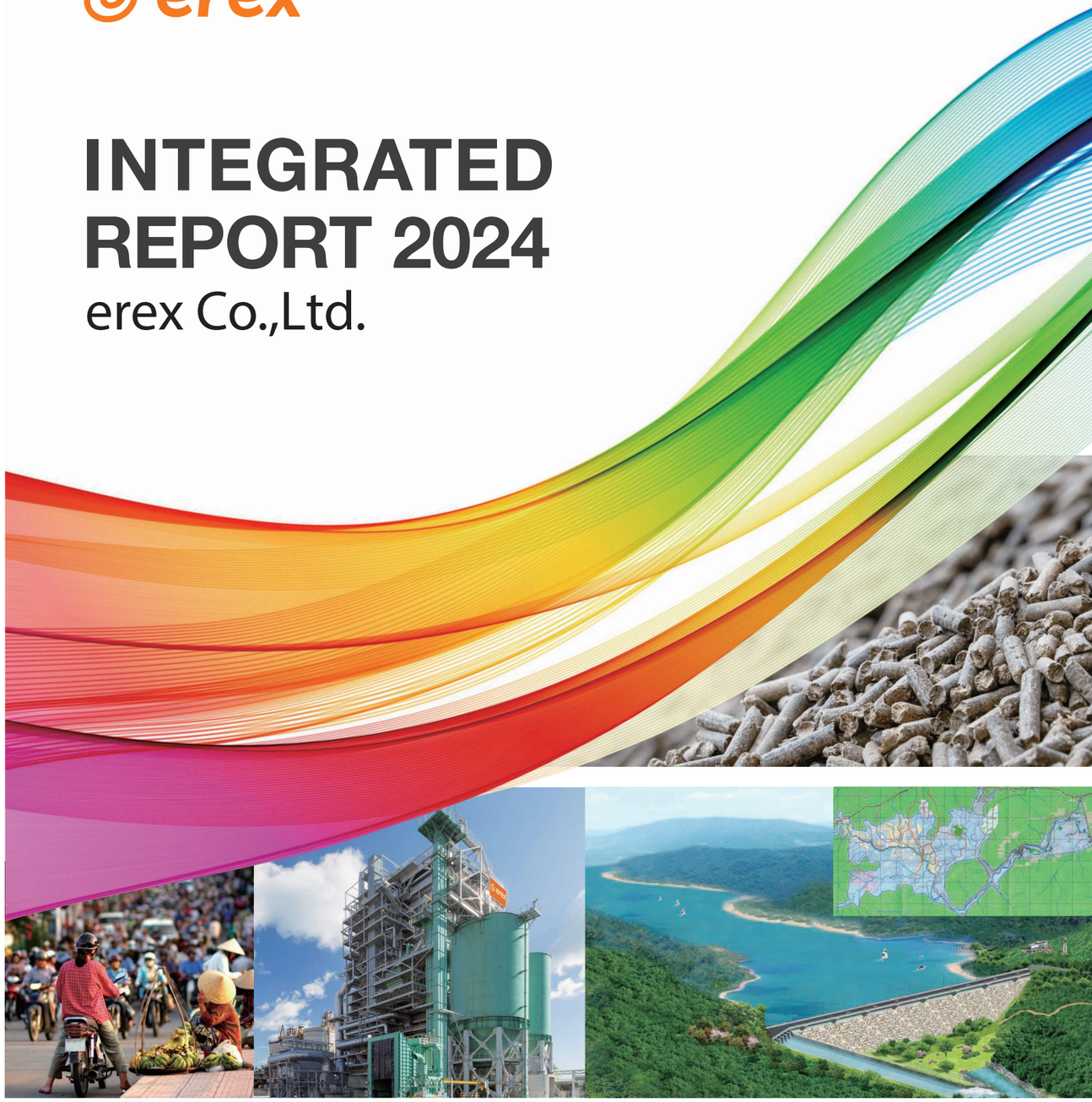
erex

INTEGRATED REPORT 2024

erex Co.,Ltd.

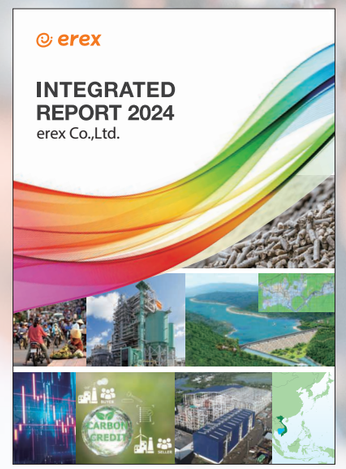


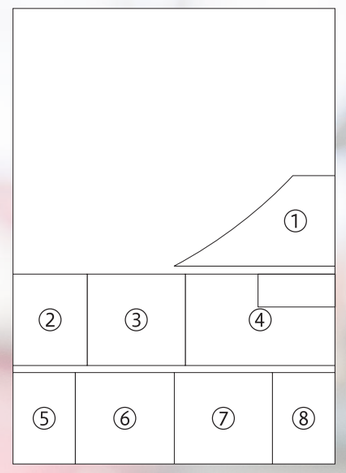












Our Thoughts Behind the Cover Design

The vibrant colors represent our fuel, power generation, trading, retail and overseas businesses, and the intertwining lines going up towards the right represent how these businesses come together to support each other and grow towards the realization of a decarbonized society. The intertwined lines also represent how erex is growing with the support of its customers and alliance companies. Green to blue represents decarbonization.

Below the colorful lines are images related to erex's businesses.

① Wood pellets used as fuel for power generation at erex's biomass power plants. erex is currently building pellet factories in Vietnam.

② People of Southeast Asia. By expanding its energy business in Southeast Asian countries, erex will contribute to increased employment and economic development.

③ erex's domestic power plant. erex will use the knowledge it has gained from its domestic power generation business to develop overseas power plants.

④ Rendering of the completed hydroelectric power plant in Cambodia. The map in the upper right corner is an overall view of the dam at the hydroelectric power plant. The circumference of the dam is a whopping 107 km. erex will contribute to improving Cambodia's energy self-sufficiency rate.

⑤ Trading business. The trading business is one of erex's strengths.

⑥ Carbon credits. erex aims to contribute to decarbonization through carbon credits.

⑦ The Hau Giang Biomass Power Plant, which is under construction. This will be erex's first power plant constructed in Vietnam.

⑧ Map showing Vietnam and Cambodia. erex will develop its business in Southeast Asia, focusing on Vietnam and Cambodia.

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Creating Value for the Future:
Paving the Path Where No One Has Walked Before

Our Future Vision

Mission

Opening up our future with new ideas and actions

Value

Challenge and speed

Do not forget the venture spirit and work boldly

Co-creation

With trust and cooperation
Creating value with various stakeholders

2030 Vision

“Realizing a sustainable society”

To become a pioneer in the new era of electric power with renewable energy at its core

Editorial Policy

The purpose of the Integrated Report is to help a wide range of stakeholders, both in Japan and overseas, understand erex’s business model, the status of its current initiatives, and the feasibility of realizing medium- to long-term value creation. erex aims to create better communication by providing information in an easy-to-understand way.

Scope of the Report

erex Co., Ltd. and affiliated companies

Reporting Period

April 2023 - March 2024
*Some information outside of the reporting period is also included.

Cautions regarding Forward-Looking Statements

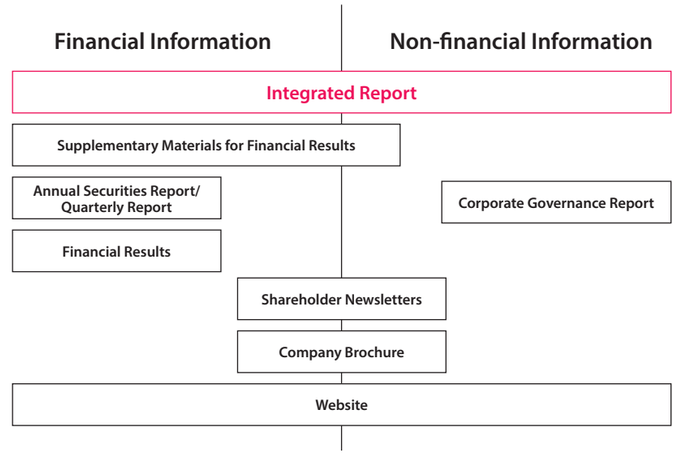
While this report contains information regarding erex’s current plans, performance forecasts, and strategies, this information represents forecasts as of the time of disclosure and includes risks and uncertainties. Please be aware that results may differ significantly due to future economic conditions and changes in the business environment surrounding the Company.

Referenced Guidelines

IFRS Foundation “International Integrated Reporting Framework”
Ministry of Economy, Trade and Industry “Guidance For Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation”

Environment Social Governance
Guidance for Collaborative Value Creation

Information Tools



Note: This document is an English translation of the original Japanese language document and has been prepared solely for reference purposes. No warranties or assurances are given regarding the accuracy or completeness of this English translation. In the event of any discrepancy between this English translation and the original Japanese language document, the original Japanese language document shall prevail in all respects.

erex in Numbers
At a Glance

FY2023 net sales
¥244.9 billion

Number of employees
269

Net sales per employee
¥910 million

Number of sales partners
Retail
Approximately 1,100 companies

Number of CO₂-free plans provided
Retail
Approximately 300 thousand plans

Ranking among new power providers by sales
Retail
11th out of approximately 700 companies
Total of all retail subsidiaries of the erex Group as of March 2024

Annual volume of biomass fuels handled
Fuel
Approximately 1.2 million tons

Number of countries with overseas business developments
6 countries
Vietnam, Cambodia, Singapore, Malaysia, Indonesia, Taiwan

Founding
1999

Number of Group companies
29 companies

Retention rate of new graduates after three years
100%

Total output from erex power plants
Power generation
418 MW

Annual power generation at erex power plants
Power generation
Equivalent to approximately 670 thousand households
*erex's calculations

Number of occupational accidents at power plants
Power generation
0 accidents

Power plant operating rate
Power generation
Achieved over 90%

* As of March 31, 2024

Company History

Guided by an entrepreneurial spirit, erex has created new value by boldly taking on pioneering ventures. With the help of its partner companies, erex will continue to evolve in order to realize a decarbonized society and contribute to local communities both in Japan and overseas.

1999-
Founding Period

Taking Advantage of Industry Deregulation to Establish a New Business

The Company was founded in 1999, and following the deregulation of retail sales for extra-high voltage customers in 2000, erex entered the market as a new electricity retailer. The Company initially based its retail business on buying surplus energy from partner companies and selling it to government offices and other customers, before gradually diversifying its procurement contracts and expanding its sales area.

1999 Founding
2000 Deregulation of retail sales for extra-high voltage customers
2000 Start of business
2001 Started selling electricity in the Kyushu and Kanto regions
2004 Deregulation of retail sales for high voltage customers
2005 Start of electricity trading by the Japan Electric Power Exchange (JEPX)
2008 Introduction of sales partner system



erex began selling electricity in collaboration with local partners. This is what laid the foundation for the current erex, which continues to grow in collaboration with its partner companies.

2010 Started selling electricity in the Tohoku region

2011-
Growth Period

Transforming our Business to Meet the Changing Needs of Society

In the aftermath the Great East Japan Earthquake in 2011, society confronted the issue of securing a safe and stable energy supply. When feed-in tariffs (FIT) were introduced with the aim of promoting the use of renewable energy, erex decided to take on the challenge of generating biomass energy. With the start of operations at the Tosa Power Plant, erex fully embarked on its biomass power generation business, and in order to further solidify its management foundation, the Company listed its shares on the Mothers Market segment of the Tokyo Stock Exchange in 2014, and on the 1st Section* the following year.

* erex moved to the Prime Market segment of the Tokyo Stock Exchange in April 2022.

2011 Great East Japan Earthquake
2012 Start of feed-in tariffs (FIT)
2013 Start of operations at Tosa Power Plant



The first plant in Japan to use palm kernel shells as biomass fuel. The start of operations at the Tosa Power Plant accelerated the biomass power generation business.

2014 Started selling electricity in the Chubu region
2014 Listed on the Mothers Market segment of the Tokyo Stock Exchange
2015 Started selling electricity in the Kansai and Chugoku regions
2015 Establishment of sales subsidiary, erex Spark Marketing Co., Ltd. (currently Evergreen Retailing Co., Ltd.)
2015 Listed on the 1st Section of the Tokyo Stock Exchange



2016-
Turning Point

From New Energy Supplier to Integrated Energy Company

Supply of energy increased with the full liberalization of electric power retailing in 2016. Therefore, in addition to its retail business activities, the Company sought to increase energy supply by constructing new biomass power plants. Entering the biomass fuel business, which has become the foundation of its business activities today, is just one of the examples of how erex has taken on various challenges to promote Company growth.

2016 Full liberalization of electric power retailing
2016 Established a sales subsidiary, Okinawa Gas New Power Co., Ltd., and started selling electricity in the Okinawa region
2016 Start of operations at the Saiki Power Plant



erex's first new-build biomass power plant

2017 Establishment of erex Singapore

Established as an overseas fuel management base

2017 Started selling electricity in the Shikoku region
2017 Full liberalization of city gas retailing

2018-
Towards Further Growth

From Japan to Overseas

Although erex started out with a handful of employees, it has managed to cover the entire value chain and accelerate its efforts to decarbonize by moving into the fuel business, which is upstream of the renewable energy business. In addition to its domestic business, erex has been expanding its business overseas since around 2018, especially in Southeast Asian countries.

Currently, erex is working on a variety of initiatives, including energy projects in Vietnam and a hydroelectric power plant development project in Cambodia, embodying the "culture of taking on challenges" that has existed since the Company's founding.

2018 Started selling electricity in the Hokkaido region

With this, the Group's electricity supply area was expanded to cover the entirety of Japan.

2018 Became a city gas retail supplier
2018 Start of overseas fuel development business

In response to plans to build large-scale biomass power plants in Japan, erex began developing fuels such as new sorghum.

2019 Establishment of Evergreen Marketing Co., Ltd.

This company that plays a central role in the erex Group's retail business was born through a merger of sales subsidiaries.

2019 Investment in the hydroelectric power generation business in Cambodia



2020 Start of operations at Ofunato Biomass Power Plant and Buzen Biomass Power Plant
2020 Legal separation of former general electricity providers and power transmission and distribution divisions
2021 Start of operations at Nakagusuku Biomass Power
2021 Hosting of COP26 UN Climate Change Conference

Parties were urged to take ambitious climate change countermeasures towards 2030

2022 Moved to the Prime Market segment of the Tokyo Stock Exchange
2022 Acquired 64% of the shares of Itoigawa Power Plant

Acquired as a first step toward the conversion of coal-fired power plants.

2022 Started operations at Fujiyoshida Hydrogen Power Plant as a proof of concept

This demonstration operation was successfully completed at the end of March 2024.

2022 Investment in an integrated aquaculture and solar power generation project in Taiwan
2023 Expressed support for TCFD
2023 Began construction of erex Sakura Yen Bai Biomass factory (Vietnam)

Prior to the construction of new-build power plants in Vietnam, construction began with the aim of processing untapped biomass fuels into wood pellets to be used and sold as fuel for power generation.

2023 Began construction of Hau Giang Biomass Power Plant (Vietnam)
2024 Began construction of erex Sakura Biomass Tuyen Quang Plant (Vietnam)

* Blue text indicates social movements

Taking on the Challenge of Green Energy Growth Strategies both in Japan and Overseas

Hitoshi Honna
President and
Representative Director



President's Message

Learning from Losses and Promoting Business Restructuring

The Group's performance in fiscal 2023 was affected by a significant imbalance between electricity procurement and electricity demand (sales), resulting in a surplus supply of power. As a result, the Company was forced to sell the expensive surplus power procured in fiscal 2022 in a low-price electricity market, which unfortunately resulted in an ordinary loss of ¥18.3 billion. We have deeply reflected on this loss, taken the lessons learned to heart, and implemented reforms to our business structure. Regarding our power source procurement strategy, we do our utmost to reduce the risk of future fluctuations in electricity prices. To achieve this, we have made significant organizational changes to enable efficient and appropriate risk management and internal information sharing. Through these measures, we will eliminate the losses of fiscal 2023, integrate our retail and trading businesses and our fuel and power generation businesses, build a resilient portfolio that is not significantly affected by fluctuations in electricity market prices, and record continuous and stable profits.

Challenges and Co-Creation

Since its establishment in 1999, erex has boldly embraced challenges that seemed impossible to overcome, by valuing strategy and creative ideas stemming from its inexhaustible passion and determination above all else. The Company started out by purchasing surplus electricity from power plants' in-house power generation facilities and selling it at retail. Compared to larger electric power companies, erex had limited management capital in terms of employees, technology, and equipment, but it overcame these limitations by strengthening its alliances with numerous partners, such as sales investors and joint investors in power plants. These partnerships proved essential to the development of the Company, which had limited management capital. To ensure its continued growth, erex has developed and used frameworks for business transactions that balance its own interests with those of its partners, thereby expanding business opportunities and breaking new ground in the energy sector.

In addition, since its founding, erex has placed great importance on the concept of "always looking ahead, thinking ahead, and taking on challenges." Working proactively, erex demonstrates its ability to lead the industry by making strides ahead of other companies still stuck in the planning phase, and, if an action proves unsuccessful, the Company promptly takes a step back and seeks out an alternative course. Above all, erex has continued to provide value in the industry by keeping in mind that, when in doubt, one should choose the more difficult path without shying from daunting challenges.

Through these challenges, erex achieved record highs in both sales and profits in the fiscal year before last, but then saw large losses in the previous fiscal year, which damaged the Company's financial position. In this context, erex had discussions with many of its clients and partners about its growth strategy of "decarbonization in Southeast Asia." As a result, in May 2024, erex conducted a third-party allotment of shares to four companies, JFE Engineering, Toda Corporation, Kyudenko Corporation, and Sumitomo Mitsui Finance and Leasing, which all place importance on the realization of a global decarbonized society in their management strategies. erex will carry out profitable investments that will contribute to rapidly increasing energy demand in Southeast Asia and to reducing CO_2 emissions towards decarbonization.

Even in an unstable environment, the Company must continue expanding its business. In particular, the energy industry is facing a period of rapid change as society takes major steps toward decarbonization. However, even in this era of great change, erex's priorities have stayed the same since its founding. In particular, the Company's business activities have the potential to help efficiently achieve decarbonization in Southeast Asia and other regions facing difficulties due to their high carbon emissions. erex aims to continue to be a company that people and society can expect great things from.

Contributing to the Borderless Issue of Decarbonization

The Group has adopted the slogan "Realizing a sustainable society—To become a pioneer in the new era of electric power with renewable energy at its core" in its 2030 Vision, and is working to directly contribute to the realization of a decarbonized society through its biomass power generation business, one of its main businesses.

Decarbonization and the reduction of CO_2 emissions are borderless issues, not just domestic issues. erex will respond to these issues through its business. I believe that decarbonization comes down to an economic issue. One keyword is carbon credits ($/t-$CO_2$), which create economic value by reducing CO_2 emissions. Going forward, Southeast Asia is expected to continue to experience population growth and economic growth. erex will secure and maximize carbon credits generated in these countries to promote decarbonization both domestically and overseas, and plans to contribute to reducing CO_2 emissions by 25 million tons by 2030.

Biomass Power Generation as the Best Way to Improve Energy Self-Sufficiency in Southeast Asia

The Company is currently working on the biomass power generation business in Vietnam, and is considering expanding into Cambodia in the future as it continues to expand its business in Southeast Asia. In Southeast Asia, electricity demand is expanding in line with economic growth, and calls for decarbonization are growing louder. Meanwhile, these regions are rich in untapped biomass resources. We believe that biomass power generation that makes use of these abundant resources is a highly effective solution for achieving both economic growth and decarbonization in Southeast Asia. In addition, biomass power generation can generate electricity at any time without being affected by the weather, allowing for longer operating hours and more stable power generation when compared to other renewable energies. Moreover, this type of power generation requires the labor of local people, who are needed to transport biomass fuels and operate power plants. In other words, we believe it will lead to local economic revitalization and agricultural promotion through employment, and contribute to the economic development of both countries, where the GDP per capita (in 2023) was still only $3,817 in Vietnam and $1,553 in Cambodia.

Using Know-how Gained in Japan Overseas

Ever since the Tosa Biomass Power Plant began operations in 2013, erex has been working on developing biomass power plants in Japan, and currently operates five biomass power plants (Tosa, Saiki, Buzen, Ofunato, and Nakagusuku). The plants continue to operate smoothly, with zero occupational accidents and no biomass fuel fires. In addition, the Tosa Power Plant was originally a coal-fired power plant that was converted to biomass power, and the Itoigawa Power Plant also successfully conducted a co-firing experiment of coal and biomass fuel in September 2023, which led to the accumulation of know-how regarding fuel conversion. These achievements have led to a strong sense of trust in erex as it expands its biomass business overseas. The Company will make use of the know-how it has accumulated in its domestic biomass power generation business to expand its overseas business.

erex's overseas business is still in the upfront investment stage, but in fiscal 2025, it expects the biomass power plant in Hau Giang Province* and pellet factories in Yen Bai Province and Tuyen Quang Province in Vietnam to begin contributing fully to revenue, and by fiscal 2027, it expects the biomass power plants in Yen Bai Province and Tuyen Quang Province* to also begin contributing to revenue. In the medium- to long-term, erex also has high hopes for co-firing and fuel conversion using biomass fuels at coal-fired power plants, which is an approach that has proven successful in Japan.

In addition, construction work is also progressing on a highly anticipated hydroelectric power plant in Cambodia. Completion is scheduled for November 2025, and stable revenue is expected after completion. erex is also considering increasing its power output and building a small hydroelectric plant downstream.

Domestic Retail Business Also Expected to See Steady Growth

I believe that the Company's domestic power generation business will continue to grow. The electricity market as a whole is also expected to see an increase in demand due to alternative energy sources and the spread of data centers and generative AI, and I believe that opportunities for erex will continue to grow.

In the high-voltage (corporate) field, erex is expanding its plans to meet customer needs using its unique know-how, such as with fully fixed plans that are not affected by fuel prices and hybrid plans that fix prices only for certain periods of time, and the Company will increase its amount of electricity sold (fiscal 2024 plan: 48% increase from the previous fiscal year).

In the medium- to long-term, erex will also respond to the needs of large enterprises that consume large amounts of electricity under pressure to address decarbonization, including through the use of carbon credits from overseas. erex generates electricity from biomass, which is a stable source of renewable energy that is not affected by weather or time of day. The Company also possesses know-how in electricity trading and has established a certain position in the electricity retail industry, therefore it has the advantage of being able to respond to the needs of such large enterprises in a comprehensive manner, and it will leverage this advantage going forward. In the low-voltage field, erex aims to continuously acquire customers by developing plans and services that are easy for its sales partner channels to use, and to achieve medium- to long-term growth by further strengthening sales channels such as the Internet.

Toward a Sustainable Future

I believe that confronting various social issues, including global environmental problems and poverty, and taking on the challenge of contributing to social development and the resolution of these issues will lead to the strengthening of the Company's business competitiveness. Our efforts to improve sustainability as a company by contributing to the realization of the SDGs are an essential part of our management.

To achieve our vision, including our sustainability targets, it is essential that each and every employee undergoes transformation and that we increase our ability to create value as a company. The Company is proactively working on human resources management, creating and providing an environment where employees can use their unrestrained imagination to take on the challenge of solving as many social issues as possible.

erex will continue to strive for sustainable growth as a company while working to build a sustainable future.

* The power plants in Hau Gian, Yen Bai and Tuyen Quang Provinces were selected for the "Financing Programme for Joint Crediting Mechanism (JCM) Model Projects. Ministry of the Environment, Japan has been implementing the "JCM Model Projects," which provides financial supports covering up to half of the initial investment costs. The purpose of this model projects is to financially support the implementation of projects which reduce GHG emissions by utilizing leading decarbonizing technologies in developing countries, and in return, to acquire JCM credits for achievement of Japan's GHG emission reduction and the partner countries' emission reduction target. These projects are being implemented with the cooperation of the Vietnamese and Japanese governments.



Value Creation Process

Since its founding, erex has utilized a variety of management capital and, under the philosophy of challenge and speed, has co-created with stakeholders to work on the renewable energy-based energy business in Japan, from upstream to downstream. Based on this value creation, erex will contribute to the realization of a decarbonized society both in Japan and overseas, and to improving energy self-sufficiency in Southeast Asia.

External environment

2050 Carbon neutrality

International trends towards decarbonization, including COP28

Surge in electricity demand in Southeast Asia

Decline in energy self-sufficiency

Electricity system reform by the Ministry of Economy, Trade and Industry

Capacity market, non-fossil market

Management capital

Financial
- Total assets: ¥145.1 billion

Manufacturing
- 6 domestic power plants
- Value chain from upstream to downstream

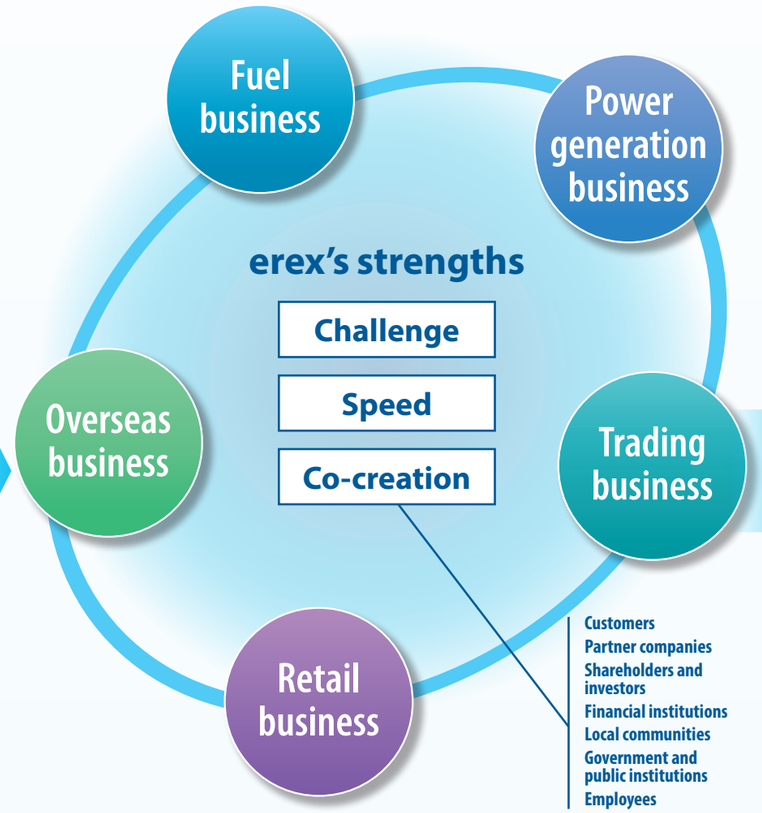
Intellectual
- Renewable energy know-how
- Trading and retail knowledge

Human
- Number of employees: 269
- Net sales per employee: ¥910 million

Social
- Co-creation with partners

Natural
- Biomass power generation using untapped resources

Business model



Sustainability
- Initiatives towards carbon neutrality and decarbonization by 2050
- Communication with local communities
- Thorough compliance

Value created

[Value in society]
- Spread of CO_2-free energy sources
- Job creation
- Effective use of untapped resources
- Creation of environmental value through renewable energy source development
- Stable supply of energy

[Value gained by erex]
- Generation of sales and profits
- Expansion of business foundation
- Sustainable growth
- Development of human resources

Realization of a decarbonized society Improving energy self-sufficiency in Southeast Asia

Accumulating knowledge and reinvesting capital

Pursuing Overseas Growth Markets, Including in Vietnam,

to Further Develop the erex Group

■Name of business company: erex Tuyen Quang Biomass Power Co., Ltd.
Business description: biomass power generation business

■Name of business company: erex Sakura Biomass Tuyen Quang Co., Ltd.
Business description: pellet manufacturing business

■Name of business company: erex Yen Bai Biomass Power Co., Ltd.
Business description: biomass power generation business

■Name of business company: erex Sakura Biomass Yen Bai Co., Ltd.
Business description: pellet manufacturing business

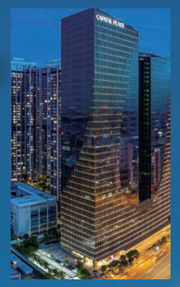
■Name of business company: erex International Co., Ltd.
Business description: planning and management for business promotion

■Name of business company: erex Vietnam Co., Ltd.
Business description: fuel manufacturing and sales

Name of business company: Hau Giang Bioenergy Joint Stock Company
Business description: biomass power generation business



Hanoi Office



Ho Chi Minh City Office

Contributing to the Development of Vietnam Through Both Decarbonization and Economic Growth

erex entered Vietnam in 2018 as a result of surveying fuel to be supplied to a non-FIT large-scale biomass power plant (scheduled to start operation in fiscal 2029) being planned in Niigata Prefecture.

At the time, erex dispatched several people to Vietnam as an advance team to investigate the country's biomass fuel market and social conditions. erex discovered that Vietnam had a large amount of untapped wood and agricultural residues, and the Company has since strengthened its organizational structure to supply cheap fuel. Meanwhile, electricity demand in Vietnam has expanded tenfold over the past 20 years due to population growth and economic development, resulting in a sharp increase in coal imports and turning energy self-sufficiency into major issue.

Under these circumstances, erex decided to build local biomass power plants at the request of the Vietnamese government. The Company is preparing to start construction of biomass power plants in Yen Bai and Tuyen Quang provinces as soon as possible, as these power plants are positioned as high-priority power plants in Power Development Plan 8 (PDP8) approved on April 1, 2024. PDP8 describes responses to growing demand for electricity as well as the strengthening of renewable energy with the aim of achieving zero carbon dioxide emissions by 2050. erex will utilize the knowledge of biomass power generation and fuel procurement that it has cultivated in Japan to help solve social issues in Vietnam, leading to further business development. The Company will continue to contribute to economic development in Southeast Asian countries by expanding business based on green energy growth strategies.

Vietnam Business Organization Chart

Number of Vietnamese employees	20
Male to female ratio	50% male, 50% female
Offices	2 locations
Number of local subsidiaries	7 companies
Contracting companies	Over 50 companies

With an office located in the center of the capital Hanoi, erex is promoting power plant construction and the fuel development business in Vietnam. The local organization consists of a Technical Department that develops projects such as power plants and pellet factories, a Fuel Department that is responsible for fuel development, fuel procurement and product shipping, and a Planning and Management Department that handles human resources, general affairs, finance and accounting, and public relations.

Since Vietnamese must be used when communicating with local governments and businesses, as well as when applying for licenses, the organization is primarily composed of Vietnamese staff. erex has assigned Japanese staff as the department heads of each department in order to share strategies and policies from the headquarters and manage overall business, and in the future the Company would like to assign Vietnamese staff to these department head positions as well.

Within the company there is a team of Vietnamese staff with a wide range of experience, including from engineering companies, power generation companies, fuel manufacturing companies, consulting companies, and accounting firms. In addition to this specialized knowledge, Vietnamese people who possess communication skills, teamwork skills, and the ability to negotiate with external parties have also been hired.

erex has many projects planned for the future in Vietnam, and will systematically increase its Vietnamese staff in line with the expansion of its business.

Business is Progressing Steadily Alongside Partner Companies

erex's business in Vietnam, which began with fuel surveying, is currently progressing steadily toward profitability, with the construction of one power plant and two wood pellet factories underway. The biomass power plant in Hau Giang Province, which will be erex's first commercial biomass power plant in Vietnam, is scheduled for operation start in December 2024 and will use approximately 130,000 tons of rice husks, an agricultural residue, per year as its main fuel. (Power Engineering Consulting Joint Stock Company 2 (PECC2), a subsidiary of the state-owned Vietnam Electricity (EVN), which is a joint investor in this power plant operating company, is carrying out all-in engineering, procurement, and construction (EPC) work for the power plant, and will also take on full operation and maintenance (O&M) once the plant begins operation.

The cooperation of local companies and the construction of long-term relationships is essential when carrying out overseas projects. Each pellet factory will have an annual fuel production capacity of 150,000 tons, and erex plans to turn untapped wood residue remaining in Vietnam into pellets for export to countries outside Vietnam, including Japan.

erex is working on this business with the aim of reducing fuel costs at local power plants and contributing to revenue through external fuel sales.

Comment from an employee

Daily schedule

- **8:00** Come into work
- **9:00** Weekly team-wide meeting
- **11:00** Meeting with an external party
- **12:00** Web conference with headquarters in Tokyo
- **13:30** Internal project meeting
- **15:30** Meeting with an external party

  Time other than the above is used for various considerations, document checking, approval work, etc.
- **18:30** Leave work

Work details

I am leading the development of projects such as biomass power plants and pellet factories in Southeast Asian countries like Vietnam. I am currently working in consultation and cooperation with the government to conduct fuel surveys, select sites, obtain permits, and carry out construction work. In addition, pellet factories and Vietnam's first ever full-scale biomass power plant will soon begin commercial operation, and going forward I will also be responsible for managing their operation.

Working environment

Currently, there are about 20 Vietnamese people, 5 Japanese people, and short-term business travelers from Japan working in an office on the 17th floor of a building in Hanoi, Vietnam. In addition to our Technical Department, which is responsible for project development, we also have a Fuel Department and a General Administration Department. I am often away from the office due to the many business trips I make within Vietnam, but there are strong connections between each department, and the office is always lively with a mix of Japanese and Vietnamese people who all work together with a sense of unity.

Thoughts on the project in Vietnam

While Vietnam is experiencing remarkable economic growth, it is also facing serious electricity shortages. Furthermore, with coal and gas production hitting a plateau, we will contribute to Vietnam's economic development by promoting biomass power generation, a stable renewable energy source that can be produced and consumed locally. In addition, I will lead the expansion of the erex's overseas business and develop the overseas biomass power generation and fuel businesses into another major pillar of the Company's business.

Relationships with partner companies (suppliers, business partners, governments, local communities)

In order to develop numerous projects with limited resources, we employ experienced local consultants and work closely with power companies, government agencies, and local governments to navigate strict legal procedures in unfamiliar overseas countries. Once a project begins, it is also necessary to coordinate with investment partners and lenders, as well as sign contracts with engineering companies and operating companies and monitor progress. In this way, we are able to carry out business with the support of many external companies and government agencies.



Munetaka Hagiya

Executive Officer, Head of Engineering Group, Overseas Business Management Department
Managing Director and Head of Engineering Department, erex International Co., Ltd.

Comment from an employee

Work details

My main job is to hold meetings with suppliers to procure biomass fuel to be used in the pellet factories currently under construction in Yen Bai and Tuyen Quang. During meetings, I also act as an interpreter for the staff from Japan. I also conduct market research, prepare meeting materials, and provide support for communication with department members who do not speak Japanese.

Working environment

Everyone is cheerful and I look forward to coming to work every day. My boss is always available to give me advice, and I can talk to them freely without worrying about our positions. The office is located in a building in a prime location in Hanoi, and is a very clean and comfortable workplace. It also has a well-stocked pantry, so there is a space where we can all relax and enjoy our packed lunches and coffee together.

Impression of erex

Before joining the company, I knew that erex had launched a pellet factory construction business in Vietnam. This was a project aimed at achieving the Vietnamese government's net zero target for 2050, and I thought that by joining the company I would be able to contribute to the development of my home country. Since joining the company, I have felt that projects are progressing very quickly and I feel a sense of fulfillment in my daily work.



Do Thi Thu Hien

erex International Co., Ltd.
Fuel Department



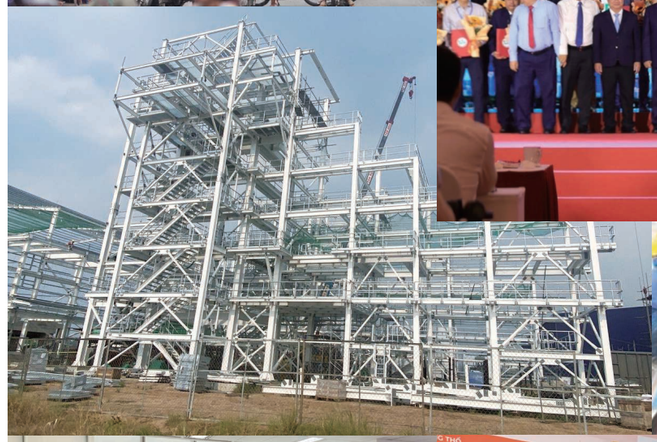










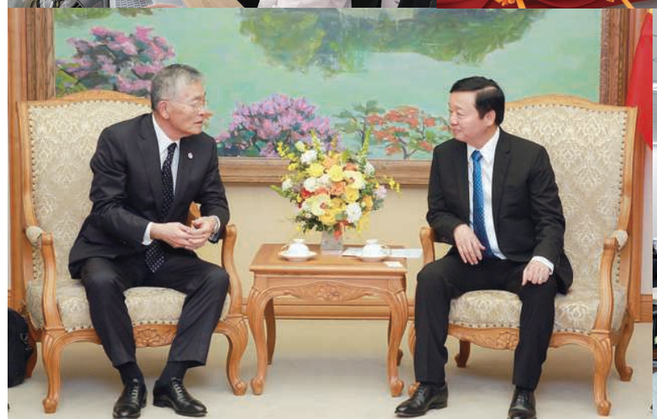










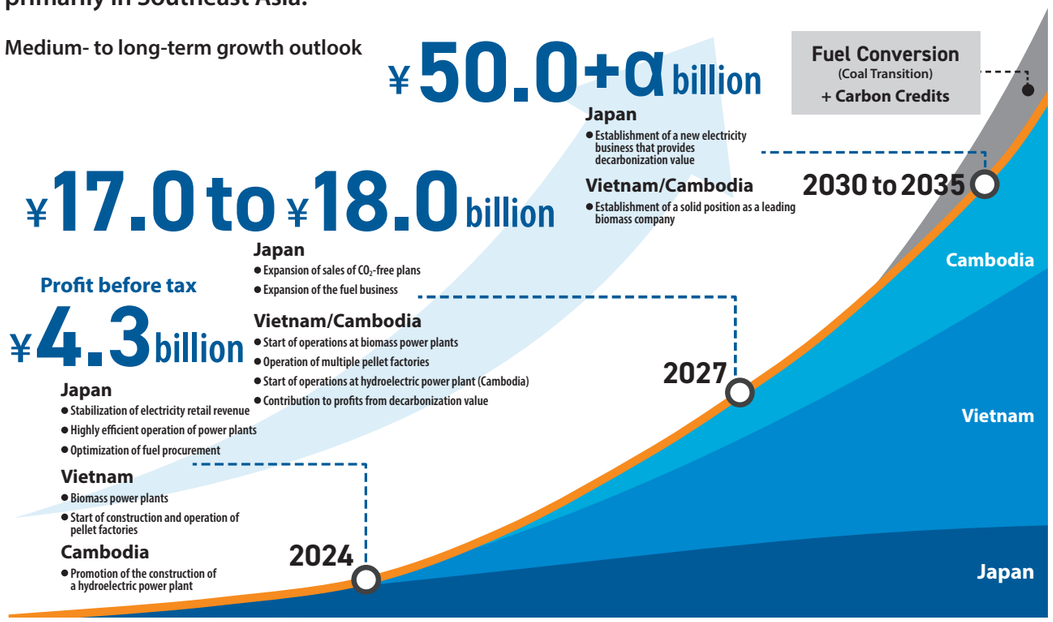




Medium- to Long-Term Growth Strategy

Leveraging the profits generated from the growth of its domestic electricity sales and biomass power generation business, erex will further develop its decarbonization business overseas, primarily in Southeast Asia.

Medium- to long-term growth outlook



Roadmap for Overseas Operations

	2024	2027	2030 to 2035
Vietnam	Vietnam's Power Development Plan 8 (PDP8) implementation plan approved **Biomass power plants** ● The Hau Giang Biomass Power Plant (20 MW) currently under construction is scheduled to start operations in December 2024 ● Construction of Yen Bai Power Plant and Tuyen Quang Power Plant is scheduled to begin **Pellet factories** ● Tuyen Quang: Scheduled to start operations around December 2024 ● Yen Bai: Scheduled to start operations around January 2025 **Carbon credits** ● Consultations were held with the Minister of Natural Resources and Environment, the Socialist Republic of Vietnam in May 2024	Biomass power plants **3 units** Pellet factories **Up to 3 units**	Biomass power plants **Up to 18 units** Pellet factories **Up to 20 units**
Cambodia	**Hydroelectric power plants** ● Construction of 80 MW hydroelectric power plant underway in Pursat Province, with operation scheduled for November 2025 ● Development of a second hydroelectric power plant (20–30 MW) is currently under consideration at the downstream of the above power plant **Biomass power plants** ● MOU signed with the Ministry of Mines and Energy in December 2023 ● Feasibility study underway with the aim of starting construction in the fall of 2024	Hydroelectric power plants **80 MW** Biomass power plants **1 unit**	Hydroelectric power plants **Up to 110 MW** Biomass power plants **Up to 5 unit**

Overview and Outlook of Overseas Business

Currently, Southeast Asian countries are facing major challenges with the expansion of electricity demand due to economic growth and the need to address decarbonization.

In this environment, erex is working on the biomass power generation business, which utilizes locally procured biomass resources as fuel, and the fuel business, which includes the development of new fuels. Using locally procured biomass resources as fuel for power generation makes it possible to improve energy self-sufficiency and support economic growth. At the same time, it contributes to solving the social issue of decarbonization.

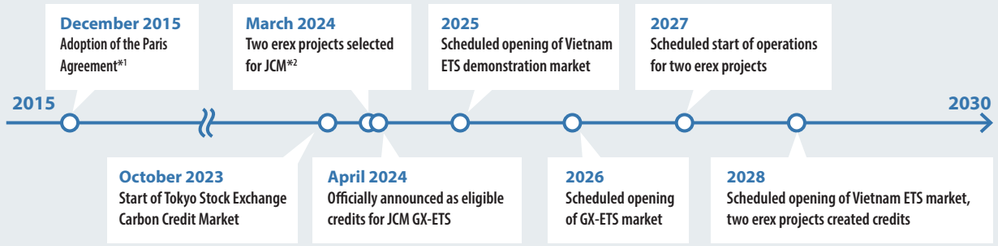
erex will steadily expand revenue from its overseas business by constructing biomass power plants and pellet factories in Vietnam, as well as hydroelectric power plants and biomass power plants in Cambodia.

Decarbonization Initiatives Using Carbon Credits

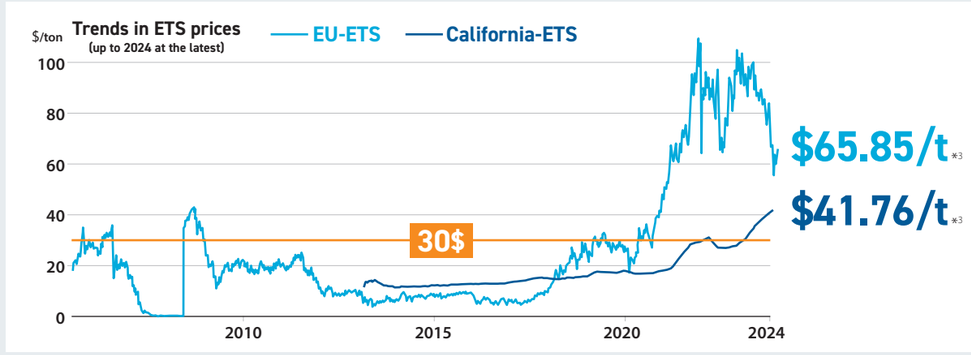
Carbon credits are a mechanism that effectively promotes decarbonization by assigning economic value to CO_2 reductions and trading them as CO_2 emission allowances. erex plans to acquire and sell some of the carbon credits generated through its biomass power generation business in Vietnam.

It is expected that ETS market prices in Asia, including Japan, will reach a similar level to the EU/California-ETS

Major events to date and schedule going forward



Current status of the carbon credit market



Source: Allowance Price Explorer | International Carbon Action Partnership (icapcarbonaction.com)

*1) JCM is a joint crediting mechanism implemented under Article 6 of the Paris Agreement

*2) The power plants in Yen Bai and Tuyen Quang Provinces were selected for the "Financing Programme for Joint Crediting Mechanism (JCM) Model Projects." Ministry of the Environment, Japan has been implementing the "JCM Model Projects," which provides financial supports covering up to half of the initial investment costs. The purpose of this model projects is to financially support the implementation of projects which reduce GHG emissions by utilizing leading decarbonizing technologies in developing countries, and in return, to acquire JCM credits for achievement of Japan's GHG emission reduction and the partner countries' emission reduction target. These projects are being implemented with the cooperation of the Vietnamese and Japanese governments.

*3) As of May 8, 2024

Overview and Outlook of the Domestic Business

By steadily implementing key measures for each business in Japan, erex will ensure revenue, stabilize the economic foundation of the entire business, and aim for sustainable growth.

	Measures
Retail and Trading	● Expansion of retail rate plans using know-how in a variety of electricity trading, including electricity future contracts ● Strengthening aggregator functions by handling all operations necessary to meet consumer needs through the use of erex's extensive experience in power generation, trading, and retail ● Providing solutions such as corporate PPAs ● Making full use of demand response*1 systems to reduce the burden of capacity contributions*2 ● Storage battery initiatives, etc. to further contribute to the introduction of renewable energies
Power Generation and Fuel	● Increasing power generation through improvements in power plant facilities and technologies ● Countermeasures against the weak yen using forward exchange contracts and the reduction of transportation costs through the use of larger fuel transport vessels, etc. ● Reducing fuel costs by strengthening in-house fuel procurement capabilities

*1) Demand response: Changing electricity demand patterns by encouraging customers to control their electricity usage at the request of service providers.

*2) Capacity contributions: Payments made by retail electricity providers, general electricity transmission and distribution utilities, and electricity distribution companies to the Organization for Cross-regional Coordination of Transmission Operators, Japan, based on securing supply capacity in the capacity market. The capacity market is a mechanism to efficiently secure Japan's overall supply capacity (kW) into the future. Source: Organization for Cross-regional Coordination of Transmission Operators, Japan (https://www.occto.or.jp/capacity-market/kyoshutsukin_know (Japanese only))



Financial Management

We will steadily return to profitability and restore our place as a company that can make investments for growth

Takanobu Yasunaga
Managing Director

Evaluation and Issues for Fiscal 2023 Performance

Looking back on fiscal 2023, we saw a significant deterioration in our performance, a stark reversal from the record profits we achieved in fiscal 2022, and this surely caused great concern to all stakeholders. One of the factors behind this was a mismatch between supply and demand, that is to say, the amount of electricity sold to customers did not match the amount of electricity procured. Additionally, there was a mismatch between the price of electricity sold to customers and the price of electricity procured. These two mismatches forced us to sell the surplus electricity we procured at a loss on the wholesale electricity market, where prices had fallen.

At the time of procurement in the fall of 2022, Russia's invasion of Ukraine had occurred at the beginning of the year, and it was expected that market prices for electricity would remain quite high through the following fiscal year. erex has always prepared itself for the risk of price fluctuations based on the assumption that market prices are subject to fluctuations, but actual electricity market prices fell significantly in 2023, and power sources procured at this time ended up being fairly expensive. Although we thought we were preparing for the risk of price fluctuations, in reality, we were preparing for the risk of price increases. Accordingly, an issue that we have recognized is the need to address the quantity mismatch and price mismatch that I mentioned above, and in order to do so, we need to fundamentally reconsider the way risk management is conducted.

We will deeply reflect on our failures in fiscal 2023, sincerely consider ways to address issues, and use the problems from fiscal 2023 as lessons to improve ourselves going forward, so as to ensure that the same mistakes are never repeated. We will make every effort to implement these initiatives, working to restore our business performance and ultimately to regain the trust of our many stakeholders.

Cause of Losses and Efforts to Become Profitable

erex believes that the biggest cause of losses—a mismatch in quantity and price between electricity procurement and sales—was due to the fact that the electricity procurement division and the electricity retail division each aimed to optimize their own operations. For example, the retail division took advantage of falling electricity market prices and shifted to selling at market-linked prices. However, the procurement division increased its relative procurement of power sources, with a view to continuing retail sales based on traditional plans. Reflecting on the fact that each division pursuing such partial optimization led to our failure in fiscal 2023, we first decided to significantly increase the frequency of coordination between divisions and established a routine of mutually checking the status of procurement and sales on a daily basis.

In addition to this review of business flow, we also reviewed our organizational structure. Specifically, we created a new Supply and Demand Strategy Office, with the head of the sales division as its director and the head of the market trading division as its deputy director. We also involved staff from relevant internal divisions, such as the corporate planning division that formulates business plans, to create an organization capable of conducting cross-divisional, integrated discussions.

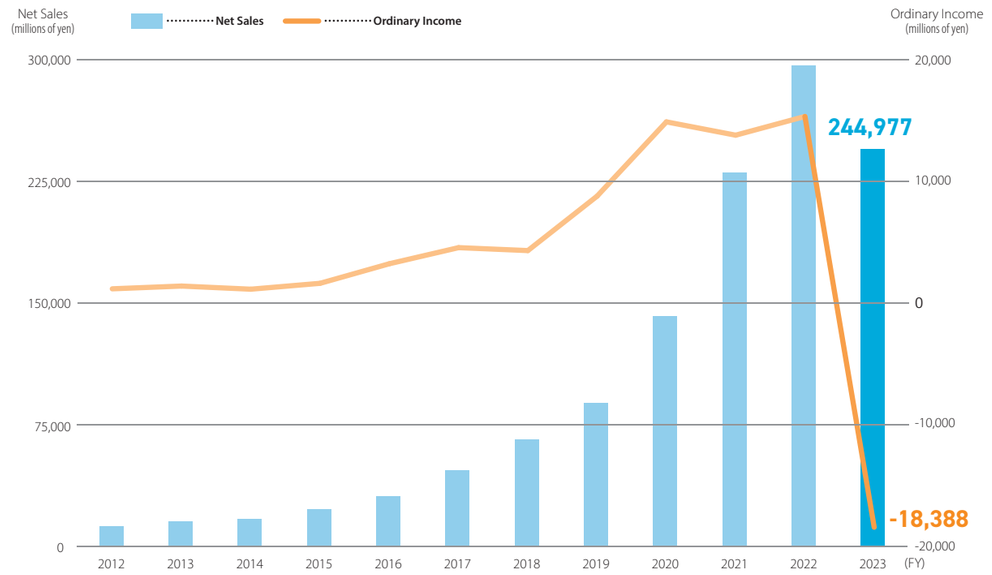
Since announcing in November 2023 that we were expecting significant losses for fiscal 2023, we discussed reviewing our organizational structure as an urgent issue, and as a result, established this Supply and Demand Strategy Office at the end of December 2023. At the same time, we also established the SCR Office to manage risks. "S, C, R" comes from the words challenge, speed, co-creation, sustainability, renewable energy, and risk control, and represents the corporate culture that erex strives to protect and pass on. In addition to verifying the state of cooperation between the procurement and retail divisions, the SCR Office has also started a system to identify risks between internal divisions, such as between power generation and fuel, and power generation and procurement, and to promptly implement countermeasures.

For the current fiscal year, fiscal 2024, we would like to steadily achieve profitability based on our reflections on the previous fiscal year, and have announced a plan to achieve a profit of ¥5.3 billion on an operating income basis.

In short, the losses in fiscal 2023 were caused by the sale of procured power at a loss, but in the retail division, we steadily carried out sales activities and were able to secure a certain level of revenue.

In fiscal 2024, we will leverage the capabilities of the retail sales division to steadily increase sales, while also striving to minimize the mismatch between procurement and sales to prevent losses arising from procured power. This will enable us to secure capital for growth investments, such as expansion into Vietnam, while also compensating for the negative impact of the import costs of biomass fuels, which will enable us to steadily but surely achieve profitability.

Full-year Performance Trends



Third-party Allotment

As a new challenge, erex is promoting its power generation and fuel development businesses overseas, primarily in Southeast Asian countries. By focusing on these businesses in Vietnam in particular, the Company aims to ensure a stable supply of electricity while also promoting decarbonization in the country, thereby contributing to the realization of a sustainable society.

Going forward, we expect to require a large amount of funds to promote these businesses, however, erex's financial results for fiscal 2023 showed significant losses. The Company's equity ratio decreased by 10.4% from 43.1% to 32.7% compared to the end of the first quarter of fiscal 2023, while interest-bearing debt increased by ¥11.4 billion from ¥44.5 billion to ¥55.9 billion.

In light of this situation, we carried out a third-party allotment of new shares in May 2024, and plan to use the funds raised through this allotment for investments, etc., as well as for reducing interest-bearing debt with the aim of improving our financial position, which is a prerequisite for the above investments.

In making the allotment, we searched for potential allottees with the aim of further strengthening relationships with business partners that are engaged in businesses that are highly compatible with the overseas business being promoted by the Group and that have the potential of complementing each other in future business endeavors, thereby increasing the corporate value of both parties. Based on this, we approached business partners that we determined would contribute to the above-mentioned objectives about underwriting shares, and selected the intended allottee from among those who expressed an interest in underwriting shares.

Furthermore, the intended allottee has a thorough understanding of the Group's business and social significance, and also intends to continue holding our shares over the medium- to long-term, therefore we have determined that this company is the most suitable candidate for allotment.

Progress Towards Medium- to Long-term Targets and Future Growth Investments

While erex currently secures revenue through its domestic business, by working on the decarbonization business in the rapidly growing countries of Southeast Asia, the Company hopes to contribute to decarbonization, improve energy self-sufficiency, make effective use of the abundant biomass resources in the region, increase farmers' incomes, and promote economic development in the local communities.

We have included targets for 2027 in our medium- to long-term strategic image. The year 2027 will be a time when we can fairly concretely envision the operation of projects that have already begun construction and those that are close to starting construction.

We expect to generate revenue in Vietnam and Cambodia from biomass power generation and hydroelectric power generation projects, as well as the operation of pellet factories.

In addition, we are planning to build 18 new biomass power plants in Vietnam, and I believe that by realizing these projects one after another between 2030 and 2035, we will be able to significantly expand erex's decarbonization business in the country.

Moreover, fuel conversion is a growth business that is not included in our numerical targets. This is a project to convert existing coal-fired power plants in Vietnam to biomass power generation, but it is also a project with great potential to be deployed in other Asian countries, including Japan.

While working on decarbonization projects like these in Asian countries, erex will also work steadily to develop its domestic business. In the power generation field, erex will steadily proceed with plans for the Sakaide Biomass Power Plant, which is scheduled to begin operations in 2025, and a non-FIT large-scale biomass power plant in Niigata Prefecture, which is scheduled to begin operations in fiscal 2029. In addition, with regard to erex's original retail business, the Company plans to steadily increase sales and revenue each fiscal year by expanding its unique energy rate plans, while also developing its business by responding to customers' needs for renewable energy utilization, such as by enhancing aggregator functions.

Regarding return on investment, we have traditionally conducted business with an internal rate of return (IRR) of approximately 8-10% as a guideline for making investment decisions, but we will aim for an even higher rate of return as we expand our business in Asia going forward.

Our Stance on Dividends

erex recognizes that the return of profits to shareholders is an important management issue, and its basic policy is to stably and continuously enhance shareholder returns while taking into account factors such as profit levels, performance outlook, and financial position, while excluding short-term profit fluctuation factors. In addition, erex will continue to make the capital investments necessary to ensure a safe and stable supply of electricity while also promoting investment in growth areas, thereby aiming for sustainable growth and striving to improve corporate value.

However, after comprehensively taking into consideration the Company's business performance trends and financial position in the fiscal year under review, we have regrettably decided to forgo the undetermined year-end dividend for fiscal 2023.

As for fiscal 2024, the net loss from fiscal 2023 is expected to have a significant impact, making it difficult to generate distributable profits. erex intends to continue making every effort to improve its business performance, and also recognizes that returning profits to shareholders as much as possible is an important management issue. Taking all of this into consideration, the Company has announced the dividend for fiscal 2024 as "undetermined."

We offer our deepest apologies to our shareholders and promise to do our utmost to resume dividend payments as soon as possible. We appreciate your understanding and continued support.

To Our Shareholders

We would like to express our sincere gratitude for your continued understanding, cooperation and support of our business.

In fiscal 2023, contrary to shareholders' expectations, we posted significant losses in our business operations and did not pay dividends for fiscal 2023, which undoubtedly caused great concern to our shareholders. In fiscal 2023, we issued corporate bonds and raised additional borrowings, and in order to rebuild our damaged financial base, we also conducted a third-party allotment of new shares in May 2024. With the support of our shareholders, as well as our many clients and business partners, we have been able to move forward with our business in fiscal 2024.

In light of this situation, our first and foremost goal this fiscal year is to achieve profitability, and we will steadily advance our business so as to regain everyone's trust. We will continue to make every effort to steadily realize our growth strategies and increase our corporate value so as to meet our shareholders' expectations.

We thank you for your continued guidance and support of our Company.



Strategies by Business

Fuel Business and Overseas Business

Strengths

[Overseas]

- Biomass power generation know-how cultivated in Japan

[Fuel]

- Operational flexibility through in-house vessel assignment
- Stable procurement of high-quality fuels through in-house procurement

Business Environment

[Overseas]

- Increased electricity demand in Southeast Asian countries
- Government support in countries where business is being carried out

[Fuel]

- Rising fuel prices
- Yen depreciation exceeding 150 yen to the dollar

Measures for Promoting Growth

[Overseas]

- Successful start of operations for power plants and fuel plants under construction in Vietnam
- Utilizing untapped biomass resources in Southeast Asia

[Fuel]

- Reducing fuel procurement costs
- Avoiding the risk of the depreciating yen by using forward exchange contracts

Business Overview and Progress/Achievements in FY2023

This was a very important and meaningful year in terms of laying the foundation for the promotion of erex's overseas power generation business, particularly its biomass power generation business in Vietnam.

erex began considering business in Vietnam in 2018. Initially, the Company repeatedly visited Vietnam's central and local governments, carefully explaining how the construction of biomass power plants would lead to a stable supply of electricity, increase energy self-sufficiency, and expand employment, and would therefore be of great value to the Vietnamese people.

As a result, the power plant plans (50 MW each) in Yen Bai Province (YB Province) and Tuyen Quang Province (TQ Province), which the Company has been prioritizing, have been designated as priority projects in the Power Development Plan 8 (PDP8), which was approved on April 1, 2024, and erex aims to start construction of these power plants in fiscal 2024. These projects have already been selected for Financing Programme for "Joint Crediting Mechanism (JCM) Model Projects*1" in FY2023, a subsidy of the Ministry of the Environment of Japan*2. In addition, construction of the Hau Giang Biomass Power Plant (20 MW), which began in fiscal 2022, is progressing as planned and is scheduled to be completed by the end of 2024.

With the cooperation of local residents, erex is also making steady progress in considering the procurement of biomass resources, including wood residues, to be used as fuel for power generation within Vietnam. The wood pellet factory in TQ Province will begin producing pellets as of the end of 2024, and supply pellets to countries outside of Vietnam, including Japan.

Construction work on a hydroelectric power plant (80 MW) in Pursat Province, Cambodia, is also progressing smoothly.

In the domestic fuel business, fuel procurement costs increased during the year due to factors such as rising prices for certified palm kernel shells (PKS) used as fuel for power generation, and the impact of the weak yen. Going forward, erex will continue to prepare for rising fuel prices by hedging against the risk of long-term increases in PKS fuel prices and by increasing in-house procurement at its joint ventures in Malaysia and Indonesia.

*1 Ministry of the Environment, Japan has been implementing the "JCM Model Projects," which provides financial supports covering up to half of the initial investment costs. The purpose of this model projects is to financially support the implementation of projects which reduce GHG emissions by utilizing leading decarbonizing technologies in developing countries, and in return, to acquire JCM credits for achievement of Japan's GHG emission reduction and the partner countries' emission reduction target. These projects are being implemented with the cooperation of the Vietnamese and Japanese governments.

*2 The announcement was made on March 22, 2024." https://www.erex.co.jp/en/news/information/569/



Tomoki Kakuta
Managing Director

Changes in the Business Environment

Southeast Asian countries are currently experiencing remarkable economic development, and this is expected to lead to an increase in the amount of electricity required.

Carbon trading, which is currently being carried out in Europe as a measure to prevent global warming, is expected to become more widespread in other regions around the world in the future, including in Southeast Asia. As a result, it is expected that the need for biomass power generation and biomass co-firing will continue to increase going forward, as they are not affected by weather conditions and are highly economically rational.

As the need for biomass power generation increases, the importance of the biomass fuel business will likely increase all the more, therefore erex will continue to focus on the development of biomass fuels.

I believe it is important to properly grasp the changes in the external environment as described above and make investments at the appropriate time, while also keeping a close eye on the enactment and amendment of decarbonization laws in various countries.

Priority Measures for FY2024

In Vietnam, erex is focusing on (1) the start of operations at the Hau Giang Biomass Power Plant (20 MW), the first commercial biomass power plant in Vietnam (December 2024), (2) the operation of wood pellet factories in YB and TQ provinces (150,000 tons x 2, early 2025), (3) the start of construction of power plants in YB and TQ provinces, which are PDP8 priority projects, and (4) the consideration of a third project in PDP8 following the projects in YB and TQ provinces. In Cambodia, erex is focusing on (1) the smooth progression of the construction of the hydroelectric power plant (80 MW) in Pursat Province and (2) the start of construction of the first biomass power plant.

In Japan, erex will continue to work with its domestic power generation division to optimize the PKS/wood pellet ratio and prices, and strive to turn this into a profitable business even in an environment with a weak yen.

Medium- to Long-Term Targets

In addition to its domestic business, erex will accelerate and advance new projects in Southeast Asia so that the overseas business can quickly grow into one of the Company's core businesses.

Specifically, the Company will steadily advance its plans to record sales from the Hau Giang Biomass Power Plant in Vietnam and the wood pellet factories in YB and TQ provinces in fiscal 2024, achieve early profitability, start operations at the hydroelectric power plant in Cambodia in fiscal 2025, and achieve the medium- to long-term growth targets by fiscal 2027, when the biomass power plants in the TQ and YB provinces of Vietnam will begin operation. Moreover, as Vietnam moves towards achieving its PDP8 targets, erex will contribute to this goal through its power generation business while also working to create and sell carbon credits.

TOPICS

Hau Giang Biomass Power Plant (Vietnam)

Construction of the Hau Giang Biomass Power Plant, which is scheduled to start operations in December 2024, is currently progressing steadily.

Overview of the Hau Giang Biomass Power Plant

Name of business company	Hau Giang Bioenergy Joint Stock Company
Name of power plant	Hau Giang Biomass Power Plant
Planned construction area	Hau Giang Province, Socialist Republic of Vietnam
Start of operations (planned)	December 2024
Electricity selling price	8.47 US cents/kWh (based on local FIT system)
Power output	20 MW (annual power generation is equivalent to the amount needed for approximately 93,000 average households)
Fuel	Rice husks (approximately 130,000 tons per year)



Hau Giang Biomass Power Plant under construction

Strategies by Business

Domestic Power Generation Business

Strengths

- High level of on-site capabilities backed by high-level operational skills
- Power plant utilization factor of approximately 90% maintained since launching the biomass power generation business
- Zero occupational accidents at power plants since the start of operations

Business Environment

- Power generation costs remain high
- Frequent directives to control the output of renewable energy
- Phasing out of inefficient coal-fired thermal power plants under the Act on the Rational Use of Energy

Measures for Promoting Growth

- Improving the operating rate of existing power plants
  → Equipment and technical improvements
- Practical human resources training with an eye to the future

Business Overview and Progress/Achievements in FY2023

There were two major achievements in the domestic power generation business in fiscal 2023.

The first was the achievement of one year of continuous operations at the Saiki Power Plant (Oita Prefecture). Biomass power plants typically undergo planned shutdowns twice a year for regular maintenance. Due to their structure, the boilers of biomass power plants are prone to getting dirty, and it is generally considered difficult to operate them continuously for a year. Boiler manufacturers also recommend that they should be inspected every six months. erex made improvements to the power plant's equipment and achieved continuous operations by leveraging the operational know-how accumulated by the Company over the years. Ever since the Tosa Power Plant started operations in 2013, the daily efforts of the power plant staff, partner companies, and employees involved in the power generation business have led to this achievement.

The second achievement was the complete consumption of uncertified biomass fuels by the end of March 2024.

Under Japan's Feed-in Tariff system, it became mandatory as of April 2024 for power plants to use third-party certified PKS (palm kernel shells). Accordingly, it was necessary to completely consume all non-certified PKS by the end of March and replace them with certified products. This was necessary because if there had been any surplus, the entire inventory of non-certified materials would result in a loss. Although the Company faced problems with unexpected equipment shutdowns at multiple power plants and fuel consumption not progressing as expected, complete consumption was achieved through collaboration between the Domestic Power Generation Department and Fuel Department at headquarters, as well as between power plants on the front lines. This achievement was made possible through the use of erex's unique strength of being able to effectively operate multiple locations with an optimal company-wide perspective, exemplified by the Company's unique vessel assignment, flexible supply of wood pellets and PKS, and extremely stable maintenance of power plants.



Yasushi Saito
Director

Changes in the Business Environment

Due to rising energy prices and other factors, power generation costs for biomass power generation remain high, creating an extremely harsh environment.

In addition, directives to control power output have been issued more frequently this fiscal year than ever before. The issuance of directives to control power output directly leads to reductions in power generation, and thus a new issue has arisen: how to compensate for the decrease in power generation opportunities.

Despite being exposed to this external environment, erex is working to improve revenue by implementing various measures to increase the amount of electricity sold by improving the annual operating rate of its power plants and reducing on-site electricity consumption, as described above. Moreover, while it is still in the planning stage, erex is also formulating and considering measures that leverage the Company's unique know-how and features, and is planning various initiatives that will contribute to improving and stabilizing business income and expenditures.

Priority Measures for FY2024

erex will continue to make equipment and technical improvements in the operation of its power plants with the aim of improving economic efficiency and cutting costs. erex's culture is based on a mindset of challenge, and erex promotes measures that will lead to success in the long run, even if they do not produce immediate results, such as by trying out ideas that other companies have not attempted.

In terms of human resources training, erex is taking a new, different approach and implementing measures with an eye to the future. erex positions domestic biomass power plants as training grounds for new employees, and they are assigned to a power plant approximately one year after joining the company. erex aims to quickly develop human resources who can acquire practical knowledge and skills and play an active role not only in domestic power plants but also in the fuel and overseas business divisions. Some employees have already been transferred to other divisions after gaining experience at domestic power plants, and I feel that communication between divisions has improved significantly and that work is being carried out more efficiently than ever before. erex is working to create an even stronger organization through the circulation of human resources amongst the domestic power generation division, overseas business division, and fuel division.

Medium- to Long-Term Targets

The role of the Domestic Power Generation Department is similar in terms of medium- to long-term targets. erex recognizes that the role of this division is to operate existing power plants efficiently and stably, to provide thorough human resources development in order to steadily nurture employees with knowledge and technical skills, and to strengthen human capital.

Going forward, erex's power generation business will continue to grow in Southeast Asian countries, particularly in Vietnam. At the current stage, erex is focusing on operations related to launching its overseas power generation business, but I also believe that developing human resources who can handle the maintenance and operation of these power plants once they are fully operational will contribute to long-term, stable profits.

Collaboration Between Divisions

As a result of organizational changes, what was originally a single organization called the Power Generation Department has been divided into the Domestic Power Generation Department and the Overseas Business Management Department, which may seem like a clear division between domestic and overseas departments. In reality, however, human resources are being circulated and the departments are collaborating more than ever before, as mentioned in the previous section.

The achievement of complete economic and efficient consumption of uncertified PKS in fiscal 2023 can be said to be a result that embodies this interdivisional collaboration and overall optimization.

TOPICS

Fuel Procurement that Leverages erex's Strength in Vessel Assignment

In fiscal 2023, a total of 401 directives to control power output were issued at five of the biomass power plants operated by erex, with the Saiki Power Plant receiving the most at a whopping 171 directives.

The issuance of a directive to control power output not only reduces power generation, but also has a significant impact on the consumption of procured biomass fuels. Although erex only has relatively small fuel storage facilities, it has been able to respond flexibly to the frequent directives to control power output and operate without producing surplus fuel. The reason behind this is erex's unique strength of being able to coordinate the assignment of fuel transport vessels and adjust distribution between its own power plants as a company that engages in the energy business from upstream to downstream.



Biomass fuel transport vessel (domestic coastal vessel) IBUKI

Strategies by Business

Trading Business

Strengths

- Experience in electricity trading since the establishment of the Japanese energy market
- Multiple trading methods based on many years of experience

Business Environment

- Ensuring a secure energy supply and realizing a decarbonized society are presented as mutually exclusive ideals
- Burgeoning societal need to regulate the supply and demand of electricity as Japan moves toward renewable energy
- Revitalization of the electricity market

Measures for Promoting Growth

- Building a circular value chain
- Leveraging market transactions to drive business expansion

Business Overview and Progress/Achievements in FY2023

In the financial results for fiscal 2023, a decrease in electricity demand resulted in a surplus of power procured in the previous fiscal year, and losses were incurred as the Company was forced to sell the surplus to the electricity market at a loss amid sluggish electricity market prices. Learning from this experience, erex now hedges its risks by presenting sales prices to customers based on the prices it can be procured, and then procuring the necessary amount only after the sales volume and price have been decided.

During the year, erex implemented various initiatives to prevent losses from increasing. One of the main initiatives was to choose the optimal timing to sell surplus power on the market. Another initiative was to work with the retail division to release new energy rate plans in order to prevent cancellations by existing customers and to attract new customers.

The new energy rate plans include a market-linked plan, a fully fixed plan that references electricity futures market prices, and a hybrid plan that combines the market-linked plan and the fully fixed plan on a monthly basis. The introduction of these new plans has broadened erex's range of proposals, enabling the Company to provide plans tailored to the needs of each customer.

Changes in the Business Environment

The electricity trading market has become very active over the past two to three years. With the launch of the electricity futures market in Japan in 2019, awareness of electricity trading is gradually spreading, and the electricity market is finally starting to grow. If more businesses participate in the market, erex will be able to broaden the range of proposals it can make to customers in the energy industry, which I believe would be a positive thing for the Company.

Until just a few years ago, awareness of electricity trading was extremely low in the energy industry, with only a handful of electric power companies incorporating it into their operations. At the time, there was no electricity futures market and only a small amount of bilateral trading was being conducted, therefore it was not possible to draw a forward curve*1. Compared to back then, it is now possible to incorporate trading into business and there are more options for procuring electricity.

The reason why erex has been able to continue growing since the days when the concept of trading did not exist in the energy industry is because it has been able to adopt strategies suited to the times, correctly understand the policy intent of the energy sector, stay in line with said policy, and utilize wholesale transactions between companies. Another strength of the Company is that it has been able to incorporate trading into its business and utilize its organizational strength during the recent revitalization of the electricity market, without taking an extreme position based on market views. As stated in the corporate philosophy, erex's current strength lies in its ability to take on various challenges with a sense of speed, and steadily build up skills.

*1 Forward curve: An index curve that shows future electricity prices for each delivery period, based on contract prices at the time of calculation.



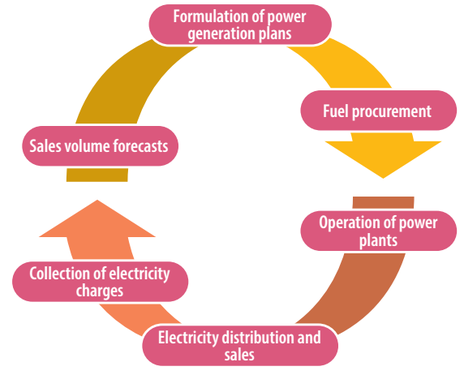
Ren Kawamura
Executive Officer
Head of Energy Market Department

Priority Measures for FY2024

The creation of a circular value chain is one of erex's priority measures. Building a circular value chain means placing the market at the center, pricing according to the market on the retail side and operating according to the market on the power generation side, thereby creating a system that allows for a certain margin to be earned even when the electricity and fuel markets fluctuate wildly. The operation has already begun, and one of the measures involves procuring the necessary amount of electricity each time based on the amount of electricity sold as confirmed by the retail side.

Nowadays, many other electricity retail providers, including former general electricity providers, are offering an increasing number of energy plans with electricity charges linked to market prices, but erex will continue to develop energy rate plans and implement measures that meet customers' needs.

Image of a circular value chain



Medium- to Long-Term Targets

erex will consider diversifying its electricity procurement methods. Until now, erex's activities have been limited to optimizing future electricity procurement plans through medium- to long-term (approximately 3 to 12 months) transactions, mainly using electricity futures trading. However, going forward, the Company plans to take imbalance unit prices into consideration and expand its activities to include short-term transactions that take place a few hours before delivery, known as intraday trading. Moreover, erex will also involve itself in the aggregator business using demand response*2 and other methods, expanding its area of activity into the supply and demand adjustment market. As a company that has always done business with a diverse range of customers, erex has an affinity with the aggregator business.

By combining a variety of trading methods in this way, erex intends not only to hedge risks but also to establish trading methods unique to the Company and contribute to profits.

*2 Demand response: Changing electricity demand patterns by encouraging customers to control their electricity usage at the request of service providers.

Collaboration Between Divisions

With the establishment of the SCR Office and the Supply and Demand Strategy Office, I feel that information sharing and communication have become more accurate than ever before. This is largely due to the fact that the relevant parties gather in one place on a regular basis to discuss and make decisions, and that misunderstandings are prevented through the keeping of records. For example, even if something was discussed once, and then several months later the external environment or company situation changes, everyone will still have an accurate and shared understanding of the situation due to the fact that records are kept. I feel that this ability to communicate, in which everyone discusses each issue one by one, is a result of reviewing the Company's organizational structure.

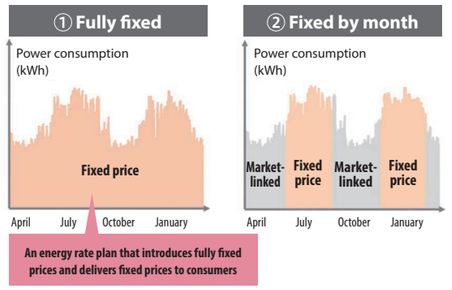
By having these thorough discussions across divisions, we are able to reach conclusions that satisfy everyone and that are good for the company.

TOPICS

Developing Various Supply Plans

In fiscal 2023, erex began selling electricity plans that make use of diverse procurement methods such as electricity futures trading. The Company listens to the needs of each customer and makes proposals that meet their requests as much as possible.

For example, with a fully fixed plan, the electricity rate one pays during the contract period is fixed based on the futures price at the time of proposal.





Strategies by Business

Retail Business

Strengths

- Nationwide customer base through a sales partner system
- Electricity plans that combine environmental value and economic efficiency
- Sale of electricity plans that make use of diverse procurement methods such as electricity futures trading

Business Environment

- Increasing need for decarbonization
- Diversifying customer needs

Measures for Promoting Growth

- Developing various supply channels and service plans to expand market demand
- Implementing sales strategies that prioritize fair pricing and profitability
- Providing services to realize a decarbonized society

Business Overview and Progress/Achievements in FY2023

In fiscal 2023, based on a profit-focused strategy, erex optimized sales prices in a timely manner in response to market price fluctuations. As a result, the unit price of sales to customers increased, and the retail business ended up being profitable.

For high-voltage and above customers, the amount of electricity sold did not increase as expected. On the other hand, erex has been taking steps to increase electricity sales in fiscal 2024 since the second half of fiscal 2023, and progress has proceeded as planned. A trend in the energy industry towards fiscal 2024 has been the move to have electricity retail providers pay capacity contributions*. A challenge that erex faced was how to increase the amount of electricity sold while offering fair prices to customers. There was also a growing need from customers for solutions to volatile electricity prices, such as rising electricity prices brought by rising fuel costs due to the situation in Russia and Ukraine. In this environment, erex worked in cooperation with the trading division to offer new options, such as a market-linked plan and a fully fixed plan that references electricity futures market prices, as well as a hybrid plan that combines these two plans. By responding to customer needs in this way, the Company was able to increase its number of contracts.

Regarding low-voltage customers, profit margins have stabilized due to the fact that all of Evergreen Retailing's customers have been switched to a power procurement adjustment plan that reflects market prices to a certain extent. As the number of contracts for the power procurement adjustment plan is sure to lead to certain profits, erex will continue to implement measures to acquire customers.

Currently, erex is focusing mainly on acquiring new customers through new online channels using external platforms, etc. The Company is exploring new possibilities via internet in order to acquire customers who have had little contact with erex in the past. At the same time, erex has continued to develop new possibilities through its sales partners, and starting in fiscal 2023, increased sales promotion expenses in order to acquire new customers.

* Capacity contributions: Payments made by retail electricity providers, general electricity transmission and distribution utilities, and electricity distribution companies to the Organization for Cross-regional Coordination of Transmission Operators, Japan, based on securing supply capacity in the capacity market. The capacity market is a mechanism to efficiently secure Japan's overall supply capacity (kW) into the future.
Source: Organization for Cross-regional Coordination of Transmission Operators, Japan (https://www.occto.or.jp/capacity-market/kyoshutsukin_know (Japanese only))



Toshimichi Tanaka
Director

Changes in the Business Environment

I feel that requirements for energy supply vary depending on the scale of a customer's needs and company.

The need for large enterprises to decarbonize is growing rapidly. In addition to supplying CO_2-free plans, it is important for erex to strengthen its aggregator business, which has already begun and includes such things as power purchase agreements (PPAs) with non-FIT solar power plants, as well as respond to customers' needs for decarbonization in various ways.

Compared to large enterprises, small- and medium-sized enterprises have less of a need for decarbonization, but a common requirement for high-voltage and above customers, from large enterprises to small enterprises, is a response to the risk of rising electricity prices caused by factors such as global situations. To be an electricity retail provider chosen by customers, it is important to offer convenient energy rate plans that meet the needs of each individual customer.

For low-voltage customers, it is important to supply competitive electricity, but what I feel is even more important than that is contact with customers, such as face-to-face proposals. For example, amongst erex's sales partners is a company whose main business is selling propane gas. Sales partners like this are often originally rooted in local communities and have built good relationships with their customers. They provide electricity proposals and after-sales support in addition to their main products, which leads to new contracts and renewals of contracts.

erex will continue to actively discover new sales partners, but rather than increasing the number of sales partners indiscriminately, it will partner with companies that benefit both erex and the sales partner, such as the one mentioned above, and strategically acquire customers.

Priority Measures for FY2024

The fully fixed plan, which references electricity futures market prices, and the hybrid plan, which combines the market-linked plan and the fully fixed plan on a monthly basis, that went on sale in fiscal 2023, are not automatically renewed like conventional energy rate plans due to the nature of the contracts. Instead, a new proposal is made and the customer's intention to enter into the contract is confirmed at the end of each one-year contract period. erex also provides proposals to current customers based on their changing needs, and provides thorough support to ensure that they continue their contracts.

In connection with this, for high-voltage and above customers, erex plans to increase the proportion of direct sales compared to sales via partners. This is because the proposals being made to customers are becoming increasingly complex. A challenge for erex this fiscal year is to strengthen an organization that can understand its customers' needs and make solid proposals to them.

Medium- to Long-Term Targets

Until the Company can establish an earnings base for its overseas business, it needs to make solid profits from its domestic business.

It will be difficult to achieve this only through the continued provision of current services, therefore erex is considering adding value to its current energy supply and selling it in the future. In order to develop and expand these businesses, the Company plans to increase its number of customers for high voltage and above and for low voltage. As a measure to achieve this in regard to low-voltage customers, erex will invest in sales promotion to revitalize existing sales partners and use online channels to acquire new customers.

As such, back-office work is becoming more complicated year by year due to increases in the number of contract plan types and the implementation of new measures. Although it is still in the consideration stage, erex plans to make necessary investments while taking into account cost-effectiveness in areas such as personnel allocation and systemization.

Collaboration Between Divisions

The establishment of the Supply and Demand Strategy Office has strengthened cooperation between the retail division and trading division, making it easier to adjust the supply and demand balance. One big change has been a significant improvement in pricing for both sales and procurement. The retail division determines selling prices after listening to the trading division's opinion, and conversely, the trading division determines electricity procurement prices after listening to the retail division's opinion, and this minimizes the difference between selling prices and procurement prices. Up until recently, erex promoted its business by aiming to optimize each division, and this is something the Company reflected deeply upon last year. However, by reviewing its organizational structure, erex is now able to derive optimal solutions for the entire company.

Working Toward Sustainability

Energy is indispensable for human life. As a company that handles energy, erex is committed to supporting secure lifestyles in which access to electricity is commonplace, and to promoting sustainability through the realization of a decarbonized society so that future generations can continue to live in a world where access to electricity can be taken for granted.

erex offers new innovations to help realize decarbonized societies globally. Through fuel development and the creation of carbon credits, erex aims to achieve both decarbonization and energy security.

The sustainability that erex aims for includes not only the global environment but also society itself. erex seeks to fulfill its corporate responsibility by taking a broad perspective, supporting the lifestyles of individuals, the communities where its power plants are located and its fuels are produced, and its employees, stakeholders, and supply chain partners.

Basic Sustainability Policy

Addressing Climate Change with Challenge and Speed

—erex, a decarbonized company that continues to evolve for the betterment of people's lives—

erex's mission is to provide safe and stable energy that is both environmentally friendly and economically efficient, and to realize sustainable, decarbonized societies globally. By leveraging its experience in biomass projects, erex will work on various projects not only in Japan but also in countries all over the world to solve the problems of energy self-sufficiency, poverty, and inequality. We also aim to build a global decarbonization chain by returning value, including environmental value, to Japan.

erex believes that the mission of the energy business is to support people's lives and co-create a better future.

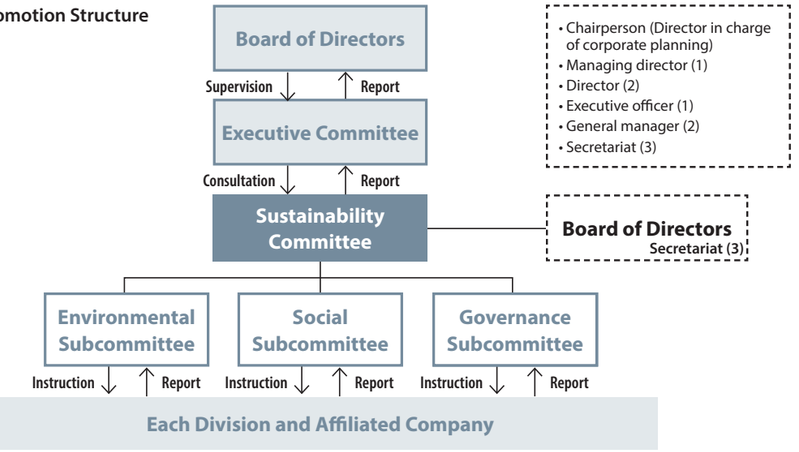
erex will continue to evolve with its motto of "challenge and speed."

Structures for Promoting Sustainability Initiatives

In fiscal 2022, erex established a Sustainability Committee to build a governance structure for sustainability. Chaired by the director in charge of corporate planning, its members include erex's managing director and three full-time employees who work in the secretariat established within the Corporate Planning Department. The committee aims to help realize a sustainable society by promoting and overseeing activities across the erex Group, such as climate change countermeasures and initiatives focused on human capital. Through the establishment of this committee, erex strives to conduct operations that lead not only to short-term enhancement but also to medium- and long-term corporate value enhancement.

In addition, the committee meets at least four times a year to report and deliberate on matters discussed by the Environmental, Social, and Governance subcommittees, which comprise members selected from each erex division and affiliate company and are supervised by the secretariat. After receiving reports on matters discussed and decided by the Sustainability Committee, the Executive Committee considers any proposed actions as important management and business strategies and consults with the Sustainability Committee as necessary when making management decisions. The Board of Directors receives reports on the matters discussed by the Executive Committee and supervises the promotion of sustainability at erex.

Sustainability Promotion Structure



Sustainability Committee Activities

Meeting held	Main topics
First meeting September 2022	Sustainability of biomass fuels Calculation of erex's emissions Proposals to promote social activities, etc.
Second meeting March 2023	Sustainability policy and materiality Analysis of erex's emissions calculation results and proposals for disclosure Measures to expand existing social activities Report on recognition for Outstanding Health and Productivity Management, etc.
Third meeting November 2023	Consideration of participation by external organizations Progress in hiring people with disabilities, etc.
Fourth meeting February 2024	Consideration of information disclosure policy through disclosure framework Report on study session results Impact of expanding CO_2-free plans, etc.
Fifth meeting June 2024	Direction of progress in responding to disclosure frameworks Report on GHG calculation results, etc.

Identifying Materiality

Under the instruction of the director in charge of the corporate planning division, the secretariat takes the lead in collecting and organizing information on materiality, which is then reported to and discussed by the Sustainability Committee before being referred to the Board of Directors to make a final decision.

Environment

- **Realize a decarbonized society**
- **Reduce erex's greenhouse gas (GHG) emissions**

While erex's power generation business is centered on biomass, the company aims to realize a decarbonized society by expanding the use of renewable energies, including through solar and hydroelectric power generation, and considering new energy sources such as hydrogen. erex began calculating its greenhouse gas (GHG) emissions in fiscal 2021 and is committed to decreasing its emissions while also increasing its contribution to GHG reductions.

Society

- **Contribute to the resolution of social issues such as poverty**
- **Contribute to and communicate with related local communities**

Through biomass fuel development, power generation, and electricity retailing, erex fulfills its corporate social responsibility by creating local employment opportunities and providing a stable supply of electricity. Revenue earned through business operations is used to revitalize local economies through investment and other means. The Company also actively invests in human capital in local communities, such as by supporting a foreign exchange program for students from Vietnam.

Governance

- **Promote thorough compliance**
- **Ensure appropriate information disclosure and communication**

To clarify management responsibility and accountability to shareholders, customers, employees, and other stakeholders and provide benefits by maximizing corporate value, erex's basic policy is to ensure transparency and soundness in management and business execution, and to promote thorough compliance along with efficient management. In pursuing these initiatives, erex strives to further enhance corporate governance.

TCFD Initiatives

In March 2023, erex expressed its support for the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD).

Following on from this endorsement, erex will reconfirm the environmental impact of its business activities and work to improve its information disclosure. In addition, the Sustainability Committee will play a central role in the Company's efforts to become carbon neutral and its aim to achieve a sustainable society together with its stakeholders.

Items included in erex's information disclosure are based on the framework developed by the TCFD and will be reviewed and improved upon annually through discussion by the Sustainability Committee.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

01 Governance

Governance related to climate change has been integrated into general sustainability governance.

The Sustainability Committee identified and assessed climate-related risks in line with TCFD recommendations and organized and reviewed measures to address them.

02 Strategy

To improve business resilience in the face of a distant and highly uncertain future, erex has assessed the impact of global average temperature increases on the Company, focusing on the power generation business, which is the Company's mainstay business, by referring to the 1.5°C scenario (for example, the benchmark set by IEA's net zero emissions NZE scenario to achieve decarbonization) and the 4°C scenario (for example, the IEA's stated policies scenario, which predicts the future impact of prevailing emissions) to project potential outcomes for 2050, considering both risks and opportunities.

As a result, we assume that the demand for fuel will increase and have identified the growing demand for renewable energy and biomass as a transition risk. Furthermore, we assume the possibility that the supply of fuels that meet renewable energy standards will not keep pace with demand, and that the resulting increase in cost prices will have a particularly significant impact on our business activities.

On the other hand, by promoting the development of various biomass fuels, such as through our development projects for new sorghum and other new fuels, and by strengthening in-house procurement of fuels that meet renewable energy standards, we expect that we will be able to procure raw materials at stable prices over the long term, and thus have an opportunity to expand sales by lowering our cost prices.

Since it is difficult to quantitatively evaluate the impact of climate change on our financial condition, we have qualitatively evaluated the impact on three levels: major, moderate, and minor. We will continue to analyze climate change scenarios to improve the accuracy of our predictions regarding the degree of impact on our financial condition while strengthening our ability to respond to the risks and opportunities associated with climate change to make our business more sustainable.

Finally, we assume that risks and opportunities will emerge within three years for short-term predictions, beyond three years to 2030 for medium-term predictions, and after 2030 for long-term predictions.

Main Risks Related to Climate Change and Response Measures

	Classification	Impact on the Company	Severity	Projected time frame	Countermeasures
Conversion Risks	Policy and Law (Orders and regulations for existing products and services)	If there are changes to the regulations on fuels used for biomass power generation, erex may have to convert to other fuels that maintain their status as renewable energy sources. In this case, the Company may incur costs associated with conversion to fuels that meet revised regulations, or the Company's fuel costs may increase if it converts to higher-cost fuels that meet the revised regulations.	Medium	Short term	To ensure a stable supply of biomass fuels, erex takes the initiative to procure biomass fuels such as palm kernel shells (PKS) and wood pellets from overseas. In addition, the Company is working to obtain certifications that cover various aspects of supply chain management in relation to the protection of the natural environment and the sustainable use of biomass fuels, such as obtaining Green Gold Label (GGL) certification for PKS in 2020.
		Increased reputational risk and costs associated with addressing unmet emission targets and inadequate disclosure information (including information on mixing fuels that have not received third-party certification and discrepancies in certified biomass ratios).	Medium	Short term	
	Technology (Replacing existing products and services with low-emission alternatives)	As environmental awareness continues to grow, the supply of renewable energy is likely to increase. This could lead to an increase in the number of days that renewable energy output is curtailed, thereby leading to lower sales.	Small	Medium- to long-term	To lay the groundwork for achieving carbon neutrality in 2050, erex will promote and monetize its hydrogen power generation demonstration project, invest in renewable energies other than biomass, such as solar PPAs, and optimize sales price and volume.
	Markets (Increased cost of raw materials)	While demand for fuels is likely to increase in response to a growing demand for renewable energy and biomass power generation, the supply of fuels that meet renewable energy standards may not keep pace with demand, resulting in an increase in the cost of fuel.	Large	Short term	erex will promote the development of various biomass fuels by strengthening its procurement of fuels that meet renewable energy standards, establishing its own fuel manufacturing plants, and through its projects to develop fuels such as new sorghum.
	Reputation (Increased stakeholder concerns or negative stakeholder feedback)	An inadequate response to climate-related issues or information disclosure requirements may cause a decline in share prices or a turning away of investors, leading to increased financing costs, or a decrease in company value.	Medium	Short term	In its management plan, the Company aims for carbon neutrality by 2050. It also aims to reduce in-house GHG emissions and promote avoided emissions through its biomass business.
Physical Risks	Acute risk (Increased severity and frequency of extreme weather events such as cyclones and floods)	Increasingly severe windstorms and floods may cause damage to biomass fuel production plants or cause disruptions in the supply chain, thereby impeding fuel procurement and power plant operations, resulting in a decrease in sales.	Medium	Medium- to long-term	To mitigate the risk of power plants becoming inoperable due to supply chain disruptions, erex procures fuel from multiple countries and sales channels.
		Increasingly severe windstorms and floods may damage power generation facilities, thereby causing them to cease operations and resulting in a decrease in sales.	Medium	Medium- to long-term	It has been confirmed that the inundation depth during storm surges and floods in the area where the power plant is located will not change significantly from the current inundation depth predictions of 1.5°C and 4°C in 2050. Source: The Aqueduct Global Flood Analyzer, World Resources Institute In addition, in preparation for emergency situations, erex will conduct thorough risk management for its personnel, such as securing evacuation routes, and it will incorporate business continuity planning measures into its contingency plan as necessary.

Opportunities Related to Climate Change and Response Measures

	Classification	Impact on the Company	Severity	Projected time frame	Countermeasures
Opportunities	Technology (Replacing existing products and services with low-emission alternatives)	The introduction of policies promoting a shift to power grids that capitalize on the potential of renewable energy will likely lead to fewer days of output control and increase revenues. Earnings will increase through the development and practical application of a business that improves the efficiency of energy management systems that utilize storage batteries.	Medium	Medium- to long-term	To lay the groundwork for achieving carbon neutrality in 2050, erex will promote and monetize its hydrogen power generation demonstration project, invest in renewable energies other than biomass, such as solar PPAs, and optimize sales price and volume.
		Cost of sales will likely decrease as new technologies develop biomass fuels with higher power generation efficiency that lower the cost per unit of electricity generated.	Medium	Medium- to long-term	erex has established biomass R&D centers in Japan and Vietnam to promote the in-house development of various biomass fuels, for example, new sorghum.
		An increased need for bioenergy with carbon capture and storage (BECCS) will likely increase the demand for biomass power generation, resulting in higher sales.	Small	Medium- to long-term	To lay the groundwork for achieving carbon neutrality in 2050, erex will take on the challenge of further decarbonization and consider BECCS and afforestation.
	Markets (Increased cost of raw materials)	erex will be able to procure raw materials at stable prices over the long term by strengthening its own procurement of fuels that meet renewable energy standards, resulting in lower fuel costs.	Large	Short term	The Company will promote the development of various biomass fuels, for example, new sorghum.
	Reputation (Changes in customer behavior)	The growing demand for renewable energy by companies and others working to address climate change will likely increase the need for electricity generated from renewable energy sources, including biomass energy, resulting in higher sales.	Large	Short term	erex will undertake the challenge of non-FIT biomass power generation, while Evergreen Marketing Co., Ltd., an erex Group company, will sell CO_2-free plans to RE100 member companies and other companies.
		Sales will likely increase as the country expands electrification as part of its response to climate change and demand for renewable electricity increases.	Small	Short term	
	Reputation (Increased stakeholder concerns or negative stakeholder feedback)	By proactively addressing and disclosing the status of ESG issues and attracting ESG investment, the company's value will likely increase as a result of higher stock prices.	Medium	Short term	In its management plan, the Company aims for carbon neutrality by 2050. It also aims to reduce in-house GHG emissions and promote avoided emissions through its biomass business.

03 Risk Management

The Sustainability Committee secretariat takes the lead in collecting and organizing information on the identification and assessment of risks and general response policies for risks and opportunities deemed significant. The Sustainability Committee uses this information to discuss and decide on matters before reporting to the Board of Directors.

In addition, the Company is currently considering the establishment of a risk management system that would aid in the refining and progressing of response measures to significant risks and opportunities related to climate change.

04 Goals and Indicators

Based on the GHG Protocol, the erex Group began calculating GHG emissions as an indicator for achieving carbon neutrality in fiscal 2021. The Company identified and organized its calculation methods for each relevant business activity and emission source and calculated its Scope 1, Scope 2, and Scope 3 emissions. erex will continue to calculate its emissions and monitor the environmental impact of the Group's operations.

Actual GHG emissions (Unit: t-CO_2)

Year in concern	Scope 1*1	Scope 2	Scope 3*2	Total
FY2021	4,975	3,990	3,008,878	3,017,842
FY2022	483,134	1,382	1,980,456	2,464,981
FY2023	630,226	3,279	1,508,534	2,142,039

In using GHG emissions as an indicator from now, it is important to recognize that GHG emissions could temporarily increase due to business growth, aggressive global expansion, and the Company's fuel conversion project (gradual shift from coal-fired power plants to exclusively biomass-fired power plants).*3 erex is working to reduce in-house GHG emissions through various initiatives while simultaneously working to increase emission reductions known as "avoided emissions" in the future. The erex Group defines avoided emissions as global carbon emissions that it can reduce through its business activities, for example, by offering CO_2-free plans to its customers.

*1 In August 2022, erex acquired the Itoigawa Power Plant (a coal-fired power plant) as part of its coal-fired power conversion plan. As a result, Scope 1 emissions increased from fiscal 2021 to fiscal 2023.

*2 Scope 3 emissions decreased in fiscal 2023 due to a decrease in the amount of electricity sold.

*3 Under erex's fuel conversion plan, the Group's Scope 1 emissions will increase in the short term due to the acquisition of coal-fired power plants. However, by partially converting coal-fired power plants to biomass power plants and increasing the ratio of biomass to fossil fuels used, erex will mitigate its increased Scope 1 emissions.

Environment

The erex Group has been promoting environmental initiatives in order to realize its 2030 Vision of "Realizing a sustainable society—To become a pioneer in the new era of electric power with renewable energy at its core." erex has set a target of reducing CO_2 emissions by 25 million tons by 2030, and is promoting the development of biomass fuels and the operation of biomass power plants both in Japan and overseas.

Environmental Initiatives

Initiatives to Develop New Fuels

From the perspective of sustainability, erex is promoting the development of new fuels. One of these new fuels is new sorghum. New sorghum is a tall grass similar to sugarcane that is characterized by its fast-growing and low cost of cultivation. By cultivating this new sorghum efficiently and processing it so that it can be easily used as fuel, it is possible to use new sorghum as fuel for power generation that can significantly reduce GHG emissions throughout its lifecycle, including cultivation, processing, transportation, and power generation, compared to coal.



Reducing Air Pollution

When transporting biomass fuels to power plants, erex uses custom-built covered trucks with an airtight structure to prevent dust from scattering during transportation.

Power plants are equipped with exhaust gas treatment equipment as an initiative to reduce emissions of air pollutants (soot and dust, SOx, NOx).

erex also regularly measures exhaust gas emissions in accordance with legal standards.



Water Quality Management

As an initiative to conserve water quality, the Nakagusuku Biomass Power Plant uses industrial water instead of seawater to cool water used in the power generation process. The industrial water used is treated before being discharged into the sea, which protects Okinawa's marine environment by preventing the surrounding seawater from heating up.

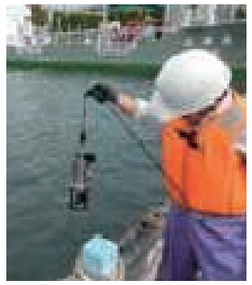
Regarding water usage, erex manages data on water intake/emissions, and as an initiative to reduce water intake, reuses cooling water in addition to measuring and monitoring the amount of water intake.



Biodiversity

erex conducts environmental assessments to prevent pollution and destruction of the environment caused by the construction and operation of power generation facilities. The Company assesses environmental impact by conducting ecological surveys of plants and animals and uses the results in its design and construction. In addition, erex procures fuels that have been certified by a third-party organization to prevent ecosystem destruction caused by slash-and-burn agriculture and illegal logging by fuel suppliers.





Waste Management

Equipment called bag filters are installed to remove fine ash contained in exhaust gas from power plants. erex takes great care to ensure that there is no impact on human safety or the environment outside the power plants.

In addition, erex strives to protect the environment by making effective use of waste. For example, ash generated from burning PKS is collected, then granulated, solidified, and reused as a cement raw material. This cement is also used as building materials in some public works projects.



Expansion of CO_2-free Plans

Evergreen Retailing Co., Ltd. (EGR), an erex Group company, has decided to implement CO_2-free plans for all customers as of fiscal 2024. The Company will provide customers with CO_2-free electricity at low prices. CO_2-free plans that meet the needs of customers are also being sold to some corporate customers and other subsidiaries. erex will continue to strive to reduce CO_2 emissions and allow as many people as possible to use cleaner electricity.

EverGreen

Society

When it comes to sustainability initiatives, companies are being urged to address a broad range of issues beyond climate change, including human rights and the resolution of poverty.

erex aims to grow alongside society by returning the revenue it earns from its business to society at large and by operating in a sustainable manner that increases revenue as society develops.

Human Capital

Corporate Environment Improvement Policy and Human Resources Development Policy

In order to realize the 2030 Vision of "To become a pioneer in the new era of electric power with renewable energy at its core," erex will conduct recruitment activities regardless of gender or nationality, strive to provide a comfortable working environment as well as fair evaluations and treatment, and draw out the value of each individual while increasing corporate value over the long term.

In promoting measures for human resources development, erex instills its values of challenge and speed and co-creation in each employee, and introduces ideal states by job position as guidelines for employee development.

Specific Initiatives (Including Established Indicators and Targets)

Promotion of Diversity

In order to expand business globally toward the realization of a decarbonized society, it is essential that talented individuals play an active role, regardless of nationality or gender. erex will promote diversity through the following policies.

Indicators	Results/Targets	
Providing work-related opportunities for female workers	Percentage of female workers in the workforce*	
	Male ratio: 73.1%	Female ratio: 26.9%
Promoting the active participation of women	Ratio of female managers to exceed 10% by 2030* (The ratio of female managers in 2023 was 3.4%)	
Ratio of female recruits among new graduate recruits	50% (2030 target) (The ratio of female recruits among new graduates joining the company in April 2024 was 57.1%)	
Promoting the active participation of mid-career hires	Expand the human resources portfolio by hiring human resources who can contribute immediately to new business development, in addition to training new graduates	
Promoting the active participation of non-Japanese employees		

* The figures above are results and targets that exclude subsidiaries, etc.

Human Resources Development

erex is implementing the following measures to enable each employee to grow according to the relevant stages of their career.

Main initiatives	
Training system by job position	Examples: A variety of training for new graduates and managerial training by position
Follow-ups with young employees	Examples: New graduate recruitment training and quarterly follow-up training (for the first three years)
Attending external business seminars	Creating an environment for all employees to take online seminars and share information with employees
Fair personnel evaluation	Setting quarterly targets and conducting personnel evaluation interviews

Introduction of Diverse Work Styles

erex respects the abilities and lifestyles of each employee and will promote the introduction of diverse work styles to maximize value.

Main initiatives
Work style reforms (staggered working hours, establishing a paid leave encouragement period, improving treatment of employees posted overseas)
Thorough implementation of childcare leave system regardless of gender

Fair Evaluation and Treatment

In order for all employees to work with a sense of fulfillment over the long term, it is extremely important to operate a fair personnel evaluation system.

At the same time, erex will continue to enhance its employee benefits so that employees and their families can feel at ease.

Main initiatives
Retirement benefits and corporate pension systems
Employee stock ownership plan
Realization of an evaluation system that is not affected by gender or nationality (actively promoting talented young employees)
Orphan education pension
Subsidy for medical check-up expenses

Respect for Human Rights

Based on the belief that a company's social responsibility compels it to respect human rights, the erex Group has established the erex Group Human Rights Policy as an action guideline, using the Group's sustainability policy as a starting point. The Group is committed to engaging in sincere and honest business activities in each country and region where it operates.

erex Group Human Rights Policy (excerpt)

1 Compliance with Human Rights Laws and Regulations

- Comply with the laws and regulations applicable in each country or region where we conduct business activities
- Respect international standards when the above laws and regulations differ from international standards

2 Scope of the Policy

- Applies to all persons working for erex Group, including directors, officers, and employees

3 Respect for Human Rights in Business Activities

- Promote initiatives that prioritize respect for human rights to stakeholders

4 Human Rights Due Diligence

- Work to identify, prevent, and mitigate any apparent or potential negative human rights impacts that may occur in our business activities

5 Remediation and Correction

- In the event that a business activity causes, or is found to have indirectly caused, a negative impact on human rights, take remedial and corrective action through appropriate procedures and work to prevent a recurrence

6 Dialogue with Stakeholders

- Proactively engage in dialogue and negotiation with stakeholders on how to respond to apparent or potential human rights risks

7 Information Disclosure

- Disclose information appropriately through websites and other platforms

Society

Examples of Initiatives

Supporting Local Communities: Support for Children's Cafeterias "Nikkori Kitchen"

In 2021, erex's retail subsidiary T'dash began providing financial support to children's cafeterias and regularly dispatching volunteers. Children's cafeterias are not only for hungry children, but also for children who often eat alone, their guardians, and elderly people in the community, providing a place for food education and community interaction.

Comments from local volunteers include: "I'm happy when people say they had fun coming to children's cafeterias and that the food was delicious," "What's great about Nikkori Kitchen is that you're not alone and you get to have home-cooked flavors," "It's great that there are a variety of volunteers," "I've gotten to know a wide range of people," and "It makes me happy to spend time with fun people." What's going on at children's cafeterias every day is available on X (formerly Twitter).



Community Contribution Activities in Regions Where Power Plants Are Located

The Group is actively involved in community contribution activities in regions where its power plants are located. erex is particularly committed to supporting the education of young people and children who will lead the future, and hosts tours of the Company's power plants for local middle school and high school students as part of their social studies field trips. In addition, erex holds "Electricity classes for parents and children" during the summer holidays for elementary school students and younger, and donates programming kits to local elementary schools.



Employment Initiatives for People with Disabilities

Recently, erex began initiatives to employ people with disabilities. They work on farms in Saitama Prefecture, harvesting a variety of seasonal vegetables throughout the year. erex is currently trying to grow fruits such as melons.

Harvested products are sold within the company as appropriate, and erex is considering donating the proceeds to various support organizations that help the poor and vulnerable. The Company also plans to donate freshly harvested vegetables to local children's cafeterias. erex will continue to engage in these activities as part of its social initiatives.



Recognition for Outstanding Health and Productivity Management

For the second consecutive year, erex was recognized as a Certified Health & Productivity Management Outstanding Organization. The program honors large and small and medium-sized enterprises that practice particularly outstanding health and productivity management based on initiatives aligned with local health issues and health promotion initiatives advanced by the Nippon Kenko Kaigi.

Having long viewed the maintenance and improvement of employee well-being as an important management task, erex has endeavored to create a working environment that allows all employees to demonstrate their capabilities to the full in good health. As of fiscal 2024, we have also begun implementing measures such as removing age restrictions from financial subsidies for medical check-ups. We will continue engaging in activities to maintain and promote employee well-being so that we remain a company that is healthy and rewarding for employees and their families.



Providing Support for Human Resources from Vietnam to Study in Japan Tuition Fee Assistance for Young Central, Regional or Female Government Officials

In Vietnam, we have started providing a human resources development program scholarship. The program develops human resources who will contribute to future growth by providing tuition fee assistance for young government officials from Vietnam when studying at universities in Japan.

Such officials must be either regional, or female to be eligible for the assistance. The program is expected to improve the lives of people in Vietnam by developing government officials who can engage in governance with broad outlooks.



Charity House Donation Activities in Vietnam

As erex advances its business in Vietnam, it is donating funds to help build charity houses in the provinces where it plans to build power plants and fuel plants. So far, we have donated construction costs for around 10 houses in each of the provinces of Hau Giang, Yen Bai and Tuyen Quang to help people who are unable to work due to injury, or who have lost their spouses or are otherwise unable to live comfortably. We will continue to carry out similar activities going forward.



Corporate Governance

Basic Concept

The Company seeks to provide benefits to its stakeholders, including shareholders, customers and employees, by maximizing its corporate value. To this end, the Company will ensure transparency in management and the execution of business as well as rigorous compliance. At the same time, the Company aims to promote efficient management. While advancing these initiatives, the Company will strive to further enhance its corporate governance.

Corporate Governance System

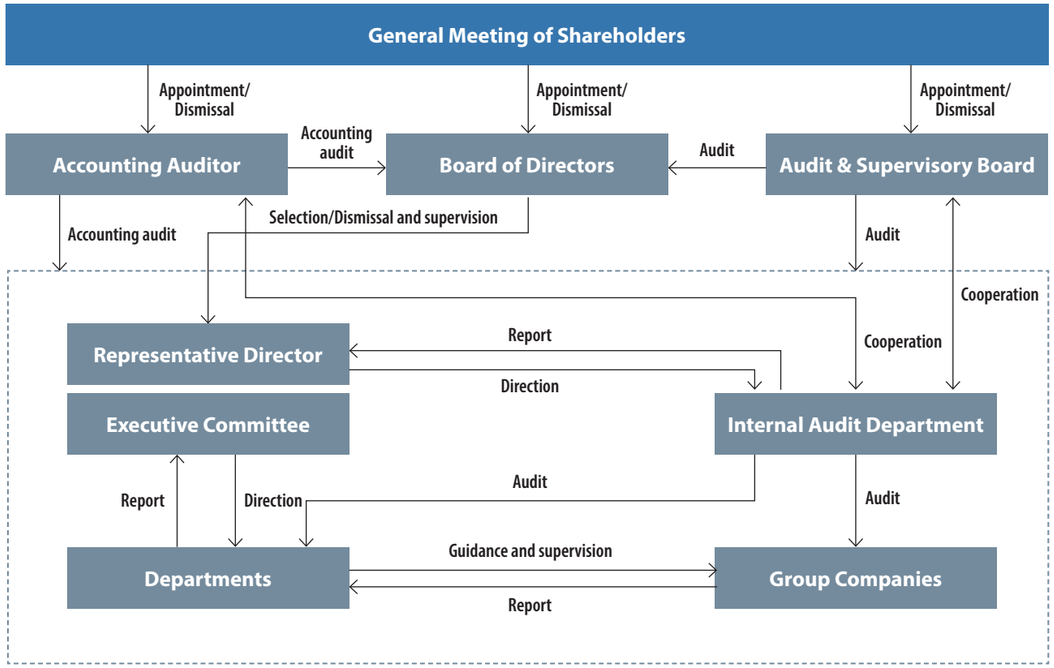
erex is a Company with an Audit & Supervisory Board. The governance system is as follows.

Directors and Auditors are directly appointed by shareholders. Entrusted with management, they are responsible for fulfilling their respective roles satisfactorily and are accountable to all stakeholders, including shareholders, for the state of management.

As the erex Group is involved in the energy business from upstream to downstream and has recently expanded its business overseas, it is necessary to use expertise and business experience in the energy industry to evaluate a wide variety of risks when pursuing management resolutions, making decisions, or supervising management.

erex has therefore implemented a system to ensure transparent and fair decision-making by having the executive directors—who are familiar with the Group's business activities—engage in management-related decisions from diverse perspectives, while the outside board directors provide advice and guidance, and the Auditors, who have complete independence from the Board of Directors, audit and supervise the execution of duties by directors.

Corporate Governance and Internal Control System



Stance on the Diversity, Size, and Balance of Knowledge, Experience, and Abilities of the Board of Directors

The Board of Directors currently has eight members, which erex believes is an appropriate number for promoting rapid decision-making as the Company expands its lines of business. Furthermore, erex believes that its Board of Directors is well-balanced and composed of diverse members with different professional backgrounds, experience, and expertise. Directors have a deep understanding of each of the Group's businesses, while outside board directors provide supervision from an objective and independent point of view. All outside board directors have management experience at other companies.

Skills Matrix

The following skills matrix sets out each director's business experience and expertise.

	Corporate Management & Business Strategy	Energy Industry	International Business	Engineering	Sales & Marketing	New Business & Innovation	Finance & Accounting	Compliance	IT
Hitoshi Honna President and Representative Director	○	○	○		○	○	○	○	
Takanobu Yasunaga Managing Director	○	○	○			○	○	○	○
Tomoki Kakuta Managing Director	○	○	○	○		○		○	○
Yasushi Saito Director	○	○		○	○	○		○	
Toshimichi Tanaka Director	○	○	○		○	○		○	
Makoto Tamura Outside Board	○		○		○	○	○	○	○
Michiaki Morita Outside Board	○		○		○		○	○	○
Shigeru Kimura Outside Board	○	○	○		○		○	○	

Process and Policy for Appointing Directors

The president and representative director selects directors who have high ethical standards and can suitably fulfill the responsibilities of the position, based on past performance, character, insight, and other factors. Director candidates are chosen after sufficient deliberation at Board of Directors' meetings attended by Outside Board directors.

Criteria for Selecting Outside Board Directors

The appointment of Outside Board directors is made on the condition that they meet the requirements for independence as stipulated by the Tokyo Stock Exchange, have expertise and experience in a range of fields, and can be expected to provide objective and neutral advice and supervision of management. The reasons for the election of the current Outside Board directors are as follows.

Name	Reason for Election	Attendance at Board of Directors' Meetings (FY2023)
Makoto Tamura	Makoto Tamura has a high level of insight based on his many years of experience in the finance and securities industries as well as a broad range of knowledge in all aspects of management. He has been appointed as an outside board director and independent member because it was determined that he can play a role in ensuring the adequacy and appropriateness of the Board's decision-making by providing useful advice on the Group's management strategies and other matters.	14/14 times
Michiaki Morita	Michiaki Morita has a high level of insight based on his many years of experience in the finance and securities industries as well as a broad range of knowledge in all aspects of management. He has been appointed as an outside board director and independent member because it was determined that he can play a role in ensuring the adequacy and appropriateness of the Board's decision-making by providing useful advice on the Group's management strategies and other matters.	14/14 times
Shigeru Kimura	Shigeru Kimura has a high level of insight based on his many years of experience in the energy industry as well as a broad range of knowledge in all aspects of management. He has been appointed as an outside board director and independent member because it was determined that he can play a role in ensuring the adequacy and appropriateness of the Board's decision-making by providing useful advice on the Group's management strategies and other matters.	14/14 times

Corporate Governance

Evaluation of the Effectiveness of the Board of Directors

To improve the effectiveness of the Board of Directors, the Company conducts an evaluation of the Board at a fixed time each year to identify and share issues that need to be addressed. Below is a summary of the evaluation results for fiscal 2023.

1. Evaluation Method	(1) In March 2024, all Directors and Auditors completed a five-step scale self-evaluation questionnaire. In addition to questions verifying the effectiveness of the Board of Directors on an ongoing basis, the evaluation included questions to verify how the Board was responding to the changing external environment and other factors affecting corporate governance. (2) At the Board of Directors meeting held in April 2024, board members shared their views on the analysis of questionnaire results. To ensure objective evaluation, the question design and tabulation and analysis of results were outsourced to an external organization.
2. Main Items in the Evaluation Questionnaire	● Composition and processes of the Board of Directors ● Management and business strategies ● Business ethics and risk management ● Performance monitoring and management evaluation and compensation ● Dialogue with shareholders
3. Evaluation Results	The Board of Directors was commended for its free and open discussion, the responsibilities of its independent outside board directors, and its dialogue with shareholders, and the results showed that the effectiveness of the Board of Directors has been generally maintained. On the other hand, the results revealed several issues that should be addressed, including the formulation and implementation of a training and succession plan for CEO candidates and the insufficient understanding of the digital transformation promotion policies. With this in mind, we will work to further improve the effectiveness of the Board.

Executive Compensation

1. Basic Policy

To create a compensation system that adequately incentivizes directors to continuously strive to improve corporate value, the Company's basic policy sets compensation at a level appropriate to each director's responsibilities. The compensation system for directors comprises the following three types of compensation.

Compensation by type	Basic compensation (Monetary compensation)	Performance-based compensation	
		Bonus (Monetary compensation)	Restricted stock (Non-monetary compensation)
Overview	Fixed compensation paid monthly	Short-term incentive encouraging directors to steadily achieve performance goals for the fiscal year	Medium- to long-term incentive promoting management that increases corporate and shareholder value over the medium- to long-term
Position	Executive Director outside board Director	Executive Director outside board Director	Executive Director

2. Policy to Determine Basic Compensation for Each Director
(Including Timing and Other Conditions for Granting Compensation)

Basic compensation for directors is determined by taking various factors into consideration, including the Company's business performance and the compensation levels at other companies in the industry. A base amount is set according to each position as well as status as a director or outside director, and reflects individual performance for the previous fiscal year as determined through discussions between the president and representative director and the director in charge of human resources.

3. Policy to Determine Amount, Calculation Method, and Other Details for Performance-based Compensation
(Including Timing and Other Conditions for Granting Remuneration)

Performance-based compensation comprises bonuses and restricted stock. Bonuses are paid at a fixed time each fiscal year, with the amount subject to consolidated ordinary income as well as individual performance targets set for the previous fiscal year.

Regarding restricted stock, shares issued to directors as compensation cannot be transferred or disposed of during a certain period, usually three years or more, as determined by the compensation framework agreed upon at the General Meeting of Shareholders. Monetary compensation shall be paid to eligible directors for delivery of restricted shares at a fixed time. The amount shall be determined by the Board of Directors each fiscal year.

Limits on the number of restricted shares to be delivered shall be determined according to internal rules set at a Board of Directors' meeting attended by outside board directors. More specifically, the number of shares is determined each fiscal year on an incremental scale between 80% and 130% according to the degree of accomplishment of consolidated ordinary income targets set for the previous fiscal year.

4. Policy to Determine the Ratio of Basic Compensation and Performance-based Compensation for Each Director

Based on benchmarks set by companies of the same size and in related industries and businesses, erex has adopted a compensation framework in which the ratio of performance-based compensation increases according to rank.

As performance-based compensation fluctuates according to company performance and other factors, guidelines for the ratios of compensation types differ according to the category of director as summarized below.

Category	Basic compensation (Monetary compensation)	Bonus (Monetary compensation)	Restricted stock (Non-monetary compensation)
Director	40–100%	0–40%	0–40%
Outside Board Director	70–100%	0–30%	—

Compliance

The erex Group has established its compliance regulations, which stipulate basic compliance-related matters within the Group and set out 15 principles to be observed by directors and employees of the Company and its Group companies.

The Company has appointed a director in charge of compliance, who conducts compliance training within the Group, maintains an internal reporting system, and works to address any violations of laws, company bylaws, and other internal regulations. In the unlikely event that a violation of a law, bylaw, or other internal regulation is discovered, the matter is reported to the Board of Directors in accordance with compliance regulations, and action is taken in cooperation with outside specialists, such as legal advisors.

In addition, a quarterly meeting of compliance officers is held to discuss any incidents within the Group and to develop Group-wide response measures, while compliance training is conducted within the erex Group to raise compliance awareness.

Not only does the training outline compliance guidelines and encourage behavior in line with common sense, but it also addresses specific topics to promote understanding of these issues, including insider trading regulations, managing confidential information, protecting personal information, and preventing harassment.

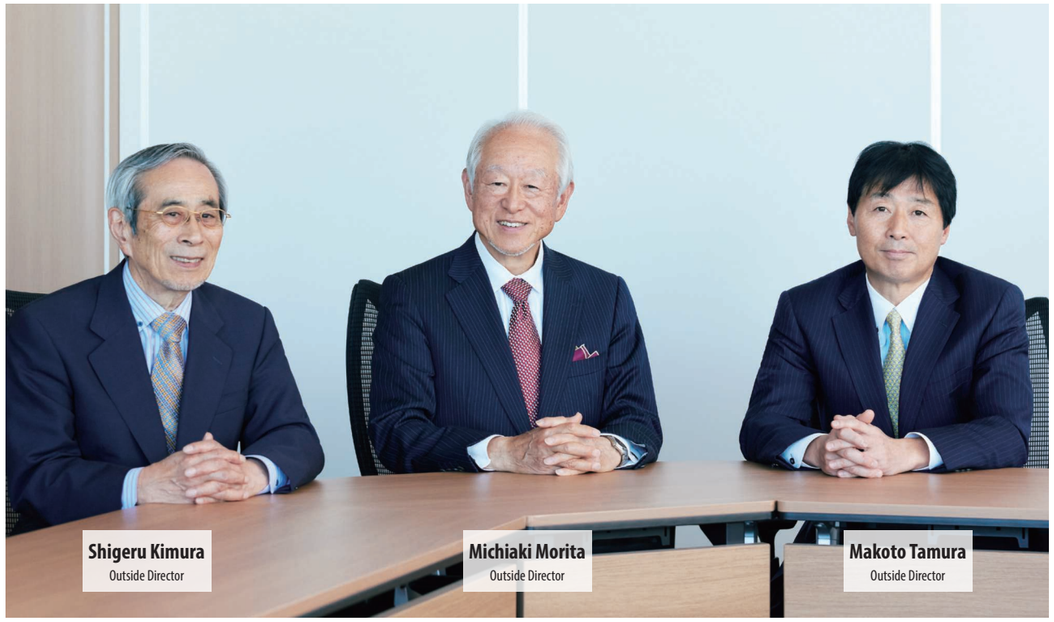
Code of Conduct

Through the process of realizing the vision and mission in the Company's management philosophy, erex directors and employees (including fixed-term employees) become mindful of the Company's corporate social responsibility and comply with the law. Based on various experiences accumulated over the years, erex's code of conduct is to contribute to society through its business activities.

Internal Reporting System

The erex Group has established "internal reporting regulations" to help prevent illegal or illicit conduct as well as early detection of such behavior. These regulations ensure the anonymity of whistleblowers, the confidentiality of information received, and prescribe the appropriate point of contact. Recorded cases of compliance violations are reported to the Board of Directors on a quarterly basis.

Roundtable Discussion with Outside Board Directors/Message from Outside Auditor



erex is striving to realize a decarbonized society.
Three Outside Board directors who have been watching over erex's growth trajectory discuss the Company's appeal and its possibilities for the future.

erex's Strengths and Sources of Power as Seen by Its Outside Board Directors

Kimura
erex has a 2030 Vision of "To become a pioneer in the new era of electric power with renewable energy at its core." In line with this, the Company has been pursuing a series of forward-thinking initiatives that take into consideration not only its own profits but also the contribution it makes to others and society. I think that this attitude is indeed a strength.

Although erex is a young company, having been in business for 25 years as of this year, the period from planning to execution is extremely short, and the Company consistently produces results. This kind of speed is hard to find in large companies.

Morita
The president, who is a top executive, creates a clear and timely vision for the future of erex, and talks about the Company's new initiatives and plans. The employees who hear these plans then have the ability to complete them and turn them into a reality.

Tamura
I have been an Outside Board director for 10 years, and initially, erex was a small company with just a few dozen employees. The Company has grown significantly in a short period of time and evolved almost beyond recognition.

I have observed this process as an Outside Board director, and what I have felt is that the Company's business is carried out by a small but elite team of employees who operate with a sense of speed. Sometimes things do not go as planned in the course of work, but even in such times, erex has the excellent ability to accurately recognize the situation, reflect on it, and make corrections. I believe that this is one of erex's defining characteristics.

Morita
As Mr. Tamura said, once erex realizes it has made a mistake, it stops immediately and reflects on it. This creates a virtuous cycle in which issues are identified and applied to improve other initiatives. I think that these things lead to growth.

Effectiveness of the Board of Directors and Discussions on Business Strategies

Morita
At Board of Directors meetings, opinions are actively expressed for all agenda items, and I feel that the Company is very proactive in incorporating the opinions of Outside Board directors. Even when discussing business strategies, the executive side seeks wide and diverse opinions in order to make the best possible decisions. Therefore, while our opinions are not blindly followed, they are deeply respected. I feel that executive directors and Outside Board directors are working well together with extremely good communication.

Tamura
One of the roles of an Outside Board director is to offer opinions from a perspective that may not be apparent to someone within the company or that may be difficult to gain from a certain person's experience and career.

Mr. Kimura has extensive knowledge of the energy industry from his many years working at Tokyo Electric Power Company (TEPCO). Mr. Morita is very well-versed in finance and governance. I have many years of experience in the financial industry, including at a brokerage firm, and I am able to use this experience to advise from a shareholder's perspective on business strategy and risk monitoring related to financing.

In this way, Outside Board directors with different backgrounds are constantly checking up on business from perspectives that differ from those of executive directors.

Kimura
We three Outside Board directors with different roles offer our opinions, each based on our own areas of expertise. Of course, there are areas of overlap in our knowledge, so in those cases, we exchange opinions with the executive directors, which makes our overall discussions even more enriching. Board of Directors meetings are held with an emphasis on avoiding mistakes through in-depth discussion and knowledge.



What Are the Challenges That erex Must Address as It Continues to Grow?

Tamura
From before erex was listed up until now, the Company has driven its business forward with a small but elite team of employees and achieved results. At the heart of this is the idea that each and every employee approaches the task at hand with a sense of duty and responsibility. At the beginning of fiscal 2024, the President said, "Going forward, managers should devote more time than ever before to nurturing their subordinates and aim to improve their individual skills." If we continue to steadily implement this approach and grow as an organization, I believe results will come about naturally.



Kimura
In today's world, the external environment is changing dramatically day by day. In this context, erex is trying to significantly shift the focus of its business, which has been mainly conducted domestically, to overseas. In order to continue growing in such an environment, I believe it is important to have multifaceted thinking as well as the ability to see things from multiple angles and make sharp judgments, and to quickly grasp changes in the situation and develop business accordingly. Improving the abilities of each and every employee will be the foundation that supports a virtuous cycle for this kind of business, therefore I believe that erex should focus on human resources development.

Morita
The fact that erex has conducted business primarily within Japan up until now means that the Company has been working with mature partners in mature fields. In order to launch and execute overseas business from scratch in the future, erex will need to improve its perspective, ways of thinking, and abilities in all other areas.

I also believe that it is important for employees' growth to be aware that the initiatives undertaken by erex are meaningful and will benefit the environment and society through decarbonization.

erex's Vision Going Forward and Expectations for the Future

Morita

erex is working to make its overseas business, primarily in Vietnam and Cambodia, a success, and its growth will bring about direct benefits for the world, including contributions to the environment and the creation of jobs. Therefore, I hope that erex will continue to grow while properly managing risks, so that there will be no delays in growth. Continued growth will generate profits, which will in turn motivate employees and create a variety of virtuous cycles.



Tamura

I believe there are very few companies conducting concrete business operations in the same way as erex towards the realization of a decarbonized society. I hope that the Company will continue to take on such pioneering initiatives in the future, and that these efforts will result in dramatic growth.

Kimura

Large enterprises sometimes have one division within the company that operates overseas, but I think it is rare for a company of erex's size to shift its major focus to engage in overseas business as a company itself. Because of this, there are risks involved, and the Company needs to be extremely careful and take all necessary precautions. As mentioned above, I would like for erex to take on these challenges by improving the skills of each and every employee and by strengthening its organizational strength.

Message from Outside Auditor

The Importance of Free and Open Discussion during Normal Times



Eriko Ishii
Outside Auditor

My name is Eriko Ishii, and I was appointed as an outside auditor in June 2023.

I work as a lawyer primarily in the area of cross-border transactions, and this year marks my 20th year as a lawyer. In my experience as an outside officer at several listed companies, I have come to keenly understand the role of outside officers in times of crisis. At the same time, I believe that free and open discussion during normal times is crucial to preventing crises from occurring.

erex's Audit & Supervisory Board is focused on identifying risks, including those at overseas subsidiaries, and on building a governance system for the entire Group. When expanding overseas, not only are there differences in legal systems, but also in cultures and customs, and situations that cannot be anticipated in domestic operations arise daily. The Audit & Supervisory Board will endeavor to gather information according to each location, while at the same time making effective recommendations.

Looking back over the 20 years since I started working, it feels like the nature of work and people's values have changed dramatically alongside technological advances. In the energy field, a borderless way of thinking is particularly important, as the Earth's limited resources must be enjoyed by all beings, present and future. With its initiatives in Vietnam and Cambodia, erex continues to propose ways to create a positive cycle for society as a whole, rather than pursuing only the interests of individuals, companies, or countries.

I would be very happy if I could contribute to fostering a corporate culture that goes beyond the scope of a simple power company and aims to contribute to society as a whole.



Board of Directors

1 Hitoshi Honna
President and Representative Director
As of June 2016

2 Takanobu Yasunaga
Managing Director
As of June 2019

3 Tomoki Kakuta
Managing Director
As of June 2023

4 Yasushi Saito
Director
As of June 2018

5 Toshimichi Tanaka
Director
As of June 2019

6 Makoto Tamura
Outside Board Director
As of January 2014

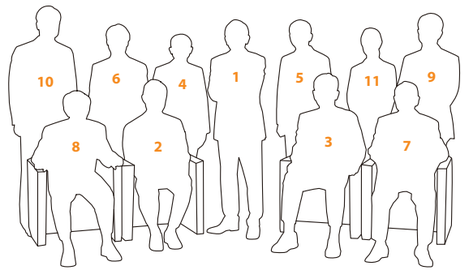
7 Michiaki Morita
Outside Board Director
As of June 2018

8 Shigeru Kimura
Outside Board Director
As of June 2019

9 Takeshi Kusano
Full-time Auditor
As of June 2023

10 Makoto Kojo
Outside Auditor
As of June 2020

11 Eriko Ishii
Outside Auditor
As of June 2023



Investor Relations Activities/Company Information / Stock Information (as of March 31, 2024)

The Basic Policy of IR Activities and Their Purpose

The erex Group has established its basic IR policy with an aim to increase long-term corporate value by building fair and favorable relationships and promoting dialogue with shareholders, investors, and other stakeholders, while disclosing information appropriately.

We explain our business conditions and operating policies as accurately and promptly as possible to our shareholders and investors, and endeavor to reflect their opinions and requests in our business management decisions, thereby enhancing our corporate value.

Throughout the year, we hold general shareholders' meetings, financial results briefings, quarterly individual briefings for institutional investors, as well as a number of individual investor briefings and business presentations. In addition, we communicate with our various stakeholders through the planning and operation of the erex IR webpages and the publication of IR-related booklets such as integrated reports and shareholder newsletters.

Main IR Activities (Number of Times)

Activities	FY 2022	FY 2023
Financial results briefings	2	4
Briefing for institutional investors	4	2
Briefing for individual investors	2	0
Conferences sponsored by securities companies	3	1
Overseas roadshow	1	0

Small Meeting for Institutional Investors (Number of People)

Domestic/Overseas	FY 2022	FY 2023
Domestic	383	317
Overseas	96	51

Company Profile

Company name	erex Co., Ltd.
Headquarters	14F Kyobashi Edogrand, 2-2-1 Kyobashi, Chuo-ku, Tokyo 104-0031, Japan
Contact	+81-3-3243-1185
Established	December 8th, 1999
Capital	¥11,362,811,921
Number of employees	269 (Consolidated) 161 (Non-Consolidated)

Affiliated Companies	erex New Energy K.K. erex New Energy Saiki K.K. Okinawa Uruma New Energy K.K. Itoigawa Power Generation Company Hau Giang Bioenergy Joint Stock Company erex Yen Bai Biomass Power Co., Ltd. erex Tuyen Quang Biomass Power Co., Ltd. Evergreen Retailing Co., Ltd. Evergreen Marketing Co., Ltd. Okinawa Gas New Power Co., Ltd. T'dash LLC e-sell Co., Ltd. erex Singapore Pte. Ltd. Straits Green Energy Sdn. Bhd. Straits Green Energy Pte. Ltd. erex Biomass Management Co., Ltd. erex Vietnam Co., Ltd. Saiki Biomass Center Co., Ltd. erex HT G.K. erex (Cambodia) Co., Ltd. erex Sakura Biomass Yen Bai Co., Ltd. erex Sakura Biomass Tuyen Quang Co., Ltd. erex International Co., Ltd.

Rating Information (as of February 2024)

Rating Agency	Type of Rating	Rating	Outlook
JCR	Long-term Issuer Rating	A-	Negative

Stock Status

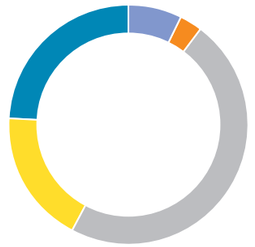
Total number of shares authorized to be issued	163,572,000
Total number of shares*	59,517,808 shares (including treasury stock 3,428)
Number of shareholders	18,769

* Due to the issuance of new shares through a third-party allotment, the total number of shares as of May 30, 2024 is 74,375,508 shares.

Major Shareholders (Top 10)

Name of Shareholder	Number of Shares Owned (shares)	Shareholding Ratio (%)
DAIWA CM SINGAPORE LTD (TRUST A/C)	5,347,300	8.98
KISCO Ltd.	4,000,976	6.72
Ueda Yagi Tanshi Co., Ltd.	3,435,000	5.77
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,000,500	5.04
UH Partners 2, Inc.	2,949,700	4.95
CBC Co., Ltd	2,922,278	4.90
UH Partners 3, Inc.	2,694,600	4.52
Sumitomo Realty & Development, Ltd.	2,488,000	4.18
Hanwa Co., Ltd.	2,436,800	4.09
Taiheiyo Cement Corporation	2,190,000	3.67

Number of Shareholders by Investor Type



Financial Institutions	4,366,186 shares	7.3%
Financial Instruments Business Operator	1,854,275 shares	3.1%
Other Corporations	28,225,776 shares	47.4%
Foreign Corporations	10,799,133 shares	18.1%
Individuals and Other	14,272,438 shares	24.0%

Website



Various IR materials, including recent news and information on financial results, are posted on the Investor Relations section of the erex website.

For more information, please refer to the Company website.

https://www.erex.co.jp/en/ir/