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Consolidated Financial Results for the Six Months Ended December 31, 2021 [Japanese GAAP]

February 07, 2022

Company name: ENVIPRO HOLDINGS Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 5698

URL: <https://www.envipro.jp/>

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Scheduled date of filing quarterly securities report: February 10, 2022

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Not scheduled (The briefing will be video streamed instead of holding a normal briefing session.)

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Six Months Ended December 31, 2021 (July 01, 2021 to December 31, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended December 31, 2021	27,242	64.0	1,494	180.9	1,759	146.7	1,270	159.6
December 31, 2020	16,615	(11.1)	532	(19.5)	713	(4.7)	489	(11.0)

(Note) Comprehensive income: Six months ended December 31, 2021: ¥ 1,294 million [158.0%]

Six months ended December 31, 2020: ¥ 501 million [(6.3)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2021	85.97	82.21
December 31, 2020	33.21	31.83

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
December 31, 2021	26,644	14,288	52.1
June 30, 2021	26,548	13,333	48.8

(Reference) Equity: As of December 31, 2021: ¥ 13,890 million

As of June 30, 2021: ¥ 12,959 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2021	-	0.00	-	25.00	25.00
Fiscal year ending June 30, 2022	-	0.00			
Fiscal year ending June 30, 2022 (Forecast)			-	33.00	33.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2022(July 01, 2021 to June 30, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	54,000	31.9	2,390	12.2	2,850	13.6	1,950	30.7	132.07

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the six months ended December 31, 2021

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2021: 15,051,227 shares

June 30, 2021: 15,051,227 shares

2) Total number of treasury shares at the end of the period:

December 31, 2021: 260,444 shares

June 30, 2021: 286,091 shares

3) Average number of shares during the period:

Six months ended December 31, 2021: 14,775,059 shares

Six months ended December 31, 2020: 14,734,554 shares

* These consolidated financial results are outside the scope of audit by certified public accountants or audit firms

* Explanation of the proper use of financial results forecast and other notes

The financial results forecast and other forward-looking statements in this material are based on information currently available to the Company and certain assumptions deemed to be reasonable, and actual results may differ significantly due to various factors. Please see the “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” from page 5 of the attached document of this material for the conditions for financial and other results, as well as important matters to be aware of when using the financial results forecast.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Business Results

In the Group's business areas during the six months ended December 31, 2021, overseas demand for ferrous scrap was in a declining trend as a result of factors including concerns over an economic slowdown in China and the suppression of crude steel production due to stronger environmental restrictions aimed at decarbonization, in addition to the impact of the resurgence of the spread of COVID-19 in Southeast Asia. Meanwhile in Japan, demand for ferrous scrap was strong, with crude steel production increasing year on year due to forecasts of an increase in production in the manufacturing industries as demand recovers after the COVID-19 pandemic and the shortage in semiconductors is resolved. As a result, the ferrous scrap price remained high in Japan, and low overseas. The situation remains unclear at present, however, with concerns over the spread of new COVID-19 variants adding to soaring ocean freight rates and continuing reduction in production in the manufacturing industries primarily caused by the semiconductor shortage.

The average ferrous scrap price (Tokyo Steel (Tahara) Tokkyu Grade Seaborne Price) during the six months ended December 31, 2021 was ¥52,266, trending upward from ¥28,008 of the same period of the previous fiscal year. With regard to nonferrous metals, etc., the average prices during the six months of copper, aluminum, nickel, and cobalt rose above those seen in the same period of the previous fiscal year. The use of recycled raw materials such as metal scrap is expected to become more appreciated amid the global trend of decarbonization.

Amid this environment, in the six months ended December 31, 2021, with a strategic concept of challenging ourselves to resolve issues toward realizing a "Decarbonized society", "Circular economy society" and "Distributed society" by viewing it as a business opportunity, based on our mission statement "Contribute to create a sustainable society", we have proceeded with measures to establish "Realization of concrete cases of the circular economy" and "A disciplined group of autonomous individuals with emergent abilities."

As a result, for the six months ended December 31, 2021, net sales were ¥27,242 million (up 64.0% year on year), operating profit was ¥1,494 million (up 180.9% year on year), ordinary profit was ¥1,759 million (up 146.7% year on year), and profit attributable to owners of parent was ¥1,270 million (up 159.6% year on year).

Results by segment are as follows, with net sales shown as inter-segment sales or sales including transfers. The classification of reportable segments has been changed from the end of the previous fiscal year, and the amounts stated for the six months ended December 31, 2020 are those compiled based on the classification of reportable segments following the change.

Summary of Business Results by Segment

<Net sales>

(Million yen)

	Six months ended December 31, 2020	Six months ended December 31, 2021	Increase/decrease ratio
Resource Circulation Business	5,989	9,891	65.1%
Global Trading Business	12,270	20,233	64.9%
Lithium-ion Battery Recycling Business	125	376	199.9%
Others	166	243	46.2%
Adjustment	(1,937)	(3,503)	—
Total	16,615	27,242	64.0%

<Segment profit (loss)>

(Million yen)

	Six months ended December 31, 2020	Six months ended December 31, 2021	Increase/decrease ratio
Resource Circulation Business	737	1,405	90.7%
Global Trading Business	164	371	125.6%
Lithium-ion Battery Recycling Business	(80)	92	—
Others	37	81	120.7%
Adjustment	(145)	(191)	—
Total	713	1,759	146.7%

(Note) Segment profit (loss) is adjusted with ordinary profit in the quarterly consolidated statements of income.

1) Resource Circulation Business

Metal scrap prices rose year on year, and the profitability of resource recycling increased further against the backdrop of physical sorting technologies. In addition, handling volume of ferrous scrap discharged from large-scale demolished properties has been continuing to increase from the previous fiscal year, and combined with an increase in share of profit of entities accounted for using equity method, they have all led to an increase in both sales and profit.

As a result, net sales in the Resource Circulation Business segment were ¥9,891 million (up 65.1% year on year), while segment profit was ¥1,405 million (up 90.7% year on year).

2) Global Trading Business

The business environment remained challenging as exports of metal scrap to overseas destinations were sluggish with a resurgence of the spread of COVID-19, in addition to the combination of high domestic prices and low overseas prices for ferrous scrap, as well as soaring ocean freight rates due to difficulties in booking freighters. Amid such an environment, despite a decrease in handling volume, we secured revenue mainly through capturing domestic demand and sales that took advantage of price changes, leading to an increase in both sales and profit.

As a result, net sales in the Global Trading Business segment were ¥20,233 million (up 64.9% year on year), while segment profit was ¥371 million (up 125.6% year on year).

3) Lithium-ion Battery Recycling Business

In addition to rising prices of cobalt, nickel and copper, handling volume rose due to purchasing from leading battery manufacturers, etc. and acceptance of waste batteries processing by making use of the disposal business license. Also, a decrease in depreciation due to the recording of an impairment loss on non-current assets during the previous fiscal year led to an increase in both sales and profit.

As a result, net sales in the Lithium-ion Battery Recycling Business segment were ¥376 million (up 199.9% year on year), while segment profit was ¥92 million (segment loss was ¥80 million in the same period of the previous fiscal year).

4) Others

The Environment Management Consulting Business remained robust and posted increases in both sales and profit, owing to a strong stream of orders for services including CDP evaluation improvement support, formulation of carbon neutral strategies, TCFD response support, and consulting services mainly to facilitate a circular economy.

Concerning the Welfare Service Business for Persons with Disabilities, although the usage rate at the facilities saw firm growth, mainly driven by the increased recognition of the facilities, profitability worsened due to the revision of compensation and personnel expenses increased owing to the improved employee treatment, leading

to an increase in sales and a decrease in profit.

As a result, net sales in the Others segment were ¥243 million (up 46.2% year on year), while segment profit was ¥81 million (up 120.7% year on year).

(2) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets at December 31, 2021 amounted to ¥26,644 million (up ¥95 million, or 0.4% from the end of the previous fiscal year). Current assets amounted to ¥16,989 million (down ¥511 million, or 2.9% from the end of the previous fiscal year). This was primarily due to decreases of ¥765 million in cash and deposits and ¥121 million in merchandise and finished goods, despite increases of ¥201 million in other current assets and ¥164 million in notes and accounts receivable - trade. Non-current assets amounted to ¥9,654 million (up ¥606 million, or 6.7% from the end of the previous fiscal year). This was mainly due to increases of ¥254 million in investment securities, ¥213 million in construction in progress, and ¥150 million in land, despite a decrease of ¥48 million in machinery, equipment and vehicles.

Total liabilities at December 31, 2021 amounted to ¥12,355 million (down ¥859 million, or 6.5% from the end of the previous fiscal year). Current liabilities amounted to ¥9,169 million (down ¥595 million, or 6.1% from the end of the previous fiscal year). This was mainly due to decreases of ¥627 million in notes and accounts payable - trade, ¥367 million in other current liabilities, and ¥122 million in income taxes payable, despite an increase of ¥545 million in short-term borrowings. Non-current liabilities amounted to ¥3,186 million (down ¥264 million, or 7.7% from the end of the previous fiscal year). This was mainly due to a decrease of ¥238 million in long-term borrowings.

Total net assets at December 31, 2021 amounted to ¥14,288 million (up ¥954 million, or 7.2% from the end of the previous fiscal year). This was mainly due to an increase of ¥901 million in retained earnings.

2) Status of Cash Flows

Cash and cash equivalents at December 31, 2021 decreased by ¥766 million, or 10.8%, from the end of the previous fiscal year, to ¥6,351 million.

(Cash flows from operating activities)

Net cash used in operating activities amounted to ¥38 million, compared with ¥506 million used in operating activities in the same period of the previous fiscal year. This net cash outflow mainly reflected cash outflows of ¥630 million in decrease in trade payables, ¥587 million in income taxes paid, ¥488 million in decrease in accounts payable - other, ¥258 million in share of profit of entities accounted for using equity method and ¥153 million in increase in trade receivables, compared with cash inflows of ¥1,771 million in profit before income taxes and ¥343 million in depreciation.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥380 million, compared with ¥117 million used in investing activities in the same period of the previous fiscal year. This net cash outflow mainly reflected cash outflows of ¥326 million in purchase of property, plant and equipment and ¥40 million in purchase of shares of subsidiaries resulting in change in scope of consolidation, compared with a cash inflow of ¥11 million in proceeds from sale of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥364 million, compared with ¥298 million used in financing activities in the same period of the previous fiscal year. This net cash outflow mainly reflected cash outflows of ¥577 million in repayments of long-term borrowings, ¥369 million in dividends paid, and ¥97 million in repayments of finance lease obligations, compared with cash inflows of ¥545 million in net increase in short-

term borrowings and ¥135 million in proceeds from long-term borrowings.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

No changes have been made to the consolidated financial results forecast for the fiscal year ending June 30, 2022, announced in the Consolidated Financial Results dated August 11, 2021.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of June 30,2021	As of December 31,2021
Assets		
Current assets		
Cash and deposits	7,259,898	6,494,675
Notes and accounts receivable - trade	4,231,391	4,396,072
Merchandise and finished goods	4,990,470	4,869,023
Work in process	21,037	11,744
Raw materials and supplies	437,067	450,424
Other	644,643	846,588
Allowance for doubtful accounts	(83,829)	(79,037)
Total current assets	17,500,678	16,989,492
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,537,521	4,629,251
Accumulated depreciation	(2,727,161)	(2,847,027)
Buildings and structures, net	1,810,360	1,782,224
Machinery, equipment and vehicles	9,139,250	9,274,199
Accumulated depreciation	(7,571,635)	(7,755,501)
Machinery, equipment and vehicles, net	1,567,615	1,518,698
Land	2,513,070	2,663,070
Construction in progress	170,109	383,229
Other	441,636	461,180
Accumulated depreciation	(383,589)	(388,746)
Other, net	58,047	72,434
Total property, plant and equipment	6,119,202	6,419,657
Intangible assets		
Goodwill	-	31,540
Other	66,095	67,631
Total intangible assets	66,095	99,171
Investments and other assets		
Investment securities	2,274,099	2,528,482
Investments in capital	9,430	9,441
Deferred tax assets	464,822	465,340
Other	681,780	712,743
Allowance for doubtful accounts	(567,423)	(580,234)
Total investments and other assets	2,862,709	3,135,773
Total non-current assets	9,048,007	9,654,602
Total assets	26,548,686	26,644,094

(Thousand yen)

	As of June 30,2021	As of December 31,2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,163,255	1,535,737
Short-term borrowings	4,810,000	5,355,000
Current portion of long-term borrowings	687,773	662,589
Lease obligations	76,987	76,389
Income taxes payable	556,206	433,875
Provision for bonuses	65,631	68,331
Other	1,405,164	1,037,764
Total current liabilities	9,765,018	9,169,687
Non-current liabilities		
Long-term borrowings	2,466,423	2,228,309
Lease obligations	223,069	186,128
Deferred tax liabilities for land revaluation	64,282	64,282
Retirement benefit liability	389,489	397,566
Asset retirement obligations	169,070	172,373
Other	137,827	137,480
Total non-current liabilities	3,450,162	3,186,140
Total liabilities	13,215,180	12,355,827
Net assets		
Shareholders' equity		
Share capital	1,524,830	1,524,830
Capital surplus	1,957,981	1,970,746
Retained earnings	9,653,565	10,554,662
Treasury shares	(188,806)	(171,880)
Total shareholders' equity	12,947,571	13,878,358
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,999	1,205
Revaluation reserve for land	8,633	8,633
Foreign currency translation adjustment	(1,568)	2,452
Total accumulated other comprehensive income	12,064	12,290
Share acquisition rights	326,584	326,584
Non-controlling interests	47,284	71,032
Total net assets	13,333,505	14,288,266
Total liabilities and net assets	26,548,686	26,644,094

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the six months)

(Thousand yen)

	For the six months ended December 31,2020	For the six months ended December 31,2021
Net sales	16,615,723	27,242,835
Cost of sales	13,203,881	22,224,830
Gross profit	3,411,842	5,018,004
Selling, general and administrative expenses	2,879,773	3,523,454
Operating profit	532,069	1,494,550
Non-operating income		
Interest income	958	1,293
Dividend income	19,168	198
Share of profit of entities accounted for using equity method	138,346	258,753
Foreign exchange gains	3,970	-
Rental income	13,952	13,689
Outsourcing service income	4,918	4,516
Other	27,580	39,027
Total non-operating income	208,895	317,478
Non-operating expenses		
Interest expenses	18,973	13,345
Commission expenses	1,266	2,800
Foreign exchange losses	-	14,786
Provision of allowance for doubtful accounts	-	12,836
Other	7,268	8,332
Total non-operating expenses	27,508	52,101
Ordinary profit	713,456	1,759,928
Extraordinary income		
Gain on sale of non-current assets	13,020	3,942
Reversal of allowance for doubtful accounts	-	4,849
Insurance claim income	13,514	-
Compensation income	2,889	3,395
Total extraordinary income	29,424	12,186
Extraordinary losses		
Loss on retirement of non-current assets	13,986	752
Loss on sale of non-current assets	1,990	96
Loss on disaster	8,027	-
Total extraordinary losses	24,005	849
Profit before income taxes	718,875	1,771,265
Income taxes	222,754	477,291
Profit	496,120	1,293,973
Profit attributable to non-controlling interests	6,833	23,748
Profit attributable to owners of parent	489,286	1,270,225

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Thousand yen)

	For the six months ended December 31,2020	For the six months ended December 31,2021
Profit	496,120	1,293,973
Other comprehensive income		
Valuation difference on available-for-sale securities	17,841	(3,794)
Foreign currency translation adjustment	(12,400)	4,020
Total other comprehensive income	5,441	225
Comprehensive income	501,562	1,294,199
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	494,728	1,270,451
Comprehensive income attributable to non-controlling interests	6,833	23,748

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended December 31,2020	For the six months ended December 31,2021
Cash flows from operating activities		
Profit before income taxes	718,875	1,771,265
Depreciation	371,147	343,805
Amortization of goodwill	6,457	534
Increase (decrease) in allowance for doubtful accounts	9,394	7,539
Increase (decrease) in retirement benefit liability	16,297	7,993
Interest and dividend income	(20,126)	(1,492)
Interest expenses	18,973	13,345
Foreign exchange losses (gains)	19,950	(29,933)
Share of loss (profit) of entities accounted for using equity method	(138,346)	(258,753)
Loss on sale of non-current assets	1,990	96
Loss on retirement of non-current assets	13,986	752
Gain on sale of non-current assets	(13,020)	(3,942)
Decrease (increase) in trade receivables	(1,030,459)	(153,162)
Decrease (increase) in inventories	(343,689)	107,775
Increase (decrease) in trade payables	45,391	(630,658)
Decrease (increase) in advance payments to suppliers	-	(61,579)
Increase (decrease) in provision for bonuses	9,721	1,533
Increase (decrease) in accounts payable - other	105,672	(488,295)
Compensation income	(2,889)	(3,395)
Insurance claim income	(13,514)	-
Loss on disaster	8,027	-
Other, net	(104,777)	(70,350)
Subtotal	(320,938)	553,079
Interest and dividends received	20,239	1,549
Interest paid	(18,824)	(13,351)
Income taxes paid	(204,292)	(587,857)
Proceeds from compensation	12,886	7,788
Proceeds from insurance income	13,514	-
Payments associated with disaster loss	(9,494)	-
Net cash provided by (used in) operating activities	(506,908)	(38,791)
Cash flows from investing activities		
Payments into time deposits	(43,132)	(3,284)
Proceeds from withdrawal of time deposits	43,600	2,400
Purchase of property, plant and equipment	(140,753)	(326,255)
Proceeds from sale of property, plant and equipment	34,731	11,011
Purchase of intangible assets	(4,292)	(6,515)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(40,744)
Other, net	(7,308)	(16,996)
Net cash provided by (used in) investing activities	(117,155)	(380,385)

(Thousand yen)

	For the six months ended December 31,2020	For the six months ended December 31,2021
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	260,000	545,000
Proceeds from long-term borrowings	153,324	135,000
Repayments of long-term borrowings	(528,193)	(577,798)
Repayments of finance lease obligations	(36,248)	(97,249)
Dividends paid	(147,219)	(369,128)
Net cash provided by (used in) financing activities	(298,336)	(364,176)
Effect of exchange rate change on cash and cash equivalents	(21,434)	17,246
Net increase (decrease) in cash and cash equivalents	(943,834)	(766,107)
Cash and cash equivalents at beginning of period	10,242,492	7,117,207
Cash and cash equivalents at end of period	9,298,657	6,351,100

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

There is no relevant information.

(Notes in the Case of Significant Changes in Shareholders' Equity)

There is no relevant information.

(Adoption of Special Accounting Methods for Preparing Quarterly Consolidated Financial Statements)

(Calculation of tax costs)

The tax costs of the Company and its consolidated subsidiaries were calculated by reasonably estimating an effective tax rate after applying tax effect accounting to profit before income taxes for the fiscal year including the six months ended December 31, 2021, and by multiplying profit before income taxes by the estimated effective tax rate.

(Changes in Accounting Policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter under review, and thereby revenue is recognized when the control of promised goods or services is transferred to a customer at an amount to which the Company expects to be entitled in exchange for transferring the goods or services to the customer.

The application of the Revenue Recognition Accounting Standard, etc., follows the transitional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of retrospectively applying the new accounting policy to the periods prior to the beginning of the first quarter under review has been added to or subtracted from retained earnings at the beginning of the first quarter under review, and the new accounting policy has been applied from the beginning balance. However, the application has no impact on the beginning balance.

As a result, net sales for the six months ended December 31, 2021 decreased by ¥1,831,636 thousand, and cost of sales decreased by ¥1,831,636 thousand. In addition, in accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the components of revenue from contracts with customers for the six months ended December 31, 2020 is not presented.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first quarter under review, and thereby the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. has been applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application of the accounting standard, etc. has no impact on the quarterly consolidated financial statements.

(Additional Information)

(Application of the practical solution on the treatment of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system)

With regard to the transition to the group tax sharing system, which was instituted by the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020), and the items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system, in accordance with Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (Practical Issues Task Force No. 39, March

31, 2020), the Company and some of its domestic consolidated subsidiaries have applied the provisions of the pre-amendment tax law to deferred tax assets and liabilities, instead of the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018).

(Accounting estimates regarding the spread of COVID-19)

In the six months ended December 31, 2021, there were no material changes to the assumptions used in the accounting estimates associated with the spread of COVID-19 stated in the annual securities report for the previous fiscal year.

(Segment Information)
(Segment information)

I Six months ended December 31, 2020 (July 1, 2020 to December 31, 2020)

1. Information on net sales and profit (loss) by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidate d financial statements (Note 3)
	Resource Circulation	Global Trading	Lithium-ion Battery Recycling	Total				
Net sales								
Net sales to outside customers	4,196,336	12,196,173	70,518	16,463,028	152,694	16,615,723	—	16,615,723
Inter- segment sales or transfers	1,793,640	74,609	54,957	1,923,207	14,169	1,937,377	(1,937,377)	—
Total	5,989,977	12,270,783	125,475	18,386,236	166,864	18,553,100	(1,937,377)	16,615,723
Segment profit (loss)	737,030	164,462	(80,010)	821,482	37,036	858,519	(145,063)	713,456

(Notes) 1. The “Others” business segment, which is not included in the reportable segments, includes the Environment Management Consulting Business and the Welfare Service Business for People with Disabilities.

2. Figures are adjusted as follows:

The adjustment for segment profit of negative ¥145,063 thousand is corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general and administrative expenses that are not attributed to each reportable segment.

3. Segment profit is adjusted with ordinary profit in the quarterly consolidated statements of income.

2. Information about impairment loss on non-current assets, goodwill, etc. by reportable segment

(Significant impairment loss on non-current assets)

There is no relevant information.

(Significant changes in the amount of goodwill)

There is no relevant information.

(Significant gain on bargain purchase)

There is no relevant information.

I Six months ended December 31, 2021 (July 1, 2021 to December 31, 2021)

1. Information on net sales and profit (loss) and information on disaggregation of revenue by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Resource Circulation	Global Trading	Lithium- ion Battery Recycling	Total				
Net sales								
Ferrous scrap	2,446,558	14,992,114	—	17,438,673	—	17,438,673	—	17,438,673
Nonferrous scrap	1,709,793	1,518,593	—	3,228,386	—	3,228,386	—	3,228,386
Rubber products	949,072	—	—	949,072	—	949,072	—	949,072
Used car	—	3,173,142	—	3,173,142	—	3,173,142	—	3,173,142
Related LIB	—	—	226,460	226,460	—	226,460	—	226,460
Others	1,715,165	280,219	—	1,995,384	231,716	2,227,101	—	2,227,101
Revenue from contracts with customers	6,820,589	19,964,069	226,460	27,011,119	231,716	27,242,835	—	27,242,835
Net sales to outside customers	6,820,589	19,964,069	226,460	27,011,119	231,716	27,242,835	—	27,242,835
Inter-segment sales or transfers	3,071,230	269,902	149,896	3,491,028	12,212	3,503,241	(3,503,241)	—
Total	9,891,820	20,233,971	376,356	30,502,148	243,928	30,746,077	(3,503,241)	27,242,835
Segment profit	1,405,664	371,087	92,701	1,869,453	81,736	1,951,190	(191,261)	1,759,928

(Notes) 1. The “Others” business segment, which is not included in the reportable segments, includes the Environment Management Consulting Business and the Welfare Service Business for People with Disabilities.

2. Figures are adjusted as follows:

The adjustment for segment profit of negative ¥191,261 thousand is corporate expenses not allocated to each reportable segment. Corporate expenses primarily consist of general and administrative expenses that are not attributed to each reportable segment.

3. Segment profit is adjusted with ordinary profit in the quarterly consolidated statements of income.

2. Items related to changes in the reportable segments

As presented in Changes in Accounting Policies, the Company has applied the Revenue Recognition Accounting Standard, etc. from the beginning of the first quarter under review, and changed the accounting treatment of revenue recognition. Accordingly, the calculation method of profit (loss) in the reportable segments has been changed in the same manner. As a result of this change, compared with the previous method, net sales of Global Trading Business for the six months ended December 31, 2021 decreased by ¥ 1,831,636 thousand. However, there is no impact on segment profit.

From the previous fiscal year, the classification of reportable segments has been changed from the previous four segments of Resource Circulation Business, Global Resource Circulation Business, Used-cars-related Business, and Others to the four segments of Resource Circulation Business, Global Trading Business, Lithium-ion Battery Recycling Business, and Others.

The segment information for the six months ended December 31, 2020 was prepared based on the classification after the change.

3. Information about impairment loss on non-current assets and goodwill, etc. by reportable segment

(Significant impairment loss on non-current assets)

There is no relevant information.

(Significant changes in the amount of goodwill)

A significant change in the amount of goodwill occurred in the Resource Circulation Business during the six months ended December 31, 2021 due to the acquisition of all the shares of Fujimi BMS Co., Ltd. by ECONECOL Inc., and the inclusion of Fujimi BMS Co., Ltd. in the scope of consolidation. The amount of the increase in goodwill resulting from this event in the Resource Circulation Business during the three months ended December 31, 2021 was ¥32,075 thousand.

(Significant gain on bargain purchase)

There is no relevant information.

(Business Combinations)

Business combination through acquisition

(1) Overview of the business combination

1) Name and description of businesses of the acquired company

Name of the acquired company: Fujimi BMS Co., Ltd.

Description of businesses: Manufacture and sale of biomass fuels, etc. produced from plant resources

Investigation, research and consulting related to the use and utilization of biomass

Businesses related to the treatment, collection and transportation of industrial waste (waste wood)

2) Main reason for the business combination

The Company aims to expand waste collection volumes and the range of items handled in the Resource Circulation Business segment, and has judged that the business combination will realize synergies through the integration of operations with ECONECOL Inc., located nearby, and will contribute to enhancing the Group's corporate value by promoting its strategy of resource circulation dominance in the Shizuoka Prefecture area.

3) Date of the business combination

November 1, 2021

4) Legal form of the business combination

Acquisition of shares for a cash consideration

5) Name of the company after the business combination

There will be no change in the company name

6) Proportion of voting rights acquired

100.0%

7) Grounds for determining the acquiring company

The acquisition of shares by ECONECOL Inc. for a cash consideration

(2) Period for which the financial results of the acquired company have been included in the quarterly consolidated statements of income for the six months ended December 31, 2021

From November 1, 2021 to December 31, 2021

(3) Acquisition cost for the acquired company and breakdown thereof

Not disclosed in accordance with an agreement between the parties

(4) Breakdown and amounts of major expenses related to the acquisition

Advisory fees, etc. ¥12,500 thousand

(5) Goodwill arising from the business combination, reason for the goodwill, and method and period of amortization

1) Amount of goodwill arising from the business combination

¥32,075 thousand

2) Reason for the goodwill

Acquisition cost exceeded the fair value of net assets at the time of the business combination, and the difference was recognized as goodwill.

3) Method and period of amortization

Amortized on a straight-line basis over 10 years

(Significant Subsequent Events)

There is no relevant information.