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Consolidated Financial Results for the Three Months Ended September 30, 2022 [Japanese GAAP]

November 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: November 11, 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

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

1. Consolidated Financial Results for the Three Months Ended September 30, 2022 (July 01, 2022 to September 30, 2022)

(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	%
Three months ended September 30, 2022	11,174	(21.8)	388	(51.2)	569	(38.2)	373	(43.9)
September 30, 2021	14,292	92.1	795	516.1	921	325.0	666	377.2

(Note) Comprehensive income: Three months ended September 30, 2022: ¥ 408 million [(40.0)%]
Three months ended September 30, 2021: ¥ 679 million [419.1%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2022	12.60	12.09
September 30, 2021	22.56	21.58

(Note) The Company conducted a 2-for-1 stock split of shares of common stock on April 20, 2022; however, basic earnings per share and diluted earnings per share are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
September 30, 2022	27,359	15,885	56.5
June 30, 2022	28,963	16,219	54.6

(Reference) Equity: As of September 30, 2022: ¥ 15,459 million
As of June 30, 2022: ¥ 15,808 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, 2022	-	0.00	-	25.00	25.00
Fiscal year ending June 30, 2023	-				
Fiscal year ending June 30, 2023 (Forecast)		0.00	-	20.00	20.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2023(July 01, 2022 to June 30, 2023)

(% 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	55,000	(4.0)	2,500	(25.2)	2,900	(30.4)	2,030	(34.7)	68.44

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

* Notes:

(1) Changes in significant subsidiaries during the three months ended September 30, 2022

(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: No

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):

September 30, 2022: 30,102,454 shares

June 30, 2022: 30,102,454 shares

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

September 30, 2022: 442,348 shares

June 30, 2022: 442,348 shares

3) Average number of shares during the period:

Three months ended September 30, 2022: 29,660,106 shares

Three months ended September 30, 2021: 29,535,212 shares

(Note) The Company conducted a 2-for-1 stock split of common stock on April 20, 2022; however, the total number of issued shares at the end of the period, the total number of treasury shares at the end of the period, and the average number of shares during the period are calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

* 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 4 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 three months ended September 30, 2022, demand for steel products decreased worldwide due mainly to energy crisis in Europe, continuous supply chain disruption, and other factors, in addition to the economic slowdown in China. Under such circumstances, the ferrous scrap price (Tokyo Steel (Tahara) Tokkyu Grade Seaborne Price) was on a downward trend from the beginning of the fiscal year under review, but increased from the latter half of August with tight supply-demand due to a sluggish cargo movement, the drastically weakening yen, and other factors. As a result, the average ferrous scrap price during the three months ended September 30, 2022 was ¥46,532, trending downward from ¥49,461 of the same period of the previous fiscal year.

With regard to the prices of cobalt, nickel and copper, which are main materials for lithium-ion batteries, rose above those seen in the same period of the previous fiscal year due in part to the impact of the yen's depreciation, despite a fall in overseas market prices.

Amid this environment, in the three months ended September 30, 2022, the Company propelled its business with a strategic concept of "Realization of concrete cases of the circular economy", based on mission statement of "Contribute to create a sustainable society." In addition, the Company pushed ahead with initiatives for raising the level of sharing of our corporate philosophy to support the future growth from the ground up, and enhancing the internal systems with environmental improvements and safe management to pursue aggressive attitude, as well as active investment in human capital, etc.

As a result, for the three months ended September 30, 2022, net sales were ¥11,174 million (down 21.8% year on year), operating profit was ¥388 million (down 51.2% year on year), ordinary profit was ¥569 million (down 38.2% year on year), and profit attributable to owners of parent was ¥373 million (down 43.9% year on year).

Results by segment are as follows, with net sales shown as inter-segment sales or sales including transfers.

Summary of Business Results by Segment

<Net sales>

(Million yen)

	Three months ended September 30, 2021	Three months ended September 30, 2022	Increase/decrease ratio
Resource Circulation Business	4,762	4,179	(12.2)%
Global Trading Business	11,109	7,872	(29.1)%
Lithium-ion Battery Recycling Business	147	326	122.3 %
Others	127	135	6.1 %
Adjustment	(1,853)	(1,340)	—
Total	14,292	11,174	(21.8)%

<Segment profit>

(Million yen)

	Three months ended September 30, 2021	Three months ended September 30, 2022	Increase/decrease ratio
Resource Circulation Business	685	364	(46.8)%
Global Trading Business	302	156	(48.0)%
Lithium-ion Battery Recycling Business	18	104	452.6 %
Others	45	50	11.4 %
Adjustment	(130)	(107)	—
Total	921	569	(38.2)%

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

1) Resource Circulation Business

Revenue decreased due in part to lower handling volume caused by failure and halt of the large-scale shredder line at the primary plant for about one month, in addition to a shrunk margin for inventory sale due to the rapid fall in metal scrap prices from the beginning of the fiscal year under review. While an increase in orders received for wide-area dismantling and cleaning contributed to revenue, both sales and profit decreased. With the merger and acquisition implemented in the previous fiscal year, personnel expenses and other fixed expenses increased.

As a result, net sales in the Resource Circulation Business segment were ¥4,179 million (down 12.2% year on year), while segment profit was ¥364 million (down 46.8% year on year).

A new factory was completed in Fuji City, Shizuoka Prefecture in September, 2022, and started facility construction work with a view to starting operations in February.

2) Global Trading Business

Crude steel production for domestic electric furnace was stable while overseas demand for ferrous scrap decreased. Accordingly, with high domestic prices and low overseas prices, differences between overseas and domestic prices shrank. In addition, revenue decreased due to a fall in handling volume resulting from decreased auto production and other factors. Despite contribution of foreign exchange gains owing to the rapidly weakening yen to revenue, both sales and profit decreased.

As a result, net sales in the Global Trading Business segment were ¥7,872million (down 29.1% year on year), while segment profit was ¥156 million (down 48.0% year on year).

3) Lithium-ion Battery Recycling Business

With an improvement in sales conditions due to an increase in demand of minor metals and the impact of the yen's depreciation, prices of cobalt, nickel, and copper rose above those seen in the same period of the previous fiscal year. As shipping volume of black mass, etc. also rose, both sales and profit grew. At the new factory in Fuji City, Shizuoka Prefecture, an electrode plate recycling line started operation. We will continuously expand facilities of the new factory.

As a result, net sales in the Lithium-ion Battery Recycling Business segment were ¥326 million (up 122.3% year on year), while segment profit was ¥104 million (up 452.6% year on year).

4) Others

The Environment Management Consulting Business posted increases in both sales and profit, owing to a steady stream of orders for consulting services related to carbon neutrality and circular economy including CDP evaluation improvement support and TCFD response support.

Concerning the Welfare Service Business for People with Disabilities, a new office opened in Nagano area, and started new services such as vegetable farming in collaboration between agriculture and welfare service. However, both sales and profit decreased due in part to a fall in the total number of users.

As a result, net sales in the Others segment were ¥135 million (up 6.1% year on year), while segment profit was ¥50 million (up 11.4% year on year).

(2) Explanation of Financial Position

(Status of assets, liabilities, and net assets)

Total assets at September 30, 2022 amounted to ¥27,359 million (down ¥1,604 million, or 5.5% from the end of the previous fiscal year). Current assets amounted to ¥16,330 million (down ¥2,117 million, or 11.5% from the end of the previous fiscal year). This was primarily due to decreases of ¥1,445 million in cash and deposits and ¥1,018 million in notes and accounts receivable - trade, despite increases of ¥238 million in other current assets and ¥125 million in merchandise and finished goods. Non-current assets amounted to ¥11,028 million (up ¥513 million, or 4.9% from the end of the previous fiscal year). This was mainly due to increases of ¥807 million in buildings and structures, ¥111 million in machinery, equipment and vehicles, and ¥90 million in investment securities, despite a decrease of ¥481 million in construction in progress.

Total liabilities at September 30, 2022 amounted to ¥11,473 million (down ¥1,270 million, or 10.0% from the end of the previous fiscal year). Current liabilities amounted to ¥8,719 million (down ¥1,248 million, or 12.5%

from the end of the previous fiscal year). This was mainly due to decreases of ¥1,290 million in short-term borrowings and ¥571 million in income taxes payable, despite increases of ¥524 million in other current liabilities and ¥148 million in provision for bonuses. Non-current liabilities amounted to ¥2,753 million (down ¥22 million, or 0.8% from the end of the previous fiscal year). This was mainly due to a decrease of ¥66 million in long-term borrowings, despite an increase of ¥38 million in lease liabilities.

Total net assets at September 30, 2022 amounted to ¥15,885 million (down ¥333 million, or 2.1% from the end of the previous fiscal year). This was mainly due to a decrease of ¥367 million in retained earnings.

(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, 2023, announced in the Consolidated Financial Results dated August 10, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of June 30,2022	As of September 30,2022
Assets		
Current assets		
Cash and deposits	9,057,899	7,612,166
Notes and accounts receivable - trade	4,532,295	3,513,898
Merchandise and finished goods	3,765,517	3,890,534
Work in process	18,477	16,022
Raw materials and supplies	618,601	592,645
Other	544,973	783,776
Allowance for doubtful accounts	(89,446)	(78,301)
Total current assets	18,448,319	16,330,741
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,686,467	5,523,621
Accumulated depreciation	(2,920,156)	(2,949,539)
Buildings and structures, net	1,766,310	2,574,082
Machinery, equipment and vehicles	9,555,475	9,707,448
Accumulated depreciation	(7,927,443)	(7,967,609)
Machinery, equipment and vehicles, net	1,628,031	1,739,838
Land	2,689,312	2,689,312
Construction in progress	1,006,309	524,427
Other	472,084	492,407
Accumulated depreciation	(400,787)	(406,665)
Other, net	71,297	85,742
Total property, plant and equipment	7,161,261	7,613,404
Intangible assets		
Goodwill	29,936	29,134
Other	66,596	72,417
Total intangible assets	96,533	101,552
Investments and other assets		
Investment securities	2,683,383	2,774,264
Investments in capital	9,441	9,441
Deferred tax assets	451,356	434,970
Other	570,247	578,623
Allowance for doubtful accounts	(457,172)	(483,647)
Total investments and other assets	3,257,256	3,313,652
Total non-current assets	10,515,051	11,028,608
Total assets	28,963,371	27,359,350

(Thousand yen)

	As of June 30,2022	As of September 30,2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,743,827	1,714,930
Short-term borrowings	5,340,000	4,050,000
Current portion of long-term borrowings	828,555	791,160
Lease liabilities	87,805	94,320
Income taxes payable	604,885	33,831
Provision for bonuses	75,121	223,325
Other	1,287,818	1,812,255
Total current liabilities	9,968,013	8,719,822
Non-current liabilities		
Long-term borrowings	1,766,057	1,699,807
Lease liabilities	208,347	246,432
Deferred tax liabilities for land revaluation	64,282	64,282
Retirement benefit liability	427,031	435,490
Asset retirement obligations	172,756	174,322
Other	137,570	133,367
Total non-current liabilities	2,776,045	2,753,703
Total liabilities	12,744,059	11,473,525
Net assets		
Shareholders' equity		
Share capital	1,524,830	1,524,830
Capital surplus	1,964,621	1,964,621
Retained earnings	12,395,449	12,027,688
Treasury shares	(145,964)	(145,964)
Total shareholders' equity	15,738,937	15,371,176
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,077)	(2,742)
Revaluation reserve for land	8,633	8,633
Foreign currency translation adjustment	62,283	82,557
Total accumulated other comprehensive income	69,840	88,449
Share acquisition rights	326,584	326,584
Non-controlling interests	83,950	99,614
Total net assets	16,219,312	15,885,825
Total liabilities and net assets	28,963,371	27,359,350

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the three months)

(Thousand yen)

	For the three months ended September 30,2021	For the three months ended September 30,2022
Net sales	14,292,726	11,174,033
Cost of sales	11,692,293	9,048,975
Gross profit	2,600,432	2,125,057
Selling, general and administrative expenses	1,805,058	1,736,535
Operating profit	795,374	388,521
Non-operating income		
Interest income	586	497
Share of profit of entities accounted for using equity method	125,722	92,710
Foreign exchange gains	-	92,719
Rental income	6,745	7,277
Outsourcing service income	2,555	2,056
Other	23,133	17,316
Total non-operating income	158,743	212,578
Non-operating expenses		
Interest expenses	6,808	6,214
Commission expenses	1,010	913
Foreign exchange losses	17,810	-
Provision of allowance for doubtful accounts	3,873	22,559
Other	3,502	2,077
Total non-operating expenses	33,005	31,764
Ordinary profit	921,111	569,335
Extraordinary income		
Gain on sale of non-current assets	798	12,853
Reversal of allowance for doubtful accounts	2,665	-
Compensation income	2,213	-
Total extraordinary income	5,677	12,853
Extraordinary losses		
Loss on retirement of non-current assets	0	30
Loss on sale of non-current assets	-	0
Total extraordinary losses	0	30
Profit before income taxes	926,789	582,158
Income taxes	247,774	192,752
Profit	679,014	389,405
Profit attributable to non-controlling interests	12,632	15,664
Profit attributable to owners of parent	666,382	373,741

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

(Thousand yen)

	For the three months ended September 30,2021	For the three months ended September 30,2022
Profit	679,014	389,405
Other comprehensive income		
Valuation difference on available-for-sale securities	5,365	(1,664)
Foreign currency translation adjustment	(4,449)	20,274
Total other comprehensive income	915	18,609
Comprehensive income	679,929	408,015
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	667,297	392,350
Comprehensive income attributable to non-controlling interests	12,632	15,664

(3) 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 three months ended September 30, 2022, and by multiplying profit before income taxes by the estimated effective tax rate.

(Additional Information)

(Application of the practical solution on the treatment of accounting and disclosure under the group tax sharing system)

The Company and some of its domestic consolidated subsidiaries have transitioned to the group tax sharing system from the consolidated taxation system from the beginning of the first quarter under review.

Accordingly, with regard to the accounting treatment and disclosure of corporate tax, local corporate tax, and tax effect accounting, the Company has abided by the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Practical Issues Task Force No. 42, August 12, 2021; hereinafter the "Practical Issues Task Force No. 42.") The changes in accounting policies resulting from the application of the Practical Issues Task Force No. 42 are deemed to have no impact, based on Paragraph 32(1) of the Practical Issues Task Force No. 42.

(Accounting estimates regarding the spread of COVID-19)

There were no material changes to the assumptions used in the additional information associated with the spread of COVID-19 stated in the annual securities report for the previous fiscal year.

(Segment Information)
(Segment information)

I Three months ended September 30, 2021 (July 1, 2021 to September 30, 2021)

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 consolidated financial statements (Note 3)
	Resource Circulation	Global Trading	Lithium- ion Battery Recycling	Total				
Net sales								
Ferrous scrap	1,012,606	8,660,737	—	9,673,343	—	9,673,343	—	9,673,343
Nonferrous scrap	808,325	719,574	—	1,527,900	—	1,527,900	—	1,527,900
Rubber products	443,457	—	—	443,457	—	443,457	—	443,457
Used car	—	1,509,112	—	1,509,112	—	1,509,112	—	1,509,112
Related LIB	—	—	94,822	94,822	—	94,822	—	94,822
Others	785,497	133,810	—	919,308	124,781	1,044,089	—	1,044,089
Revenue from contracts with customers	3,049,887	11,023,234	94,822	14,167,944	124,781	14,292,726	—	14,292,726
Net sales to outside customers	3,049,887	11,023,234	94,822	14,167,944	124,781	14,292,726	—	14,292,726
Inter-segment sales or transfers	1,712,169	86,749	52,248	1,851,167	2,526	1,853,693	(1,853,693)	—
Total	4,762,057	11,109,984	147,070	16,019,112	127,307	16,146,419	(1,853,693)	14,292,726
Segment profit	685,346	302,074	18,942	1,006,362	45,713	1,052,076	(130,964)	921,111

(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 ¥130,964 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 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)

There is no relevant information.

(Significant gain on bargain purchase)

There is no relevant information.

II Three months ended September 30, 2022 (July 1, 2022 to September 30, 2022)

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	883,106	5,163,335	—	6,046,441	—	6,046,441	—	6,046,441
Nonferrous scrap	770,330	749,076	—	1,519,406	—	1,519,406	—	1,519,406
Rubber products	497,149	—	—	497,149	—	497,149	—	497,149
Used car	—	1,718,268	—	1,718,268	—	1,718,268	—	1,718,268
Related LIB	—	—	261,915	261,915	—	261,915	—	261,915
Others	806,639	195,231	—	1,001,871	128,980	1,130,851	—	1,130,851
Revenue from contracts with customers	2,957,225	7,825,911	261,915	11,045,052	128,980	11,174,033	—	11,174,033
Net sales to outside customers	2,957,225	7,825,911	261,915	11,045,052	128,980	11,174,033	—	11,174,033
Inter-segment sales or transfers	1,222,469	46,994	65,022	1,334,486	6,069	1,340,556	(1,340,556)	—
Total	4,179,694	7,872,906	326,938	12,379,539	135,050	12,514,589	(1,340,556)	11,174,033
Segment profit	364,523	156,978	104,674	626,176	50,931	677,107	(107,771)	569,335

(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 ¥107,771 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 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)

There is no relevant information.

(Significant gain on bargain purchase)

There is no relevant information.

(Significant Subsequent Events)

(Disposal of treasury shares as restricted stock compensation)

The Company resolved at the Board of Directors meeting held on September 28, 2022 to dispose of treasury shares as restricted stock compensation, and completed payment from eligible persons on October 27, 2022. The details are as follows.

1. Purpose and reason for the disposal

The Company resolved at the Board of Directors meeting held on September 11, 2018 to introduce a restricted stock compensation plan (hereinafter referred to as “the Plan”) for Directors, Executive Officers and Advisors of the Company, and Directors and Auditors of the Company’s subsidiaries (hereinafter referred to as “Eligible Persons”), with the purposes of imparting an incentive to enhance corporate value and sharing in the interests of shareholders of the Company. Also, at the Board of Directors meeting held on September 29, 2020, Counselors of the Company were added to the Eligible Persons.

Based on the Plan, the Company resolved at the Board of Directors meeting held on September 28, 2022 to grant monetary compensation receivables to Eligible Persons, the entire sum of which the Eligible Persons then make in-kind contribution of, and in turn receive an allocation of common shares through the disposal of treasury shares by the Company.

2. Summary of the disposal

(1)	Date of disposal	October 27, 2022
(2)	Type and number of shares subject to disposal	37,031 common shares of the Company
(3)	Disposal value	¥832 per share
(4)	Total amount of the disposal	¥30,809,792
(5)	Subject persons of the allocation, the number of subject persons, and the number of shares to be allocated	Directors of the Company (excluding Directors who are Audit and Supervisory Committee Members) 8 persons: 14,710 shares Directors who are Audit and Supervisory Committee Members 4 persons: 3,250 shares Employees of the Company (Counselors and Executive Officers) 5 persons: 6,397 shares Directors and Auditors of the Company’s subsidiaries 15 persons: 12,674 shares