	-	-
y-o-y	-	-	-0.3%	4.0%	-	-
Gross margin	-	17.5%	15.7%	11.0%	-	-
SG&A expenses	-	1,276	1,201	753	-	-
y-o-y	-	-	-5.9%	76.3%	-	-
Operating expense ratio	0.0%	8.3%	7.0%	6.7%	-	-
Operating income	1,159	1,407	1,475	474	1,036	1,510
y-o-y	-	21.4%	4.9%	-37.0%	43.6%	2.4%
Operating income margin	9.3%	9.2%	8.6%	4.2%	8.0%	6.3%
Ordinary income	1,164	1,390	1,132	430	975	1,405
y-o-y	-	19.4%	-18.6%	-41.3%	144.5%	24.1%
Net income attributable to owners of the parent	679	815	922	303	633	936
y-o-y	-	19.9%	13.1%	-40.9%	54.5%	1.5%
EPS (¥) adjusted for stock split	81.90	98.22	89.33	22.25	46.41	68.66
Dividend per share adjusted for stock split	9.00	9.00	20.00	-	-	20.00
Book value per share (¥) adjusted for stock split	326.05	415.27	732.18	734.42	-	-

## Summarized balance sheet

	FY3/14	FY3/15	1H FY3/16
Current assets	5,252	9,787	8,220
Cash and near cash	2,601	5,187	4,891
Accounts receivable	1,652	1,649	1,875
Raw materials and supplies	183	189	142
Fixed assets	4,588	8,170	14,524
Tangible fixed assets	3,843	6,417	12,570
Intangible fixed assets	31	36	63
Investments and others	713	1,715	1,890
Deferred assets	-	26	27
Total assets	9,840	17,984	22,772
Current liabilities	2,585	2,591	2,602
Accounts payable	1,304	1,432	1,558
Current portion of long term debt	488	488	488
Fixed liabilities	3,799	5,042	9,150
Long term liabilities	2,738	3,939	8,006
Shareholders' equity	3,447	9,980	10,010
Capital	625	3,465	3,465
Capital surplus	-	2,844	2,844
Retained earnings	2,822	3,670	3,701
Comprehensive income attributable to non-controlling interests	8	369	1,008
Total net assets	3,455	10,349	11,019
Total liabilities and net assets	9,840	17,984	22,772

## Cashflow Statements

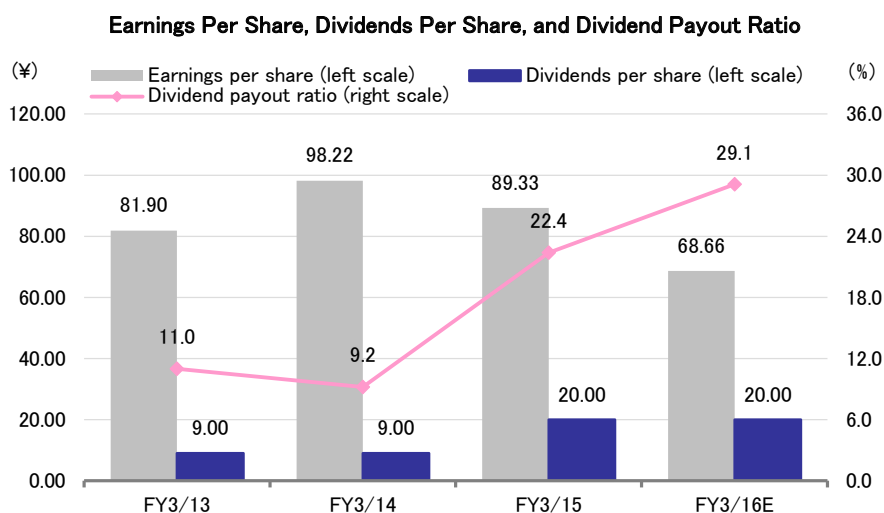
	FY3/14	FY3/15	1H FY3/16
Cashflow from operating activities	845	1,505	-179
Cashflow from investing activities	-3,280	-6,514	-4,568
Cashflow from financing activities	1,848	6,794	4,452
Change in cash and cash equivalents	-587	1,785	-295
Cash and cash equivalents at the beginning of the period	3,068	2,481	4,267
Cash and cash equivalents at the end of the period	2,481	4,267	3,971

## ■ Shareholder Returns

### Expectations for increased dividends in line with increased profits going forward

The Company basically makes returns 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.

For FY3/15, the Company paid an ordinary dividend of ¥10 plus a commemorative dividend of ¥10 for a total of ¥20. This represented an increase of more than double the dividend of ¥9 (adjusting for a stock split) paid in FY3/14. For FY3/16, the Company plans to hold the dividend at the same level of ¥20. Based on the projected earnings per share of 68.66 for FY3/16, this forms a dividend payout ratio of 29.1%, which is a step up from 22.4% for FY3/15. As noted previously, the Company's dividend payout ratio target is 20%, so it clears that benchmark. Going forward also, it is expected that the same framework of dividends increasing in line with increases in profits will continue.



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