

erex Co., Ltd. [9517]

Briefing materials for investments

Sustainable Enhancement of Corporate Value in the era of energy revolution



By leveraging its well-established “corporate culture that stands up to challenges” erex is working to become ‘a leading “shared value creating” energy company opening up the future’

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1. Executive Summary

Business expansion as a PPS pioneer based on a “designing the future” attitude and a “corporate culture that stands up to challenges”

erex Group was established in 1999 to diversify into an entirely new business line of a money market brokerage company, to take advantage of the opportunity presented by expansion of electric power market trading under Japan’s electric power deregulation. erex is Japan’s third oldest “new power” or “power producer and supplier (PPS)”. As an independent PPS pioneer, erex has been growing while building sustainable competitive advantages by fostering a “corporate culture that stands up to challenges”.

Realizing a sustainable corporate value enhancing cycle

Three priority strategies enable us to “design the future” and contribute to satisfying social needs

We at erex have emphasized three social needs in our future design: (1) an alternative to nuclear power; (2) reduction in CO2 emissions; and (3) building of a locally-based energy society. To achieve these objectives, we established three strategies: (1) focus on renewable energy and its stable supply; (2) achieving the best mix of serving both the high-voltage and low-voltage segments; and (3) enhancing trading capability in the electric power and fuel market so as to support the strategies (1) and (2).

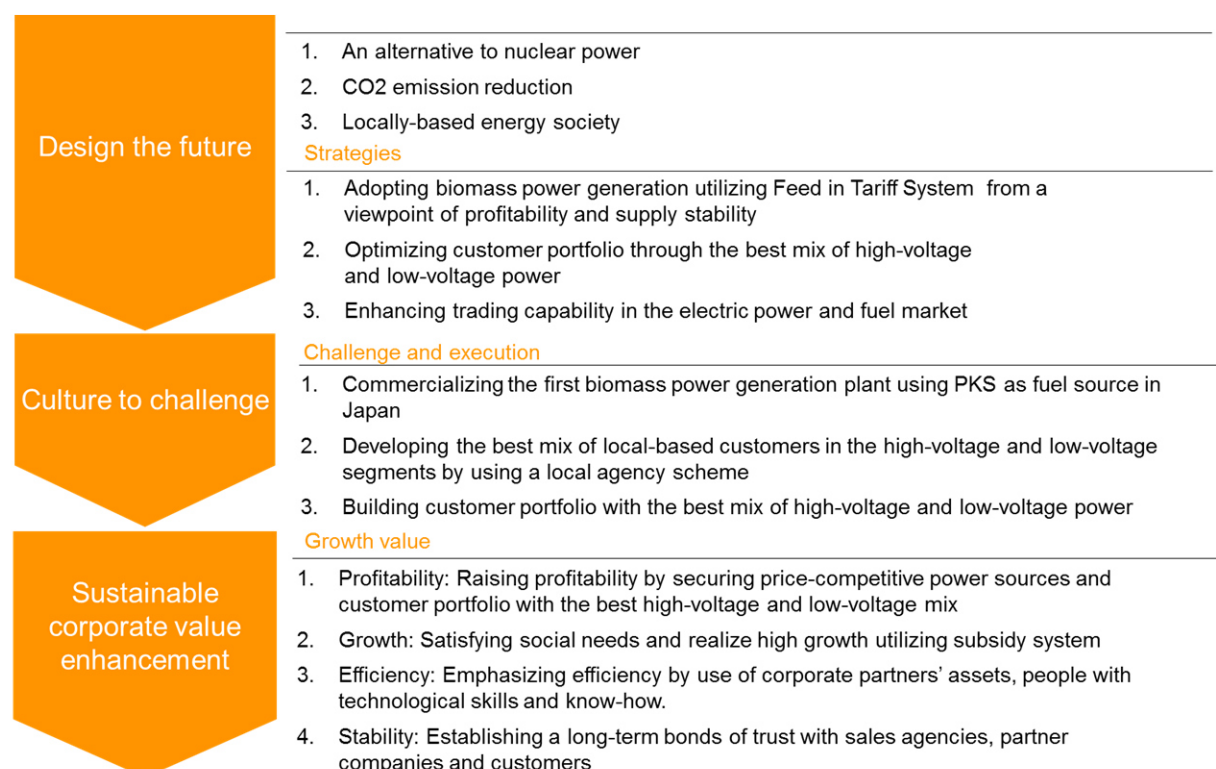
A corporate culture that stands up to challenges, a policy of deploying a limited number of fastidiously selected employees, and seeking minimum cost and resource requirements to grow

Specifically, we have been (1) establishing a biomass power generation business, using palm kernel shell (PKS) as fuel source, on the basis of the partnership with major companies; (2) developing the best mix of local-based customers in the high-voltage and low-voltage segments by using an agency system closely tied to local community

Achieving sustainable corporate value enhancement

Based on the above strategies, we aim to raise profitability by securing price-competitive and stable electric power sources and the best high-voltage and low-voltage mix. We also intend to comply with social requirements and satisfy social needs – and realize high growth. Furthermore, we always emphasize efficiency in planning and implementing strategies. We will strive to generate stable earnings by establishing long-term bonds of trust, stable power sourcing, and a solid customer base. Ultimately our aim is to sustainably enhance corporate value.

“Design the future” and “culture that stands up to challenges” to create sustainable corporate value enhancement



Our achievement thus far: Competitive advantages with two strengths at the high-voltage deregulation phase

While the scope of electricity market deregulation has gradually been expanded from the extra-high-voltage segment for large scale users to high-voltage segment for medium-sized corporate users, we at erex have focused on three initiatives (1) capturing stable and price-competitive base power sources (power sources for stable generation day and night); (2) establishing a stable customer base in the high-voltage segment; and (3) enhancing capability to deal with fluctuation in electric power supply and demand.

With regard to (1), we are Japan's first to start operating a biomass power plant that uses palm kernel shells (PKS). We have thus established a renewable energy power plant that qualifies for feed-in tariff (FIT) program as base power source. This is our first strength. The plant's stable supply and long-term price competitiveness, which is aided by the FIT plan, have been guaranteed, and its base power source conforms with the social requirement for alternatives to nuclear power. It is expected to greatly contribute to enhance our long-term competitiveness.

As for (2), we are the first independent PPS to use an agency system. We entered into contracts with over 10,000 high-voltage customers through over 1,300 agencies, resulting in creating the second strength, namely a powerful and efficient sales network of agencies.

As for (3), Utilizing the Japan Electric Powerexchange, we adjusted the excess and deficiency of daily supply and demand and adjusted the purchase sources according to the market price

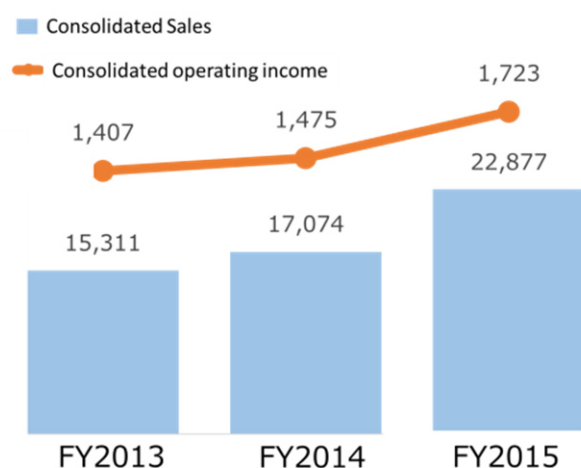
Strategies to become competitive in the high-voltage segment deregulation

1. Base power source that is stable and price competitive	<ul style="list-style-type: none"> a. Purchase surplus electricity from other power plant b. Purchase and renewal of other companies' power plants c. Building own renewable energy power plants that use FIT scheme
2. Stable customer base in high-voltage segment	<ul style="list-style-type: none"> a. Acquisition of private-sector low load factor contracts that generate high income b. Use of highly profitable partial supply contracts for customers with high load factors c. Strong sales network based on agents to realize a. and b.
3. Ability to respond to changes in power supply and demand	<ul style="list-style-type: none"> a. Use of its established PPS know-how in demand volume b. Construction of original forward curve model to calculate future transaction price c. Construction of a system to monitor supply-demand balance that changes constantly

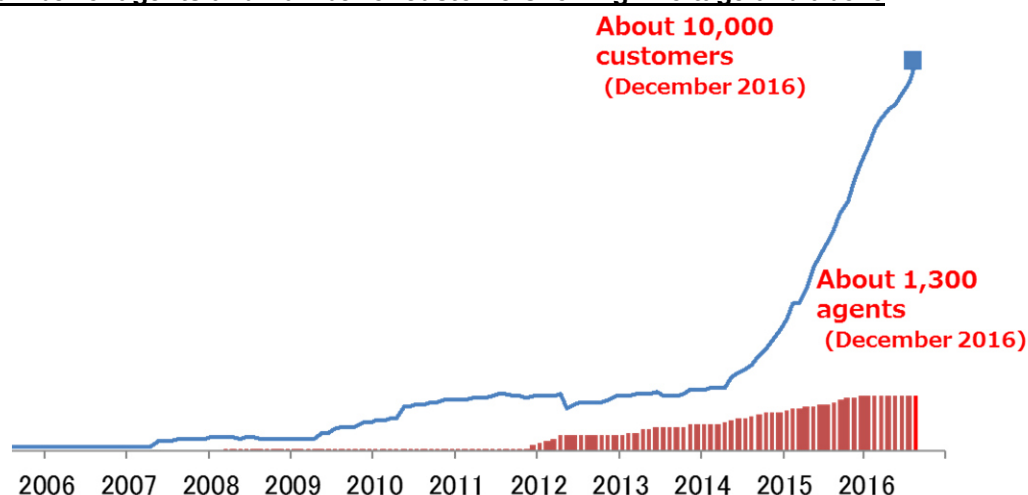
First PPS to become listed

After growing on the back of the above two strengths, we became the first independent PPS to be publicly listed in 2014. Our sales increased 1.8 times and operating profit by 1.2 times in the past three years. We recorded ¥22.8 billion in sales and ¥1.7 billion in operating profit in fiscal 2015. The listing helped us enhance funding capacity and branding power as we became better known, which has contributed to our establishing a base to promote further growth in the wake of deregulation of the low-voltage segment for households, which began in fiscal 2016.

Sales and operating profit (¥mn)



Number of agents and number of customers for high-voltage and above



Becoming a leader PPS through medium-term business plan “Dash 1000”

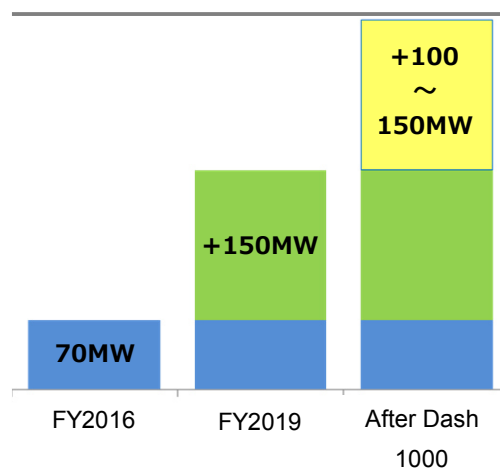
Aiming at further growth in light of deregulation of low-voltage power retail in 2016 and separation of the transmission/distribution sectors in 2020

As for deregulation, the low-voltage residential segment was deregulated during fiscal 2016 and the transmission/distribution segment will be separated in 2020, which is expected to significantly change the competitive landscape. Against such a background, we have developed a medium-term business plan, “Dash 1000,” with the aim of becoming a leading PPS. We intend to triple sales from the estimated level in fiscal 2016 to ¥100 billion

Expansion of biomass-based power generation to about 350 MW

erex is one of the biggest biomass (renewable energy) power generators in Japan. According to the "Long-Term Energy Supply and Demand Outlook" released by the government in July 2015, Japan's energy mix target for 2030, renewable energy is to account for 22-24%, particularly including 3.7-4.6% for biomass power generation as base source. The introduced capacity of biomass power generation as of May 2016 is set at 2,930 MW, and the introduction of 6,020 ~ 7,280 MW which is about 2.5 times in 2030 is planned. The Group plans to expand from 70 MW as of the end of March 2017 to about 350 MW in the future, aiming to become the No. 1 company of biomass power generation.

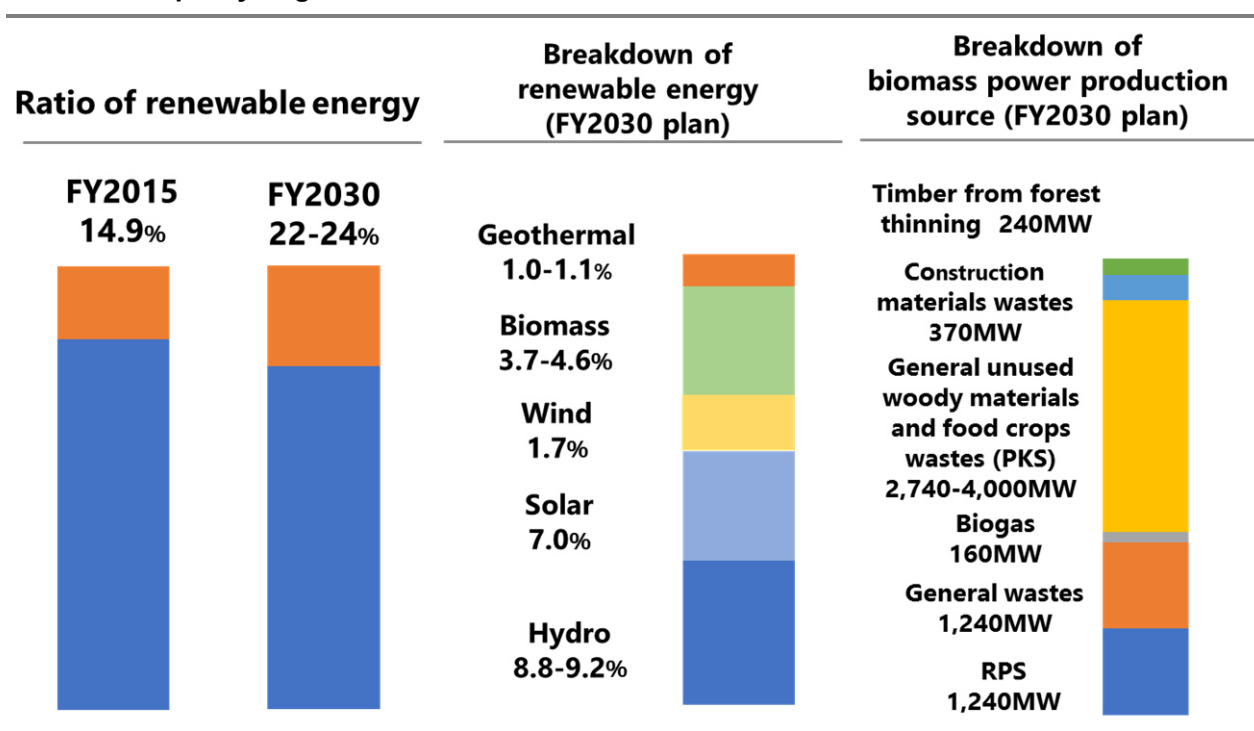
Enhancement plan of biomass power generation



Government targets

The basic premise of the energy mix target set by the government in July 2015 is to ensure safety, while its purposes are stable supply, economic efficiency, and environmental suitability. The biomass power generation targets show that general unused woody materials and food crop wastes, including PKS, represent the highest portion.

Government policy targets



(Source) System Reform concerning Promotion of Renewable Energy, Agency for Natural Resources and Energy, June 2016; Advisory Committee for Natural Resources and Energy, Subcommittee on Long-Term Energy Demand/Supply Outlook (10th meeting), Document 2

Our group's biomass power generation (Outline of plan)

	FY2013	FY2016	FY2019 and onward			
	Tosa	Saiki	Ofunato Disclosed on July 29, 2016	Buzen Disclosed on Sept. 29, 2016	Under planning	
					Okinawa	Plan A
Power generation capacity [MW]	20	50	75	75	50~75	50~75
Power generation efficiency	31%	36%	39%	39%	TBD	TBD
Type of fuel	PKS	PKS	Biomass	Biomass	Biomass	Biomass
Amount of investments [¥bn]	3.5	16.7	23.5	25.0	TBD	TBD
Investment ratio by eREX	100% (fully sell to eREX)	70% (fully sell to eREX)	35% (fully sell to eREX)	65%	TBD	TBD
Amount of investments by Erex [¥bn]	0.01 (paid)	3.43 (paid)	1.4	4.5	TBD	TBD
Method of financing	Corporate loan	Corporate loan	Corporate loan	Project finance	TBD	TBD

Woody biomass power plants in operation or being planned

Prefecture	City, town, village	Operating company	Power generation capacity (MW)	Status of operation
Fukuoka	Buzen	eREX, Kyuden Mirai Energy	75	Planning
Iwate	Ofunato	Taiheiyo Cement, eREX	75	Planning
Aomori	Hachinohe	Oji Green Resources, Mitsubishi Paper Mills	70	Planning
Aichi	Handa	Summit Energy (Sumitomo Corporation)	60	Planning
Hokkaido	Ishikari	Ishikari New Port Biomass Power Generation (New Energy Development)	50	Planning
Yamagata	Sakata	Summit Energy (Sumitomo Corporation)	50	Planning
Ibaraki	Tokai Village	TEPCO (Hitachinaka Thermal Power Station)	50	Planning
Kanagawa	Kawasaki	Showa Shell Sekiyu	50	Planning
Oita	Saiki	eREX (Taiheiyo Cement, Toshiba, TonenGeneral Sekiyu)	50	Operating
Fukushima	Soma	ORIX	40	Planning
Fukuoka	Kitakyushu	ORIX	35	Planning
Fukuoka	Kitakyushu	Hibikinada Power Station (IDI infrastructures)	35	Planning
Hokkaido	Monbetsu	Monbetsu Biomass Power (Sumitomo Forestry, Sumitomo Joint Electric Power)	35	Planning
Aichi	Taketoyo	Nakayama Nagoya Joint Power Generation (Osaka Gas)	35	Planning
Fukui	Tsuruga	Tsuruga Green Power (Marubeni)	30	Planning

In Japan, about 15 woody biomass power plants of 30MW or more have been built or are planned. erex operates three of those plants and aims to become No. 1 in woody biomass power generation.

Investment with reasonable financial plan

Regarding the construction fund of the power station, we will devise the following three measures to reduce the financial burden of the Group.

- 1) Optimization of capital / borrowing ratio: We consult with lenders and invest in a reasonable range.
- 2) Reduce the capital burden of the group by joint investment with partner companies . . . We will make it co-creation project with partner companies who will be the source of capital to reduce the financial burden of the Group.
- 3) Utilization of non-recourse borrowing: With regard to business risks derived from projects, by utilizing non-recourse borrowing, we separate parent company from repayment obligation for borrowing.

Turn to sales of 100 billion yen, which is about three times that in FY 2016

We will increase the power generation capacity of biomass power generation to about 350 MW, strengthen cooperation with other companies owning power generation facilities, improve the procurement capabilities of the trading division and maximize utilization of the agency network. Through these we aim to reach sales of 100 billion yen, which are about 3 times the forecast sales, net sales of 33.4 billion yen, for fiscal year 2016.

We aim to achieve operating income margin of 10%, ROE of 20%, payout ratio of 20%

In terms of profitability, we aim to achieve an operating margin of 10% by optimizing portfolios of the high-voltage segment, which was already liberalized, and the low-voltage segment, which was liberalized from this year. In addition, emphasis is placed on improving the profitability of shareholders' equity, and by combining co-creation with external partners, which reduces equity burden of the Group, and debt finance that leads to reduction of financial burden including project finance, ROE aims at 20% which doubles from the current 10%.

2. Corporate Outline and History

Corporate Outline

The group, a long-term experienced company registered as Japan's third oldest power producer and supplier (PPS), was established in 1999 as a new business of a money market brokerage company, with the prospect of an expansion of electric power market trading during the course of Japan's electric power industry deregulation that began in 2000. Together with over 1,300 corporate partners, erex has continued co-creating a new electricity business scheme, as a pioneer of PPS that consistently carries out from power generation to sales

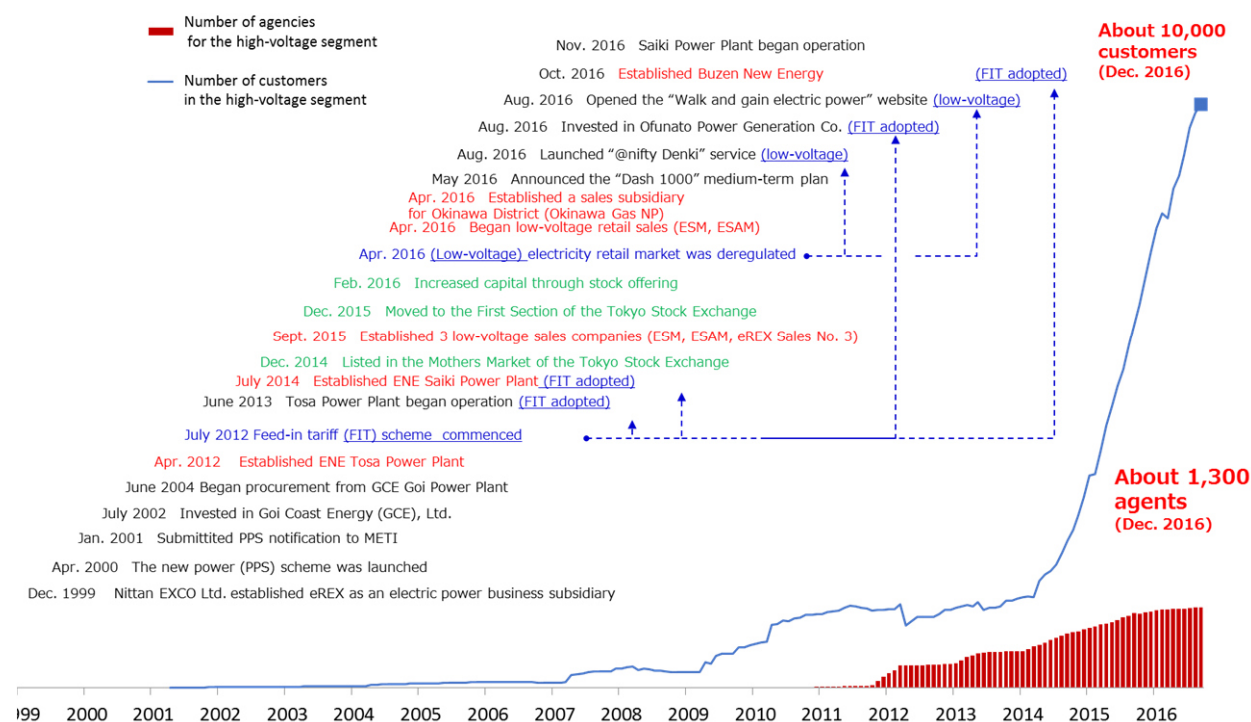
Corporate outline

Head office	3-3-14 Nihonbashi-Hongokucho, Chuo-ku, Tokyo	
Business activity	Electric power business (power generation, retail and wholesale)	
Representatives	Chairman and representative director: Hiroshi Watanabe President and representative director: Hitoshi Honna	
Established	December 1999	
Capital	¥5,079 million as of September 30, 2016	
Consolidated subsidiaries (7)	Sales subsidiaries (4)	eRex Spark Marketing Co., Ltd. (ESM) eRex Spark Area Marketing Co., Ltd. (ESAM) Okinawa Gas New Power Co., Ltd. eRex Sales No. 3 Co., Ltd.
	Power generating and other subsidiaries (3)	eRex New Energy Co., Ltd. (ENE) eRex New Energy Saiki Co., Ltd. Saiki Biomass Center Co., Ltd.
Number of employees	86 (consolidated); 53 (unconsolidated) as of September 30, 2015	

History

erex was established in 1999, submitted notification of entering business as a PPS in 2001. From 2004, erex started procurement of electric power from GOI COAST ENERGY Co., Ltd. invested by erex and in June 2013 we began to operate our own FIT-applied power plant (Tosa Power Station, erex NEW ENERGY Co., Ltd.) in June 2013. Having own stable, price-competitive power generation capacity and strong agency network are our two strengths. Based on these, we have been steadily expanding business. We became the first listed new power company in December 2014 and moved the listing to the First Section of the Tokyo Stock Exchange in December 2015.

History of erex



3. Management Philosophy · Branding

Management Philosophy

Based on the revolutionary changes around the energy industry, the Group established a mission statement in January 2016. We established as "Vision" · "Mission" · "5 Minds". These also represent the spirit of the Group's constantly approaching new businesses and the background of having long-term relationships based on trust relationships as the cornerstone of the business foundation.

[Vision] :Opening the Future "Co-Creation" Energy Company

Co-creation means a power which creates new value while honoring partners and growing together and is building Win-Win relationship over the long term through a series of efforts to increase the merit that can be obtained and share it with both parties.

The electric power business is a social infrastructure that supports the business activities of the ultimate customers and the foundation of their lives for a long term, and the long-term accumulation of trust relationships on the basis of reassurance and safety is a very important factor. We believe that attitudes toward "co-creation" over the long term with all stakeholders surrounding the business are important.

[Mission]

We foster excellent human resources,
And enrich people's lives widely by constantly creating services of new ideas,

In the mission, first of all, we stated that "raising people" and continue to contribute to society by constantly creating new services

[5 "Minds"] : values to be respected

- 1) A fair and impartial "Minds"
- 2) "Minds" of altruism
- 3) "Minds" of respect and cooperation
- 4) "Minds" to challenge
- 5) "Minds" to create the future

In order to realize our vision and mission, we have put value to be respected as "five" minds ". All the employees of the erex Group carry out daily tasks with feelings determined to five "minds".

Branding

Due to full liberalization of electricity business in April 2016, not only customers in the corporate-centered high-voltage segment but also so-called general customers such as meter rate lighting users have become our customers as well. In response to this, we have rebranded ourselves to clarify our group's concepts, changed our group corporate logo, and created new brand characters.

Brand concept: Designing the future with erex

erex is a pioneer of PPS that consistently carries out from power generation to sales to end customers. Together with over 1,300 corporate partners, erex has continued co-creating a new electricity business scheme.

We have continued having "corporate culture that stands up to challenges" since our foundation.

We have realized Japan's first environmentally friendly biomass power generation with Palm Kernel Shell as its main fuel and the establishment of a joint venture company with an advanced retail sales electricity company in the US, ahead of the industry.

In addition, such as trading business that realizes demand / supply and price optimization, we will continue to create innovative services based on assurance to you and your confidence.

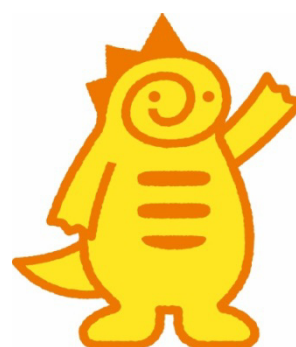
For all people living in the future, we will create new electricity with our friends.

Designing the future with erex

Logo・Character



New corporate logo



Our group image character
"Mr. Rex"

The corporate logo emphasizes people at both ends with the motif "e" of erex, and expresses through "erex" the meaning that people are connected and smiling. In addition, the strength of energy and familiarity closest to people are expressed with soft orange color and the letter is made of font that makes you feel organic softness compatible with Mark. We represent a posture towards the future with an obliquely slanted font.

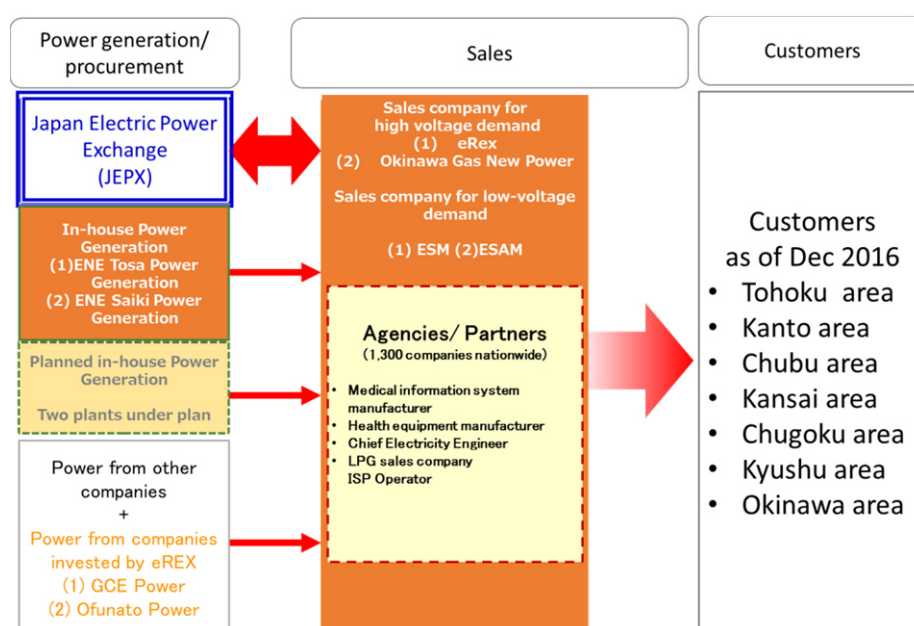
We add the settings, such as "Energy Dinosaur who is fond of energy", "Longing for", and boasting similar name with T-Rex", to our group image character "Mr. Rex" and create it easy to use for communication with customers.

4. Overview of Electric Power Market and Business Strategy

Value chain in the electric power market and erex's business expansion

The figure below shows the flow of "fuel/power generation," "wholesale," and "retail (final demand)" in the electric power market. The orange areas are the range of erex's business operations.

Flow of electric power surrounding our group



Power Generation/ Procurement

erex ensures the procurement of electric power from diverse sources, including the Company's own biomass power generation that utilizes PKS by consolidated subsidiaries and other independent power producers. The ENE Tosa Power Plant and the ENE Saiki Power Plant owned by our consolidated subsidiaries erex New Energy Co., Ltd. (ENE) and erex New Energy Saiki Co., Ltd. respectively are power plants using PKS as a main fuel, and they started operation in June 2013 and November 2016, respectively. We plan to start commercial operation of Buzen New Energy LLC. and Ofunato Power Co., Ltd. in the autumn of 2019.

Sales

erex supplies power via power line networks owned by general power transmission and distribution business operators (formerly, general electricity utilities, or so-called major electric power companies) to extra-high-voltage customers, such as large factories and office buildings, and high-voltage customers such as small and medium-size factories and supermarkets, as well as in the low-voltage segment to general households and stores.

In the retail sector, expanding its business operations by using agency networks of 1,300 partner companies, erex operates sales activities in the extra high-voltage and high-voltage segment, while in the low-voltage segment mainly our two joint ventures that we established with a US company, Spark Energy and Japanese major trading companies operate sales activities.

One of joint ventures is erex Spark Marketing Co., Ltd. (ESM) and the other is erex Spark Area Marketing CO.,Ltd. ESAM is developing an agency network that specializes in LPG sales companies, an energy sector that has strong synergies with electric power. ESM is creating sales channels which does not exist before through co-creation with other type of agencies, such as health equipment manufacturer and Internet Service Providers.

Stable, long-run-price-competitive base power source

The erex Group is engaged in the planning, design, execution and construction of power generation facilities as well as the development of power sources such as for power generation based mainly on the following three methods.

(1) Proposal of Productivity enhancement related to other companies' power plants and purchase of surplus power

erex reorganizes and updates power generation facilities jointly with business operators that have their own power generation facilities (such as factories), and expands or renews them. At the same time as maintaining their role as power generation facilities of business operators, they supply power to erex. We conduct investigations regarding not only power generation facilities in operation but also regarding the effective use of power generation facilities and land that have been shut down or left idle, and we support the effective use of business operators' assets. In the case of Goi Coast Energy, Ltd., in which erex has invested capital, we conducted a scrap and build of the existing boiler and power generation equipment, and the company is supplying power to erex.

(2) Purchase and renewal of other companies' power plants

The erex Group purchases power generation facilities from business operators that have their own power generation facilities (such as factories), renews them so that they become more competitive, and then uses them as the erex Group's own power plants.

The Tosa Power Plant owned by our consolidated subsidiary was a power plant that was designed and operated to produce thermal power from coal, but erex purchased it, changed its specifications to enable the use of PKS, and renewed it as a power generation facility with renewable energy FIT certification. By making use of an old asset, we reduced the initial investment cost and secured a base power source.

Overview of erex Energy Co., Ltd. Tosa Power Plant

eREX New Energy (ENE) Tosa Power Plant			
Location	Kochi, Kochi Prefecture	Fuel	PKS (palm kernel shells)
Power generation method	Biomass power generation	Output	Rated output: 29,500 kW

- The first PKS power plant in Japan
- High reliability due to remodeling coal power plant
- Reduce initial investment costs by using second hand assets



(3) Expansion of our own renewable energy power plants using FIT scheme

The erex Group is expanding its own renewable energy power plants that use the FIT scheme in a way that integrates operations ranging from the consideration of construction regions for the Company's own power plants to construction and maintenance. Following on from the Tosa Power Plant, we brought a biomass power plant that uses PKS as fuel online in November 2016 in Saiki, Oita Prefecture. It is necessary to import PKS from overseas, but as Tosa and Saiki are closely located and we are also operating a PKS center (the Saiki Biomass Center), a large-scale receiving facility, we aim to improve the efficiency of fuel procurement and ensure its stability. This biomass power plant has an output of 50 MW (50,000 kW), one of the highest levels in Japan for woody biomass power plants in operation. It has become a highly efficient facility that makes maximum use of the know-how at the Tosa Power Plant.

Overview of erex Energy Co., Ltd. Saiki Power Plant

eREX New Energy Saiki Co., Ltd. (ENE Saiki) Saiki Power Plant			
Location	Saiki, Oita Prefecture	Fuel	PKS (palm kernel shells)
Power generation method	Biomass power generation	Output	Rated output: 50,000 kW

- Inherit the knowhow of operating skills of PKS power generation and fuel procurement acquired with ENE Tosa's operation
- Accept 30% equity investment by another company and suppress our capital contribution
- Contributing to stable operation with fuel management using PKS center



High stability business based on FIT scheme

The FIT scheme is a subsidization scheme for a system to legally prescribe the purchase price (tariff) of energy. It obliges electric utilities to procure electricity generated using renewable energy (solar power, wind power, woody biomass, etc.) at a fixed price stipulated by the government during a certain period and commenced in July 2012. When electric utilities sell electric power procured at the FIT price to customers, they sell it based on a power rate that incorporates a charge based on this scheme, and they pay this charge to the Green Investment Promotion Organization. In addition, electric utilities can receive a "renewable energy subsidy." PKS is included in general woody materials for woody biomass, and a purchase price of ¥24 per kWh has been guaranteed for 20 years. In order to realize continued growth, the Group utilizes this FIT scheme to increase the probability of investment return.

Competitiveness in PKS renewable energy

Low moisture content, high calorific value

PKS are the shells left after extracting palm oil from the seeds of palm trees. We import them from Indonesia and Malaysia. Biomass power generation that generates power by using PKS as fuel has attracted attention as a clean energy that can reduce the carbon dioxide emission factor, and is a stable power generation method. PKS is distinguished by being hard and having high calorific value per weight (around 3,500 kcal/kg) and a moisture content ratio of about 20%, which is lower than that of other biomass fuels. The problem is that it is mixed with foreign matter, so at the PKS yard it is necessary to remove foreign matter with a sieve. erex has formed alliances with palm tree cultivators in Indonesia and Malaysia, and is working to establish a system to remove the mixture of foreign material and a stable supply system.

Photos of PKS



Abundant supply volume

Cultivation of palm trees is growing worldwide, and based on our research, we expect supply to continue to exceed demand in the near term. However, in the long term, to pursue the optimal balance between price reduction and risk (price and volume), we intend to strive to enter upstream businesses (such as owning stock yards overseas) and business involving external sales to other users in the future. We will also enhance the flexibility of fuel procurement and discover new income opportunities, and thereby reduce risks.

Competitive significance of securing a biomass base power source

Power demand becomes lower at night, when economic activity decreases, and higher in the day, when economic activity becomes vigorous. Power Sources can be divided into base power sources that supply power steadily both in the day and at night and middle/peak power sources that respond to demand as fluctuations occur.

Base power sources consist of nuclear power generation and hydroelectric power generation that generates low power generation cost due to high availability once power generation starts, thermal power generation by coal which is an inexpensive fuel and combined power generation by LNG with excellent power generation efficiency.

In Japan, base power sources previously relied on nuclear power, in particular, but since the Fukushima nuclear power accident, coal, oil and LNG have been relied on as alternatives because the use of nuclear

power became difficult. However, owing to the need to reduce CO₂, switching to biomass power generation, which can be used as a base power source, has become one of important energy policies. Matching the desired future power sources mix planned by government, erex has been focusing on developing PKS-based biomass power generation, which is highly cost competitive, and can be used as a base power source.

Attractiveness of PKS as a base power source when used as fuel

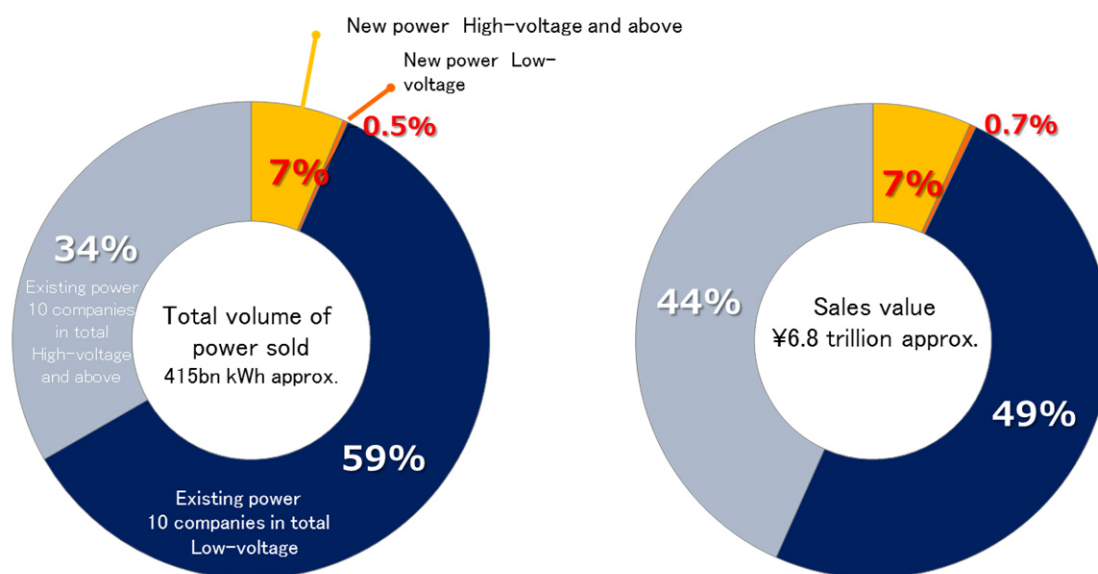
PKS enables stable supply and enables stable power generation without being influenced by factors such as the weather. As wind power and solar power are unstable depending on the climate, it is difficult to use them as base power sources. Securing a stable base power source is important in order to respond to changes in the economic environment. In the case of solar power and wind power, which are subject to unstable operation, an "imbalance cost" arises permanently in externally selling excess power generation volume and procuring insufficient power generation volume. In the case of PKS, such a cost is limited.

Sales strategy of high-voltage segment

Overview of size of electric power market: April-September 2016, cumulative

(From the power trading report result of Electricity and Gas Market Surveillance Commission)

The share of PPS remains at about 8% of the volume of power sold and sales value. In each of these measures, a large untapped market exists. In fiscal 2015, total retail sales at the ten existing power companies amounted to ¥16 trillion approximately. Based on "Dash 1000," erex is targeting sales of ¥100 billion, which are equivalent to 0.6% of the total retail power market.



In the new power segment, erex was ranked forth among independent PPSs. In the new power segment, we internally source power through one of the largest woody biomass power plants. We are attempting to increase our share among these companies mainly by means of alliances with partners including more than 1,300 sales agents and a flexible sales strategy.

Cumulative market shares from April to September 2016

(from the electricity investigation statistics of the Agency for Natural Resources and Energy)

Company name	Share	Affiliation
ENNET	21.8%	Controlled by large company
F-Power	13.3%	Independent
Marubeni Power Retail Corporation	7.0%	Controlled by large company
JX Nippon Oil & Energy	5.2%	Controlled by large company
Orix	3.8%	Controlled by large company
Itochu Enex	2.3%	Controlled by large company
Summit Energy	3.1%	Controlled by large company
Nihon Techno	2.8%	Independent
Nippon Steel & Sumikin Engineering	2.5%	Controlled by large company
Mitsuuroko Green Energy	2.0%	Independent
Diamond Power	1.9%	Controlled by large company
erex	1.8%	Independent

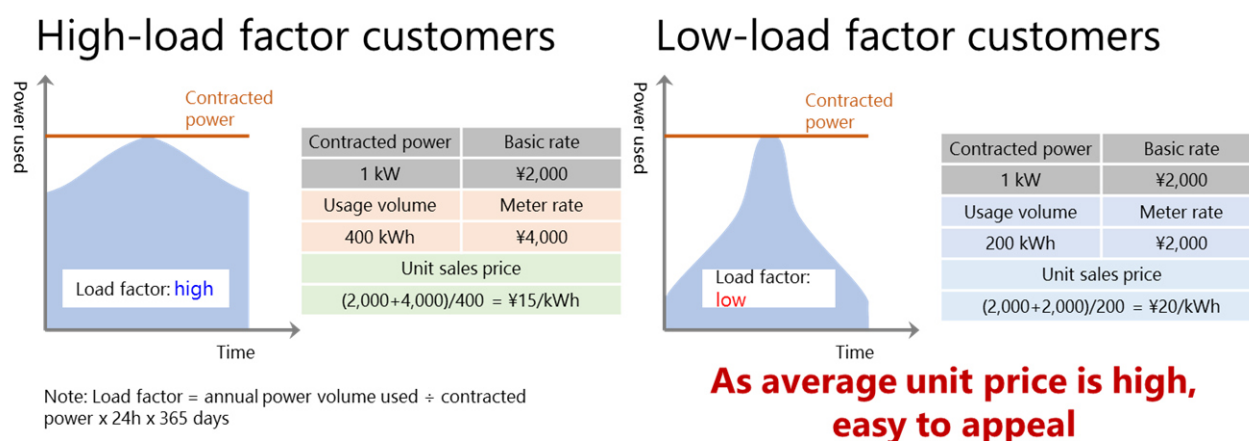
Long-term stable customer base in high-voltage segment

erex is engaged in retail power sales in the sales regions of Tohoku Electric Power Co., Ltd., Tokyo Electric Power Co., Ltd., Chubu Electric Power Co., Ltd., Kansai Electric Power Co., Ltd., Chugoku Electric Power Co., Ltd., Kyushu Electric Power Co., Ltd. and Okinawa Electric Power Co., Ltd. as of December 2016.

Targeting customers with low load factors, which can result in long-term stable customer base

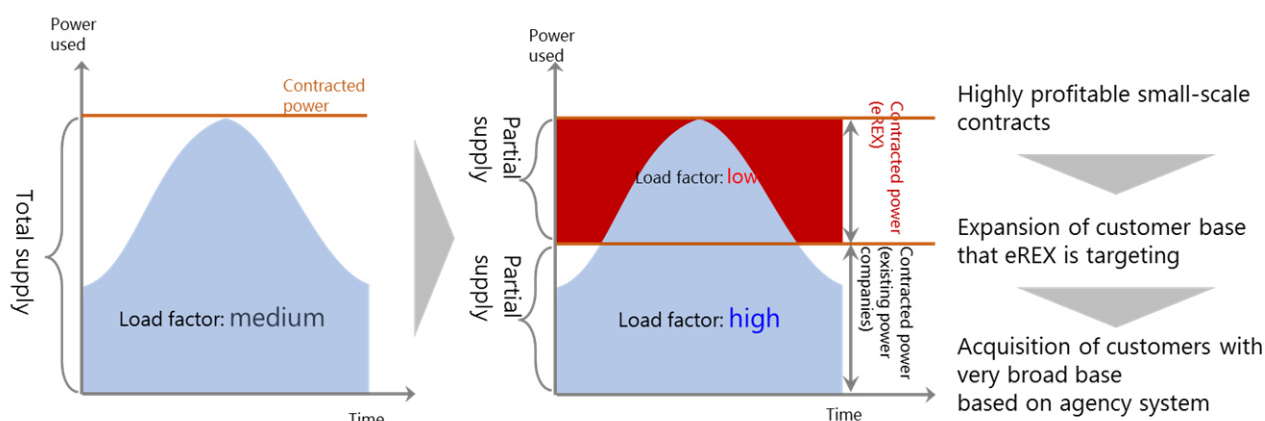
In our retail sales of high-voltage segment, we focus on securing customers with a low load factor. The load factor means the rate of utilization of electric power, which is expressed by the volume of power (kWh) actually used annually relative to contracted power (kW). The load factor is calculated based on annual power usage volume ÷ (contracted power x 8,760 hours, $24 \times 365 = 8,760$). A low load factor means a customer that uses a low amount of power relative to contracted power. As the electricity charge is a two-part charge system of the basic charge and the usage fee, the average sales unit price becomes higher for companies with a low load factor, therefore we can appeal to those companies strongly the benefits of switching to electricity of our group.

Relationship between load factor and power rates (average unit price)



Importantly, in the case of customers with a moderate load factor, it is possible to effectively create a low load factor by using partial supply contracts, a system where two electric utilities supply power to a single customer. By entering into the kind of partial contracts below with small-scale places of business, it is possible for erex to enter into comparatively highly profitable contracts. As customers can lower their total power rates by entering into partial contracts, although it is partial, it is possible to reduce electricity charges reliably.

Mechanism to create low load factor for medium load factor contracts based on partial supply



Through the above strategy, we prioritize low load rate customers who are easy to appeal to the merits of the Group, thereby selling them at lower prices than existing electric power companies.

Strong agency network

In our electric power business, we have introduced an agency system ahead of others and have built a broad network of sales agents. Our agents make proposals to office buildings, school facilities, gymnasiums and event halls with low load factors or medium load factors that enable them to reduce their power rates just by replacing their current power contracts. We hold briefings and study groups to enable agents to learn about the marketability of electric power deregulation, potential customers for sales, and sales methods as a sales support activity. With regard to the low-voltage segment, by becoming partners with companies in other industries that have many existing customers, we offer retail menus targeting existing customers of these partner companies and have a system that has established a mechanism that is advantageous for all of customers, partner companies, and our group.

erex's agency system has the following features.

- **Introduction of agency remuneration system linked to load factor (profitability oriented motivation)**
- **Stock-type agency remuneration system (provision of stable revenue to each agent)**
- **Performance remuneration-type agency contracts (realization of high operating efficiency)**

By strengthening this kind of strategy, we have increased the number of customers and the number of agents. Coupled with the rise in recognition stemming from the public listing in December 2014, the number of customers in the high-voltage segment has increased rapidly.

The agency / partner company of the group is a corporate / individual engaged in the following businesses, who propose their customers to change existing electricity contracts to us.

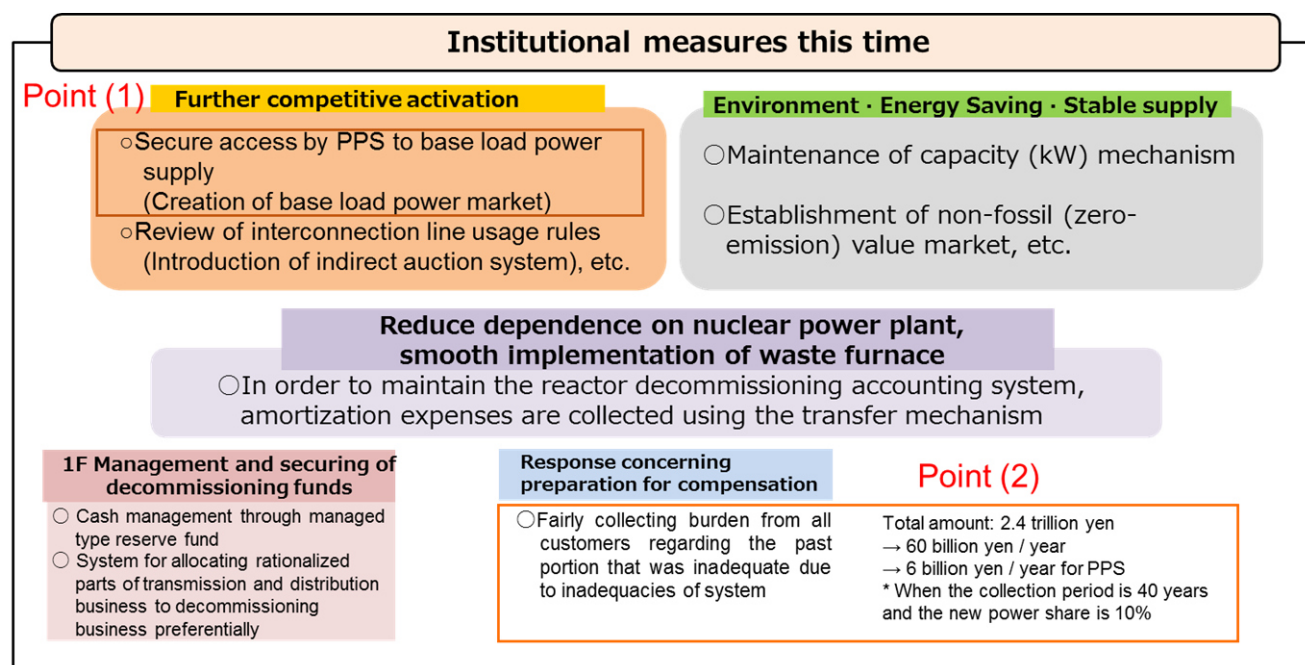
Industry of our group's agent / partner company

- Agency specialized in our group
 - Energy saving consulting industry
 - Energy saving equipment retailing
 - Insurance (life and non-life insurance) agency business
 - Electrical chief engineer
 - Construction material trading company
 - Oil / LPG trading company
 - Real estate sales business
 - Real estate management industry (asset management, property management, building maintenance, etc.)
 - Health equipment manufacturer
 - Others
-

Establishment of base load power market and future electric power market

At the "Policy Subcommittee for Penetrating the Electric Power System Reform" that began in September 2016, the creation of the "base load power market" was reported as a new power market to promote future power liberalization. If the base load power supply market is established, it will be possible for a power source with high price competitiveness called "base load power supply", such as large hydraulic power, large coal thermal power, nuclear power etc. which had been exclusively held by former general electric utilities, then we will be able to access through the market. The base load power supply market is scheduled to be created at the latest by 2020.

Contents of electric power system reform (Document No.5 of the fourth meeting of the Policy Subcommittee for Penetration of Electric Power System Reform)



Point(1) :

With the creation of the base load power supply market, it is expected that it will become possible to purchase inexpensive electric power derived from nuclear power, hydraulic power etc. over a long term. By positively utilizing the base load power supply market, we will be able to aggressively retail to middle-to high-load rate customers, and further growth can be realized.

Point(2) :

Regarding compensation costs, "cost burden by new power" was reported, but the burden is allocated to all customers and the new power is to collect and pay the expenses.

For that reason, the compensation costs will not affect our profits just like "renewable energy generation promotion levies".

Medium-term business plan: Dash 1000

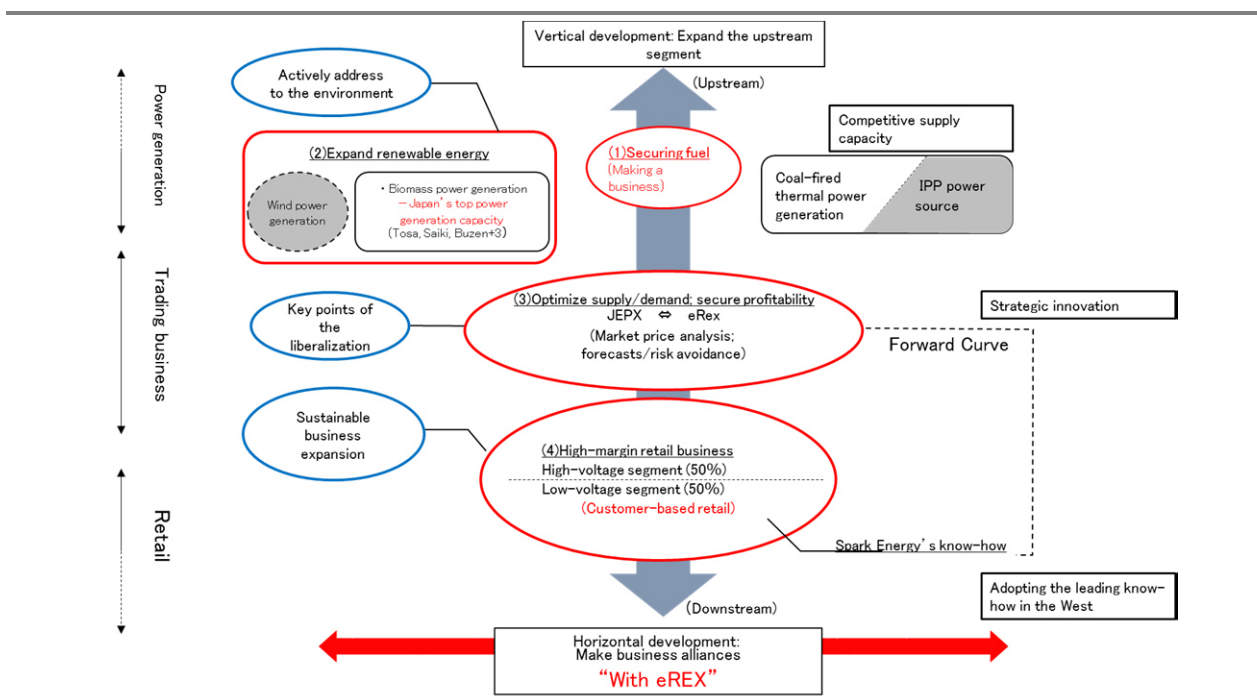
Aiming at further growth in light of deregulation of low-voltage power retail in fiscal 2016 and separation of the transmission/distribution sectors in fiscal 2020

According to Japan's energy mix targets for 2030, renewable energy is to represent 22-24% (including biomass power generation for 3.7-4.6%). As for deregulation, the low-voltage residential segment was deregulated during fiscal 2016 and the transmission/distribution segment will be separated in fiscal 2020, which is expected to significantly change the competitive landscape. Against such a background, we have developed a medium-term business plan, "Dash 1000," with the aim of becoming a leading PPS.

Target numbers of medium-term management plan Dash 1000

	Result			Mid tem plan					
	FY2013	FY2014	FY2015	FY2016		FY2017		FY2018	
					YoY		YoY		YoY
Sales	15,311 100.0%	17,074 100.0%	22,877 100.0%	33,466 100.0%	+46.2%	51,280 100.0%	+53.2%	67,339 100.0%	+31.3%
Operating Income	1,407 9.2%	1,475 8.6%	1,723 7.5%	2,664 8.0%	+54.6%	5,311 10.4%	+99.4%	7,354 10.9%	+38.5%
Ordinary Income	1,390 9.1%	1,132 6.6%	1,614 7.1%	2,451 7.3%	+51.9%	5,076 9.9%	+107.1%	7,085 10.5%	+39.6%
Net Income	815 5.3%	922 5.4%	1,112 4.9%	1,426 4.3%	+28.2%	3,336 6.5%	+133.9%	4,754 7.1%	+42.5%

Whole picture of "Dash 1000": Raise competitiveness across the entire value chain



Specific initiatives up to fiscal 2018

Specific financial targets for the first step (period to start our dash) to become a ¥100 billion company were set with the following five initiatives:

1. **Securing competitive energy sources and profit-focused retail business**
2. **Optimization of the power generation, wholesale, and retail businesses**
3. **Vertical expansion from the fuel business to the customer service business**
4. **Alliance strategy for horizontal expansion (with erex)**
5. **Forming an appropriate organizational structure**

1. Securing competitive power sources and profit-focused retail business

Over the next three years, in light of expanding business opportunities triggered by the deregulation and the need for greenhouse gas countermeasures, we will focus on the following:

- 1) In addition to securing our own competitive power resources, we aim at becoming No. 1 in non-fossil power resources (by biomass power generation) in Japan. We will also strengthen alliances with IPPs to secure various supply sources, raise competitive supply capability and enhance the power generation business.
- 2) Concerning the retail business, our aim is to expand in the high-margin high-voltage segment, by leveraging the agency network. We will inject resources in the Tohoku and Chugoku Districts and develop the retail business jointly with Okinawa Gas Co. to develop the Okinawa District. The low-voltage business will evolve around a joint venture with Spark Energy Inc. (U.S.), Hanwa Co., Ltd. and other companies. Using our multiple channels, such as these with 35 LPG sales companies (1.5 million customers) and agencies or through the website, over 40,000 customers have already signed up with us. Moreover, we will expand a sales channel with Tanita Corporation such as for a health plan. We target the most profitable 50:50 best mix in sales between the high-voltage and low-voltage segments.
- 3) In terms of electric power sales volume, we aim to be positioned in the middle among a total of 10 PPS players.

2. Optimization of the power generation, wholesale, and retail businesses

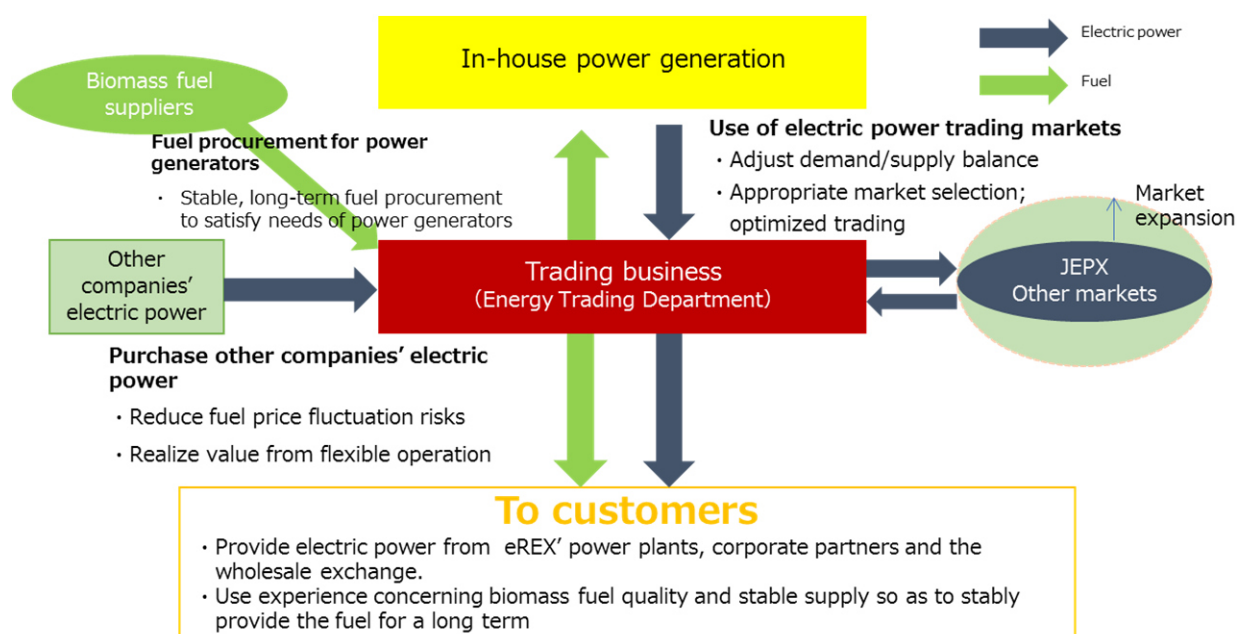
In the context of progress in deregulation, intensified competition has made it critical to optimize the business portfolio in generation, wholesale, and retail areas. We have established a trading department in order to make use of the market under appropriate risk management control and to optimize our business portfolio (Energy Trading Division). The Energy Trading Division created ahead of the industry a forward-curve that supports the price forecasting. Our aim is to build an information system to purchase power in advance when the transaction price is cheap by precisely forecasting demand together with our own forward curve model. We will also make proposals to other power generators and PPS of short term and mid-long term wholesale transactions based on forward curve model.

Direct wholesale purchasing from power generators

We offer competitive pricing with lowered fuel price fluctuation risk, in consideration for flexible operating policy.

Electric power wholesaling for retail power operators

We offer pricing which enables reduction of price fluctuation risk associated with a fixed rate scheme or fuel cost adjusted scheme, and reduction of volume fluctuation risk associated with mismatch of between supply and demand.

Enhancement of the Trading Department**3. Vertically expand from the fuel business to the customer service business**

In addition to an increase in biomass power generation capacity (four other projects including Buzen, in addition to the power plants in Tosa and Saiki and aggressive development of upstream operations including the associated fuel business, we will expand vertically by integrating the downstream operations (consumer service) over the next three years. Specifically, we will build a more solid purchasing scheme with PKS exporters, broadly raise PKS purchasing power, build more capacity to enable provision of PKS to other power generators, and at the same time secure our own needs in PKS even if demand for PKS increases.

Biomass fuel supply service

We offer biomass fuel that meets customers' requirements (i.e., project finance, specification required for the boiler) to power generators at long-term stable prices.

Co-development of the biomass fuel business

We will actively co-develop direct procurement from suppliers in Southeast Asia and other regions and make appropriate investments in upstream operations.

4. Alliance strategy for horizontal expansion (with erex)

We at erex, as a PPS with integrated operations extending from power generation to sales, have performed well by horizontal development, that is, making business alliances. We will continue co-creation with

business partners. In particular, we will focus on alliances with operators who have close contacts with low-voltage customers.

5. Forming an appropriate organizational structure

In order to support the above strategies, we will establish an organizational structure by doing the following:

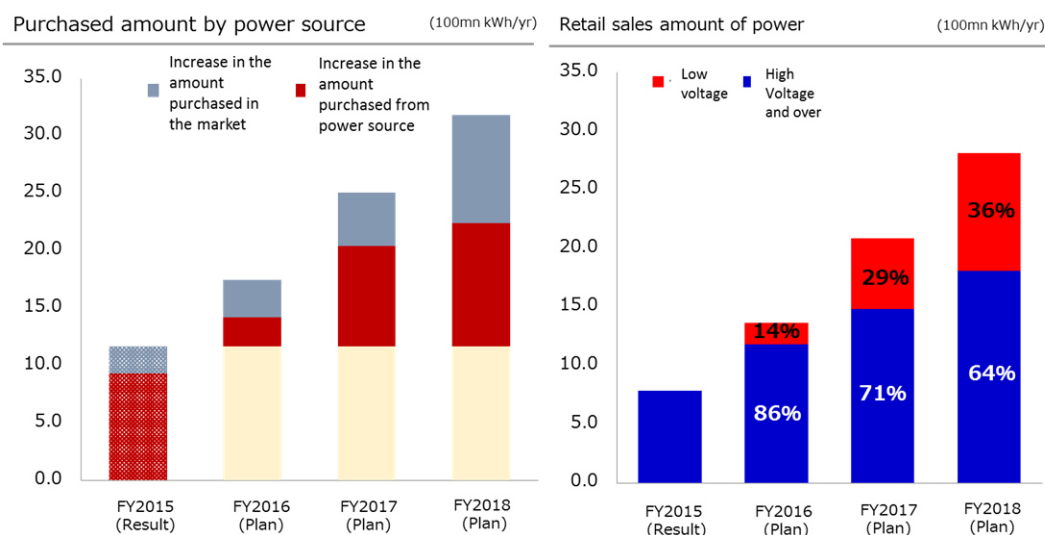
- 1) Enhance and expand the sales agency network
- 2) Establish a management culture to flexibly address to the changing society and an efficient management system
 - ① Establish an internal control system
 - ② Enhance a risk management scheme
 - ③ Establish a quarterly disclosure system
- 3) Invigorate the organization and human resources management
 - ① Flexibly manage the organization to respond to social changes, make it more efficient and strategically allocate personnel
 - ② Improve productivity based on the personnel policy of 'Small numbers-exceptional talent'
- 4) Enhance the governance structure

In addition to establishing an organization that can respond to the challenges of business expansion, we will structurally enhance internal control and compliance.

Retail sales plan

Based on the aforementioned expansion of renewable energy and initiatives in the low-voltage area, we are forecasting sales and purchasing by types of power source as follows.

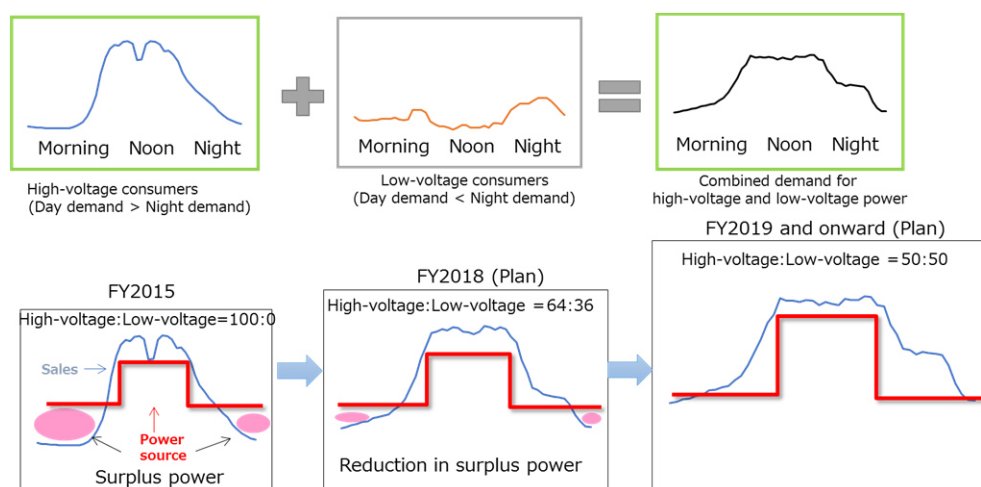
Retail sales plan and Purchasing plan by types of power source



Actions to improve profitability: Optimization of customer portfolio

Customers in the high-voltage segment are mainly corporate customers with high demand during the day time. As our customers tend to have a low load factor, and demand during the night drops significantly, we have had to sell a portion of base electric power source in the market. In contrast, customers in the low-voltage segment are mainly households, where demand is high at night. A 50:50 balance in high-voltage and low-voltage demand is therefore an ideal portfolio as it enables to make “surplus power profitable” and ensures “optimization of supply capacity.” Once realized, we will no longer be forced to sell surplus power at a low price in the market, resulting in improving profitability.

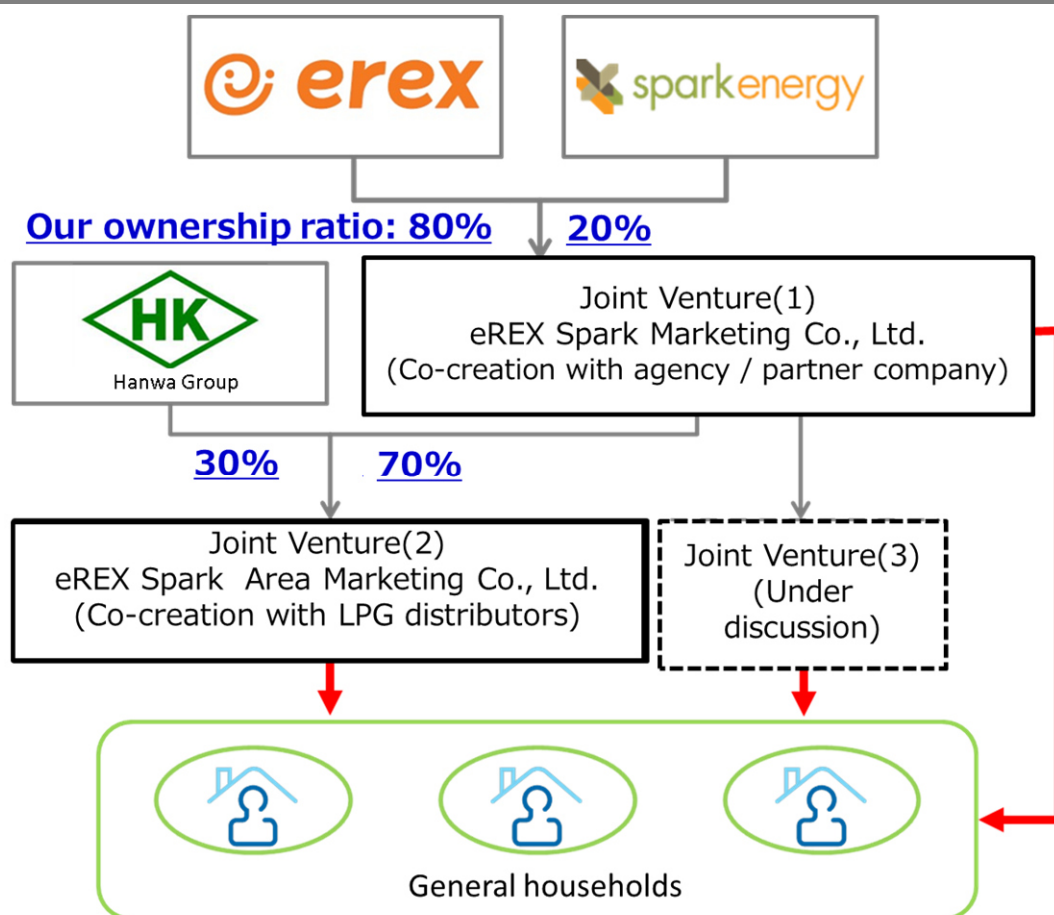
An ideal customer portfolio: The best 50:50 mix of high-voltage and low-voltage demand



Making “surplus power profitable” and ensuring “optimization of supply capacity”

As a measure to strengthen sales force to raise sales volume of low-voltage segment to the same level as high-voltage sector, we established two joint venture companies for selling low-voltage segment with different sales strategies and promote sales by their own initiatives.

Low-voltage segment: Sales structure




erex Spark Marketing Co., Ltd. (ESM)

In addition to sales to low-voltage customers by agents of existing high-voltage segment, we have opened a website for household electric customers. Also, in October 2016, we began offering a new power service "Tanita X erex: Walk and gain electric power" plan jointly developed with Tanita Health Link Co., Ltd. and Kanematsu Co., Ltd. A new electricity service with the theme of "health", customers who subscribe to this plan can receive discounts on electricity charges according to the number of steps by using the activity meter made by Tanita Co., Ltd. . In addition, we are acquiring customers through collaboration with companies such as "Nifty Denki (Electricity)" through partnership with Nifty Corporation and "Dental Denki" by agency contract with Nhosa Co.,Ltd. a dental care information software company. In addition to the above, we are promoting low-voltage retail sales comprehensively through the development of attractive services and aggressive marketing activities.

erex Spark Area Marketing Co., Ltd.(ESAM)

ESAM takes advantage of its strengths in the gas industry of HANWA Co., Ltd., an energy trading company which is also a major shareholder of ESAM. ESAM has agency sales contracts with nationwide LPG sales companies and the sales people of 47 LPG sales companies are pushing the Door-Knock sales.

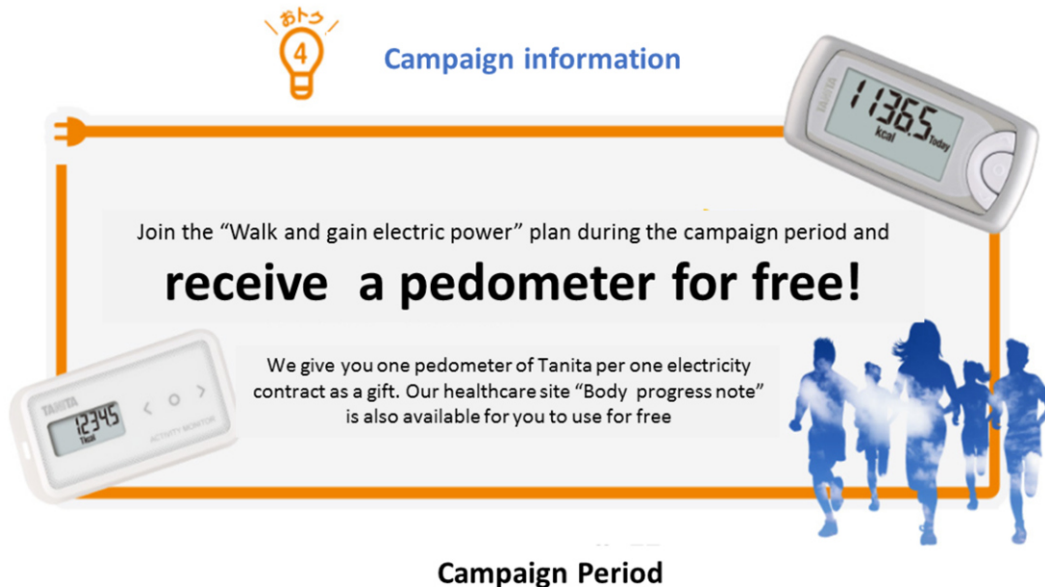
Promotion examples

 **Campaign information**

Join the “Walk and gain electric power” plan during the campaign period and
receive a pedometer for free!

We give you one pedometer of Tanita per one electricity contract as a gift. Our healthcare site “Body progress note” is also available for you to use for free

Campaign Period



未来をデザイン with erex

**PPS-Pioneer “eREX” starts
Operation of biomass power plant
in Saiki City, Oita Prefecture**

バイオマス発電とは、動植物などから生まれた生物資源を燃焼するなどして発電する方式です。現在では農産物の再利用や減少につながっており、地域環境の改善や循環型社会の構築に大きく寄与しています。
国内最大規模となる5万kwを発電するイーレックスのバイオマス発電所は、油を搾油した後のパーム椰子の殻を主原料としています。
イーレックスは再生可能エネルギー発電の国内トップを目指しています。

～電力会社は選ぶ時代～

イーレックスは、一般家庭向けの電力販売を行っています。現在、九州エリアをはじめ、東北、関東、中部、関西、中国で電力の販売を行っているイーレックスグループは、開始からわずか半年で3万件のご契約をいただいております。

今がチャンス! 佐伯市民限定 電力新規契約キャンペーン

特典1 ご契約者全員にウェットティッシュボトルをプレゼント!
特典2 さらに、抽選で合計**45名**様に**豪華商品**プレゼント!

【対象】佐伯市在住で新規ご契約の方 【締切】2月末までにご契約いただいた方
※当選者の発表は商品の発送をもってさせていただきます。※当選の発表は3月末を予定しています。

JCギフトカード	10万円分	5名様
豪華の機 佐伯市花博	豪華の機 佐伯市花博	10名様
佐伯市うまいもん祭り	佐伯市うまいもん祭り	30名様

erex イーレックス株式会社 (東証一部上場 証券コード 9517)
(イーレックスニューエナジー佐伯(株)) 大分県佐伯市大字戸穴333-1

お申し込みについてのお問い合わせは **TEL 0120-124-862**

料金プラン・サービスの詳細はホームページをご覧ください **イーレックス** 検索 www.erex.co.jp

Examples of erex partners

Examples of partner companies including those already mentioned are as follows. We are deepening collaboration with companies that have strong connections with consumers.



**Over 1,300
agencies across
Japan**



**Okinawa Gas New Power:
JV with Okinawa Gas to sell
electric power in Okinawa**



**Collaboration with
47 LPG sales companies
across Japan**



**Tanita X eREX "Walk and gain electric
power.": Health-focused electric power
services (launched on Oct. 1, 2016)**



Powered by eREX Spark Marketing

**@nifty Denki: Collaboration
with a telecom. Service
company (already in service)**



Powered by eREX Spark Marketing

**Dental Denki: Electric power
services for dental clinics across
Japan (already in service)**

As of the end of December 2016 Supply facility
High-Voltage: about 10,000 facilities Low-Voltage: about 36,000 facilities

As of December 2016, the number of customers (potential customers) of partner companies has reached approximately 3 million. In particular, alliances between existing distributors and LPG sales companies have been steadily producing results, and "Nifty Denki" has been steadily growing. In the future, in addition to acquiring customers through the above sales channels, we will also focus on expanding our business of "Tanita × erex "Walk and gain electric power", developing new channels, and community-based sales. As a beginning of community-based sales, in November 2016, we launched a new application campaign in Saiki City, Oita Prefecture, which has a Saiki power station. We will continue to implement various initiatives in the future.

Financial Strategy · Policy of return to Shareholder

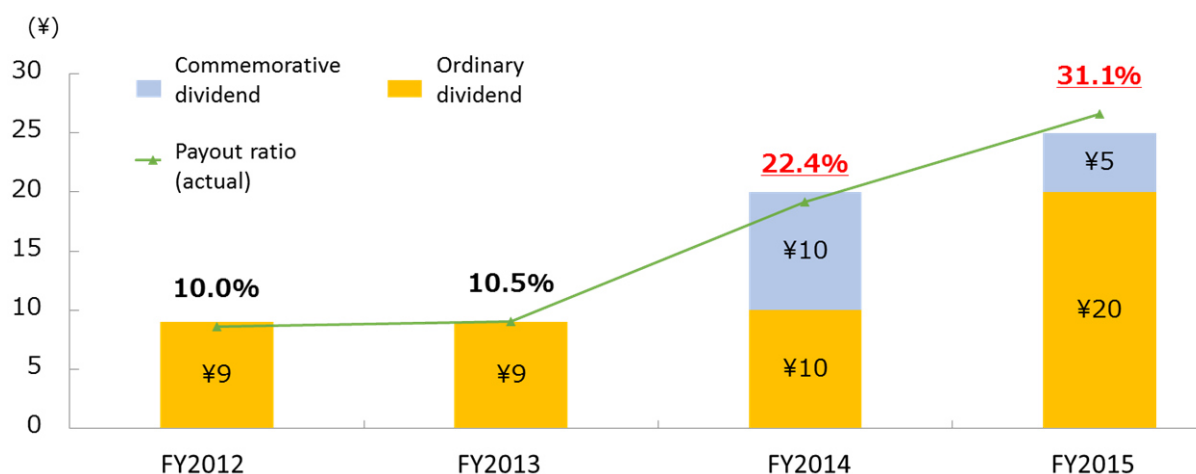
Implement high profitability projects and realize high growth mainly with internal reserves and borrowing

Concerning investing, we will focus on achieving IRR of 10-15% and will achieve a balance between profitability, growth and financial stability. As mentioned earlier, with regard to investment, we will (1) optimize the capital ratio, (2) reduce the capital burden of the Group by collaborating with partner companies, (3) utilize non-recourse type debt finance, and make efficient use of shareholders' equity and we will try to diversify investment risks. We will continue to implement high profitability projects and realize high growth mainly by internal reserves and borrowing.

Dividend Policy

We are in the process of growth and we will implement a dividend policy that is conscious of accumulating retained earnings in order to strengthen our solid financial base in preparation for the necessary investment. For the year ended March 31, 2015 (FY2014), we paid a total of 20-yen dividend for ordinary distribution of 10 yen + Mothers market listing commemoration distribution of 10 yen. For the fiscal year ending March 31, 2016 (FY2015), we paid a total of ¥ 25 per share for ordinary distribution of ¥ 20 (+10 yen as compared with the previous term) + 5 listing commemorating memorial disbursement.

Dividend paid



Disclaimer

This document contains matters concerning the forecasts, targets, plans, etc. related to erex Co., Ltd. ("the Company") and its group companies (the "Group"). These are prepared based on information obtained at the time of preparation of this material, based on forecasts etc. at that time. Certain assumptions are adopted for these matters, and certain assumptions also include those that include judgment of the Company's management team or subjective expectations.

Also, due to various risks and uncertainties, it may turn out to be inaccurate in the future, or it may not be realized in the future. Therefore, there is a possibility that the actual results of the Group, the results of operations and financial condition, etc. will be different from our forecasts, targets and plans.

For that reason, we do not have any obligation to update the information on the future, such as forecasts, targets, plans etc. posted in this material.

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