

TESS Holdings

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Integrated Report 2024

TESS Group aims to maximize its corporate value by promoting philosophy-driven management

Business Philosophy

Customer Focus, Customer Satisfaction

- ▶ We treat all stakeholders as customers, including all clients, business partners, shareholders, investors, the communities where we operate, and Group officers, employees, and their families.
- ▶ Our top management pledges to lead by example, engaging with customers in a sincere, steady, self-reliant and straightforward manner.
- ▶ We place ESG and compliance at the core of management, and strive to increase corporate value by growing sustainably through our contribution to the SDGs.

Management Philosophy

Total Energy Savings & Solutions

As the customers' energy-related issues and needs become more complex, our business philosophy of "Customer Focus, Customer Satisfaction" cannot be achieved with uniform products and services. TESS stands for "Total Energy Savings & Solutions." We will promote the provision of comprehensive energy solutions as a group to realize this goal.

Management Vision

A leading company in decarbonization

A company that realizes Total Energy Savings & Solutions for customers

<To be a leading company in decarbonization>

- ▶ Continue to be chosen by customers for our abundant experience in the field of energy conservation and renewable energy, responsiveness with one-stop service from development and construction to operation and maintenance, and proposal capabilities that make good use of our wide network
- ▶ Continue to grow and evolve sustainably without fear of challenges on a stable earnings base
- ▶ Continue working on solutions to a wide range of social issues in the environmental and energy fields such as issues concerning decarbonization and resource recycling
- ▶ Continue to be a company where all employees work comfortably with a sense of satisfaction in their jobs

Purpose

Contributing to global energy decarbonization through the realization of Total Energy Savings & Solutions

▶ See p3-4

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Editorial Policy

Period Fiscal year ended June 2024 (July 1, 2023 to June 30, 2024)
*Some information outside of the above period is also included.

Organization TESS Group

Editorial Policy

This integrated report is designed to provide all stakeholders of the TESS Group with details on the Group's medium- to long-term value creation initiatives to help them better understand its efforts, and to link these initiatives to a cycle of value creation with stakeholders.

*Note on forward-looking statements

Any forward-looking statement in this integrated report, including planned future figures and measures, is calculated based on judgments and assumptions that the Company considers reasonable at the time of preparation, using information currently available. Actual results may therefore differ significantly from the estimates stated in this report, depending on various important factors such as economic conditions in major markets in Japan and overseas and fluctuations in exchange rates.

Glossary

FIT (Feed-in Tariff) system

A system, based on the Act on Special Measures Concerning Promotion of Utilization of Electricity from Renewable Energy Sources, under which the government guarantees that electricity utilities will purchase electricity generated from renewable energy, such as solar, wind, or biomass, at a set price and for a set period of time.

FIP (Feed-in Premium) system

A system where the amount equivalent to the difference between the standard price (FIP price) and market price shall be paid as a premium in the case that electricity produced by renewable energy electricity utilities is sold on the wholesale electricity market or in direct dealings.

Contributing to global energy decarbonization

The TESS Group established TESS Engineering Co., Ltd. (formerly Hanwa Nessui Ind. Co., Ltd.) in May 1979 with a desire to be of use to the world through our energy conservation business. Marking its 45th anniversary in 2024, the TESS Group now has TESS Holdings Co., Ltd. as the holding company and TESS Engineering Co., Ltd. as the core subsidiary, operating in the three business areas of “renewable energy as a main power source,” “energy efficiency maximization,” and “intelligent energy infrastructure.”

We are at a major turning point of the times. Energy conservation is an eternal theme in resource-poor Japan. In this era of global warming and global boiling caused by the mass consumption of fossil fuels for over a century, building a decarbonized and circular society has now become an important social challenge as one of initiatives that contribute to the sustainability of society.

To promote efforts to solve these social issues in a proactive and straightforward way, the TESS Group went public in April 2021 and raised funds for growth investments. In August 2022, the Group formulated and announced the “TESS Group Medium-term Management Policy”, clarifying the purpose that all officers and employees should share and pursue (see the figure below). In August 2024, after assessing changes in the business environment, the Group developed and announced the TESS Group medium-term management plan (2025–2030), titled “TX2030 TESS Transformation 2030”, as a milestone for achieving its purpose.

With our business philosophy of “Customer Focus, Customer Satisfaction” in mind, the TESS Group is committed to always taking the customers’ point of view and providing solutions that are tailored to their needs. By promoting our purpose of “contributing to global energy decarbonization through the realization of Total Energy Savings & Solutions,” we will work diligently to help solve social issues and enhance our corporate value. We ask for the continued support and encouragement of all our stakeholders.

Director and Chairman,
Chairperson of the Board of Directors



Director and Chairman,
Chairperson of the Board of Directors
Hideo Ishiwaki

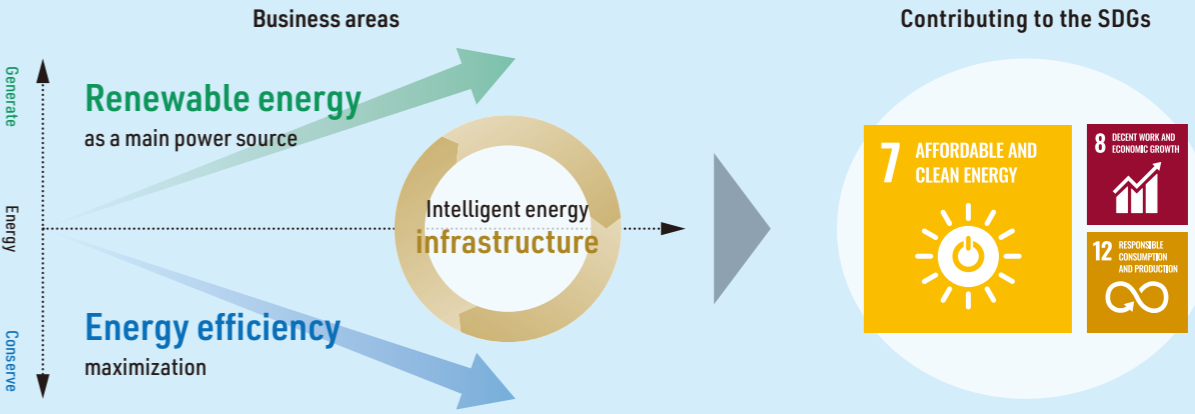
Representative Director
and President
Kazuki Yamamoto

■ TESS Group's Purpose

Contributing to global energy decarbonization through the realization of Total Energy Savings & Solutions

By placing ESG and compliance at the core of management and focusing on the three business areas with strong social needs and growth outlook, i.e., “renewable energy as a main power source,” “energy efficiency maximization,” and “intelligent energy infrastructure,” we will contribute to global energy decarbonization and SDGs.

Core values	
Environment	Realize Total Energy Savings & Solutions
Social	Develop humancapital and social infrastructure to support business growth
Governance	Fair and highly transparent business management
Compliance	



Aiming for the next big leap forward by maximizing the expertise accumulated over the past 50 years since its founding

Founded-Late 1990s Early years

The TESS Group began its history in 1973, the year of the first oil crisis, when the founder, Masayuki Ishiwaki, started a private business Hanwa Nessui Ind. to run an engineering business specializing in energy conservation for food factories and industrial laundry plants.

The second oil crisis led to the enforcement of the Energy Conservation Act to promote the effective use of fuel resources and the rationalization of energy use, which triggered an energy conservation boom. In this environment, Ishiwaki incorporated his private business with a desire to be of use to the world through an energy conservation business, and in 1979 established Hanwa Nessui Ind. Co., Ltd. (renamed TESS Engineering Co., Ltd. in 1992). As the following high economic growth stabilized crude oil prices and electricity prices rose, the Company started selling cogeneration systems*1 as distributed power sources and embarked on deploying them to the market nationwide for industrial users seeking to reduce electricity costs, save energy and implement environmental measures.

Early 2000s Period of cogeneration expansion

In the 2000s, the ESCO business*2 became popular as a method of introducing cogeneration systems with no initial investment and the TESS Group saw an increase in orders for cogeneration systems, achieving a cumulative delivery record of 1,000 units in 2003. As a result, the Group grew to capture a significant share of cogeneration systems for the industrial sectors and was called "The TESS of cogeneration systems" at the time.

*1 Cogeneration systems: Also called combined heat and power systems, a form of distributed energy resources in which heat generated simultaneously with power generation is used for heating and cooling or production processes.

*2 ESCO business: A system in which ESCO business operators undertake the entire process of energy conservation at a factory or business facilities, from financing to design, construction and management, to share the cost savings achieved from energy conservation with their customers.

Late 2000s Period of high crude oil prices and declining revenues

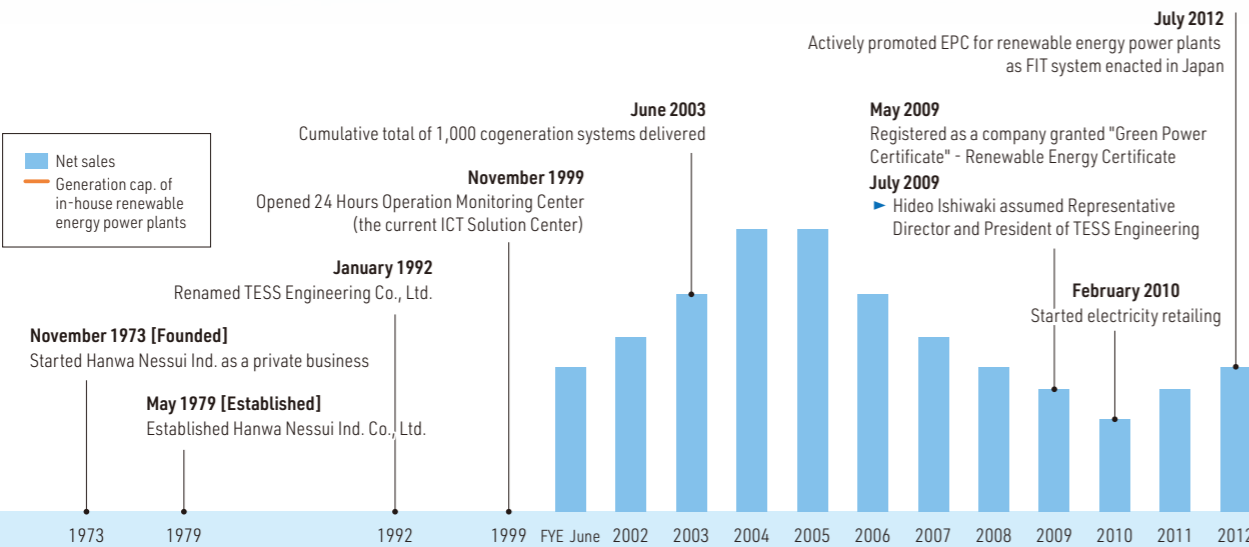
The sharp rise in crude oil prices since 2004 also pushed up the price of heavy oil, the fuel for cogeneration systems, so significantly that the Group struggled to obtain new orders for cogeneration systems. With ESCO business operators withdrawing from the market one after another, the TESS Group faced a period of declining revenues due to a decrease in orders.

Although it was a very difficult period, the TESS Group maintained profitability. As stable revenue sources, the Group engaged in operation and maintenance of large-scale gas engine cogeneration systems (one of the largest in Japan at the time) on a lump-sum contract basis, as well as maintenance and other services for existing cogeneration systems, securing a certain level of revenues. In addition, the Group expanded its business portfolio by entering into the CO₂ emissions trading and electricity retail supply businesses and worked on company-wide cost reduction efforts.

In 2009, as the renewed management structure, Hideo Ishiwaki (who joined the Company in 2004), the younger brother of the founder, assumed Representative Director and President of TESS Engineering, while Masayuki Ishiwaki assumed Director and Chairman without representative rights. Under the management policy at the time, "breaking away from a sales-dependent structure and focusing on profits," the Group built the foundations of its current recurring-revenue model even stronger.

2011 Great East Japan Earthquake power restoration project

Following the Great East Japan Earthquake that occurred on March 11th 2011, industrial users were unable to maintain stable operations at their factories and business facilities because rolling blackouts and restrictions on electricity use were imposed not only in the heavily-hit areas but also across the whole of eastern Japan. Receiving inquiries from many of our customers about the installation of in-house power generation equipment, the TESS Group deployed approximately 70 units (about 43 MW) of in-house power generation equipment, mainly for industrial users in the eastern Japan area as part of the power restoration project.



*FYE June applies to all the following years →

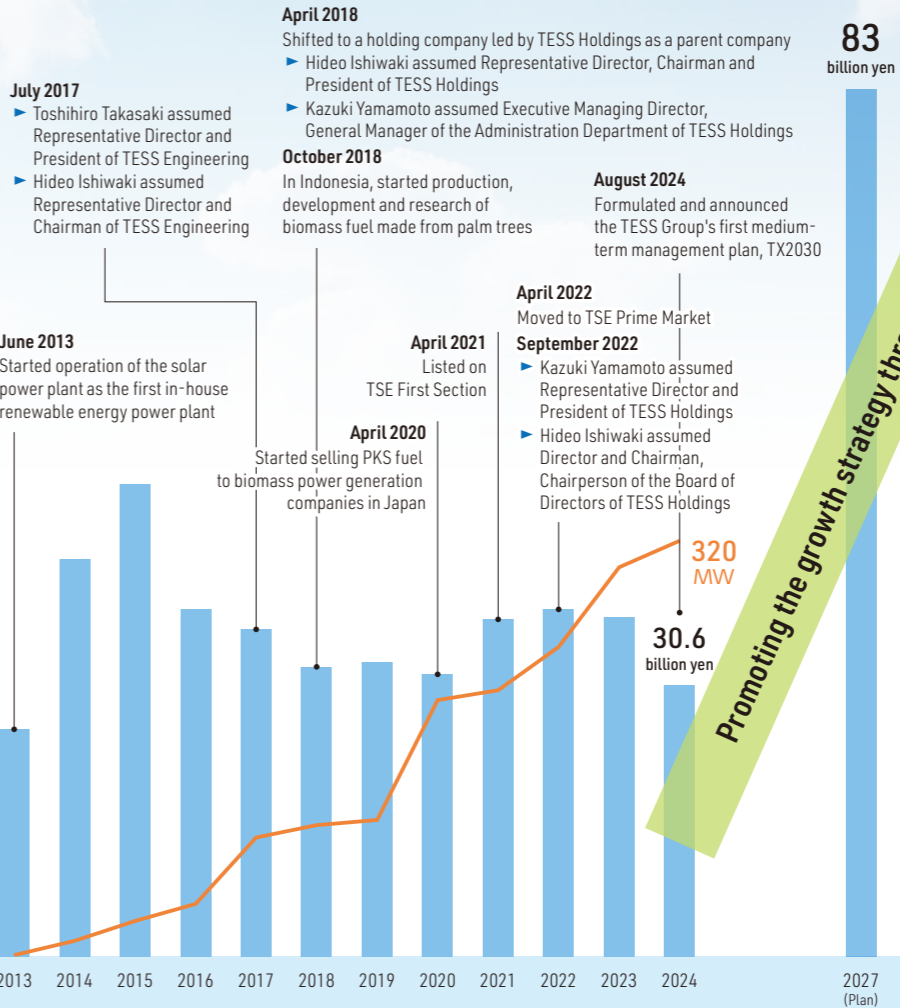


*Unaudited until FYE June 2018. Figures from FYE June 2001 to FYE June 2012 are for TESS Engineering (non-consolidated), figures from FYE June 2013 to FYE June 2017 are for TESS Engineering (consolidated), and figures from FYE June 2018 onward are for TESS Holdings (consolidated)

2011-2024 Period of renewable energy business expansion

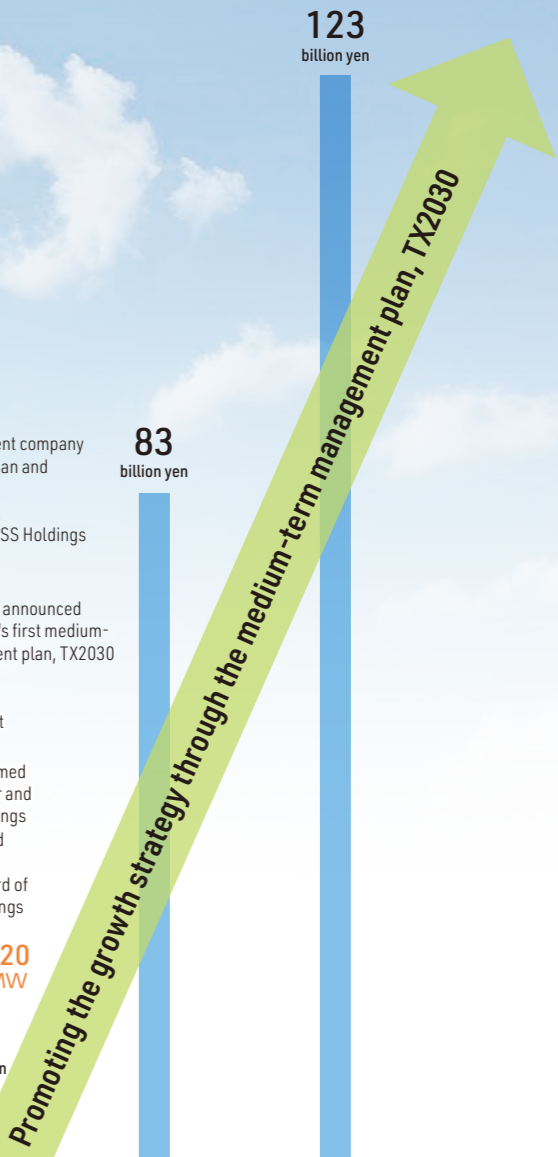
In July 2012, the Feed-in Tariff (FIT) system was introduced in Japan to expand the use of renewable energy. By actively promoting EPC (engineering, procurement and construction) for renewable energy power plants using the FIT system, the TESS Group achieved a V-shaped recovery since it bottomed out in FYE June 2010, and in FYE June 2015 reported an all-time record in revenues and profits. As a result of more stable financial standing, the Group launched full-scale operations of renewable energy power generation business in which it owned and operated in-house power plants to sell electricity. By improving an internal structure through the establishment of TESS Asset Management LLC to operate and manage renewable energy power plants and further expanding the renewable energy power generation business, the Group accelerated the transition from a one-time sales model to a recurring revenue model.

In terms of the management structure, Toshihiro Takasaki assumed Representative Director and President of TESS Engineering in 2017. In 2018, the Company shifted to a holding company led by TESS Holdings Co., Ltd. as a parent company, with Hideo Ishiwaki assuming Representative Director, Chairman and President and Kazuki Yamamoto assuming Executive Managing Director, General Manager of the Administration Department. In 2021, the Company was listed on the First Section of the Tokyo Stock Exchange (and moved to the TSE Prime Market the following year). In 2022, the representative rights of TESS Holdings were transferred from Hideo Ishiwaki to Kazuki Yamamoto, breaking away from family management to establish a new management structure.

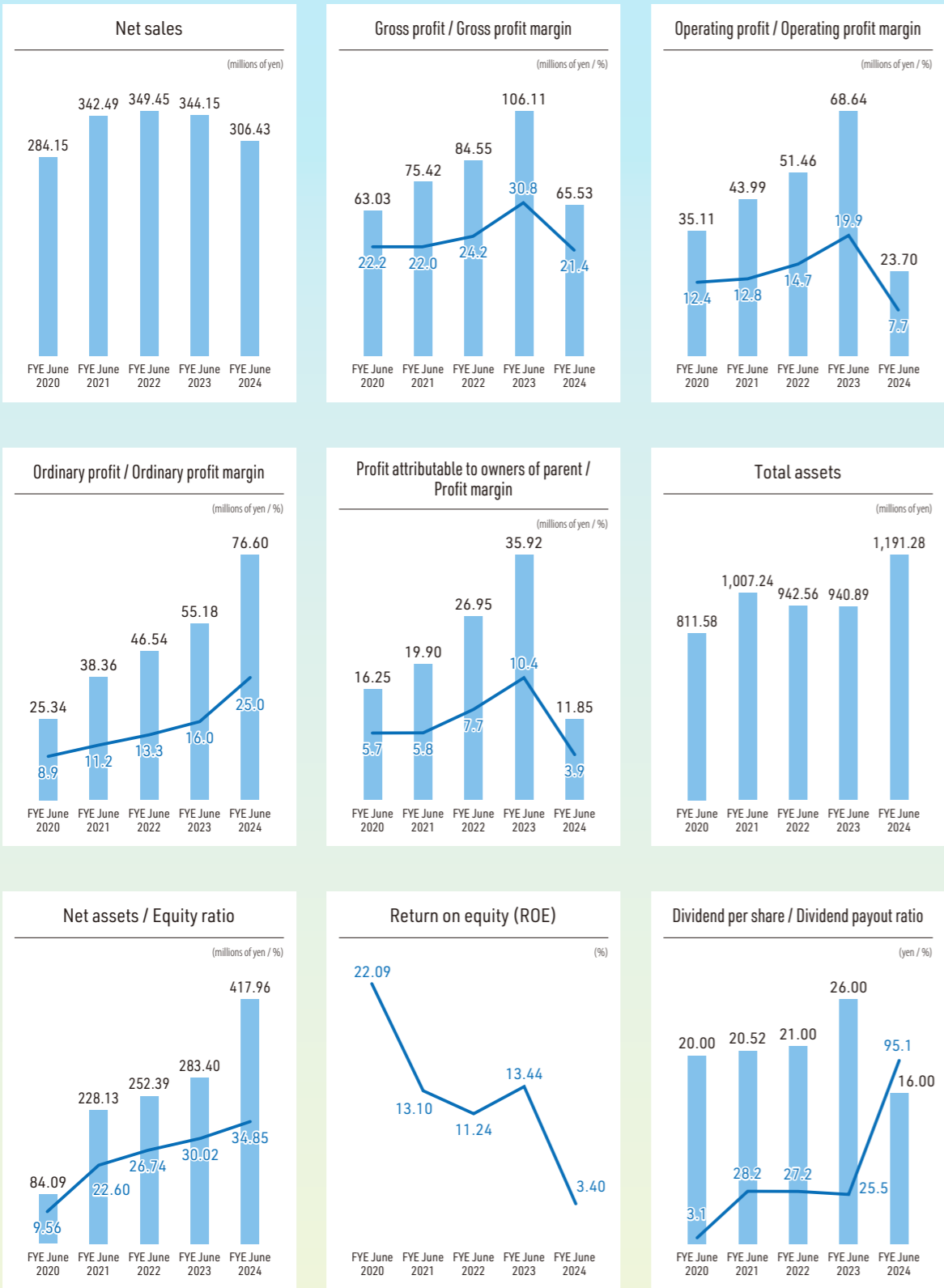


2025-2030 Period of growth expansion under TX2030

In August 2024, the TESS Group formulated and announced TX2030, its medium-term management plan for the period from FYE June 30, 2025 to FYE June 30, 2030. The plan aims to transform the business structure by promoting the newly defined focused business fields to expand growth.



Financial information



Non-financial information (FYE June 2024)



*The ratio of female managers is calculated as of the end of July 2024.

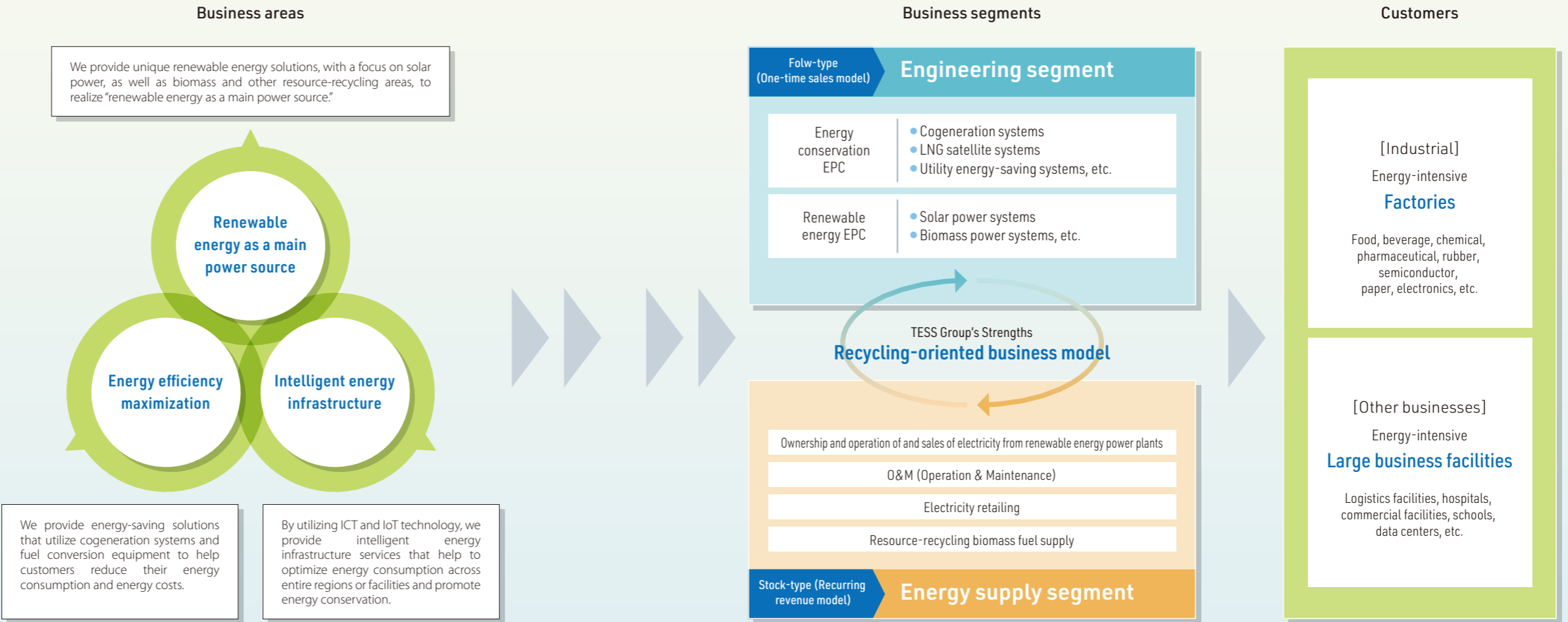
With a “recycling-oriented business model” as a strength, we provide comprehensive energy solutions

Amid the global trend toward energy decarbonization, Japan has also set out a path for its energy policy in the Sixth Strategic Energy Plan, which was approved by the Cabinet in October 2021, to achieve carbon neutrality by 2050. The plan calls for the further pursuit of thorough energy conservation, setting a target of increasing the proportion of renewable energy in the country's power supply mix to around 36–38% by 2030. Furthermore, in February 2023, the Cabinet approved the Basic Policy for the Realization of GX (Green Transformation), which sets out a policy for decarbonization while ensuring a stable supply of energy.

In response to this major trend, the TESS Group has identified three areas that will form the core of future energy solutions: “renewable energy as a main power source,” “energy efficiency maximization” and “intelligent energy infrastructure.” We provide a one-stop solution that is unique to the TESS Group to energy-intensive factories, large business facilities and other sites.

The Group has two business segments: the Engineering segment, which employs a one-time sales model, and the Energy Supply segment, which employs a recurring revenue model. Our unique strength lies in the recycling-oriented business model powered by these two segments as its dual engines.

Leveraging these strengths, the TESS Group is steadfastly committed to promoting a challenging growth strategy through proactive growth investments based on a stable revenue base.



POINT- 1

In addition to the existing business, two new businesses added to our focused business fields

As global efforts to decarbonize energy accelerate, the market surrounding decarbonization in Japan also keeps expanding. Recent years have seen the growing importance of power storage systems from the perspective of effective use of renewable energy and grid stabilization. In this external environment, the TESS Group has identified three focused business fields by adding Power Storage System-related business and Resource-recycling Biomass Fuel business to the existing Energy-conservation and Renewable Energy Solutions business. Going forward, we will focus on growth investments and management resources in these key business fields.

Focused business fields
[Existing business] Energy-conservation and renewable energy solutions business (solar power, CGS*, etc.)
+
Power storage system-related business
Resource-recycling biomass fuel business

*Cogeneration systems

POINT- 2

The target market of the TESS Group accounts for approx. 60% of domestic energy consumption

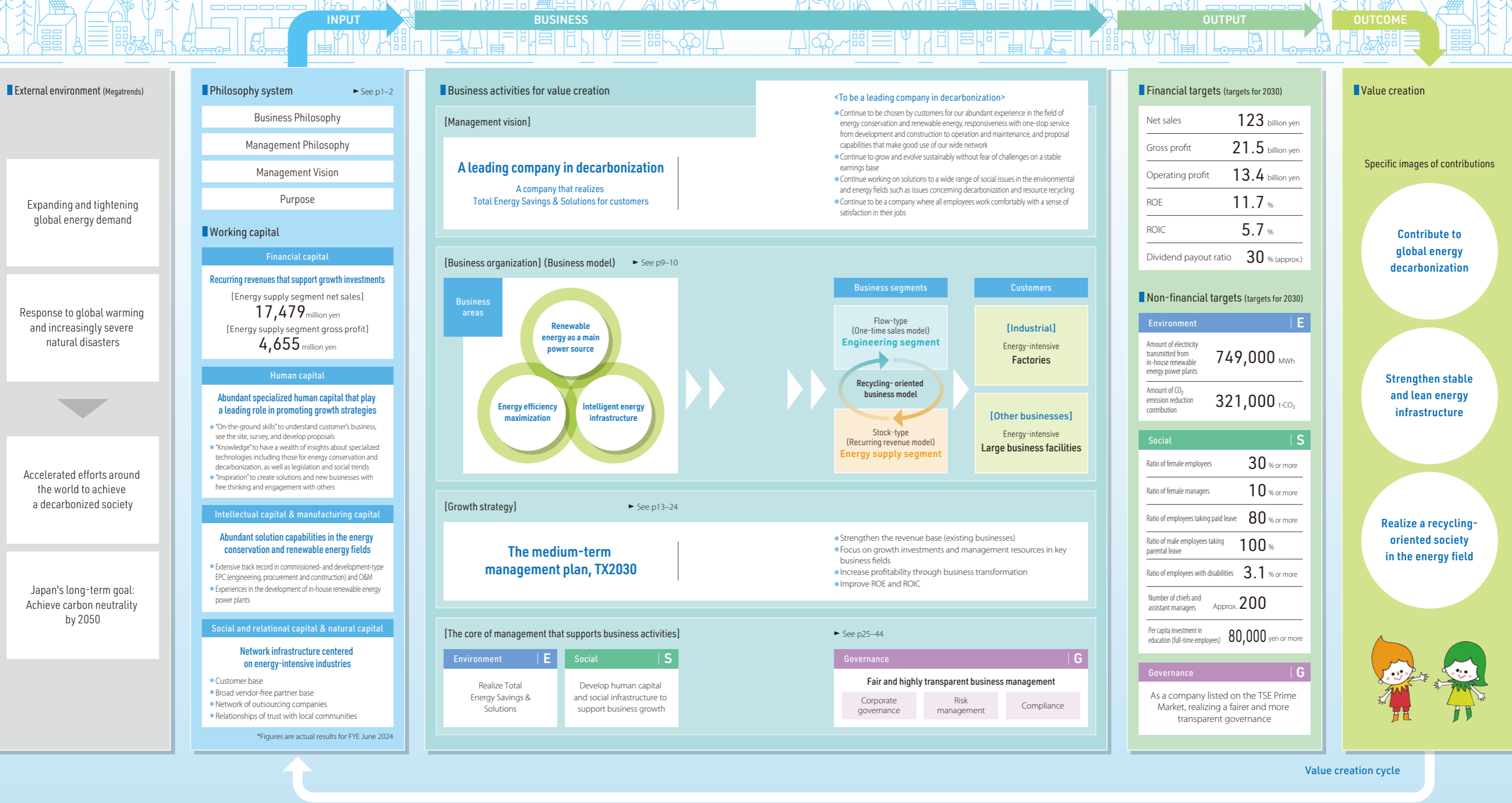
A breakdown of energy consumption by sector in Japan shows that the business target of the TESS Group (industrial + other businesses) accounts for approximately 60% of the total - an enormous market unfolding in front of us. The TESS Group provides comprehensive energy solutions to these factories and large business facilities that consume large amounts of energy, regardless of their industry or business category.

Ratio of energy consumption by sector (*)

Sector	Ratio
Industrial	45.2%
Other businesses	16.2%
Transport	23.6%
Household	15.0%
Subtotal (Industrial + Other businesses)	61.4%

*(Source) Created by the Company based on “FY2023 Annual Report on Energy (Energy White Paper 2024)” (June 2024) published by the Agency for Natural Resources and Energy of the Ministry of Economy, Trade and Industry

With "decarbonization" as the keyword,
we promote value creation that only the TESS Group can offer



TX2030

TESS Transformation 2030

Medium-term management plan basic policy

Focus on growth investments and management resources in key business fields while using existing businesses as a revenue base

Achieve high profitability and increase ROE and ROIC through business transformation

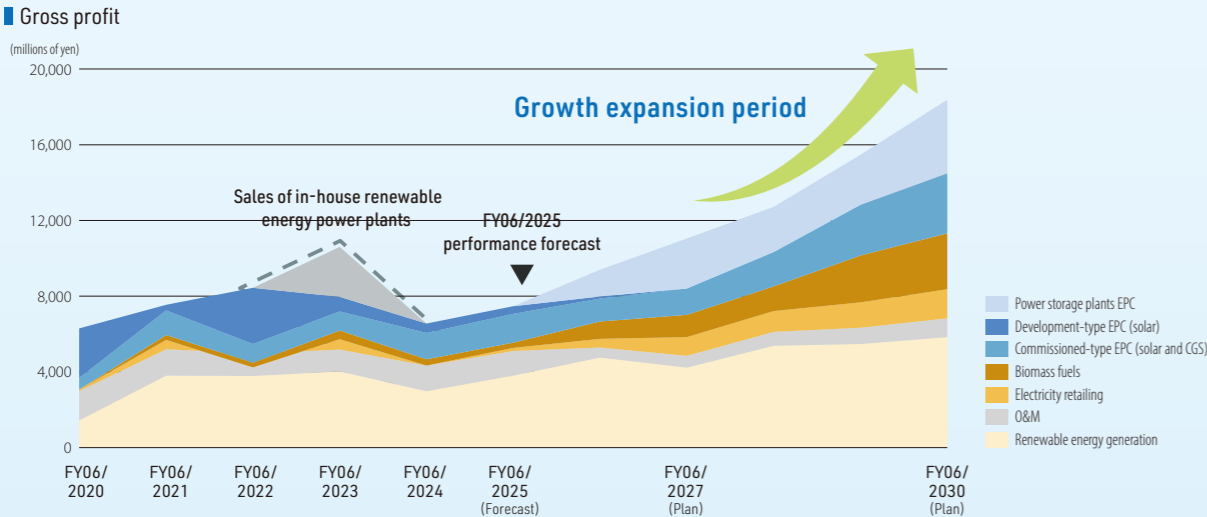
Numerical targets

	FYE June 2024 Actual	FYE June 2027 Plan	FYE June 2030 Plan
Gross profit	6.5 billion yen	13.2 billion yen	21.5 billion yen
Operating profit	2.3 billion yen	6.4 billion yen	13.4 billion yen
ROE	3.4 %	5.8 %	11.7 %
ROIC	1.6 %	3.0 %	5.7 %
In-house FIP rollover renewable energy cap.	0 MW	75 MW	113 MW
Cumulative installed cap. (power storage plants for the grid)	0 MW	100 MW	700 MW
Cumulative installed cap. (power storage plants other than for the grid)	0 MW	120 MW	150 MW
Biomass fuel supply	104,000 tons/year	350,000 tons/year	500,000 tons/year
Renewable energy generation cap.*	231.8 MW	380 MW	470 MW

*Portion owned by consolidated subsidiaries

Image of business transformation toward 2030

- Aim to transform the business structure after the performance bottomed out in FYE June 2024
- Growth expected to expand from FYE June 2028 onward due to substantial contribution from focused business fields to performance



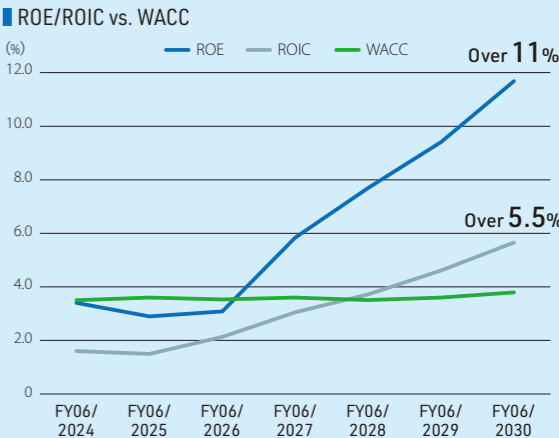
*The gross profit of "Biomass fuels" is replaced with operating profit after deducting SG&A to reflect the actual profit in this business. Therefore, the total amount of gross profit does not match the one in the above table.

Initiatives to enhance corporate value

ROE/ROIC-focused Management

- Strive to achieve high profitability by transforming the business structure through growth investments
- Establish a business structure that enables ROIC to continuously exceed WACC (Weighted Average Cost of Capital)

- For growth investment, make effective use of non-recourse debt financing, including project financing
- WACC expected to remain at around 4%
- Aim to improve profitability through business transformation, with ROIC at approximately the same level as WACC in 2028 and significantly exceeding WACC in 2030



Growth Investment and Shareholder Returns

- Achieve profit growth through continuous growth investments
- Continue to return profits to shareholders with a target consolidated dividend payout ratio of 30% to strike a balance between a highly profitable business and financial soundness
- Aim to increase shareholder returns through profit growth

Promotion of ESG management

- E (Environment) : Realize Total Energy Savings & Solutions
- S (Social) : Develop human capital and social infrastructure to support business growth
- G (Governance) : Fair and highly transparent business management

Focused business fields in the medium-term management plan

Outlook for the future business environment
(▶ See p17–18 for details)

- The market for decarbonization will expand both in Japan and overseas during the medium-term management plan period
- The importance of power storage systems will increase from the perspective of effective use of renewable energy power and grid stabilization

Focused business fields

[Existing business] Energy-conservation and renewable energy solutions business (solar power, CGS, etc.) + Power storage system-related business + Resource-recycling biomass fuel business

▶ See p21–24 for details on focused business fields

Launching
the medium-term
management plan
"TX2030" for a new
phase of growth



Representative Director and President
Kazuki Yamamoto

The business environment surrounding the TESS Group

Q 1 The TESS Group, which has a vision of becoming “a leading company in decarbonization,” appears to have been enjoying continually favorable conditions in its business environment. What is your perception of this?

Amid the global trend toward energy decarbonization, the market surrounding decarbonization is expected to expand rapidly in Japan as well.

As the business fields in which the TESS Group operates is greatly affected by Japan's energy policy, we assess details of energy-related laws and regulations, plans, and their directions before formulating our management strategies. Before looking deeper into the Group's management strategies, I will first explain the major trends in the business environment, as a basic premise.

Currently, countries worldwide are actively working to realize a decarbonized/recycling-based society. This trend was triggered by the United Nations Framework Convention on Climate Change (adopted in 1992), under which countries agreed to tackle global warming on a global scale. Based on this treaty, the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP) has been held every year since 1995. At COP3, hosted in Kyoto in 1997, the Kyoto Protocol was adopted, which set a target for developed countries to reduce greenhouse gas emissions by at least 5% over the five years from 2008 to 2012. In response to this, Japan launched a program in November 2009 to promote the introduction of renewable energy. Since fiscal 2012, the fixed-price purchase system, or Feed-in Tariff (FIT) system, for renewable energy has contributed significantly to the spread of renewable energy in Japan. For example, the data on the global cumulative installed capacity of solar power systems shows that Japan ranks third after China and the United States as of the end of 2021.

At COP21, held in Paris, France in 2015, the Paris Agreement was adopted. Based on the treaty, in October 2020, then-Prime Minister Yoshihide Suga of Japan issued the 2050 Carbon Neutrality Declaration to reduce overall greenhouse gas emissions to zero by 2050.

In addition, the Sixth Strategic Energy Plan, which was

approved by the Cabinet in October 2021, outlines a path for energy policy toward achieving carbon neutrality. The plan calls for the further pursuit of thorough energy conservation, setting a target of increasing the proportion of renewable energy in the domestic power supply mix to around 36–38% by 2030.

In Japan, it is predicted that the electricity demand in the industrial sector will increase significantly due to such factors as the construction of new data centers and semiconductor factories. From the perspective of “ensuring energy security,” which is considered a globally common issue, Japan needs to promote new investment, technological development and institutional design that can be compatible with carbon neutrality. For the efforts to reduce greenhouse gas emissions worldwide, various initiatives are underway based on the Asia Zero Emission Community (AZEC) framework. These actions aim to help realize GX in Asia, including ASEAN, where the economic growth is expected to raise energy demand, through the use of Japan's decarbonization technologies and finances.

As you can see, in the context of the major strides toward energy decarbonization, the business environment surrounding the TESS Group has generally become more important in the past and present, and this trend is expected to accelerate further in the future. Carbon neutrality requires significant efforts to achieve. We need to greatly step up our measures to transform the business structure in the energy and industrial sectors and create innovation through bold investment. In other words, we are aware that we must transform ourselves constantly, quickly and boldly according to changes in the external environment to ensure that this favorable trend of decarbonization leads to the growth of the TESS Group.

Overview of the medium-term management plan

Q 2 Firstly, can you walk us through the journey the TESS Group has taken up to the fiscal year ended June 2024 and its accomplishments to date?

We have grown mainly through large-scale solar projects that utilize the FIT system. And the management foundation essential for implementing future investments and strategies is taking shape, both structurally and financially.

With countries around the world beginning to make a major shift toward decarbonizing energy after the adoption of the Kyoto Protocol, the significance and value of the TESS Group increased rapidly. At that time, in a situation where private companies had to meet the sudden requirements by governments to introduce renewable energy, the TESS Group came to attract increasingly more attention for its diverse know-how, achievements and experience cultivated over many years as an engineering company group specializing in environmental measures.

For the past 10 years or so, we have grown mainly through large-scale solar projects that utilize the FIT system. The TESS Group currently operates two business segments, using a one-time sales model and

a recurring revenue model. The Engineering segment, which employs a one-time sales model, has built a track record in commissioned- and development-type EPC (engineering, procurement and construction), while the Energy Supply segment, which adopts a recurring revenue model, has actively promoted the construction of in-house renewable energy power plants to expand an electricity sales revenue.

When evaluating the accomplishments of both segments to date in terms of a medium- to long-term growth strategy, I think that the Engineering segment has strengthened a network base of customers and local governments/communities, while the Energy Supply segment has established a solid revenue base to secure stable and sustainable profits. In other words, the management foundation essential for implementing investments and strategies for the medium- to long-term growth is taking shape, both structurally and financially.

Q 3 Secondly, how do you position the medium-term management plan “TX2030” announced in August 2024?

In response to the growing decarbonization market and the increasing importance of energy storage systems, we formulated a medium-term management plan with clear financial targets.

The TESS Group has multiple business portfolios in the energy field. In IR meetings with securities analysts and institutional investors since the listing, they have often pointed out that the Group’s growth strategy including its focused business areas is hard to understand.

Under the circumstances, the TESS Group formulated and announced the TESS Group Medium-term Management Policy in August 2022, with the desire to present the Group’s growth strategy to its stakeholders, including shareholders and investors, at the earliest possible time as a company listed on the Tokyo Stock Exchange Prime Market. However, at that time, we were unable to provide clear financial targets because the uncertainties in Japan’s energy policy and trends, as

well as changes in the external environment due to the deteriorating situation in Ukraine, made it impossible to fully assess the market trends.

Since then, the market surrounding decarbonization has continued to expand and the energy storage systems have also increased in importance, as seen in signs of growth in the storage battery-related business and more evident output curtailment under the FIT system. For these reasons, we decided that now was the time to develop a medium-term management plan with a medium- to long-term growth strategy and clear financial targets, and in August 2024, we announced the TESS Group medium-term management plan (2025–2030), titled TX2030 TESS Transformation 2030.

TX stands for TESS Transformation, and it also indicates our determination to actively and boldly transform ourselves in response to changes in the external environment and aim for growth while transforming our business structure.

Under this six-year medium-term management plan, we will pursue a two-step growth strategy. After the first “preparation period through growth investments” (until the fiscal year ending June 2027), we expect to see the quantitative results of our investments in the second “growth and expansion period” (from the fiscal year ending June 2028 to the fiscal year ending June 2030).

Q 4 What policies and initiatives will you promote under TX2030?

We will clearly identify key business fields to focus our investments and resources on, and aim to enhance our corporate value by increasing profitability.

The medium-term management plan TX2030 has the following two basic policies.

- (1) Focus on growth investments and management resources in key business fields while using existing businesses as a revenue base
- (2) Achieve high profitability and increase ROE and ROIC through business transformation

Identifying the existing Energy-Conservation and Renewable Energy Solutions business and the newly added businesses of Power Storage System-Related and Resource-Recycling Biomass Fuel as the key business fields, we will implement growth investments and strategies.

The “key business fields” indicated in the basic policy (1) are the following three areas: the existing Energy-Conservation and Renewable Energy Solutions business (solar power, CGS, etc.) and the newly added Power Storage System-Related business and the Resource-Recycling Biomass Fuel business.

With regard to power storage systems, one of the new focused business areas, the growth in renewable energy generation will likely increase their needs. First, the need for power storage plants for the grid will grow, as the stabilized power grid will require storage and adjustment capacity. Second, the market for “FIP conversion of FIT solar power plants + storage battery co-location” for stabilizing revenue is expected to grow rapidly. This is because the existing FIT solar power plants may see their revenue deteriorate in the future due to the impact of output curtailment caused by supply-demand balance

Growing importance of power storage systems

Nationwide expansion of renewable energy power plants output curbs poses a major social challenge to the effective use of renewable energy electricity

The importance of power storage plants, which can flexibly charge and discharge electricity in response to fluctuations in renewable energy output, is expected to increase in order to ensure a stable supply of electric power

Backed by the stabilization of revenue in the Long-Term Decarbonization Power Supply Auction*, subsidies and other policies, further promotion will be expected in the future

FIP conversion of FIT solar power plants + storage battery co-location contributes to the improvement of the overall profitability of the business while minimizing the impact of output curtailment

*Long-Term Decarbonization Power Supply Auction: Newly launched as part of the “capacity market,” which trades future supply capacity. The system aims to achieve carbon neutrality and a stable supply of electricity by 2050, by switching from fossil fuel-based power sources to hydrogen, ammonia, renewable energy and other power sources that achieve carbon neutrality, while encouraging the construction of new power plants (power sources including storage batteries).



and other constraints. The TESS Group will actively address these two market needs and drive the development and expansion of Power Storage System-Related business.

As for the biomass business in Japan, the Group's Saga Imari Biomass Power plant (the project launched in 2016) is finally set to begin operations in Spring 2025. Overseas, we have been working on deploying our own R&D and building a supply chain for fuels that utilize residues from the palm industry in Indonesia. Going forward, we will accelerate our efforts to date and expand the Resource-Recycling Biomass Fuel business as the second most important renewable energy business after solar power.

We will promote business transformation through growth investment to achieve high profitability and high growth.

Regarding business transformation stated in the basic policy (2), we aim to achieve this by steadily promoting the basic policy (1).

In the Engineering segment, the development-type EPC for large-scale solar power projects that utilize the FIT system has been driving revenue, but it has become more difficult to acquire new development projects as the FIT system has been scaled back. On the other hand, from the fiscal year ending June 2026 onward, we expect to see rapid launches of new development projects including power storage plants for the grid and power storage plants EPC such as the FIP conversion of FIT solar power plants + storage battery co-location. The commissioned-

type EPC is also expected to keep expanding steadily.

In the Energy Supply segment, we will consistently expand existing businesses of renewable energy generation and O&M (operation and maintenance) as our traditional revenue base, while also promoting the expansion of biomass fuels and electricity retailing as a new revenue base. In this segment, we will build up these recurring revenue model business and expand their gross profits to approximately 67% by the fiscal year ending June 2030, to further stabilize our revenue base.

We will work to enhance corporate value through ROE/ROIC-focused management, continued growth investment, increased shareholder returns, ESG management, etc.

Regarding enhancing corporate value as indicated in the basic policy (2), we will promote management that considers capital costs and share prices, with an emphasis on the following three factors: ROE/ROIC-focused management, increased shareholder returns backed by profit growth through continued growth investment, and the promotion of ESG management.

As the development investment for the Saga Imari Biomass Power plant is being made upfront, the challenge is that indicators such as ROE and ROIC have deteriorated because these plants are still under construction and has not yet contributed to revenue. We will work to improve profitability from the bottomed-out period of the fiscal year ended June 2024, and from the fiscal year ending

June 2027 onward, we aim to significantly grow profits, improve key indicators and increase shareholder returns.

Furthermore, we plan to actively invest in the period up to the fiscal year ending June 2027, positioning it as a "preparation period through growth investments." In this period, we will take steps to ensure that there is no negative impact on efforts to improve indicators by utilizing non-recourse loans, including project finance, and expanding a one-time sales model of the Engineering segment.

For the promotion of ESG management, the ESG Promotion Committee, led by the Director in charge of ESG and Women's Empowerment, is taking the initiative to help solve environmental and social issues and strengthen governance.

In the global and universal effort to decarbonize energy, the target years for carbon neutrality such as 2030 and 2050 are just passing points. Even beyond 2050, we expect various efforts will be made for energy decarbonization.

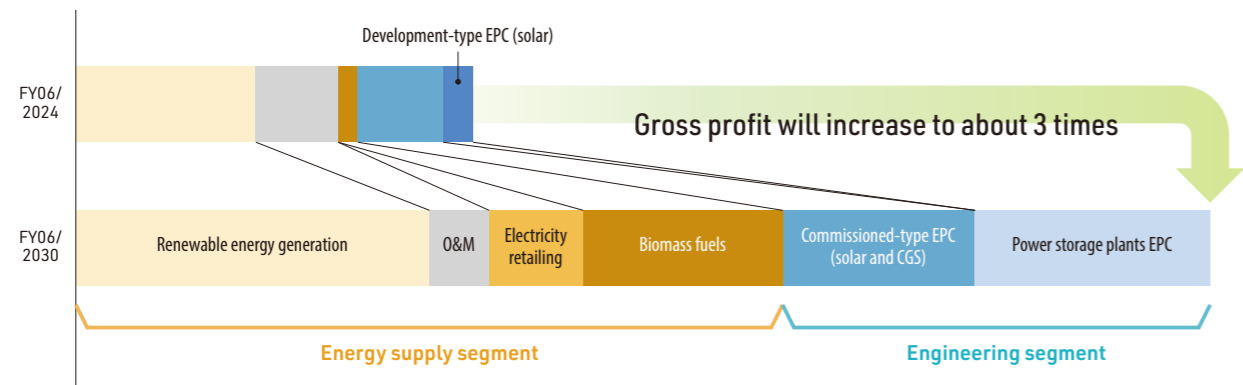
In this trend of the times, the TESS Group will continue to pursue Total Energy Savings & Solutions to provide comprehensive energy solutions to meet the diverse needs of customers in the energy sector and aim to become "a leading company in decarbonization" as set out in our management vision.

Customers who require our energy solution capabilities could expand from Japan to Asia, and even to the world. We are also seeing a glimpse of the potential of renewable energy in the development of new technologies such as hydrogen and ammonia.

While keeping an eye on all these possibilities, we will accurately grasp the needs of the times and boldly take on challenges for sustainable growth.

Please continue to look forward to the challenges of the TESS Group.

■ Image of business transformation (Image of gross profit trend by business)



Future outlook

Q 5 Lastly, tell us about the future outlook.

While keeping an eye on all possibilities such as overseas markets and new technologies, we will accurately grasp the needs of the times and boldly take on challenges for sustainable growth.

Based on the strengthening and broadening of existing business, we will boldly expand our focused business fields



Executive Managing Director
Toshihiro Takasaki

In the TESS Group's medium-term management plan, TX2030, formulated and announced in August 2024, we clearly stated that we will focus growth investments and management resources on key business fields while using existing businesses as a revenue base. In this feature article titled TESS Group's Growth Strategy, Toshihiro Takasaki, Executive Managing Director, will explain specific initiatives for future growth in our focused business fields.

Strategy for key business fields (1) Existing business

**Growing market needs for "existing business."
Strengthen human resources to increase profits.**

The "existing business" described in the medium-term management plan refers to energy-conservation and renewable energy solutions (solar power, CGS, etc.).

Since its founding 45 years ago, the TESS Group has built up a wealth of experience and achievements, establishing a strong customer base. As of June 30, 2024, the TESS Group has installed about 710 solar power generation systems (approximately 1,060 MW) and about 740 cogeneration

systems (approximately 1,333 MW).

The key to this strong track record is an advantage over competitors in the industry. The TESS Group is vendor-free and can provide a one-stop solution from proposals to EPC (engineering, procurement and construction), O&M (operation and maintenance) and finance reviews, which enables us to propose the optimal introduction method tailored to the needs of customers. As we move forward, we believe we can further enhance the value of the TESS Group by leveraging the supply and demand management capabilities we have cultivated through the electricity retailing business and the operation of in-house FIP power plants, and also adding proposals such as the "FIP conversion of FIT solar power plants + storage battery co-location." With these strengths being the key to differentiation in the industry, the TESS Group is continually receiving more inquiries for decarbonization solutions than its management resources.

To meet the ever-expanding market needs, the TESS Group aims to increase not only sales but also profits by expanding the range of orders through strengthened management resources, including an increased number of personnel, and shifting to a strategy of selecting profitable orders from among many projects. Regarding the increase in personnel, we plan to hire 20 to 30 people each year, mainly in sales and engineering, considering both the strengthening of existing business and the expansion of key business fields.

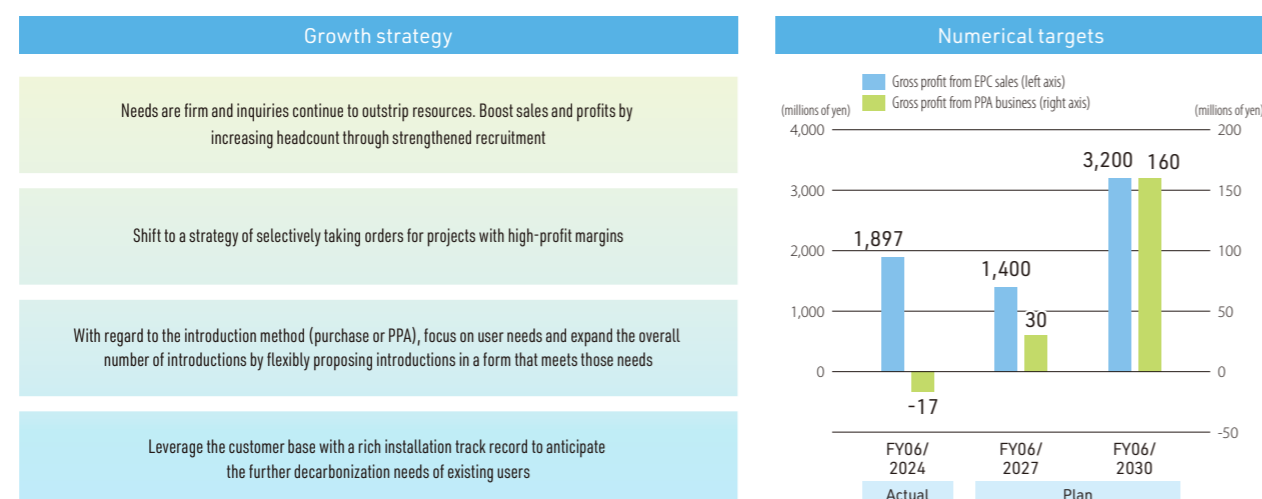
Strategy for key business fields (2) Power storage system-related business

In response to the expanding market for "power storage plants for the grid," which are essential for stabilizing the power grid, we are focusing on building up the development pipeline.

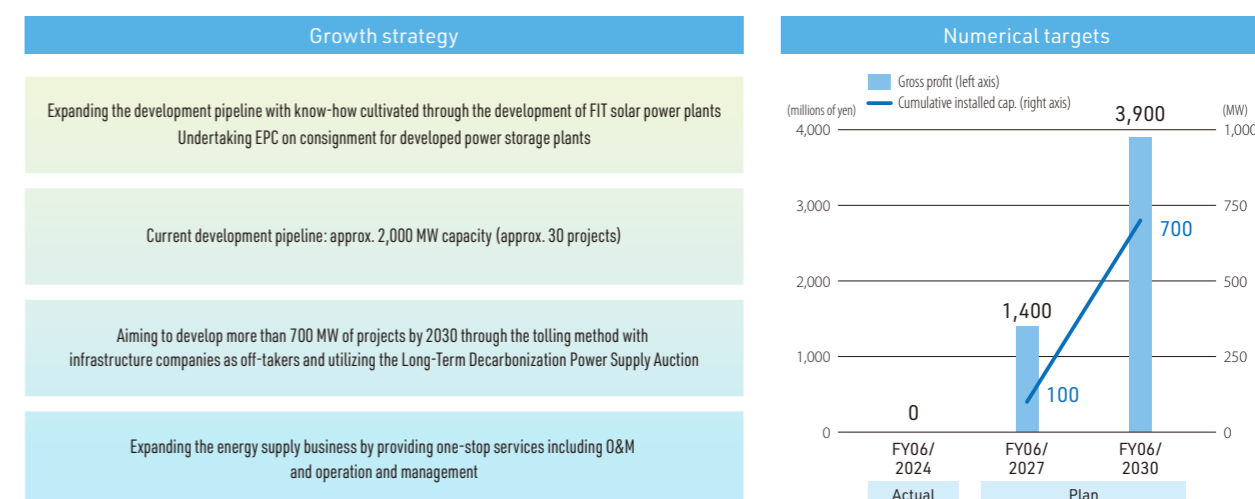
Renewable energy sources such as solar power must have a stabilized power grid to be used as an independent major power source in the future. An indispensable part of this is power storage plants for the grid (storage plants directly connected to the power transmission and distribution systems), and this market is expected to expand rapidly. The TESS Group has a track record of developing more than 500 MW of FIT solar power plants in the high-voltage and extra-high-voltage fields. We believe that this know-how can be used directly in the development of power storage plants for the grid, allowing us to smoothly promote the development.

Experienced employees of the TESS Group lead the development. Specifically, the keys in this process include, for example, researching installation sites to see if they are large enough to accommodate the systems without the need for land development and are inexpensive to connect to the power grid; securing administrative permits and approvals and access routes to the land; and considering the surrounding environment. The TESS Group has internalized the entire process of developing power storage plants for the grid and its strength lies in its ability to provide a one-stop solution.

Growth strategy & numerical targets for existing Energy-Conservation and Renewable Energy Solutions (solar power, CGS, etc.) business



Growth strategy & numerical targets for Development of Power Storage Plants for the Grid



Moving forward, we plan to develop multiple projects simultaneously and sell them as development-type EPC projects to major energy companies and others that wish to operate a grid storage power plant business. We also hope to expand our energy supply segment by undertaking not just EPC, but also O&M and aggregation (operation and management) on an integrated basis.

Responding to the rapid rise of the market for "FIP conversion of FIT solar power plants + storage battery co-location" to effectively use the existing FIT solar power plants.

With the expansion of renewable energy power plants, FIT solar power plants are increasingly subject to output curtailment of solar power generation to maintain the supply-demand balance for electricity during the daytime (this is especially prominent in the Kyushu area). Switching these power plants from the FIT system to the FIP system and co-locating with storage batteries (i.e. FIP conversion of FIT solar power plants + storage battery co-location) enables us to store electricity in the storage batteries when output curtailment is required and feed it into the grid during the mornings and evenings when there is a shortage of electricity, thereby increasing the profitability of the solar power generation business. The benefits are two-fold: the capacity of the renewable energy power plant can be utilized to the fullest, and the storage batteries can be used as a stable power source even after the FIP system period.

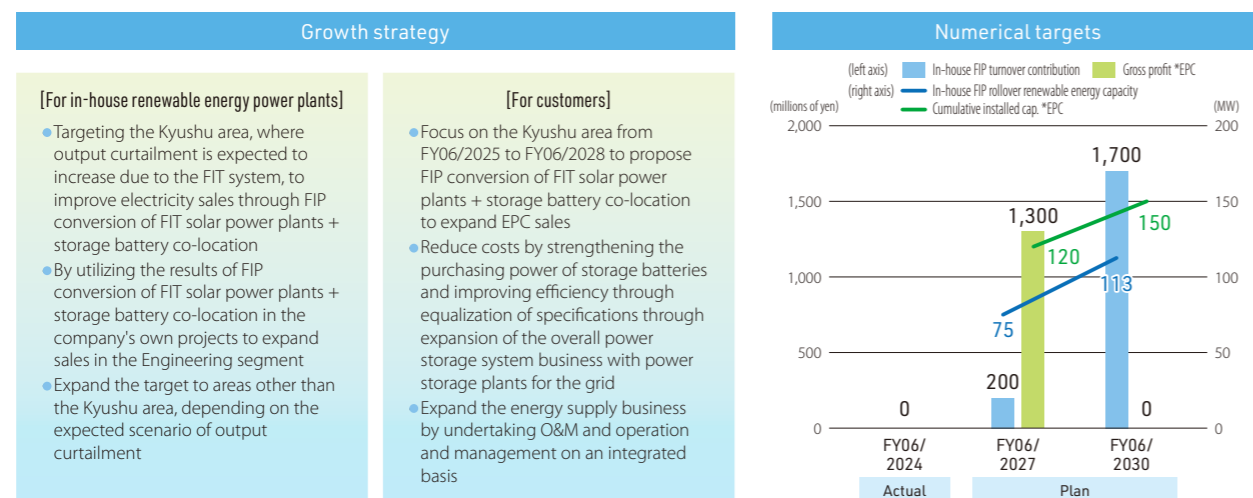
As of the end of June 30, 2024, the TESS Group owns

approximately 275 MW of FIT solar power plants, including those owned by its investees (approximately 130 MW in the Kyushu area alone, which is subject to frequent output curtailment). Switching them to FIP conversion of FIT solar power plants + storage battery co-location is expected to improve the profitability of our power generation business. By leveraging our extensive track record of introducing FIT solar power plants to date, we will focus on developing sales of FIP conversion of FIT solar power plants + storage battery co-location, particularly in the Kyushu area.

Furthermore, by leveraging its strength of being able to provide supply and demand management functions while performing EPC, the TESS Group can take on not only EPC and O&M, but also comprehensive services ranging from power generation forecasts after FIP conversion to operation and management of recharging and discharging of storage batteries.

In addition, when procuring facility equipment, storage batteries can be purchased in bulk for grid storage power plants and for FIP conversion of FIT solar power plants + storage battery co-location for our own and other companies to secure a strong negotiating position with battery manufacturers, which we believe enables us to offer more competitive proposals.

Growth strategy & numerical targets for FIP Conversion of FIT Solar Power Plants + Storage Battery Co-location



**Strategy for key business fields (3)
Resource-recycling biomass fuel business**

By utilizing residual materials from the palm industry, we aim to contribute to the circular economy and expand our recurring revenue model.

Since 2018, the TESS Group has been working on the commercialization of biomass fuels as one of the solutions to realize a resource-recycling society. We are currently pursuing two approaches to commercialize the use of residues derived from the Indonesian palm industry as fuel.

First, we have built a supply chain for PKS (Palm Kernel Shell) since 2020, mainly through our subsidiaries in Indonesia, to export and sell them to biomass power plants in Japan. In the future, we aim to supply the material to the TESS Group's Saga Imari Biomass Power plant and also further promote sales to external customers, specifically targeting 200,000 tons for the Saga Imari Biomass Power plant and 200,000 tons for external customers by the fiscal year ending June 2028. Since the establishment of its first subsidiary in Indonesia, the TESS Group has deployed its employees in the country to visit a palm oil mill by themselves and negotiate the purchase of PKS, building relationships of trust on-site instead of leaving the matter to local dealers. We will continue to work for stable procurement by expanding the supply chain and increasing the number of local staff.

Next, for EFB (Empty Fruit Bunch) pellets, we have been conducting R&D in Indonesia since 2018, even before we

started working on PKS. Now that we have a good prospect for pelletizing EFB, we will move on to large-scale production after verifying the cost balance and stable manufacturing in mass production (see TOPIC 1 on pages 33–34 for details).

Both PKS and EFB are used to realize resource recycling by making effective use of the residual materials from the palm industry. In particular, EFB pellets are considered to have an overwhelmingly low environmental impact compared to wood pellets made by cutting down forests, so we think that they will appeal to environmentally conscious users.

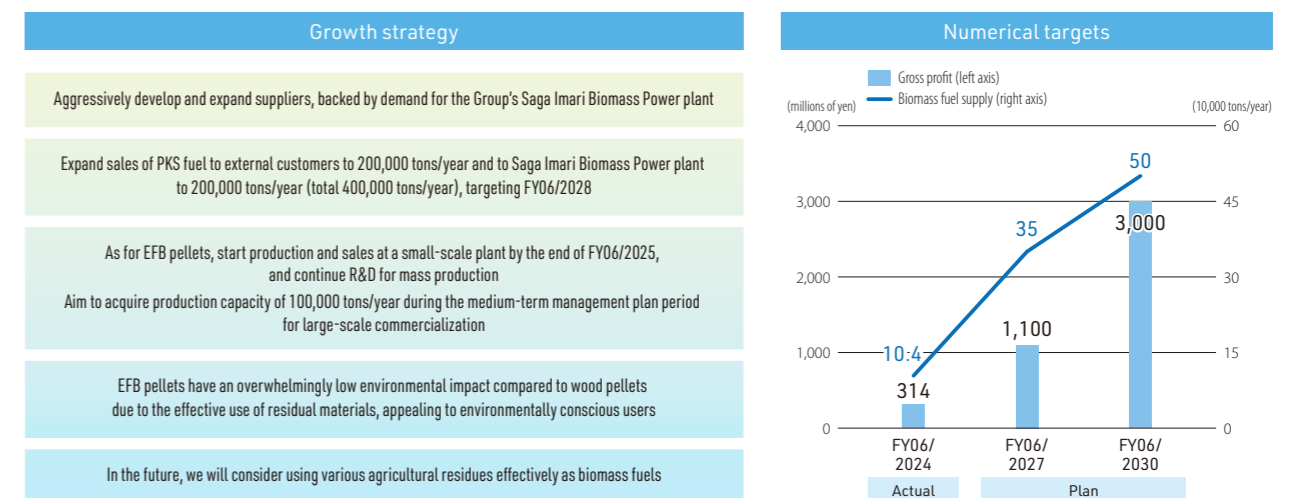
Future outlook

We will grow to contribute to the world as a "leading company in decarbonization."

The conditions for energy decarbonization are expected to become even more favorable beyond 2030 toward 2050, the target year of carbon neutrality. The TESS Group will provide decarbonization solutions suited to the times, such as the adoption of perovskite solar power generation and the use of new fuels including hydrogen, ammonia and e-methane, in addition to focusing on key business fields including existing businesses, storage batteries and resource-recycling biomass fuel supply, to grow to contribute to the world as a "leading company in decarbonization."

We ask for the continued understanding and support of all our stakeholders.

Growth strategy & numerical targets for Resource-Recycling Biomass Fuel business





Based on a culture and work environment
where diversity thrives,
we will create human capital to
support our growth strategy

My mission is to discover and pursue the best way of human capital management for the future TESS Group.

Our company name (TESS) is derived from our management philosophy of Total Energy Savings & Solutions, and the TESS Group's purpose is to contribute to global energy decarbonization by realizing this philosophy.

The business activities to pursue these very future-oriented management philosophy and purpose had actually been taking place in a corporate culture that could be described as the complete opposite of this – it was slightly old-fashioned. That is to say, because the TESS Group operates energy-related businesses such as energy conservation and renewable energy and its core business has been engineering-related EPC (engineering, procurement and construction) for energy plants and facilities since its founding, the technical staff on-site, in particular, had been trapped, for better or worse, in their “old-fashioned construction business mindset.” For example, there had traditionally been few women in the workplace, and the industry as a whole has a system where construction management work is carried out even on Saturdays and Sundays. These organizational structure and practices had continued to be such that it was almost unthinkable for women to take on career-track or managerial positions. Even in non-technical positions, an elect few was valued; they were always required to handle more work with a minimum number of staff. It was difficult for people with restrictions or constraints on the way they work, due to childcare, nursing care, illness or other reasons, to thrive.

To make a drastic change to this situation, the Company's chairman and president decided to bring in management from outside and in May 2022, I joined the Company as an executive officer in charge of ESG and Women's Empowerment. Then in September 2022, I assumed the position of Director and

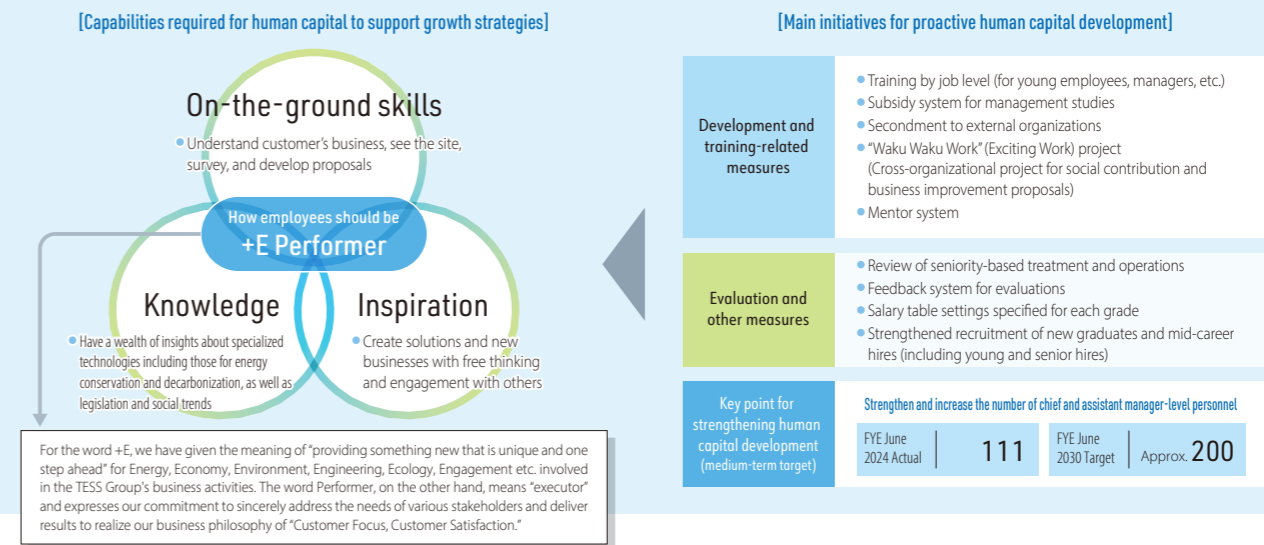
in January 2024, when the Human Capital Strategy Division was spun off from the Administration Department, I was also appointed as General Manager of the Human Capital Strategy Division.

I believe my mission is to discover the best way of human capital management for the future TESS Group from an outside standpoint. To this end, I think it is important to precisely identify the traditions that should be firmly protected and the transformation that should be boldly promoted, and pursue both of them simultaneously.

We aim to develop human capital that always addresses customer needs sincerely and proposes new value one step ahead.

The most important tradition for us to firmly protect is the desired profile of human capital at the TESS Group. This is where the experience and achievements we have accumulated since our founding live on. We define the core “how employees should be” as +E Performer (pronounced “plus E performer,” meaning someone who sincerely addresses the needs of various stakeholders and provides something new that is unique and one step ahead) and expect our employees to develop the three capabilities of On-the-ground skills, Knowledge and Inspiration to become such human capital. For example, in our core business of engineering, employees must certainly have specialized on-the-ground skills and knowledge, but in addition to these, we think it is also extremely important to have the inspiration in thoroughly pursuing our business philosophy of “Customer Focus, Customer Satisfaction.” To make customers satisfied, we must thoroughly correct the attitude of not trying to meet customer needs by saying “Because this is how it has always been” or “Because this is how it should be given the

Overview of the TESS Group's human capital development



TESS Group's Sustainability Management

The TESS Group has an ESG policy. As a leading company in decarbonization, we aim to contribute to global energy decarbonization and achieve the SDGs by promoting ESG-related initiatives.

ESG Policy

The TESS Group positions ESG and compliance at the core of its management and aims to contribute to global energy decarbonization and realize the SDGs.

Environment E	Social S	Governance G
We aim to realize Total Energy Savings & Solutions for our customers and local communities.	We will develop human capital and social infrastructure to support business growth.	We will carry out fair and highly transparent management.

Sustainability Promotion Structure

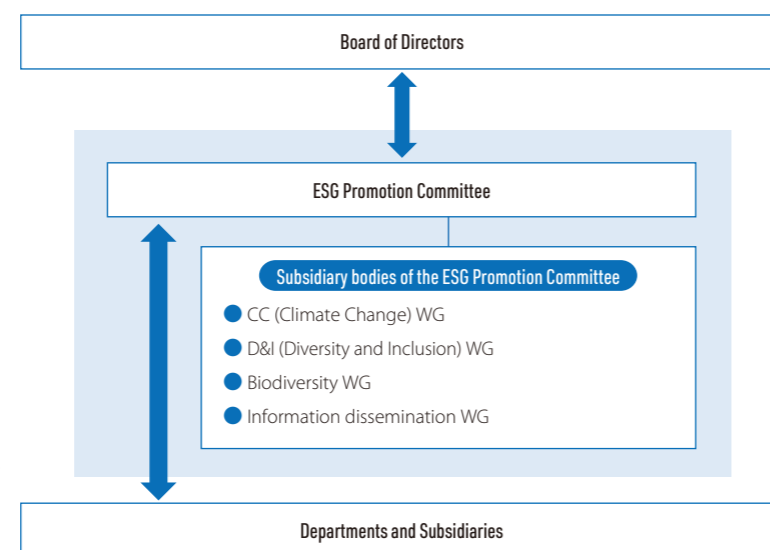
Our Board of Directors supervises and instructs each of the departments and subsidiaries by formulating management strategies and medium-term management plans, as well as managing various initiatives and business targets, etc. These strategies and plans are based on sustainability-related matters such as responses to climate change and human capital diversification, from both risk management and business creation aspects. From the perspective of strengthening oversight of the TESS Group's sustainability initiatives, including climate change responses and human capital diversification, the Board of Directors passed a resolution in June 2022 to establish an ESG Promotion Committee, chaired by the Director in charge of ESG and Women's Empowerment, and the ESG Promotion Committee was established on July 1 of the same year.

The ESG Promotion Committee is placed directly under the Board of Directors and consists of seven directors of the Company (including three external directors who are members of the Audit and Supervisory Committee), four directors of TESS Engineering Co., Ltd. (excluding the Company's concurrent officers), one company auditor of TESS Engineering Co., Ltd. (excluding the Company's concurrent officers), one director of Kyoritsu Engineering Co., Ltd., one executive officer of the Company and three executive officers of TESS Engineering Co., Ltd.

The ESG Promotion Committee identifies materiality issues by extracting and analyzing potential sustainability-related risks and opportunities in the TESS Group's business activities, studies countermeasures and manages the progress of such measures.

As subsidiary bodies of the ESG Promotion Committee, working groups (subcommittees) for Climate Change (CC), Diversity and Inclusion (D&I), biodiversity and information dissemination have been set up to examine specific measures for initiatives on the identified materiality issues and other individual themes.

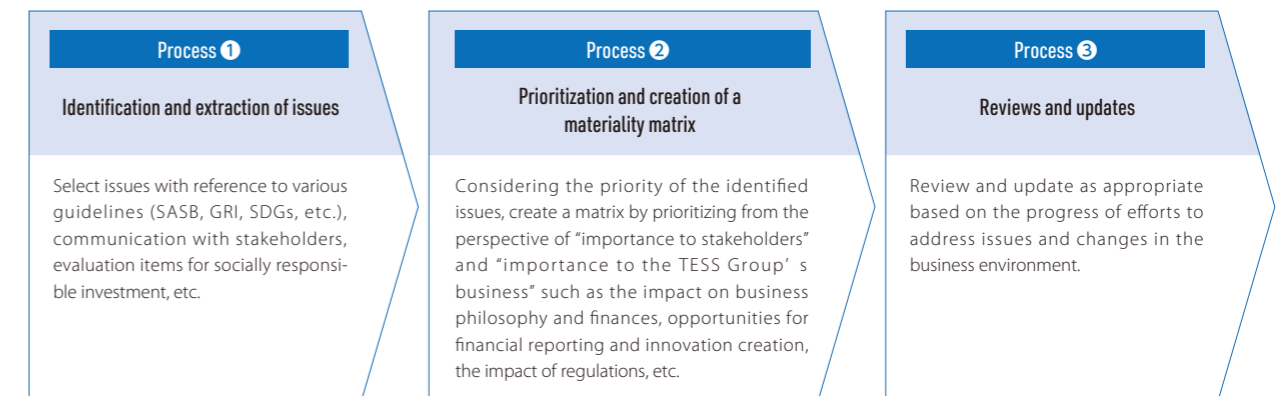
We also hold regular dialogues with external experts and other stakeholders to obtain their candid opinions and advice for the future, with the policy of incorporating their opinions and advice into our management as appropriate.



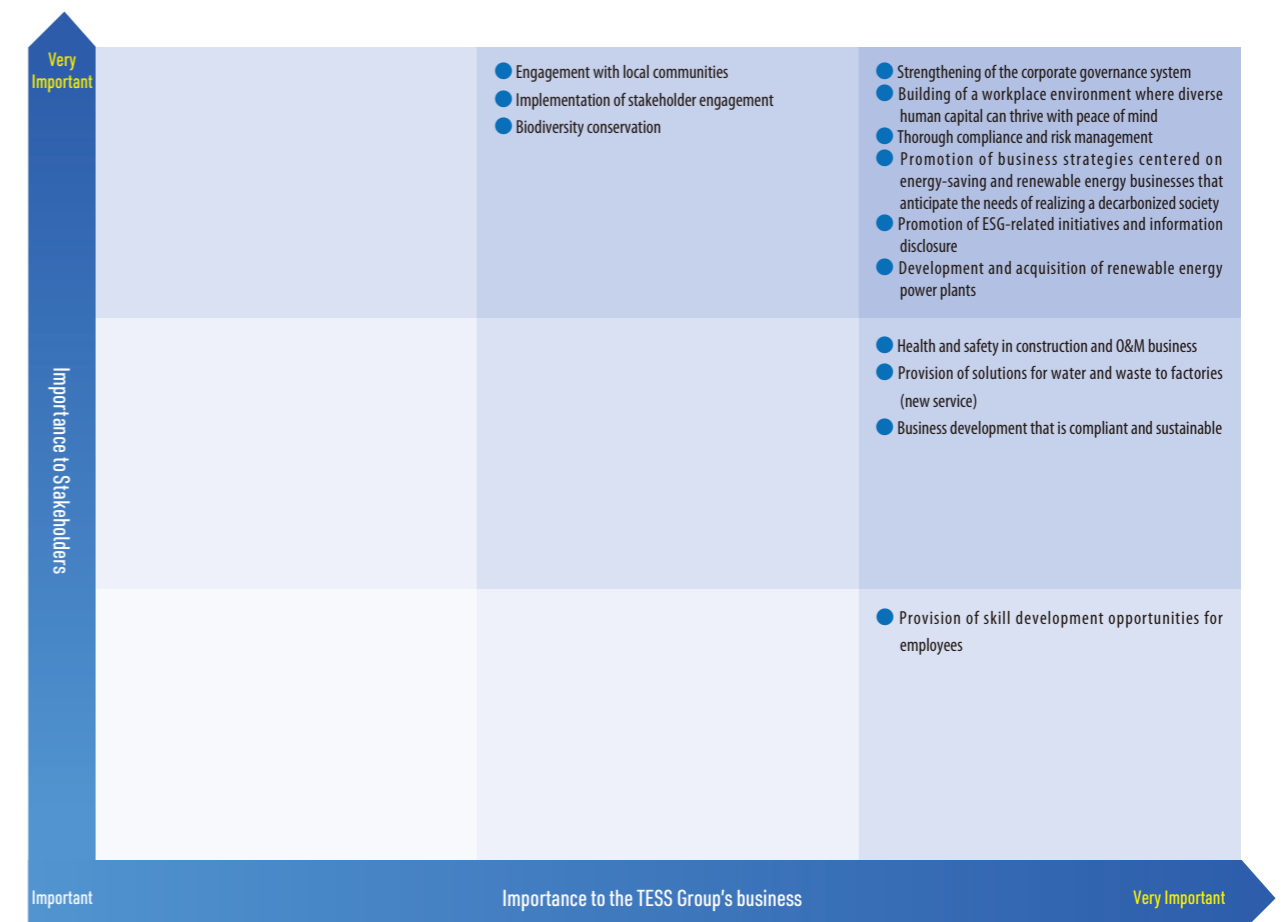
Materiality (priority issues)

The TESS Group has identified priority issues (materiality) based on "importance to stakeholders" and "importance to the TESS Group's business." By addressing these material issues, we will not only aim for the sustainability of our corporate activities and improve our corporate values over the medium- to long-term, but also contribute to the realization of a sustainable society.

Materiality Identification Process



Materiality Matrix



S

Initiatives for Human Capital

The TESS Group has formulated a human capital strategy to realize its purpose and growth strategy and is working to develop various policies, promote systemic reforms and establish education and training systems that will serve as the basis for diverse human capital to work actively and lively.

TESS Group basic policy for human capital development

At the TESS Group, people are our valuable assets. To develop human capital that supports the implementation of our purpose of “contributing to global energy decarbonization through the realization of Total Energy Savings & Solutions” and the realization of our corporate growth strategy, we will:

- Systematically implement proactive human capital allocation and development to drive company and individual growth, including making transfers and rotations for further skill development of employees, in addition to placing the right person in the right job.
- Provide opportunities for skill development in a multifaceted and systematic approach, not only through on-the-job training (OJT) at assigned departments, but also through off-the-job training (OFF-JT) that is planned and undertaken within departments or provided by job level across the organization.
- Constantly review the best way to improve our personnel, evaluation and compensation systems, and strive to create systems and mechanisms that balance rewarding work with a good work environment to improve the job satisfaction of our employees.
- Strive to build a work environment where diversity thrives to mutually make the most of individual abilities and differences, and aim to build a corporate culture where we “love people, trust people, recognize people, develop people and rejoice with them in their success.”

Proactive human capital development in line with growth strategy

As part of the proactive human capital development in line with our growth strategy, we have been working to enhance recruitment (new graduates + mid-career hires) and training. As a result, the number of employees in the fiscal year ended June 30, 2024 increased approximately 1.4 times over the past four years to 405. In terms of productivity, operating profit per employee increased by about 1.6 times during the period from the fiscal year ended June 2020 to the fiscal year ended June 2023, due in part to factors such as the acquisition of large-scale development-type EPC projects and the sale of in-house solar power plants, which contributed to profits. However, in the fiscal year ended June 2024, operating profit per employee was at a low level due to a decrease in profits year-on-year partly because the above-mentioned profit contributions were small. Going forward, to achieve the medium-term management plan, we aim to increase operating profit per employee by strengthening our human capital through the following initiatives and by generating profits in our focused business fields.

Initiative ① Enhance recruitment

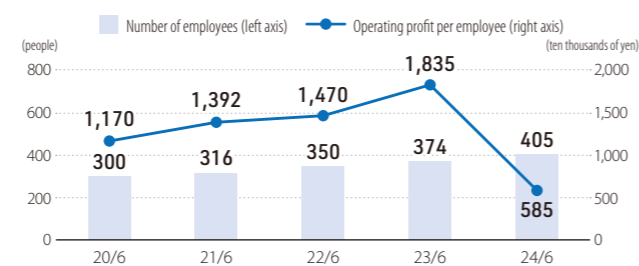
The TESS Group promotes individuals based on their ability and performance, regardless of gender, age, nationality, work history, etc., and will continue to strengthen new graduate and mid-career recruitment with diversity in mind. We also introduced a referral system in July 2024 and are working on recruitment through referrals from our employees.

Initiative ② Strengthen proactive human capital allocation and development

In allocating talent, we will not only assign the right person to the right place, but also transfer and rotate employees to further develop their skills. In strengthening their development, we will provide OJT in each business unit and OFF-JT by job level across the organization. For training by job level, we will provide training for managers and also enhance the abilities of managers who are responsible for human capital development.

In addition to company-wide efforts, each business unit has also begun to proactively engage in human capital development. As an example, the Engineering Department of TESS Engineering Co., Ltd., a core subsidiary of the TESS Group, clearly stated its own human capital development policy and development structure in the fiscal year ended June 30, 2024. We intend to encourage horizontal deployment to other business divisions in the future.

Number of employees & operating profit per employee trend (consolidated)

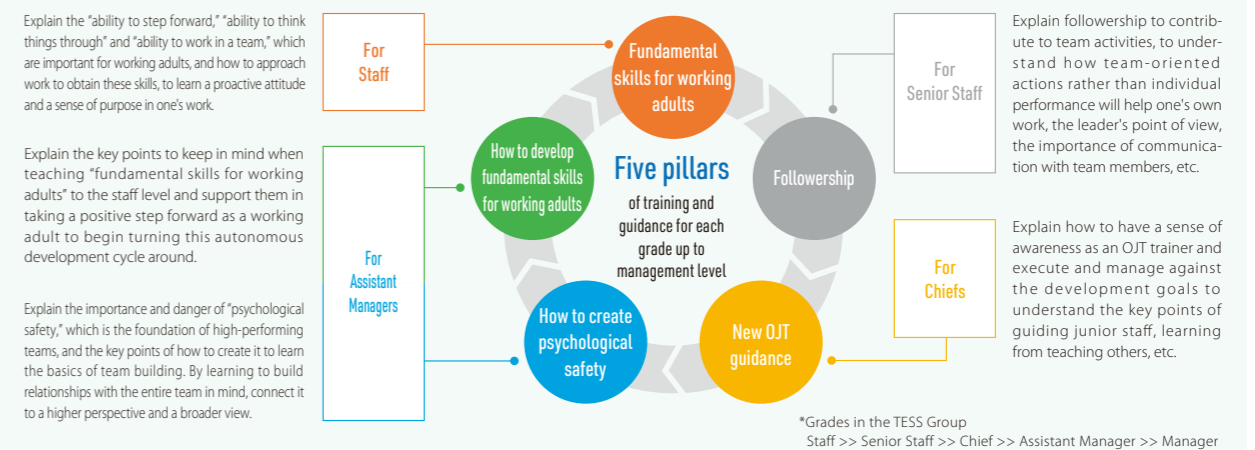


	6/2020	6/2021	6/2022	6/2023	6/2024
Net sales (millions of yen)	28,415	34,249	34,945	34,415	30,643
Operating profit (millions of yen)	3,511	4,399	5,146	6,864	2,370
Number of employees (people)	300	316	350	374	405
Net sales per employee (ten thousands of yen)	9,471	10,838	9,984	9,201	7,566
Operating profit per employee (ten thousands of yen)	1,170	1,392	1,470	1,835	585

Example of initiatives in the business unit

Human capital development structure to promote autonomous growth

The Engineering Department of TESS Engineering is working to build a training system consisting of five pillars, as shown in the figure below, to create an organization that enables employees to grow autonomously. By doing so, we aim to realize an “autonomous development cycle” in which one’s own growth directly leads to the development of the next generation.



Creation of systems and mechanisms that balance rewarding work with a good work environment

To improve the job satisfaction of our employees and ensure higher quality work performance, we have been working on the following initiatives.

Initiative ① Wage increase and additional allowances

Some of the TESS Group companies, including the Company, have raised wages by an average of approximately 5 %, effective July 2024, to respond to higher prices, increase employee motivation and better compete in the labor market for human capital.

We also changed the system to provide employees on an extended business trip with three monthly homecoming allowances.

Initiative ② Employee engagement survey

We have started a regular annual employee engagement survey from June 2024. The results of the survey will be utilized in the consideration of initiatives to create a better work environment.

Initiative ③ President's award system

At a meeting to report management targets for the year, held at the beginning of each fiscal year and attended by all officers and employees, the President’s awards are presented to teams and employees in recognition of their achievements over the past year. In July 2024, awards were presented for winning a major maintenance order and for completing the in-house biomass power plant project.

A scene from the President's awards



Initiative ④ Personnel and evaluation system review and continued work style reforms

We are striving to create a workplace environment that balances rewarding work with a good working conditions, while continually reforming the way we work, such as by reviewing to shift to a more flexible personnel and evaluation system and raising productivity through the promotion of business process improvements in consideration of DX (Digital Transformation). In addition, we will work to revitalize internal communication by increasing opportunities for internal exchange and messaging from management. Based on the results of the employee engagement survey among other factors, we will consider and implement the next steps.

From the fiscal year ending June 30, 2025, we plan to launch the following initiative.

Initiative ⑤ Newly introduced specialist course

We plan to introduce a specialist course in which employees can make use of their knowledge and abilities in each specialized field, rather than aiming for managerial positions in their career path, and contribute to the company as a specialist to receive recognition according to the level of their contribution.

S

Initiatives for Human Capital

Building a culture and work environment where diversity thrives

We are working to build a culture and work environment where diversity thrives and everyone can work with peace of mind, in which we can expect to see employees mutually making the most of individual abilities and differences to maximize their strengths and generate innovation.

In July 2024, we established and announced the TESS Group Human Rights Policy, which clarifies the TESS Group's stance on respect for human rights. We are working to foster a culture where diversity thrives by promoting its permeation through in-house training and providing internal education such as D&I training for all officers and employees. We also provide internal events that offer opportunities for further internal communication to deepen mutual understanding among employees. We will continue to build systems and implement initiatives that enable our diverse talent to work in more flexible ways.

Major initiatives in recent years

System

- Introduced staggered working hours system
- Continuing telework system
- Introduced a second job system
- Introduced volunteer leave system
- Introduced sports activity support system
- Introduced subsidy system for management studies
- Introduced new area career-track positions

Recruitment

- Promoting employment of para-athletes
- Promoting employment of seniors
- Recruiting foreign nationals
- Raised the target ratio of female employees in new graduate recruitment
- Strengthening recruitment by introducing a referral system

Others

- Established and announced human rights policy
- Reformed work style at construction sites
- Implementing D&I and anti-harassment training for all officers and employees
- Implementing 1-on-1 meetings by Director in charge of ESG and Women's Empowerment with all female employees and male managers
- Implementing employee engagement survey
- Introduced free address system
- Installed water dispensers at each location
- Holding internal exchange events such as International Women's Day and Healthy Lunch Day
- Holding lunch exchange meetings between the president and employees
- Published a collection on manners as a TESS person

etc.

TESS Group Human Rights Policy ▶ <https://www.tess-hd.co.jp/english/company/human-rights.html>



Health considerations

We have also started initiatives to protect the health of our employees. In the annual stress checks, we have set up opportunities for each department to consider areas for improvement based on the results of the checks, starting from the fiscal year ended June 30, 2024. We have been checking for improvements not only within the department but also across the company. In addition to installing water dispensers at each location, we regularly hold internal events such as Healthy Lunch Day as an opportunity for employees to interact with each other while enjoying a healthy lunch at each location.

Status of indicators related to human capital

Indicators ^{*1}	FY06/2022 (Actual)	FY06/2023 (Actual)	FY06/2024 (Actual)	FY06/2030 (Target)
Ratio of female employees	21.0%	20.1%	21.5%	30% or more
Ratio of female managers ^{*2}	3.9%	3.7%	3.0%	10% or more
Ratio of employees taking paid leave	69%	56%	66.3%	80% or more
Ratio of male employees taking parental leave	—	—	12.5%	100%
Ratio of employees with disabilities	2.9%	2.9%	3.0%	3.1% or more
Number of chiefs and assistant managers ^{*2}	83	88	111	Approx. 200
Per capita investment in education (full-time employees)	76,000 yen	56,000 yen	69,000 yen	80,000 yen or more
Number of serious industrial accidents	0	0	0	0
Number of serious legal violations	0	0	0	0

^{*1} Total of the TESS Group
^{*2} Compiled as of the end of July

E

Initiatives for Environment

In response to climate change, the TESS Group is driving our efforts to reduce its environmental impact through business operations, in addition to working on TCFD Recommendations, responding to the CDP (Carbon Disclosure Project) survey and participating in the JCI (Japan Climate Initiative) and Challenge Zero.



Initiatives in response to TCFD Recommendations

The TESS Group expresses support for the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD), which had been founded by the Financial Stability Board (FSB). The TCFD recommendations request that information be disclosed about climate change-related Governance, Strategy, Risk Management, and Indicators and Targets. In line with the recommendations, the TESS Group discloses relevant information. For more details, please see our website.



Initiatives in Response to TCFD Recommendations ▶ <https://www.tess-hd.co.jp/english/company/tcf.html>

Governance

The TESS Group does not limit its climate change response to a risk management perspective but recognizes it to be one of the material management issues in terms of creating business opportunities. Our Board of Directors supervises and instructs each of the departments and subsidiaries by formulating management strategies and medium-term management plans as well as managing various initiatives and business targets, etc., from both risk management and business creation aspects while taking into account response to climate change.

Strategy

We identify physical and transition risks and business opportunities associated with climate change and assess the effects of those risks and opportunities in our business strategies and financial planning. A scenario analysis is conducted using 2-degree and 4-degree scenarios during risk identification.

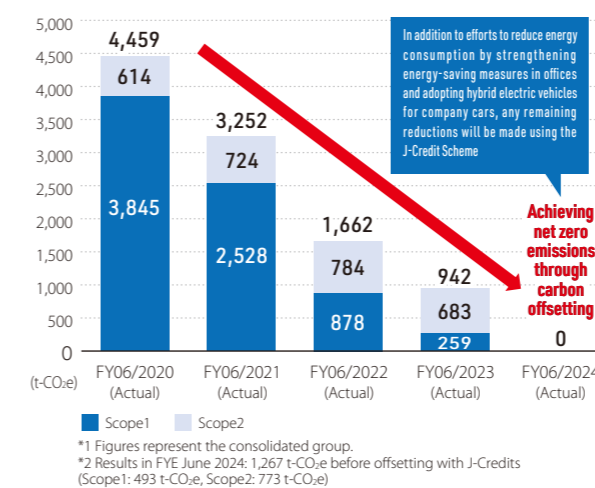
Risk Management

The ESG Promotion Committee identifies and assesses climate-related risks. Material risks including these have been reported and shared with the Board of Directors and others as appropriate in cooperation with the Compliance Risk Management Committee, and suitable countermeasures are scheduled to be examined.

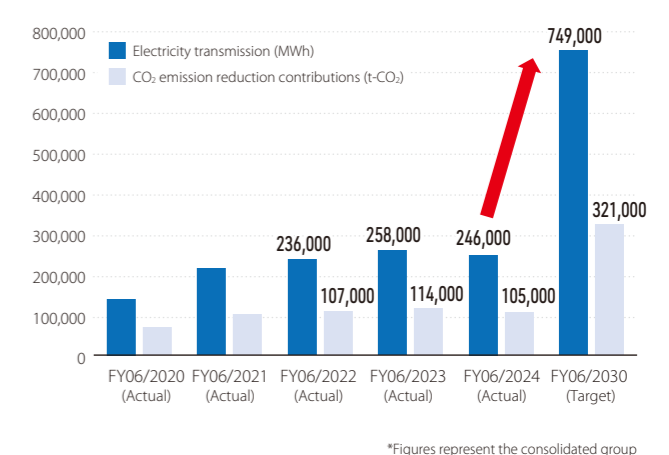
Indicators and Targets

We apply GHG emissions (Scopes 1+2 in t-CO₂e) and our renewable energy power plant transmission of electricity (MWh) and the resulting contribution to CO₂ emission reduction amount (in t-CO₂) as indicators in assessing risks and opportunities associated with climate change. The trends and target are shown in the chart below.

TESS Group GHG emissions trend

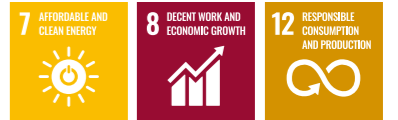


Trend and target of TESS Group electricity transmission and CO₂ emission reduction contributions



Initiatives for Environment

► **Pickup Topics** - Initiative to reduce environmental impact through business



TOPIC 1 Resource-recycling biomass fuel business effectively using crop residues in Indonesia

Aiming to contribute to the circular economy and energy decarbonization in the palm oil

As part of its efforts for global energy decarbonization, the TESS Group is working to effectively use crop residues as biomass fuel. Among these efforts, to utilize crop residues from the palm oil industry in Southeast Asia, we established PT PTEC RESEARCH AND DEVELOPMENT, a subsidiary for research and development in Indonesia, the largest palm oil producing country, and launched the PTEC (Palm Tree Energy Conversion) Project in 2018.

Social Background and Issues

The palm oil industry in Indonesia, the world's largest producer of palm oil, is an important industry that supports the country's economy. However, the majority of EFB (Empty Fruit Bunch), the residue generated after palm oil extraction, is left unused because there is no effective way to utilize it except for use as fertilizer or fuel, etc. This causes problems such as soil contamination and the emission of methane gas, which is a greenhouse gas. It is considered desirable to cut down and replant palm trees that have been planted for many years and whose yield has declined, but since there is no use for the old palm trunks (OPTs) that have been cut down and it is also expensive to dispose of them, small- and medium-scale plantations are slow to respond. They are clearing nearby virgin forests to create new plantations to maintain harvests, which is causing overexploitation. Therefore, it is necessary to resolve these problems by making effective use of EFB and OPT.



EFB is left unused



EFB



EFB pellets (produced by PTEC)

producing country by effectively using crop residues as biomass fuel

On the demand side of biomass fuel, the growing expansion of renewable energy due to the global decarbonization trend is increasing the use of biomass power generation, accelerating the demand for biomass fuel year by year. However, the biomass fuel generally consumed are limited to wood pellets and palm kernel shells (PKS), which highlights an issue of tight fuel supplies. In addition, there is a need to use sustainable fuel for biomass power generation, taking into account the environmental and social impacts throughout its lifecycle from raw material production to consumption. For these reasons, the industry is seeking new raw materials that can be used as sustainable biomass fuel.

Contribution to Society and Environment

Against this backdrop, the TESS Group aims not only to reduce waste in the palm oil production process by utilizing EFB as a raw material for pellets, but also to contribute to solving social issues in Indonesia, such as soil contamination, increasing greenhouse gas emissions due to methane gas generation and overexploitation of new plantations. By supplying the produced EFB pellets as a new sustainable biomass fuel to meet the world's demand for decarbonization, we believe that we can also contribute to the realization of a decarbonized society.

Also, on the side of the producing countries, we believe that the fuel from the residues can be effectively used in their countries' thermal power plants to realize a circular economy, and that the pellet production plants can create new jobs in the entire region.

Current Status of Initiatives and Future Goals

Currently, three TESS Group engineers are stationed at our R&D base in Indonesia, working with locally hired employees on R&D for the production and sale of EFB pellets. In December 2022, we concluded an agreement with PTPN (a state-owned palm plantation company in Indonesia) for the EFB pellet production business and now working on efforts such as conducting a feasibility study for the construction of a plant with full-scale pellet production capacity in North Sumatra, Indonesia.

In the future, we will continue R&D for mass production to acquire 100,000 tons/year of EFB pellet production capacity by 2030 as part of our Resource-Recycling Biomass Fuel business, one of the focused business fields in the medium-term management plan.

In addition, from the perspective of ensuring sustainability, we plan to obtain third-party sustainability certification and will also consider initiatives to establish a system to confirm that our own raw materials have continuously been cultivated in a sustainable environment.

TOPIC 2 Woody biomass power generation business effectively utilizing unused local thinned wood in Kumamoto Prefecture

Developing a woody biomass power generation business using 100% domestic timber

In September 2023, the TESS Group started a power generation business at the Nishiki-machi 2MW Woody Biomass Power Plant (Nishiki-machi, Kuma-gun, Kumamoto Prefecture), a woody biomass power plant operated by Kumamoto Nishiki Green Power LLC. This power plant is fueled by unused thinned wood from the Hitoyoshi/Kuma regions of Kumamoto Prefecture and northern Kagoshima Prefecture and operates a woody biomass power generation business using 100% domestic timber.

The strength of this power plant is that it can use branches, wood scraps, bark and other materials that would normally be discarded as fuel by using power generation equipment with excellent combustion technology. This allows the plant to utilize more unused resources, contributing to the reduction of waste from the region.



Nishiki-machi 2MW Woody Biomass Power Plant

by effectively utilizing unused thinned wood from the region as fuel



Chip mill attached to the power plant

In addition, the plant regularly holds power plant tours for local high school and other students studying forestry. The TESS Group is actively engaging in these and other activities that contribute to the local community.



A scene from the power plant tour

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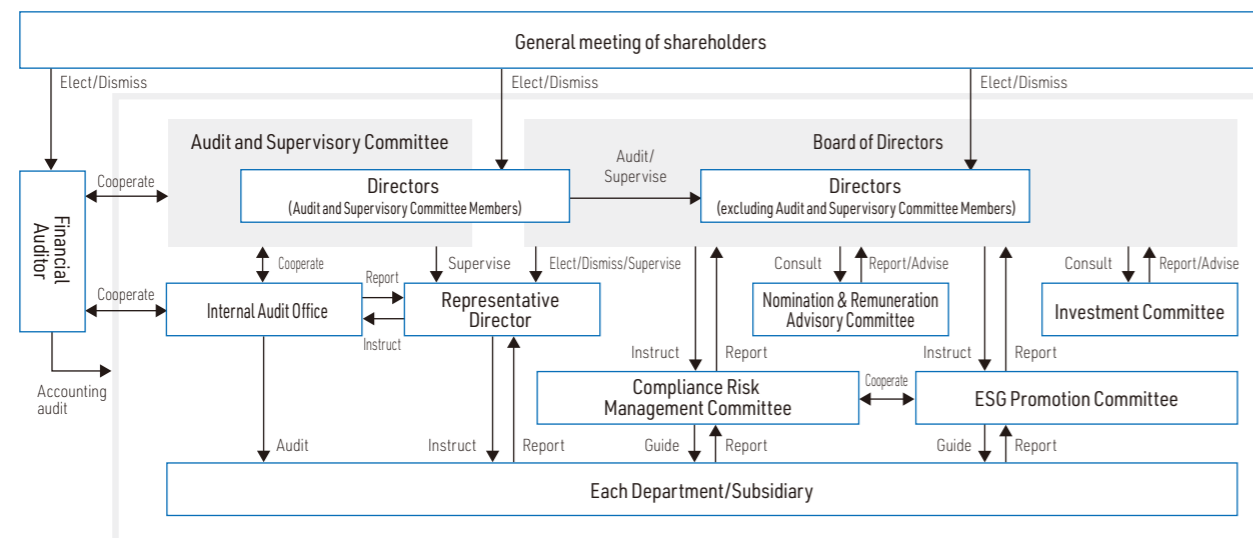
Corporate Governance

We are a Company with an Audit and Supervisory Committee and have bodies such as a Board of Directors, Audit and Supervisory Committee and Financial Auditor. We have adopted the current system because we believe that having the Audit and Supervisory Committee, in which the majority of members are external directors, involved in management decision-making will enable us to strengthen the auditing and supervisory functions of the Board of Directors, further enhance our corporate governance and improve management efficiency.

Basic approach to corporate governance

We strive to strengthen and enhance corporate governance by fulfilling our social responsibility to our shareholders and other stakeholders and earning their trust, as well as by establishing compliance, decision-making and business execution, and appropriate supervision and monitoring systems from the perspective of achieving sustainable growth and increasing corporate value.

Our corporate governance structure (as of June 30, 2024)



Overview of the corporate governance structure

As a Company with an Audit and Supervisory Committee, we have established the following bodies to strengthen our corporate governance structure.

Board of Directors

The Board of Directors consists of eight directors, three of whom are external directors. The Board of Directors meets monthly in principle and holds extraordinary meetings as necessary to make decisions on important matters related to management and business execution.

Audit and Supervisory Committee

The Audit and Supervisory Committee consists of four members, including three external directors who are members of the Audit and Supervisory Committee. The Audit and Supervisory Committee meets monthly in principle and holds extraordinary meetings as necessary. The Audit and Supervisory Committee members attend the Board of Directors meetings and other important meetings and ensure an appropriate supervisory and auditing system for management through audit procedures, including inspection of important documents based on the audit plan and questions for officers and employees.

Nomination & Remuneration Advisory Committee

The Nomination & Remuneration Advisory Committee is a voluntary advisory body to the Board of Directors and consists of five directors, three of whom are external directors. The majority of the committee members are external directors. The Nomination & Remuneration Advisory Committee meets at least once a year, in principle, and as needed. The Nomination & Remuneration Advisory Committee deliberates on director nominations and remuneration to ensure transparency and objectivity in these matters.

Investment Committee

The Investment Committee is a voluntary advisory body to the Board of Directors and consists of three directors and one executive officer. The Investment Committee deliberates on business investment in the TESS Group to ensure transparency and objectivity in these matters.

Compliance Risk Management Committee

The Compliance Risk Management Committee is placed directly under the Board of Directors and consists of seven directors of the Company (including three external directors who are members of the Audit and Supervisory Committee), four directors of TESS Engineering Co., Ltd. (excluding the Company's concurrent officers), one company auditor of TESS Engineering Co., Ltd. (excluding the Company's concurrent officers), one director of Kyoritsu Engineering Co., Ltd., one executive officer of the Company and three executive officers of TESS Engineering Co., Ltd. The Compliance Risk Management Committee identifies and analyzes potential risks in the TESS Group's business activities, and discusses and promotes effective compliance initiatives and risk management to further strengthen the corporate governance structure.

ESG Promotion Committee

The ESG Promotion Committee is placed directly under the Board of Directors and consists of seven directors of the Company (including three external directors who are members of the Audit and Supervisory Committee), four directors of TESS Engineering Co., Ltd. (excluding the Company's concurrent officers), one company auditor of TESS Engineering Co., Ltd. (excluding the Company's concurrent officers), one director of Kyoritsu Engineering Co., Ltd., one executive officer of the Company and three executive officers of TESS Engineering Co., Ltd. The ESG Promotion Committee identifies materiality issues by extracting and analyzing potential ESG-related risks and opportunities in the TESS Group's business activities, and studies countermeasures to manage the TESS Group in a way that enables long-term and sustainable growth of the Group.

Internal Audit Office

The Internal Audit Office is an independent department that reports directly to the Representative Director. With the approval of the Representative Director, the Internal Audit Office formulates its own internal audit plan and conducts internal audits of all departments and subsidiaries in a two-year cycle.

Compliance Risk Management (Risk Management Structure)

The Company has established the Compliance Risk Management Committee as the Group compliance committee to build a risk management structure, and has also established the Risk Management Regulations to ensure their appropriate application. Should a material event occur over the course of business activities, it is reported to the Compliance Risk Management Committee, and a structure is in place for deliberations to take place as necessary regarding the handling of the situation. We have also established a system to receive advice from outside experts such as attorneys, auditors and tax accountants as needed to detect risks early and prevent their occurrence. With regard to sustainability risks, including climate change risks identified and assessed by the ESG Promotion Committee and others as potentially having a significant impact on the TESS Group, we review countermeasures in cooperation with the Compliance Risk Management Committee.

Group Governance

The Company has resolved the Basic Policy on Internal Control System, which includes as one of its basic policies the "policy for the development of systems necessary to ensure the properness of operations of a Company and operations of a group of enterprises consisting of the Company and its Subsidiary Companies." As a holding company, the Company's policy is to concentrate on group-wide management through risk management, information system management and operation, management strategy and internal auditing, which are the infrastructure operations across the Group, and to respect the autonomy of its subsidiaries in terms of business operations. The Company has established a system to support and manage subsidiaries so that they can operate their businesses with a sense of urgency to realize the TESS Group's management policy by delegating authority for business execution related to the businesses they are in charge of and clarifying their roles and responsibilities. The Company has also established a system to regularly report its business performance and sales activities to the Board of Directors.

Information Security

The Company considers information security-related initiatives as an important management issue in its business activities and has established the TESS Group Information Security Policy. Under this policy, the Company strives to protect the customers' information assets that it handles, as well as the TESS Group's assets, prevent information security incidents, and continue to improve protection and prevention.

TESS Group Information Security Policy ▶ <https://www.tess-hd.co.jp/english/security/>



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Corporate Governance

Evaluation of the Board of Directors' effectiveness

To continually improve the effectiveness of the Board of Directors, the Company conducts an annual analysis and evaluation through an anonymous questionnaire and discussion based on the results of the questionnaire to identify the strengths and issues of the Board of Directors, and works to make improvements as necessary.

In the evaluation of the Board of Directors' effectiveness implemented in the fiscal year ended June 30, 2024, we conducted a questionnaire survey of all directors, including external directors, and extracted discussion points. Then, the directors were divided into executive directors and non-executive directors to hold discussions several times on the extracted discussion points, facilitated by external consultants. They deepened their discussions, in particular, on the efforts over issues identified in the previous year's evaluation of the Board of Directors' effectiveness and the issues identified in that year's questionnaire, including what should be positively evaluated and what still needs to be improved.

As a result, the Board of Directors confirmed that it was fulfilling its roles and responsibilities appropriately as a whole, and that the effectiveness of the Board of Directors as a whole was being ensured.

To further improve the effectiveness of the Board of Directors, we will continue to work on the implementation of constructive and active expression of opinions and supervision for highly effective business execution, based on the areas for improvement shared through the evaluation for the fiscal year ended June 30, 2024.

(Issues recognized as having improved since the previous fiscal year)

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(1) The expected role of external directors was clarified; the removal of external directors from the attendees of Executive Committee meetings has resulted in an organized code of conduct for external directors and strengthened the supervisory function of the Board of Directors.</p> | <p>(2) The timing to submit agendas and materials to the Board of Directors has been brought forward, ensuring sufficient time for consideration and discussion at meetings; and the quality of materials has also been improved so that matters to be discussed can be fully understood based on the materials alone.</p> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

(Issues recognized in the effectiveness evaluation as requiring discussions and consensus building among directors to further enhance the effectiveness of the Board of Directors)

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(1) Further reform of the Board of Directors
Select the agenda to address more important management issues and promote discussion from a strategic and broad perspective.</p> <p>(2) Reform of the Executive Committee
Increase the delegation of authority from the Board of Directors to the Executive Committee and the frontline; narrow down the agenda of the Executive Committee to important issues that require "free and vigorous discussion"; and consider increasing the frequency of Executive Committee meetings.</p> | <p>(3) Reform of the Investment Committee
The committee will consist of members of the executive board, chaired by the Representative Director and President; the number of projects to be discussed by the Investment Committee will be reduced to a few per year; and the decision-making process for major investment projects will be reformed.</p> <p>(4) Reform of the Board of Directors of TESS Engineering, a core subsidiary
Thoroughly review the details of the Board of Directors meetings, including dates, agenda, attendees, etc.</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Executive training

The Company continually provides all directors and executive officers, including external directors, with training opportunities necessary to properly fulfill their roles and responsibilities through study sessions with outside experts and seminars hosted by external organizations, etc.

With regard to training, we strive to improve the effectiveness of training by setting appropriate themes based on changes in the business environment surrounding the Company and revisions to laws and regulations, etc., and also use this training as a succession planning initiative for candidates for the next board of directors.

(Themes implemented in FYE June 2024 and reasons for its selection)

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(1) Group management and group governance
To enhance corporate value by improving group governance and ensuring the properness of group-wide operations</p> <p>(2) Business portfolio and investment review
To promote transformation to efficient management with the cost of capital in mind, and to drive reform of the key points of investment review for new businesses and the Investment Committee and other meeting bodies</p> <p>(3) Human capital information disclosure
To examine the human capital development policy of the TESS Group, which has been practicing human capital development as an important theme, based on examples of other companies' human resource strategies, and to study effective disclosure methods</p> | <p>(4) DX promotion and digital governance
To practice more efficient business operations through the use of generative AI and to acquire the insights to lead innovation based on digital technologies</p> <p>(5) Harassment prevention
To reaffirm the TESS Group's resolute stance against harassment that violates human rights, and to take necessary measures to ensure that all officers and employees are respected as individuals and can work without being harassed</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Attendance at the Board of Directors, the Audit and Supervisory Committee and the Nomination & Remuneration Advisory Committee meetings

During the fiscal year ended June 30, 2024, the Company held a total of 20 meetings of the Board of Directors, 14 meetings of the Audit and Supervisory Committee and 4 meetings of the Nomination & Remuneration Advisory Committee. Attendance at these meetings is as follows.

Job title	Name	Board of Directors	Audit and Supervisory Committee	Nomination & Remuneration Advisory Committee
Director and Chairman, Chairperson of the Board of Directors	Hideo Ishiwaki	100% (20/20)	—	100% (4/4)
Representative Director and President	Kazuki Yamamoto	100% (20/20)	—	—
Executive Managing Director	Toshihiro Takasaki	100% (20/20)	—	—
Director, In-charge of ESG and Women's Empowerment, General Manager of the Human Capital Strategy Division	Mayumi Yoshida	100% (20/20)	—	—
Director, Audit and Supervisory Committee Member (full-time)	Katsushige Fujii	100% (20/20)	100% (14/14)	—
External Director, Audit and Supervisory Committee Member	Hiroyuki Okura	95% (19/20)	93% (13/14)	100% (4/4)
External Director, Audit and Supervisory Committee Member	Masaki Inoue	100% (20/20)	100% (14/14)	100% (4/4)
External Director, Audit and Supervisory Committee Member	Akio Hamamoto	100% (20/20)	100% (14/14)	100% (4/4)

*In addition to the above number of meetings, there were two written resolutions that were deemed to have been adopted by the Board of Directors based on the provisions of Article 370 of the Companies Act and Article 26 of the Company's Articles of Incorporation.

Directors' remuneration

• Basic policy

The Company's basic policy is to determine the remuneration of directors as fixed remuneration and evaluation remuneration, and to set the remuneration of individual directors at an appropriate level based on their individual job responsibilities.

• Overview of directors' remuneration

Remuneration for the Company's directors is the sum of monthly fixed remuneration and monthly evaluation remuneration, and no performance-linked remuneration or non-monetary remuneration, etc. is paid. Evaluation remuneration is determined based on the Company's and the Group's performance and the contribution of each director in the previous fiscal year and other factors, taking into comprehensive consideration factors in accordance with the Company's director regulations.

The Company's policy is to determine the remuneration of Directors who are members of the Audit and Supervisory Committee by respecting the report of the Nomination & Remuneration Advisory Committee and taking into consideration the responsibilities of the Audit and Supervisory Committee Members and the level that will help maintain management human capital. Directors who are members of the Audit and Supervisory Committee determine their remuneration through consultation in response to drafts prepared by the Representative Director based on such policy (provided, however, that such remuneration shall be within the maximum amount determined by the General meeting of shareholders).

► Pickup Topics - Initiatives to strengthen governance

	Introduction of the Board of Directors' effectiveness evaluation			
	Increase in the number of external directors (from 2 to 3)			
■ The number of directors	Establishment of ESG Promotion Committee			
	Appointment of the Group's first female director			
	Commencement of stakeholder dialogues			
	FY06/2021	FY06/2022	FY06/2023	FY06/2024
Directors (external directors)	6 (2)	7 (3)	8 (3)	8 (3)

G

Dialogue with Stakeholders

The TESS Group actively engages in information disclosure and other initiatives aimed at all stakeholders to promote understanding of the TESS Group's value creation. We strive to provide timely and proactive IR-related information to shareholders and investors based on the principles of transparency, fairness and continuity. In addition to holding regular shareholders' dialogue sessions and financial results briefings, we actively disseminate information through a variety of means, including the following.



Site tour for analysts

In January and March 2024, we held a site tour for analysts at PTEC, our EFB pellet R&D base in Indonesia. The tour provided an opportunity for analysts to deepen their understanding of the TESS Group's efforts related to EFB pellet production.



Company information sessions for individual investors

We actively participate in company information sessions for individual investors sponsored by various securities companies, etc. to have more individual investors learn about and deepen their understanding of the TESS Group's business and future initiatives.



Major events for FYE June 2024

- Sponsored by Daiwa Securities Co. Ltd. Company Information Sessions for Individual Investors (November 2023)
- Sponsored by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. Marunouchi Investment Seminar (March 2024)

Information dissemination using YouTube

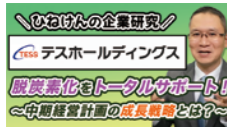
We regularly post videos on YouTube about our business, financial results, the medium-term management plan, etc.

View past videos below

Certified public accountant Hineken's stock investment channel

[TESS Holdings (5074)]
Total support for decarbonization - What is the growth strategy in the medium-term management plan? -

URL ▶ https://www.youtube.com/watch?v=3_cBhvl0q-U



Listed company IR video channel

[TESS Holdings (5074)]
Medium-term Management Plan 2025-2030

URL ▶ <https://www.youtube.com/watch?v=P3G-BG3GCljM>



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Get a direct word with the President! The key points of 2H FY2024 as discussed by a renewable energy company in the spotlight
With a thorough explanation by a professional in financial results

Straight to the point! ○○ of the company in question
URL ▶ <https://www.youtube.com/watch?v=bis-MoPhJbaE>



Stakeholder Dialogues

The TESS Group holds dialogues with external experts and other stakeholders to obtain their candid opinions and advice for the future. We take their opinions and advice seriously and incorporate them into our management to enhance corporate value and contribute to the realization of a sustainable society.

1 st (June 2023)

Theme Overall ESG-related initiatives of the TESS Group

External experts

• Mr. Naoyuki Yamagishi
Director, Conservation Division, Chief Conservation Officer, World Wide Fund for Nature Japan (WWF Japan)

• Ms. Yumiko Noda
Representative Director, Veolia Japan K.K.

• Mr. Wataru Hamamoto
Managing Director, Mitsui Fudosan Co., Ltd.

At the first dialogue, we invited three external experts to give their opinions mainly on the TESS Group's business activities, materiality issues, and ESG-related initiatives such as climate change countermeasures and diversification of human capital including female empowerment. Mr. Yamagishi of the World Wide Fund for Nature Japan also gave a keynote speech on the theme of climate change and biodiversity. Ms. Noda of Veolia Japan K.K. and Mr. Hamamoto of Mitsui Fudosan Co., Ltd. introduced their companies' perspectives on ESG and their specific initiatives.

URL ▶ https://www.tess-hd.co.jp/english/company/stakeholder-dialog/001_202306.html



2 nd (September 2024)

Theme Initiatives on human capital management and diversity

External experts

• Mr. Minoru Noda (Facilitator)
Professor, Meiji Business School Graduate School of Global Business

• Ms. Keiko Tashiro
Deputy President, Head of Sustainability, Financial Education, Securities Asset Management and Think Tank Daiwa Securities Group Inc.

• Mr. Yasushi Nakato
Head of ESG Office, Corporate Strategy Department, Corporate Planning Headquarters Osaka Gas Co., Ltd.

At the second dialogue, we invited three external experts to exchange opinions on the theme of human capital management and diversity. Professor Noda of Meiji Business School gave a keynote speech on human capital management. Ms. Tashiro of Daiwa Securities Group Inc. and Mr. Nakato of Osaka Gas Co., Ltd. talked about their companies' perspectives on D&I (Diversity and Inclusion) and specific initiatives on human capital management.



URL ▶ https://www.tess-hd.co.jp/english/company/stakeholder-dialog/002_202409.html



*Job titles, etc. are as of the date of the event.

G

Board of Directors

Director and Chairman
Chairperson of the Board of
Directors

Hideo Ishiwaki



Sept. 2004 Joined TESS Engineering Co., Ltd.
Feb. 2008 Executive Officer, General Manager of Tokyo Branch Office, and General Manager of Corporate Planning Office
July 2008 Managing Director, and General Manager of Tokyo Branch Office
July 2009 Representative Director and President
July 2009 Director of TESS Techno Service Co., Ltd. (currently the Company)
Aug. 2012 Representative Director and President of the Company
Oct. 2012 Representative Director and President of Kyoritsu Engineering Co., Ltd.
July 2017 Representative Director and Chairman of TESS Engineering Co., Ltd.
Sept. 2017 Director of Kyoritsu Engineering Co., Ltd.
Apr. 2018 Representative Director, Chairman and President of the Company
Sept. 2022 Director and Chairman, Chairperson of the Board of Directors (current position)

Executive Managing Director

Toshihiro Takasaki



Apr. 1995 Joined TESS Engineering Co., Ltd.
July 2014 Executive Officer, General Manager of Tokyo Branch Office, and General Manager of Sales Division
July 2017 Director, General Manager of Tokyo Branch Office, and General Manager of Sales Division
July 2017 Representative Director and President (current position)
Apr. 2018 Director of the Company
Sept. 2022 Executive Managing Director (current position)

Representative Director
and President

Kazuki Yamamoto



Apr. 1993 Joined TESS Engineering Co., Ltd.
July 2009 Director, General Manager of Tokyo Branch Office, and General Manager of Eastern Japan Sales Division
Apr. 2010 Director, General Manager of Tokyo Branch Office, and General Manager of Sales Division
Aug. 2012 Director of TESS Techno Service Co., Ltd. (currently the Company)
Jan. 2013 Representative Director of Energy and Partners Co., Ltd.
July 2014 Director and General Manager of Corporate Planning Office of TESS Engineering Co., Ltd.
July 2017 Director and General Manager of Planning Division
Apr. 2018 Executive Managing Director and General Manager of the Administration Department of the Company
Sept. 2022 Representative Director and President (current position)

Director
In-charge of ESG and Women's
Empowerment,
General Manager of the Human
Capital Strategy Division

Mayumi Yoshida



July 1997 Joined ChuoAoyama Audit Corporation (International Division)
Apr. 2001 Environmental Audit Department of Business Development Division
Sept. 2003 Seconded to ChuoAoyama Sustainability Certification Co., Ltd. while retaining the status of a member of ChuoAoyama Audit Corporation
Mar. 2006 Director
July 2007 Joined PricewaterhouseCoopers Aarata (currently PricewaterhouseCoopers Japan LLC)
Seconded to PricewaterhouseCoopers Aarata Sustainability Certification Co., Ltd. while retaining the status of a member of PricewaterhouseCoopers Aarata
Apr. 2008 Joined Japan Smart Energy Corporation (currently Japan Smart Energy Certification Corporation)
May 2009 Representative Director
June 2014 Director of Smart Energy Co., Ltd.
May 2022 Joined the Company Executive Officer, In-charge of ESG and Women's Empowerment
Sept. 2022 Director, In-charge of ESG and Women's Empowerment
Jan. 2024 Director, In-charge of ESG and Women's Empowerment, General Manager of the Human Capital Strategy Division (current position)

Director
Audit and Supervisory
Committee Member (full-time)

Katsushige Fujii



Apr. 1982 Joined MT Service Co., Ltd.
Apr. 1987 Joined Hanwa Nessui Ind. Co., Ltd. (currently TESS Engineering Co., Ltd.)
Jan. 2010 Director
Aug. 2012 Director of TESS Techno Service Co., Ltd. (currently the Company)
Mar. 2013 Executive Manager of Prime Solar LLC
Sept. 2021 Audit & Supervisory Board Member of TESS Engineering Co., Ltd. (current position)
Sept. 2021 Director, Audit and Supervisory Committee Member (full-time) of the Company (current position)

External Director
Audit and Supervisory
Committee Member

Masaki Inoue



Apr. 1985 Joined OKAYA & CO., LTD.
Mar. 2006 Head of Life & Industry Department, Osaka Office
Mar. 2009 Head of Piping Components & Construction Division
Mar. 2013 Head of President Office of Sakura Seisakusho Ltd.
Apr. 2013 Representative Director and President of EPP Co., Ltd. (current position)
June 2013 Representative Director and President of Sakura Seisakusho Ltd. (current position)
Nov. 2014 Representative Director and President of Sakura Energy Co., Ltd. (current position)
Apr. 2018 External Director, Audit and Supervisory Committee Member of the Company (current position)
Feb. 2019 Representative Director and President of Sakura Holdings Co., Ltd. (current position)
July 2019 Representative Director and President of Sakura Facility Management Co., Ltd. (current position)
Oct. 2021 Representative Director and President of Koyosangyo Co., Ltd. (current position)
Apr. 2022 Executive Manager of Sakura LLC (current position)

External Director
Audit and Supervisory
Committee Member

Hiroyuki Okura



Apr. 1984 Joined The Sanwa Bank, Limited (currently MUFG Bank, Ltd.)
Apr. 1989 Section Chief of Research and Information Division, Construction Economy Bureau of the Ministry of Construction (currently the Ministry of Land, Infrastructure, Transport, and Tourism) (seconded)
May 1991 Assistant General Manager of Tokyo Sales Headquarters No. 2 Department of The Sanwa Bank, Limited (currently MUFG Bank, Ltd.)
Aug. 1993 Assistant General Manager of Capital Markets Department
Apr. 1994 Senior Manager of Corporate Strategy Development Office, Branch Office Department
Oct. 1997 Head of Customers Section, Jingumae Branch
Apr. 1998 Assistant General Manager of Sanwa Securities Co., Ltd. (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.) (seconded)
Apr. 1999 Assistant General Manager of Business Succession Team, Corporate Business Department of The Sanwa Bank, Limited (currently MUFG Bank, Ltd.)
July 2011 Joined Tax Accounting Service KTS
May 2015 Representative Director of Sun Business Support Co., Ltd. (current position)
Sept. 2017 Audit & Supervisory Board Member of TOBI Co., Ltd. (current position)
Apr. 2018 External Director, Audit and Supervisory Committee Member of the Company (current position)

External Director
Audit and Supervisory
Committee Member

Akio Hamamoto



Apr. 1982 Joined Mitsubishi Heavy Industries, Ltd.
July 2008 Deputy General Manager of Industrial Energy Department
Apr. 2010 Deputy General Manager of New Energy Business Promotion Department
Feb. 2014 Mitsubishi Hitachi Power Systems, Ltd. launched (automatic succession), Assistant General Manager of Control Department, Sales Headquarters
Apr. 2015 Deputy General Manager of Environmental Plants Sales Department
Apr. 2017 General Manager of Environmental Plants Sales Department
Sept. 2021 External Director, Audit and Supervisory Committee Member of the Company (current position)

Skills Matrix

*As of September 27, 2024

Name	Gender	External/ independ- ent officer	Current position in the Company	Tenure	Expertise and experience						
					Corporate management	Industry knowledge/ experience	Global	Finance/ accounting	Legal affairs/ risk management	Human capital development/ diversity	ESG
Hideo Ishiwaki	Male		Director and Chairman Chairperson of the Board of Directors	15 years and 3 months	●	●	●			●	●
Kazuki Yamamoto	Male		Representative Director and President	12 years and 1 month	●	●		●	●	●	
Toshihiro Takasaki	Male		Executive Managing Director	6 years and 6 months	●	●	●				
Mayumi Yoshida	Female		Director	2 years	●	●	●			●	●
Katsushige Fujii	Male		Director, Audit and Supervisory Committee Member (full-time)	3 years		●			●		
Hiroyuki Okura	Male	External Independent	External Independent	6 years and 6 months	●			●			
Masaki Inoue	Male	External Independent	External Independent	6 years and 6 months	●	●	●		●	●	
Akio Hamamoto	Male	External Independent	External Independent	3 years		●	●				

Reason for nomination as an external director

External Director Audit and Supervisory Committee Member Hiroyuki Okura	Mr. Hiroyuki Okura has been mainly engaged in finance and capital policy operations, and has extensive business experience and knowledge as a manager. The Company has nominated him as an external director and member of the Audit and Supervisory Committee based on the belief that he will apply his experience and knowledge to the auditing and supervision of the Company.
External Director Audit and Supervisory Committee Member Masaki Inoue	Mr. Masaki Inoue has been mainly engaged in trading and corporate planning operations, and has extensive business experience and knowledge, as well as management experience as the representative director and president of a machinery equipment manufacturer. The Company has nominated him as an external director and member of the Audit and Supervisory Committee based on the belief that he will apply his experience and knowledge to the auditing and supervision of the Company.
External Director Audit and Supervisory Committee Member Akio Hamamoto	Mr. Akio Hamamoto has gained abundant experience in overseas business in Europe, the United States and Southeast Asia, mainly at operating companies, and also has extensive knowledge of power generation plants. The Company has nominated him as an external director and member of the Audit and Supervisory Committee based on the belief that he will apply his experience and knowledge to the auditing and supervision of the Company.

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Messages from Audit and Supervisory Committee Members

The members gave messages regarding their expectations and thoughts on the TESS Group, for each of the following themes.

Theme Quality/safety & human capital development



The main duty of the Audit and Supervisory Committee Member is to audit the execution of duties by Directors and Executive Officers, but I believe that in addition to vitalizing the Board of Directors and enhancing the internal control system, it is also an important duty to contribute to the Company through the human capital development and to meet the expectations of shareholders.

What is important for an engineering company in the environment and energy field, in my view, is to ensure the quality of construction work on its projects, to complete them without accidents or disasters, and to provide equipment and systems that make a significant contribution to society. To this end, the TESS Group ensures stable construction quality and also engages in environment-friendly construction work through the establishment of quality and environmental management systems, the creation and operation of various manuals and checklists, and the implementation of periodic review meetings for each project. In terms of human capital development, we are working to raise the level of our employees by promoting the development and utilization of a support system that enables employees to obtain national

qualifications and attend various training sessions to acquire knowledge and improve the technical skills necessary for an engineering company. We also focus on organizational growth by emphasizing communication with our employees to create a comfortable work environment. Based on these initiatives, we will continually strive to enhance our corporate value by providing equipment and systems that satisfy all our customers.

Investment decisions & risk-taking (balance between defense and offense)

Theme

Japan is currently striving to break out of deflation and solve issues in all areas, both in the public and private sectors. As the TESS Group, too, has issues to address for further growth, what is required to solve these issues? I believe that is each individual's proactive approach to tackling new "challenges."

The Company has recently announced the TESS Group Medium-term Management Plan, titled TX2030. I see this as a new "challenge." TX2030 clearly identifies our focused business fields and demonstrates our ambitious efforts to expand growth and enhance corporate value by systematically and actively investing in growth and concentrating management resources in these areas.

The TESS Group has established a system in which the Investment Committee, an internal body for deliberating business investments, properly analyzes and determines risks as well as the profitability of business investments, and implements them according to management strategies, making prompt investment decisions on a daily basis. Seeing the frontline moving forward vigorously without postponing risks or fearing reforms is the basis for my belief that we can achieve the TX2030.

As an external director myself, I will make every effort to promote ESG management with ROE/ROIC management in mind to enhance corporate value and realize business growth and stable shareholder returns.



Theme DX promotion & technological innovation



In Japan, the shortage of human resources will inevitably become more and more serious in the future due to the declining birthrate and aging population. Under the circumstances, in addition to working to resolve labor shortages, reform work styles and increase productivity by improving and streamlining operations through DX, I believe it is also important for the TESS Group to have the perspective of creating new businesses through DX, such as developing a new energy business through the use of IT.

In particular, the use of AI will be a key initiative as we promote DX. Since AI-driven technological innovation could create new businesses, I think it is vital for the TESS Group to promote the use of AI. At the same time, speaking from my experience and knowledge as the president of a manufacturing company, technological innovation usually has its "seed" in an extension of daily work. The important thing is to keep our antenna up, including accumulating steady improvements to existing technologies and innovating with technologies from companies in other industries, and be ready to address various inquiries from customers and take on those challenges.

As the world moves toward decarbonization, I believe that there is a great business opportunity for us as a "leading company in decarbonization," also from the perspective of DX. Considering continuity to be the key in DX initiatives, we would like to enhance our corporate value by continuing to promote DX with the enthusiasm of everyone from management to employees.

Overseas business (Indonesia) & ESG

Theme

The TESS Group has positioned the resource-recycling biomass fuel business in Indonesia as one of its focused business fields, and is building a track record in PKS fuel sales. By taking on the challenge of commercializing EFB pellets, the Group also aims to contribute to solving social issues facing Indonesia and decarbonizing global energy.

I have experience of consistently devoting all efforts from the discovery of business negotiations to the delivery of power generation plants for developing countries. I still can't forget the smiles of the children, saying delightedly, "No more blackouts. Thank you!" Having had this experience, I hope that the TESS Group will boldly take on the challenges of accomplishing projects that will make local people happy.

However, overseas operations have many things to be aware of, including business practices, exchange rates, laws and political conditions. As an external director, it is especially necessary to calmly assess the situation from an "outsider's perspective." By sharing the roadmap and stage-gated process, I will continue to closely monitor the progress of initiatives and risk management.

I like the word "Goho Yoshi" (Five-Way Win). I believe that the cornerstone of promoting ESG management might be the awareness to work on business that is meaningful to all stakeholders, including customers, business partners, shareholders and investors, local communities, and all officers and employees of the Group and their families. To achieve TX2030, we will continue to engage in interactive discussions with the executive directors to enhance the effectiveness of the Board of Directors and make every effort to increase corporate value.



		FY06/2019	FY06/2020	FY06/2021		FY06/2022	FY06/2023	FY06/2024
Consolidated operating results								
Net sales	(millions of yen)	29,638	28,415	34,249		34,945	34,415	30,643
Gross profit	(millions of yen)	5,050	6,303	7,542		8,455	10,611	6,553
Gross profit margin	(%)	17.0	22.2	22.0		24.2	30.8	21.4
Operating profit	(millions of yen)	1,508	3,511	4,399		5,146	6,864	2,370
Operating profit margin	(%)	5.1	12.4	12.8		14.7	19.9	7.7
Ordinary profit	(millions of yen)	775	2,534	3,836		4,654	5,518	7,660
Ordinary profit margin	(%)	2.6	8.9	11.2		13.3	16.0	25.0
Profit attributable to owners of parent	(millions of yen)	38	1,625	1,990		2,695	3,592	1,185
Profit margin attributable to owners of parent	(%)	0.1	5.7	5.8		7.7	10.4	3.9
Consolidated financial position								
Net assets	(millions of yen)	8,536	8,409	22,813		25,239	28,340	41,796
Total assets	(millions of yen)	59,182	81,158	100,724		94,256	94,089	119,128
Per share information (consolidated) *1, *2								
Net profit per share	(yen)	0.56	26.77	31.83		38.43	51.05	16.82
Net assets per share	(yen)	100.32	127.01	324.47		358.41	401.08	588.72
Consolidated cash flows								
Cash flows from operating activities	(millions of yen)	1,181	(1,608)	431		14,646	13,827	(42)
Cash flows from investing activities	(millions of yen)	(8,427)	(15,348)	(4,475)		(6,215)	(16,029)	(15,490)
Cash flows from financing activities	(millions of yen)	7,649	19,220	17,098		(12,397)	(5,192)	18,436
Cash and cash equivalents at end of period	(millions of yen)	6,872	9,094	22,169		18,369	11,026	14,098
Dividend								
Dividend payout ratio (consolidated)	(%)	—	3.1	28.2		27.2	25.5	95.1
Dividend per share	(yen)	—	20.00	20.52		21.00	26.00	16.00
Key management indicators								
Return on equity (ROE)	(%)	0.55	22.09	13.10		11.24	13.44	3.40
Return on invested capital (ROIC)	(%)	—	—	—		—	—	1.6
Equity ratio	(%)	11.74	9.56	22.60		26.74	30.02	34.85
Others								
Number of consolidated employees	(people)	295	300	316		350	374	405
Number of consolidated subsidiaries	(companies)	12	17	18		20	21	20

*1 The Company carried out a ten-for-one share split of its common shares on February 1, 2021. Net profit per share and net assets per share are calculated on the assumption that the stock split was executed at the beginning of the fiscal year ended June 30, 2019.

*2 The Company allotted stock acquisition rights based on partial commitment-type rights offering to shareholders as of the shareholder fixed date of June 30, 2023, and issued new shares upon the exercise of such rights. Net profit per share and net assets per share are calculated on the assumption that the payment under such rights offering was made at the beginning of the fiscal year ended June 30, 2019.



Overview of the Company

Company name	TESS Holdings Co., Ltd.
Representative	Kazuki Yamamoto, Representative Director and President
Founded	July 9, 2009
Share capital	6,760 million yen
Number of employees	405 (consolidated) / 57 (non-consolidated)
Headquarters location	Shin-Osaka Prime Tower, 6-1-1 Nishinakajima, Yodogawa-ku, Osaka-shi, Osaka 532-0011 Japan TEL +81-6-6308-2794 FAX +81-6-6308-2749



Osaka Headquarters (Yodogawa-ku, Osaka-shi)



Tokyo Office (Chuo-ku, Tokyo)

Status of shares

Total number of authorized shares	120,000,000 shares
Total number of shares issued	70,644,130 shares (incl. 130,156 treasury shares)
Number of shareholders	17,827

Status of major shareholders

Name of shareholder	Number of shares held (thousand shares)	Shareholding ratio (%)
Hideo Ishiwaki	7,626	10.81
The Master Trust Bank of Japan, Ltd. (trust account)	6,050	8.58
Stone Side LLC	5,200	7.37
Takaokaya LLC	4,731	6.70
K Co., Ltd.	4,303	6.10
Hikari Co., Ltd.	3,857	5.47
Custody Bank of Japan, Ltd. (trust account)	1,844	2.61
Kazuki Yamamoto	1,555	2.20
Tomoya Ishida	1,396	1.98
ISHIWAKI FOUNDATION	1,200	1.70

*The shareholding ratio is calculated after deducting 130,156 treasury shares.

Shareholder memo

Fiscal year	From July 1 of each year to June 30 of the following year
Fixed date for shareholder to receive year-end dividend	June 30
Fixed date for shareholder to receive interim dividend	December 31
Ordinary general meeting of shareholders	Within 3 months after the end of each fiscal year
Shareholder registry administrator Special account management institution	Mitsubishi UFJ Trust and Banking Corporation
Contact of the above	Mitsubishi UFJ Trust and Banking Corporation Osaka Securities Agency Division 3-6-3 Fushimi-machi, Chuo-ku, Osaka 541-8502 Japan TEL 0120-094-777 (toll-free within Japan)
Stock exchange listing	Tokyo Stock Exchange Prime Market
Method of public notice	Electronic public notice <Website address for electronic public notices> https://www.tess-hd.co.jp/english/ (However, if electronic public notices cannot be made due to an accident or other unavoidable reason, public notices will be posted in the Nihon Keizai Shimbun)

Consolidated subsidiaries

TESS Engineering Co., Ltd.	EPC, renewable energy power generation and operation businesses
Kyoritsu Engineering Co., Ltd.	New installation and renewal of utility facilities for factories
Prime Solar LLC	Solar power generation business
TESS Asset Management LLC	Renewable energy operation business
Energy and Partners Co., Ltd.	Solar power generation business
T&M Solar LLC	Solar power generation business
Solar Energy Create LLC	Solar power generation business
Silent partnership with Awaji-Sano Solar Power LLC as operator	Solar power generation business
Silent partnership with Kochi-Muroto Solar Power LLC as operator	Solar power generation business
Silent partnership with Chiba-Katori Solar Power LLC as operator	Solar power generation business
Silent partnership with Ibaraki-Ushiku Solar Power LLC as operator	Solar power generation business
Silent partnership with Prime Solar 2 LLC as operator	Solar power generation business
Prime Solar 3 LLC	Solar power generation business
Kumamoto Nishiki Green Power LLC	Biomass power generation business
Imari Green Power Co., Ltd.	Biomass power generation business
Gunma Tanigawadake Hydropower LLC	Hydroelectric power generation business
Kirishima-Manzen Geothermal Energy LLC	Geothermal power generation business
Silent partnership with Fukuoka-Miyako Solar Power LLC as operator	Solar power generation business
TESS Logistics LLC	Trade, commerce and transportation of biomass fuels
PT PTEC RESEARCH AND DEVELOPMENT	Research and development of biomass fuels
PTEC SINGAPORE PTE. LTD.	Procurement and wholesale distribution of biomass fuels
PT INTERNATIONAL GREEN ENERGY	Export and sales of biomass fuels

Equity-method affiliates

Intelligent Solar System Co., Ltd.	Maintenance of solar power generation monitoring systems
Mie Enewood Co., Ltd.	Biomass power generation business
VT Utilities Services K.K.	Utility management service business in water, waste and energy sectors
TOLLUX INVESTMENTS LIMITED	Energy storage business for the UK grid

Please see our website for the latest information on the list of our group companies.

