

February 27, 2023

Company Name: ENVIPRO HOLDINGS Inc.

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(Code No.: 5698 TSE Prime)

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ENVIPRO HOLDINGS Inc.

Q2 Financial Results Briefing Session for the Fiscal Year Ending June 2023 (script)

February 17, 2023

Event Summary

[Company Name]	ENVIPRO HOLDINGS Inc.	
[Company ID]	5698	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending June 2023	
[Fiscal Period]	FY2023 Q2	
[Date]	February 17, 2023	
[Number of Pages]	40	
[Time]	13:30 – 14:27 (Total: 57 minutes, Presentation: 44 minutes, Q&A: 13 minutes)	
[Venue]	Kabutocho Heiwa Building 3F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)	
[Venue Size]	145 m ²	
[Participants]	20	
[Number of Speakers]	2	
	Tomikazu Sano	Representative Director and President, CEO
	Naoki Takekawa	Director

Presentation

Moderator: Now it's time to begin the Q2 financial results briefing for the fiscal year ending June 30, 2023 of ENVIPRO HOLDINGS Inc.

First, I would like to introduce two guests from the Company.

Mr. Tomikazu Sano, Representative Director and President, CEO.

Sano: This is Sano, thank you.

Moderator: Next, Mr. Naoki Takekawa, Director.

Takekawa: This is Takekawa. Thank you.

Moderator: Today, Mr. Sano, the President of the Company, will give you the presentation. After the presentation, we will have time for questions and answers.

Today's briefing is being recorded. We will release this video on the Company's and the Association's website at a later date.

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Sano: Thank you very much for your time.

Now I would like to begin.

Today I will divide the presentation into three parts: a summary of the Q2 financial results, then the outlook for the current fiscal year, and then a description of the main initiatives for future operations. I will proceed a little bit faster in the first part.

I appreciate your understanding and corporation.

Consolidated Financial Results

Net sales	¥23,582 million	(Down 13.4%	YoY)
Operating profit	¥870 million	(Down 41.8%	YoY)
Ordinary profit	¥1,014 million	(Down 42.3%	YoY)
Profit*	¥709 million	(Down 44.1%	YoY)

Main Topics

- Crude steel production volume worldwide fell below that seen in the same period of the previous fiscal year due to the economic slowdown in China, energy crisis in Europe and other factors.
- High domestic prices and low overseas prices remained as overseas demand for ferrous scrap decreased, handling volume decreased due to shrink of differences between overseas and domestic prices.
- The average ferrous scrap price (Tokyo Steel Tahara Tokkyu Grade Seaborne Price) was ¥47,315/t, trending downward from ¥52,266 of the same period of the previous fiscal year. (At the beginning of this period: ¥54,000/t, At the end of December, 2022: ¥49,000/t)
- The prices of cobalt, nickel and copper rose above those seen in the same period of the previous fiscal year.
- Increase in electricity costs caused by higher energy prices, occurrence of foreign exchange losses resulting from the drastically strengthening yen
- New plant construction has progressed.
 - Resource Recycling Business: Construction of a new plant building was completed in September 2022.
(Fuji City, Shizuoka, Started operation partially: February 2023)
 - Lithium-ion Battery Recycling Business: A new plant started operation in October 2022.
(Fuji City, Shizuoka)

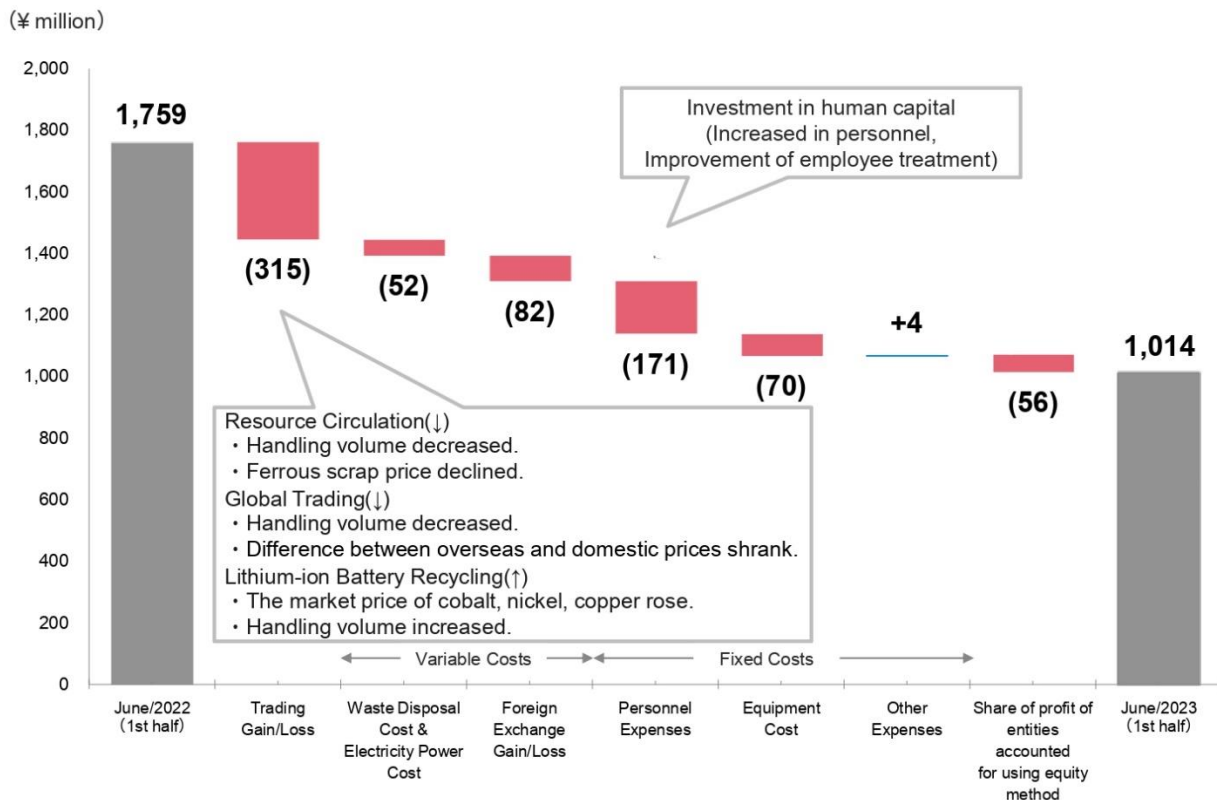
*Profit: Profit attributable to owners of parent
(Amounts and quantities are rounded down. The percentages are rounded off.)

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First of all, as you have already seen in the disclosure materials, net sales and profits were down significantly in Q2. As I said during the earnings presentation, last year we performed too well because of the tailwind, and I would say it was a reference record.

Even so, our target was JPY2.9 billion in ordinary profit, so in that sense, I think we can say that we are a little behind.

Analysis of Difference in Consolidated Ordinary Profit (YoY)



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Our two main business segments, the Resource Circulation Business and the Global Trading Business, failed to generate adequate profits.

However, the Lithium-ion Battery Recycling Business segment was able to generate a certain level of profit, which compensated for this to some extent, but it was still not enough.

One reason for the decrease in gross profit is the investment in human resources. In order to increase retention, motivation, etc., we have increased personnel expenses. Many other companies are planning large wage increases, including this fiscal year, so we have also seen a certain amount of increase in personnel expenses, although not as much as larger companies.

This is up from past figures.

Summary of Business Results by Segment



(¥ million)

		June/2022	June/2023			Composition Ratio
		1st half	1st half		YoY	
		Actual	Actual	Increase/Decrease		
Resource Circulation Business	Net sales	9,891	8,529	(1,362)	(13.8%)	32.4%
	Segment profit	1,405	748	(657)	(46.8%)	62.3%
Global Trading Business	Net sales	20,233	16,831	(3,402)	(16.8%)	63.9%
	Segment profit	371	113	(257)	(69.4%)	9.5%

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As mentioned in the previous section, profits in the Resource Circulation Business and the Global Trading Business were halved. In particular, the Global Trading Business saw a significant decrease in profit, partly due to foreign exchange rates and other factors.

Summary of Business Results by Segment



(¥ million)

		June/2022	June/2023			Composition Ratio
		1st half	1st half		YoY	
		Actual	Actual	Increase/Decrease		
Lithium-ion Battery Recycling Business	Net sales	376	775	399	106.1%	2.9%
	Segment profit	92	288	195	211.1%	24.0%
Others	Net sales	243	222	(21)	(8.9%)	0.8%
	Segment profit	81	50	(31)	(38.2%)	4.2%
<p>■ Average prices of cobalt, nickel, and copper rose above those seen in the same period of the previous fiscal year.</p> <p>■ In addition to the foregoing, rising price of lithium in Black mass improved the profitability.</p> <p>■ The handling volume increased due to improved productivity owing to the improvement in facility operating rate.</p> <p>■ A new plant started operation in October 2022. (Fuji City, Shizuoka)</p> <p>«Environment Management Consulting Business»</p> <p>■ The system enhancement due to increased demand for consulting to CDP, TCFD response support etc. regarding carbon neutrality and circular economy.</p> <p>«Welfare Service Business for People with Disabilities»</p> <p>■ A new office opened in Nagano area, and started new services in collaboration between agriculture and welfare service.</p>						

*Black mass: Concentrated residue of lithium, cobalt and nickel sorted from lithium-ion batteries that have been discharged, dried and crushed

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I would say that the Lithium-ion Battery Recycling Business segment is barely doing well, productivity is increasing, and the number of customers is increasing.

Various battery manufacturers are planning new battery factories in the future. As a manufacturer, they don't want to produce too many defective products in the process, but there will always be a percentage of defective products.

We are trying to increase our market share of such items, as well as general daily necessities, used batteries. This is really small in size, but we are getting a variety of customers. We are really making an effort to collect those resources in units of several kilos.

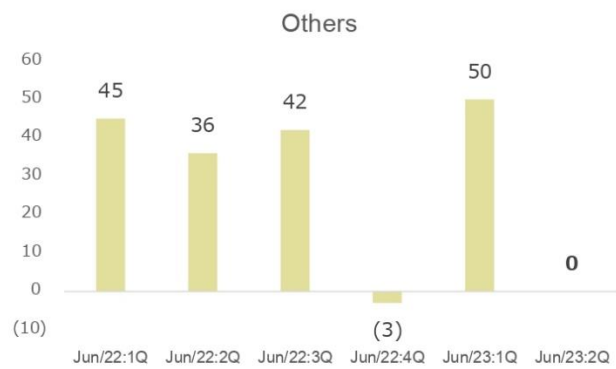
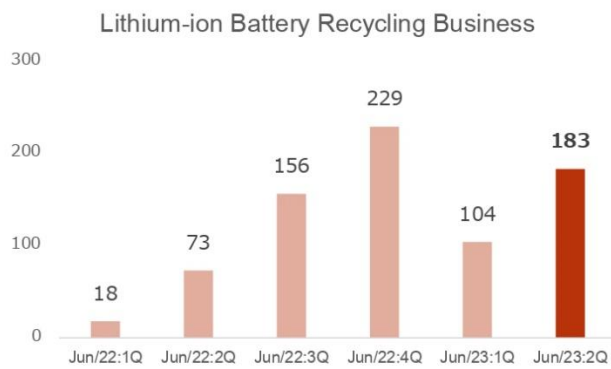
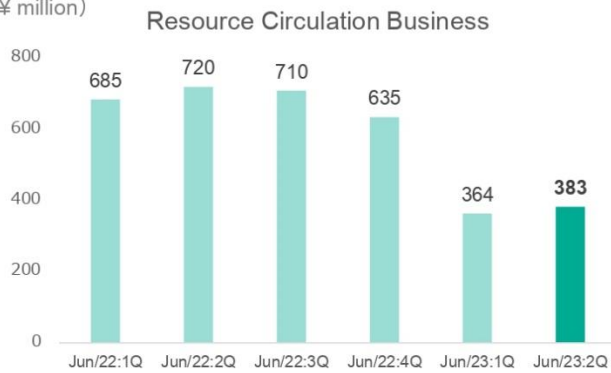
Other than that, there is no financial impact, but there has been an increase in consultation with companies in the Environmental Management Consulting Business, particularly CDP, TCFD, and recently, circular economy consulting.

And behind them, our resource circulation business segment is waiting to serve as a sales window. In that sense, we believe that this is an area that has more than a financial impact.

Quarterly Ordinary Profit by Segment



(¥ million)



As you can see, the global trading business still posted a loss in Q2.

Summary of Consolidated Balance Sheets



(¥ million)

	As of Jun. 30 2022	As of Dec. 31 2022	Increase/ Decrease		As of Jun. 30 2022	As of Dec. 31 2022	Increase/ Decrease
Current assets	18,448	15,762	(2,686)	Current liabilities	9,968	7,628	(2,339)
Non-current assets	10,515	11,602	1,087	Non-current liabilities	2,776	3,509	733
(Property, plant and equipment)	7,161	8,079	918	Total liabilities	12,744	11,137	(1,606)
(Intangible assets)	96	105	8	Net assets	16,219	16,226	6
(Investments and other assets)	3,257	3,417	160	(Equity)	15,808	15,800	(8)
Total assets	28,963	27,364	(1,599)	Total liabilities and net assets	28,963	27,364	(1,599)

Main Topics (Change from June 30, 2022)

- Current assets (Other current assets: ¥530 million, Merchandise and finished goods: ¥127 million
Cash and deposits: -¥1,638 million, Notes and accounts receivable-trade: -¥1,610 million)
- Non-current assets (Buildings and structures: ¥878 million, Machinery, equipment and vehicles: ¥568 million
Investment securities: ¥199 million, Construction in progress: -¥559 million,
Other in investments and other assets: -¥44 million)
- Current liabilities (Current portion of long-term borrowings: ¥24 million, Short-term borrowings: -¥1,810 million,
Income taxes payable: -¥443 million, Notes and accounts payable trade: -¥74 million)
- Non-current liabilities (Long-term borrowings: ¥678 million)
- Equity ratio 57.7% (54.6% as of June 30, 2022)

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This is the balance sheet.

Summary of Consolidated Statements of Cash Flows



(¥ million)

	June/2022 1st half	June/2022 2nd half	June/2023 1st half
Cash flows from operating activities	(38)	3,912	1,361
Cash flows from investing activities	(380)	(1,023)	(921)
Cash flows from financing activities	(364)	(401)	(2,015)
Effect of exchange rate change on cash and cash equivalents	17	74	(62)
Net increase (decrease) in cash and cash equivalents	(766)	2,562	(1,637)
Cash and cash equivalents at beginning of period	7,117	6,351	8,913
Cash and cash equivalents at end of period	6,351	8,913	7,275

Main Topics

- Cash flows from operating activities : (Inflows) ¥1,610 million in increase in trade receivables, ¥1,036 million in profit before income taxes, ¥400 million in depreciation
(Outflows) ¥707 million in income taxes paid, ¥280 million in decrease in accounts payable other, ¥406 million in other, net
- Cash flows from investing activities : (Inflows) ¥39 million in proceeds from sale of property, plant and equipment.
(Outflows) ¥988 million in purchase of property, plant and equipment
- Cash flows from financing activities : (Inflows) ¥1,100 million in proceeds from long term borrowings
(Outflows) ¥1,810 million in net decrease in short term borrowings, ¥741 million in dividends paid, ¥396 million in repayments of long term borrowings

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Please see the statement of cash flows later in this report.

Revised Forecast

Forecast for the Consolidated Results

Net sales	¥50,000 million	(Down 12.8%	YoY)
Operating profit	¥1,900 million	(Down 43.2%	YoY)
Ordinary profit	¥2,200 million	(Down 47.2%	YoY)
Profit*	¥1,400 million	(Down 55.0%	YoY)

TOPICS

- Continuing uncertainty about the future such as the economic slowdown in China, energy crisis in Europe.
- Decrease in handling volume due to lower export demand for scrap metal caused by concerns of overseas economic slowdown in the first half.
- Increased expenses due to soaring energy prices, etc., and foreign exchange losses due to dramatic strengthening of the yen in the latter half of 2Q.
- Currently, recovery of the amount of metal scrap generated from scrapped vehicles, etc. is stagnant, although the manufacturing and other industries are recovering.
- Growing appreciation for utilization of recycled raw materials continues against a backdrop of decarbonization; resource prices are expected to be sustained.
- BM* new plant plan in Kanto area for Lithium-ion Battery Recycling Business in progress.
- Resource Recycling Business: Partial facilities of the new plant will start operation in February 2023, with plans to expand capacity by installing facilities sequentially.

*Profit: Profit attributable to owners of the parent

*BM (black mass): Concentrated residue of lithium, cobalt and nickel sorted from lithium-ion batteries that have been discharged, dried and crushed

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As for the forecast for the current fiscal year ending June 30, we are forecasting a slight profit compared to H1, although net sales and profits are expected to decrease significantly compared to the previous fiscal year.

However, there are external factors, including energy prices, as well as the personnel expenses and other factors I mentioned earlier. Since I am the President, I must not blame external factors, and it's my job to manage the business in such a way that we can overcome external influences.

I don't want to talk too much about external factors, but that is the situation.

Forecast for the Consolidated Results - FY2023



Changes of Prerequisites

Item	1Q Average	2Q Average	1st half Average	3Q and thereafter
Ferrous scrap	¥46,532/t	¥48,097/t	¥47,315/t	¥45,000/t (¥45,000/t)
Electrolytic copper	¥1,124/kg	¥1,188/kg	¥1,156/kg	¥1,050/kg (¥1,050/kg)
Gold	¥7,738/g	¥7,860/g	¥7,799/g	¥7,000/g (¥7,000/g)
Silver	¥88,981/kg	¥98,133/kg	¥93,557/kg	¥85,000/kg (¥85,000/kg)
Nickel	¥3,245/kg	¥3,749/kg	¥3,497/kg	¥3,300/kg (¥2,650/kg)
Cobalt	¥7,930/kg	¥7,209/kg	¥7,569/kg	¥4,800/kg (¥7,000/kg)
Exchange rate (¥/\$)	¥138	¥141	¥139	¥125 (¥125)

*Sources: Tokyo Steel manufacturing Co., Ltd., JX Nippon Mining & metals Corporation, IRUniverse Co., Ltd., Sangyo Press Co., Ltd., MUFG Bank, Ltd.

*Figures in parentheses are prerequisites at the time of the August 10, 2022 announcement.

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As for our assumptions for this fiscal year, we are looking at JPY45,000 for ferrous scrap this quarter, but it is already up to about JPY53,500 now.

As you can see here, cobalt is actually down JPY4,500 to JPY4,600 right now, which is dropping rapidly, so I am a little conservative about the rest.

Forecast for the Consolidated Results - FY2023



(¥ million)

Net sales	June/2023		June/2023			
	Revised Forecast (Feb 10, 2023)	Composition Ratio	Previous Forecast (Aug 10, 2022)	Compared to Previous Forecast		Composition Ratio
				Increase/Decrease	Ratio	
Consolidated	50,000	100.0%	55,000	(5,000)	(9.1%)	100.0%
Resource Circulation Business	17,700	31.3%	19,550	(1,850)	(9.5%)	31.2%
Global Trading Business	37,000	65.4%	41,300	(4,300)	(10.4%)	65.9%
Lithium-ion Battery Recycling Business	1,430	2.5%	1,300	130	10.0%	2.1%
Others	450	0.8%	488	(38)	(7.9%)	0.8%
Adjustment	(6,580)	-	(7,638)	1,058	-	-

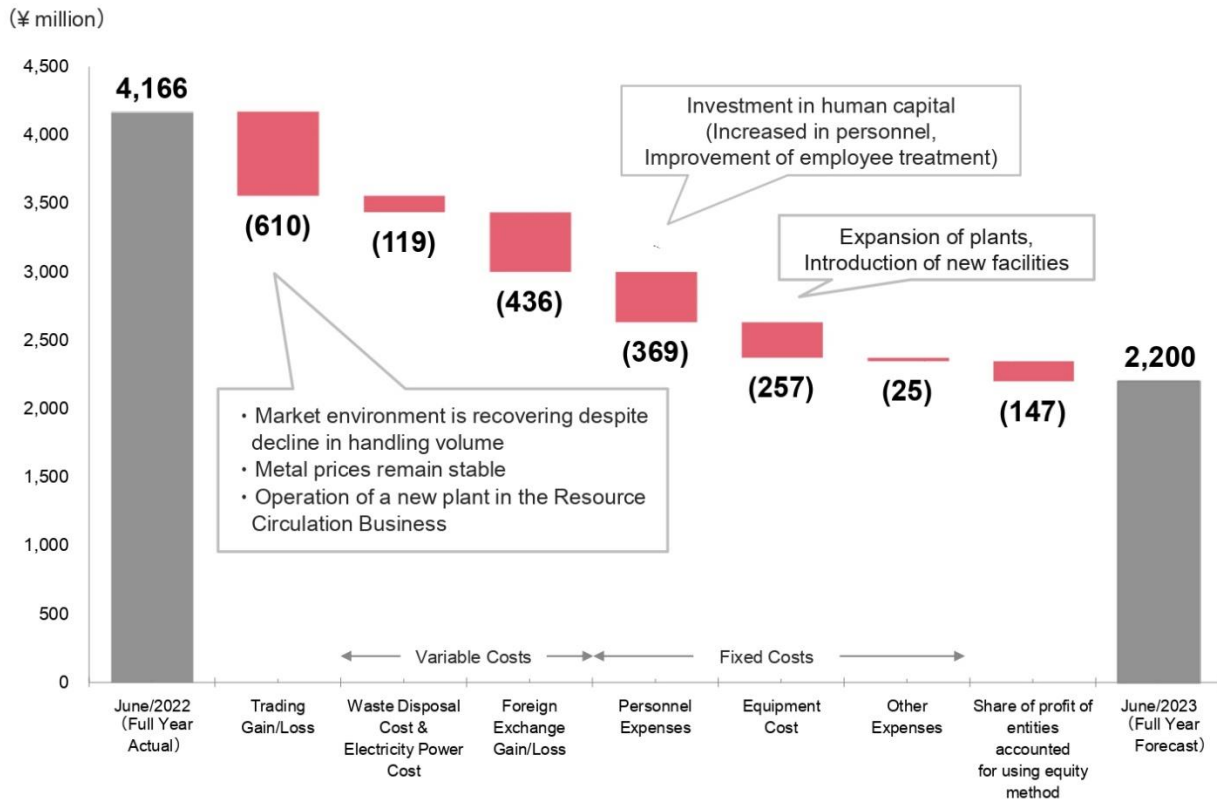
Segment profit	June/2023		June/2023			
	Revised Forecast (Feb 10, 2023)	Composition Ratio	Previous Forecast (Aug 10, 2022)	Compared to Previous Forecast		Composition Ratio
				Increase/Decrease	Ratio	
Consolidated	2,200	100.0%	2,900	(700)	(24.1%)	100.0%
Resource Circulation Business	1,650	60.0%	2,285	(635)	(27.8%)	65.6%
Global Trading Business	550	20.0%	960	(410)	(42.7%)	27.6%
Lithium-ion Battery Recycling Business	465	16.9%	128	337	263.3%	3.7%
Others	85	3.1%	110	(25)	(22.6%)	3.1%
Adjustment	(550)	-	(583)	33	-	-

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By segment, both Resource Circulation Business and Global Trading Business will be more profitable than in H1.

The Lithium-ion Battery Recycling Business will not double that. In H2, including the price of lithium, as I mentioned earlier, the price of cobalt is falling, so sales will also be lower, but probably it will also be a little harder to secure margins, which is why the figures are such compared to H1.

Analysis of Difference in Consolidated Ordinary Profit (YoY)



This is a waterfall chart. There was quite a bit of foreign exchange gains last year.

That doesn't mean that there will be a foreign exchange loss this H2, but rather that there will be no favorable impact on profits from foreign exchange gains compared to last year, even when viewed on a zero basis. Rather, it is working negatively.

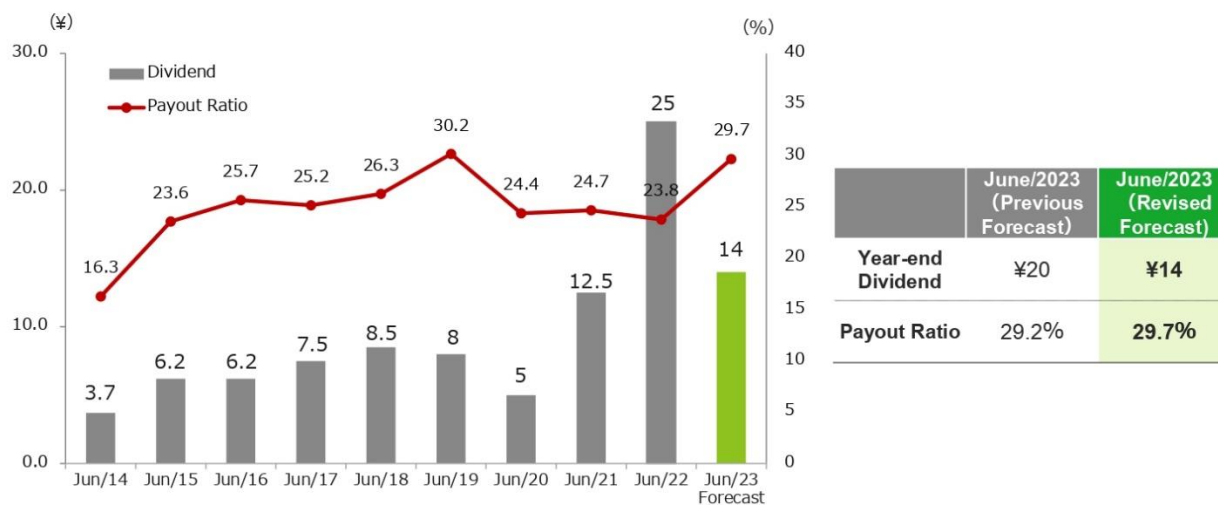
Based on the assumption that personnel expenses will increase significantly, we are projecting a final ordinary profit of JPY2.2 billion.

Dividend Policy



Our basic dividend Policy

- The Company has set a basic policy of providing stable and continuous profit returns to shareholders from a long-term perspective while comprehensively taking into consideration of internal reserves, etc.
- The Company will set a target consolidated payout ratio of 20-30% as an indicator of performance-based profit sharing.
- Even if the annual dividend determined based on the above-mentioned consolidated payout ratio is less than ¥5 per share, the Company shall strive to maintain a stable annual dividend of ¥5 per share.



	June/2023 (Previous Forecast)	June/2023 (Revised Forecast)
Year-end Dividend	¥20	¥14
Payout Ratio	29.2%	29.7%

*With January 1, 2018 as the effective date, a 2-for-1 stock split of common stock was conducted.

With April 20, 2022 as the effective date, a 2-for-1 stock split of common stock was conducted.

Dividends per share are calculated, assuming that the stock split mentioned above has been in effect since before the fiscal year ended June 30, 2014.

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As for the dividend, we have been paying between 20% and 30% for some time now, so we are just under 30% this time, which is JPY14 when calculated at a dividend payout ratio of 29.7%.

We are truly sorry about the dividend cut, but we decided the dividend amount based on the Company's principles.



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Now, I would like to take a few moments from here to talk about our major future initiatives.

First of all, as I say every time, I am very particular about this corporate philosophy. We established it in 2004 and clearly stated it in our management plan. This means the core of the Company at morning meetings, etc., even though it has been criticized by some people.

I believe that "creative company," "circular company," and "company pursuing virtue", each has three points, are the flags that I and the Company should aim for and the Company's DNA, and that these are values with no timeline.

Then there is the mission, the concept of each strategy, the business concept, and the image of the organization, and these are put into practice.

Summary of Nitto Kako Co., Ltd.

Name	Nitto Kako Co., Ltd.		
Location	6-1-3 Ichinomiya, Samukawa Town, Koza Gun, Kanagawa Prefecture		
Title and name of representative	Takahiro Sakashita, President and Representative Director		
Description of business	Manufacture and sale of rubber and resin products		
Stated capital	¥1,920 million (as of September 30, 2022)		
Incorporation	July 1949		
The largest shareholder and Shareholding ratio	Osaka Soda Co., Ltd. 31.27%		
Period for purchase	From Monday, February 13, 2023 to Tuesday, March 28, 2023 (30 business days)		
Operating results and financial position over the last three years	(¥ million)		
	20.3	21.3	22.3
Net sales	7,609	3,282	3,459
Operating profit	215	38	60
Net assets	2,861	2,850	2,940
Total assets	6,113	5,929	5,983

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On February 10, as disclosed, we made a friendly TOB for Nitto Kako Co., Ltd.

This company was founded in 1949 in Kanagawa Prefecture and has a history of more than 70 years as a rubber compound manufacturing company and is a major player in this industry.

This company has a big difference in sales between this fiscal year ended March 31, 2020 and March 31, 2021, because of the change in the sales standard, where only marginal profits are recorded as sales for trading company-like businesses.

Although this company is not making much profit, I see it as a company with a lot of potential. We have also determined that we can generate a great deal of synergy and have decided to conduct TOB this time.

Reference ▶ Toyo Rubber Chip Business Overview



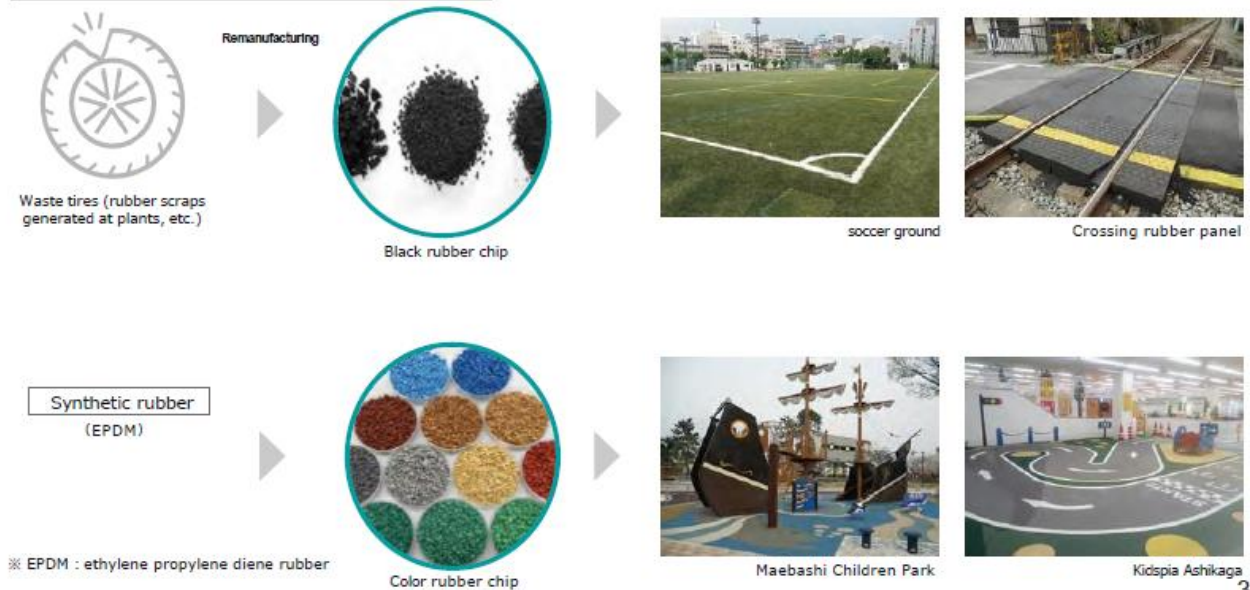
December, 2015, Toyo Rubber Chip became our group company

Participation from recycling business to manufacturing business

Manufacturing and selling the following products nationwide at a 93,000m² plant in Maebashi, Gunma

- Manufacturing and selling artificial turf filler and rubber mats made from waste tires and rubber.
- Manufacturing and selling colored rubber chips (elastic pavement material) made from synthetic rubber.
- Kyushu Division performs elastic pavement construction.

■ Main products and sales destinations



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This is related to our group company TOYO RUBBER CHIP CO., LTD. This company, located in Gunma Prefecture, has a history of more than 100 years and is engaged in the business of crushing rubber, such as that derived from tires, into smaller pieces.

As shown on page 34 of the reference material, TOYO RUBBER CHIP crushes rubber into small pieces of about 2 mm to 3 mm and uses them to manufacture and sell artificial turf filler and elastic pavement materials used for rubber pavement on golf courses. These are relatively less processed.

Some of the products are sold after forming and processing, but the main focus is on the pre-process of shredding.

On the other hand, Nitto Kako uses compounding, which involves mixing various materials, adjusting them, and then making the next product. After that, they have been doing the molding process for a long time.

Originally, this company was a tire manufacturer called Nitto Tire. Even today, they make forklift tires on an OEM basis for a tire manufacturer.

There are many engineers, who are relatively older technicians with very high processing capabilities. That said, I am also rather older. I think the age of 40 to 50 is still young, and there are many such people, and I have the impression that such technicians are doing very well.

TOYO RUBBER CHIP is now receiving an increasing number of inquiries from tire manufacturers and sporting goods manufacturers. For example, basketballs used to be casually incinerated after use, but they are now receiving business offers to recycle them into other products.

Perhaps Nitto Kako did not have that many inquiries, but TOYO RUBBER CHIP has received very many inquiries from tire manufacturers regarding Tire-to-Tire because of its recycling image. It just so happens that today, this week, the President of TOYO RUBBER CHIP is visiting a refrigeration shredding company in Germany.

So far, about 1 million tons of tires have been disposed. We are mainly targeting the truck, bus, and tire market, which is about 200,000 tons. Until now, most of it has been used as fuel for paper and steel companies, which is called thermal recycling.

Bridgestone has already announced and is probably preparing to work with ENEOS on a project to recycle tires to tires by chemical recycling.

For us, chemical recycling is a very large undertaking. Recycling of plastics includes material recycling, thermal recycling, and chemical recycling, and a certain amount of plastic is recycled as material. Especially truck and bus tires don't use fiber inside.

The tires of the passenger cars that you drive have wires inside, but they are balanced or solidified by fibers. Thus, all of that stuff gets in the way of grinding and sorting.

Truck and bus tires do not use fibers, so it is very easy to control quality after pulverization. So, originally around 2mm to 3mm, the finer ones, 0.2 mm or 0.1 mm, that come out at that stage are already being used by tire manufacturers to return to tires.

I believe that tire manufacturers are also forced to produce Tire-to-Tire due to various pressures. Tires back to tires. Ultimately, we made this TOB because they were originally a tire manufacturer.

Until now, we have been recycling artificial turf and other non-tire materials, but we will team up with Nitto Kako to convert them back into tires. There are few companies that can crush down to 2 mm or 3 mm now.

As far as I know, about 20 years ago, a manufacturer built a plant to conduct refrigeration shredding, but it didn't last after all.

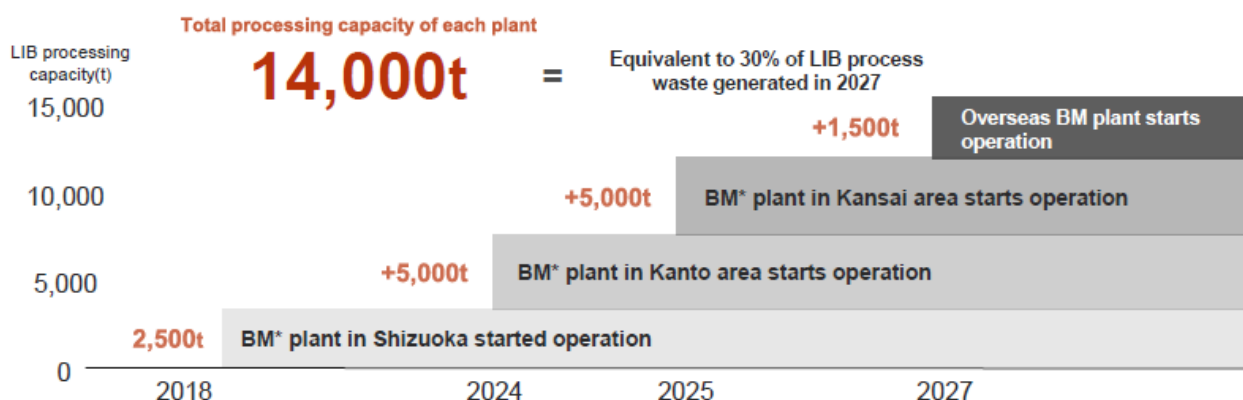
If you crush them down to 2mm or 3mm and then freeze them further with liquid nitrogen and grind them down to the level of 0.1mm or 0.2mm, you can add much higher added value than before and can have tire makers use it.

Prior to this TOB, the business concept was to take that powder to tire manufacturers. This TOB hasn't become final yet, after completed, with recycled powder, put in tire-derived powder to make tires.

It will probably take some time for forklifts etc. on the road, but for tires that don't go very fast, there will already be a social need for such tires. The movement is already underway in Europe in various forms.

This is what we hope to accomplish, and that is why we have decided to conduct this TOB. Please read the other things later.

Increasing processing capacity for LIB* recycling through aggressive growth investment



Point

- ① In April, 2024, BM* plant in Kanto area starts operation. In 2025, BM* plant in Kanto area starts operation. By 2027, we are aiming towards starting overseas BM plant operation.
- ② By production through lower environmental load process than now, we manufacture BM which is less impurities than now.
- ③ Research in order to collect electrolyte solution from LIB and graphite from BM.

*LIB: Lithium-ion battery

*BM (black mass): Concentrated residue of lithium, cobalt and nickel sorted from lithium-ion batteries that have been discharged, dried and crushed

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Next, lithium-ion batteries recycling.

As I mentioned earlier, the Lithium-ion Battery Recycling Business is currently growing, and production volume will further increase toward 2030. After 2030 and 2035, there will be used batteries.

In fact, we will be in a very difficult situation until then. The absolute amount is very small. Therefore, if battery manufacturers would increase their production, there would be a little more defective products in the process.

Our group company VOLTA INC. is planning to deploy plants. The powder, which is mixed with nickel, cobalt and others after the battery is dried, crushed, and sorted, is called black mass which we collect. In April 2024, we will build a black mass production plant in the Kanto region.

It includes furnished buildings, and these are still in use now, so I can't disclose the location, etc. yet, but we will be able to disclose that by the end of March. We have already signed certain contracts there, and we are in the process of selecting a plant to put in there now for that.

Further, in 2025 and 2027, we plan to expand to the Kansai region and overseas if possible, but the order may change.

We have already begun to receive offers from various overseas companies to build a black mass factory together with us at the NDA level, as VOLTA is becoming more and more famous. So, perhaps overseas expansion will come first.

In any case, we need a certain amount to operate the hydrometallurgical plant, so we have a little short time, but as I just explained, we will build a black mass plant in the future.

We are using a combustion furnace now, but in Europe, it is a low temperature vacuum drying furnace, which has a very low environmental impact.

In addition, it is said that electrolytic solution can be recovered there. In that sense, the environmental impact is low, and there are relatively few impurities even after shredding and grinding. It will have a very positive impact on the next process of black mass, so we will be making such products in the future.

And graphite, this is a technical matter, copper is used for the anode material. A carbon powder called graphite is used. The cathode material is nickel-cobalt, etc., as I mentioned earlier. So, after the battery is made, when it is collected, carbon of the graphite have been contained in that black mass.

How to recover that carbon is important. Chinese manufacturers are already doing this already. We have always been good at physical sorting, so we are now trying various things, but they are getting more and more detailed and difficult.

Recycling, which is the step before putting into the hydrometallurgical process, is the very principle of the principle. Therefore, it is our role to make the best black mass before the hydrometallurgical process, and it is very important for the next process. First, VOLTA will develop such a system on its own.

Aiming to establish Japan's first hydrometallurgical technology



Points (closed-loop)

- In Japan, used LIBs from EV and Energy Storage System(ESS) will increase after 2030.
- Closed-loop of LIB-to-LIB in each country has already been completed in China and Korea
→ Aiming to complete the closed-loop system early to catch up overseas countries by the joint development

Purpose of the joint development

- Synergy among know-how by our plant, smelting technology by our laboratory, and metal smelting technology by Mitsubishi Material Co., Ltd.
- Taking advantage of lands and wastewater treatment facilities which Mitsubishi Material has. Procuring sulfuric acid as byproduct of copper smelting process stably

Outlook

- Step1 Process development
- Step2 Demonstration experiment by the pilot plant
- Step3 Starting operation of hydrometallurgical plant

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This is a joint research and development with Mitsubishi Materials Corporation, as I announced in December.

Last week, Mitsubishi Materials announced its medium-term management plan, and it was quite neatly positioned and mentioned lithium-ion battery recycling. Excuse me for saying this, but I think they are getting more serious about that. We are currently conducting research together.

As I mentioned earlier, since a large amount of used batteries will not be produced in Japan until after 2030, it is not easy to work on it now, but a considerable number of plants are already in operation in Korea and China.

Therefore, Japan is very far behind, and there is discussion that Japanese domestic battery manufacturers could do hydrometallurgy in a closed-loop by 2024, but we don't have that in Japan.

Therefore, we would like to return the black mass there, have the manufacturer smelt it somewhere overseas, and then bring it back to Japan. We would like to build a plant by 2025 and work together with Mitsubishi Materials to conduct hydrometallurgical business in Japan for the first time.

We have been researching since about 2010. There is not a lot of chemical, technological background. In addition, we have been looking for a good location for the last two years. Finally, we use dilute sulfuric acid. We use sulfuric acid first. Sulfuric acid is easy to procure.

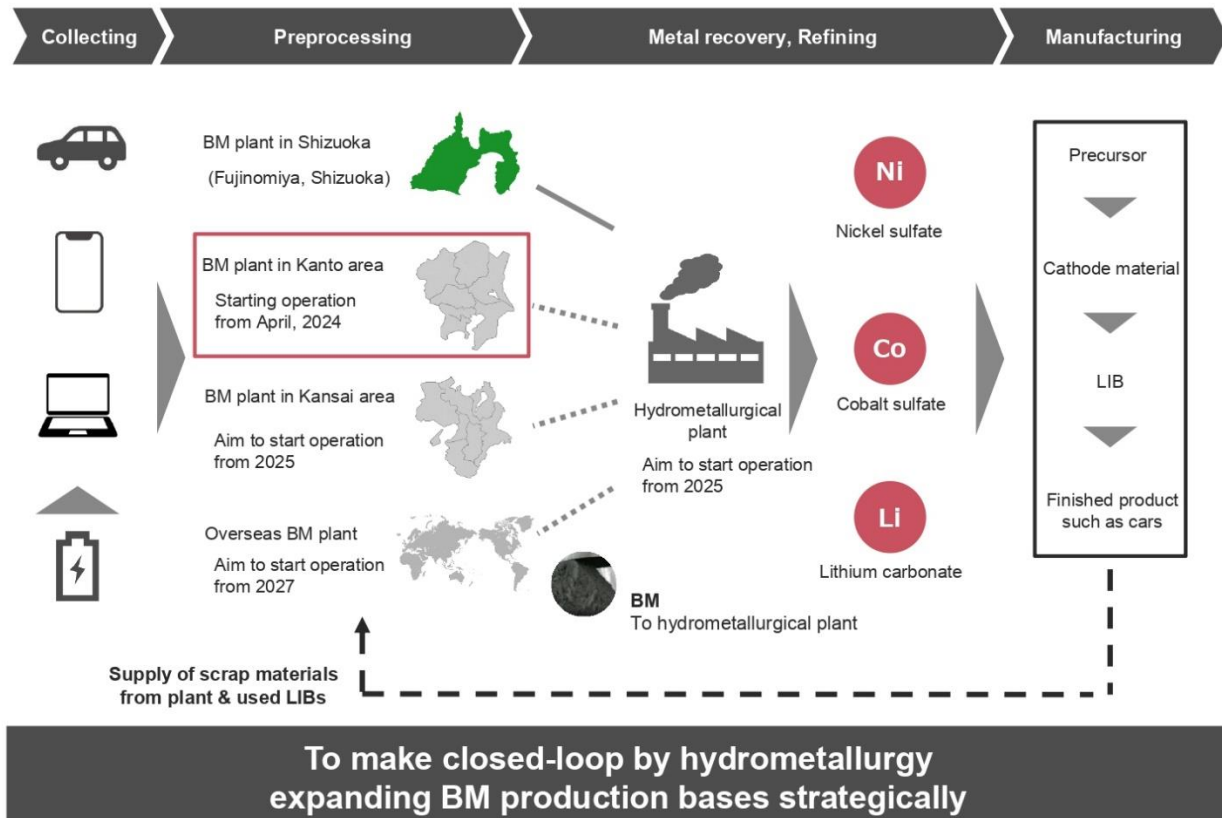
The wastewater treatment equipment and wastewater can use a lot of the running cost. Copper smelting companies are able to produce sulfuric acid as an incidental product in the copper smelting process.

That process is rather necessary, and by partnering with Mitsubishi Materials, we can procure sulfuric acid more cheaply and stably than by buying it from other sources.

In addition, by building a facility in the plant or in a similar location, we could make use of existing wastewater treatment facilities. We chose to work together rather than independently because it would give us a competitive edge.

Our lab members are already working on R&D with about 20 staff members from Mitsubishi Materials' lab in Onahama. Next, we plan to build a pilot plant, and then a commercial plant in 2025. But we are assuming that we will surely not be able to operate at full capacity from the beginning.

According to Mitsubishi Materials' medium-term plan, 900 tons in 2025, 6,000 tons in 2027, and 9,000 tons in 2030 will be supplied by black mass from Japan and overseas, mainly from our company, VOLTA. We are planning to start up this hydrometallurgical plant as soon as possible, while collecting from other sources, such as circuit board imports from Europe and domestic trade routes.



This is a closed-loop.

Initially, nickel sulfate, cobalt sulfate, and lithium carbonate will be made and sold. And then there seems to be the next process called precursor, which is the process before the cathode material. Originally, we also said that we would work independently up to the precursor.

In the same way, we are now thinking of creating a closed-loop in this collaboration, possibly with the next step in mind.

1 CE Consulting & Solution (Response to product circular promotion)

- Creating models of product circular economy (Reverse logistics, Remanufacturing) of major enterprises (p.24-26)
- Response to Digital Product Passport (DX) (Reference Data p.31-33)

2 Expand of local symbiosis type of recycling base (Response to local circular promotion)

- Expanding "Model of Plaza Azumino* (Azumino, Nagano)" horizontally (p.27)
- Constructing model to collect packages, containers, and products made from plastics cooperated with municipality and challenge for chemical recycling

3 Waste incineration ash recycling (Response to abandoned precious metals and tightening of final disposal site)

- Increase the market share of collection of gold, silver & copper sediment sludge from riddling ash (120 municipality by 2028 = 30% of the share)
- Collection of gold, silver & copper sediment sludge from incinerator bottom ash and recycling the ash

4 Cleaning and dismantling work nationwide (Response to decarbonized dismantling)

- Developing networks of partner companies (financial institution, construction company, recycling company and so on)
- Improvement of safety, technique, skills of personnel

5 Expand overseas base (Response to international resource circulation)

- Incorporation in Europe (in 2023)
- Starting operation of overseas BM plant (in 2027)

*Plaza Azumino: Community symbiosis type of recycling base which Syn Eco(our group company) operates

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Also, there are also five other projects.

I would like to focus mainly on the first and second of these, as I believe they will grow in the future. I will mention the first and second ones later, as I have a few pictures, etc.

The term "circular economy," as you may have recently heard in the news or in the newspaper, refers to a circular economy, an economy that turns around. Various people have recently begun to talk about this, from the so-called linear economy to the circular economy.

Under the Home Appliance Recycling Law, four specified home appliance are now legally binding for collection, but we need to make a proper circular for these products.

I'm sure you've heard of Scope 3, and in Scope 3 of the supply chain, manufacturers need to properly capture and reduce CO₂ emissions in the future, from purchase to disposal. Circulating resources will reduce CO₂ emissions. The Ellen MacArthur Foundation says it can reduce CO₂ emissions by 45%, and Japan's Ministry of the Environment says it can reduce CO₂ emissions by 36%.

So the circulation of resources itself becomes very important in corporate activities. Specifically, it is important that we properly collect our own products.

So, one battery manufacturer has asked us to propose a one-stop solution, starting from small collection, removal, then small distribution, and finally recycling of those items. We are now talking with several companies other than battery manufacturers about such a proposal, although this is on a consultation basis.

Like that, the major manufacturers' products, and manufacturers make certain products, they work that way, so we collect things in that kind of structure.

The reason for the lack of profit in the current fiscal year, as I mentioned earlier, is that the volume of products handled is decreasing. Japan as a whole has seen some decrease. However, I still think that our efforts are not enough.

Therefore, we will collect from all over the country through such a system, netting the entire country from collection points that are limited by the region. Furthermore, I have also included the term "digital product passport" in the reference material, and I would really like you to learn or see it.

Europe is now working on a system that will allow each product to be tracked like a passport, showing where it came from, what materials were used to make it, how it was disposed of, and how much CO₂ was emitted during its life cycle.

Perhaps by doing this, the circular economy will be determined, and this will go both ways.

Therefore, as a response to the DX, the traceability of the so-called flow of materials, the flow of information including CO₂ emissions, and the percentage of recycled raw materials and recycled materials used are all captured.

I can't imagine how it could be done, but perhaps it's not that far off from becoming a reality.

We are not good at real logistics, so we will collaborate with companies that do such things, and then we will properly recycle the materials.

If we provide our customers with a system to capture all the information in between, and if we are able to do business with them as a package, the purchase price will be very stable. If the Japanese economy were to shrink rapidly, this would be a different story, but we can ensure a certain level of logistics, so this is what we are focusing on.

The second one is "local circular," which means local recycling symbiosis zone. The new law on waste plastics came into effect last April.

In today's municipalities, more and more plastic equivalent for containers and packaging is gone, and some municipalities don't support it, not all of them, though.

We used to burn all four appliances and small household appliances, but they no longer go to the municipality. It's not 100%. Some things get mixed up. A system is now being established to collect that separately as well, including product plastic such as toys.

Then, the only thing to be burned will be food scraps, and we will enter a world where food scraps are not burned, but are used for biogas or to make compost, etc. I don't want to hear anything from the incinerator manufacturer, but the cleaning work of local governments will obviously change.

To put it simply, we are now trying to create a system whereby a second cleaning center can be built, and various items can be circulated without having to go through an incinerator. We already have one model in place, and we would like to add various things to it and expand it horizontally.

Regarding incinerated ash, we are already working steadily now, and when we announced in August, we had 23 contracts, but now we have 29.

Then, it should be noted that the number of contracts with a certain status of new furnaces has increased from 12 to 14, an increase of two. It has already been proven that in building an incinerator, the riddling ash from the incinerator contains a lot of precious metals.

Now we have improved that and mixed it with incinerator bottom ash, but we asked them to take it out separately, and we have 29 cases where we have improved and are working on it. 14 of them will be operational in the next three years.

We have already started to include most of them in the standard documents in the bidding process, so the atmosphere will be such that collecting riddling ash will be a matter of course for most municipalities. I am sure there are still places where this is not the case.

At first, they really didn't trust us, but already the manufacturers of incinerators have to make such a proposal in order to be accepted by the local government. Since it is now a prerequisite for bidding, it will be commonplace from now on to collect riddling ash.

However, not all of them will come to us, but by consulting with them from the beginning, we will be able to increase the percentage we can obtain.

Then there is the nationwide wide-area cleanup and demolition work, which is not so simple, but according to the Nikkei today, the trend of banks investing in business companies is going to increase in the future.

Until now, we were the last to receive information, but by working with financial companies on various projects, we are now able to receive such information earlier and earlier.

Our equity method company has formed a joint venture with a financial company, and the demolition business there is growing very rapidly. The amount of information is different.

In fact, we are now working to train managers at companies other than that in our group as well. We will increase the number of qualified engineers, including civil engineering managers.

This will grow very much, but it should not be done too hastily.

This business is regional, but we can look at the whole country. The scrap from there will be processed by local companies. Once the scrap is sold, it is bought and sold, and our global trading business buys it back from them. Not all of them.

This is like a deal that goes about half back this way. I understand the feeling, those who sell scraps are already good people.

The people who sell scraps mean that they are really good customers, so we, if we say the opposite, will get them back again. This is quite a synergistic project.

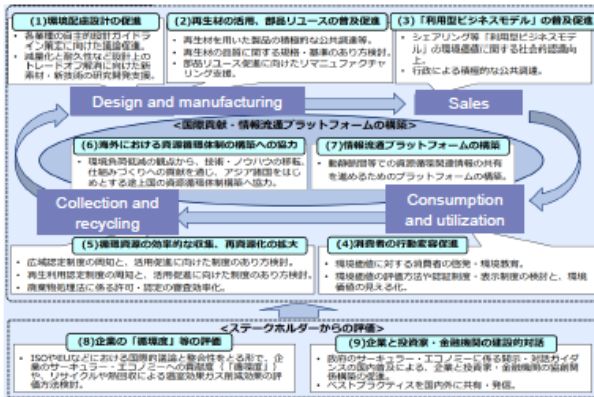
Then the Global Trading Business will expand overseas. So far, we have offices in Vietnam and the UK, which are like information bases, so to speak. Vietnam has been providing various types of sales support, but in the future, we would like to include the factory sector, or a collection bases, or something like that. I would like to establish a base in Europe by the end of this year.

We'll collect once there and then bring it back. We are already seeing a fairly constant increase in business within Europe right now. To further stabilize it, we will establish its base. On the other hand, however, Europe is beginning to enclose its resources in order to keep them in.

Therefore, it may be difficult for such products, especially such as circuit boards and metals, to become available to the outside region, and I think it will be necessary to process them or commercialize them to a certain extent for the outside region. First of all, we will take a step further than we are doing now to expand overseas.

Then, this overseas black mass plant is as I mentioned earlier.

Proposals for the Realization of a Circular Economy (Overview)



- (1) Promotion of environmentally friendly design
 - Promoting discussion of the voluntary development of design guidelines by each industry.
 - Supporting research and development of new materials and technologies to resolve design trade-offs such as weight reduction and durability.
- (2) Utilization of recycled materials and promotion of component reuse
 - Active public procurement of products made from recycled materials, etc.
 - Study the concepts behind standards and quality criteria for recycled materials.
 - Support for remanufacturing to promote the reuse of components.
- (3) Promotion of use-based business models
 - Increasing public awareness of the environmental value of use-based business models, such as sharing businesses.
 - Active public procurement by the government.

(Building a platform for international contribution and information distribution)

- (6) Cooperation in the creation of resource recycling systems overseas
 - Cooperating in the creation of resource recycling systems in Asian countries and other developing countries by transferring technology and expertise and contributing to the creation of mechanisms for the reduction of environmental impact.
- (7) Establishment of information distribution platform
 - Building a platform to promote the sharing of information related to resource circulation between arteries and veins, etc.
- (5) Expansion of efficient collection and recycling of recyclables
 - Ubiquitization of the wide-area waste treatment recognition system and studying the concepts behind the system to promote utilization.
 - Ubiquitization of the recycling certification system and studying the concepts behind the system to promote utilization.
 - Improve the efficiency of the review of permits and certifications related to the Waste Management and Public Cleansing Act.
- (4) Promoting the change of consumer behaviors
 - Increasing consumer awareness of environmental value and providing environmental education.
 - Considering methods for evaluating environmental value and certification and labeling systems, and visualizing environmental value.

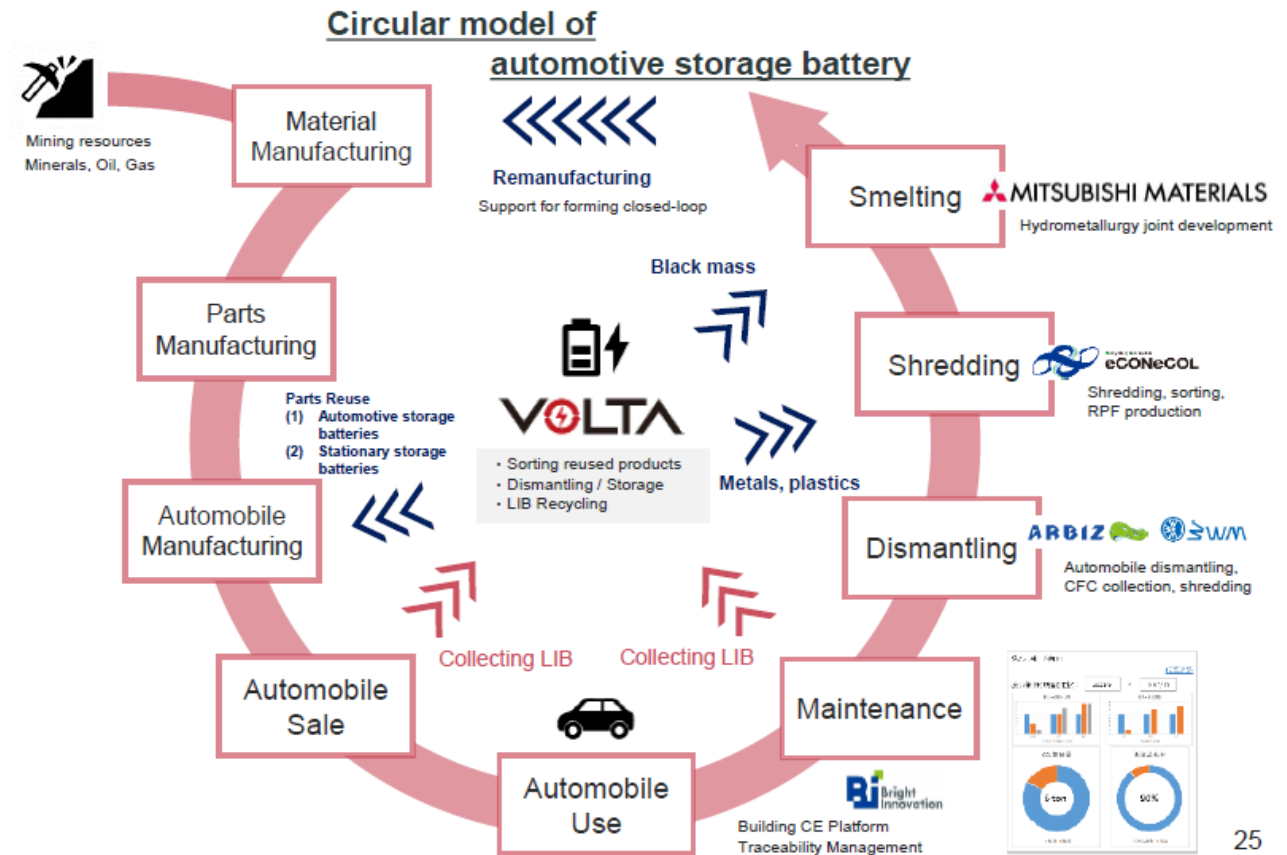
(Stakeholder Evaluation)

- (8) Evaluation of the company's circularity and similar efforts
 - Considering methods for evaluating the contribution of companies to the circular economy ("circularity") and the impact of greenhouse gas reduction efforts including recycling and heat recovery in a manner consistent with the international discussions going on within the ISO, the EU and other organizations.
- (9) Constructive dialogue between companies and investors/financial institutions
 - Promoting the establishment of collaborative relationships between companies, investors and financial institutions through the domestic dissemination of government disclosures and guiding the dialogue on the circular economy.
 - Sharing and disseminating best practices domestically and internationally.

Adapted from the Proposal for the Realization of a Circular Economy (Overview) published on February 14, 2023 by the Japan Business Federation https://www.keidanren.or.jp/policy/2023/008_gaiyo.pdf (Translated by Envipro Holdings Inc.)

This is a proposal for the realization of a circular economy released by Keidanren on February 14, and we are also a member of its subcommittee. Finally, the Keidanren has begun to make proposals in this way.

As a result, I believe that the large companies that are members of Keidanren will become more active in the circular economy, as I mentioned earlier, to properly collect products that they have produced and recover them.



This is an example of an automotive battery, and we happen to dismantle cars and recycle metals as well.

We are also engaged in battery recycling, and by following up on everything in this way, even smelting in a closed-loop, we will be able to engage in a circular economy for batteries in vehicles. As I have said many times before, we will see a large number of them in 2030 and beyond.

There is still quite a bit of time until then, but we have already begun to produce a few units a month, or 10 or 20 units a year, from various sources, such as import cars, so we will create this closed-loop while training with such items.

We would like to be ready for you to call on us when a large number of them come out.

Establishment of Digital data management system



Development of a system to manage resource recycling rate, greenhouse gas emissions, traceability, etc. as digital data

background

- In Europe, a battery passport system is being prepared under the Battery Regulation (proposed).
- In Japan, the Ministry of Economy, Trade and Industry is studying the possibility of establishing a similar system.

Objective

- Enabling the digital data integration required in the supply chain

Future Outlook

- 2023 Establishment of on-site data management system and development and demonstration of system prototypes
- 2024 Establishment of a system to meet the requirements of the regulations

Battery Resource Circulation



Circular Economy Data Management System

*The screenshot shows the system currently under development. 26

In addition to that, there is this environmental management consulting company called Bright Innovation as I have mentioned earlier.

The so-called battery passport system has been advanced in Europe, and in Japan, the Ministry of Economy, Trade and Industry is now working on various ways to establish this system. The LDP's policy meeting invited a VOLTA member to talk about this and other issues, and I think this will probably spur political and economic activity in various ways. This, on the other hand, I think will accelerate considerably because of the new economic security.

The objective is to properly implement what I have already mentioned earlier in terms of how to supplement the supply chain.

We will establish a data management system and develop and demonstrate a prototype of the system at the current site in this year.

In the coming year, we will build a system that can respond to the demands of this system and the battery passport system.

It's a little different from the image our company has had in the past, but we have such environmental consultants who are capable of doing this, and we have a combination of digital companies and specialized companies, of course, to create this system, and the flow of things and information. We will proceed by creating an unprecedented way of supplementing the information, such as how much resource is recovered and how much is CO₂, as well as a traceability mechanism.

By doing so, for lack of a better word, I think we will be able to have a certain degree of control and priority over the raw materials.

Of course, we do not intend to win alone, but with friends and sharing. The most important thing is how useful we can be for the country of Japan. We would like to do so with the mindset that we, too, will play a certain role and benefit from it.

Local Circular Economy Model



Overview of the Local Circular Economy Model

Recycling of resources (used paper, used clothes and ferrous scrap)	Recycling of bulk waste and mattresses	Recycling of the four home appliances, small home appliances and batteries	Pre-processing of waste plastic
<ul style="list-style-type: none"> • Mottainai Boxes are also available for the disposal of recyclables. • Providing an alternative service to the municipality's collection and recycling of resources • Supplementing collection service provided by the municipality, which is only available a few times a month. 	<ul style="list-style-type: none"> • Collecting and recycling bulk waste and mattresses that are difficult to dispose of. • Resource materials can be brought in, complementing the collection services provided by the municipality. 	<ul style="list-style-type: none"> • Center for the collection of specified home appliances (four specific home appliances), and the collection and recycling of small home appliances (PCs, cell phones, etc.) • Lithium-ion batteries and other batteries are also collected and recycled. 	<ul style="list-style-type: none"> • Pre-processing of household plastic and voluntarily collection of plastic by business operators • Collection and pre-processing of industrial waste plastic discharged by companies • An alternative plastic recycling facility required by the municipality • Implementing primary intermediate treatment suitable for material and chemical recycling with installed sorting and compaction equipment
<p style="text-align: center;">Resource and waste cleanup service and building dismantling service</p> <p>Providing cleanup services for home appliances, bulk waste and recyclables, as well as building dismantling services.</p>			

This is the local circular economy model.

In Azumino City, Nagano Prefecture, just like this picture, but now we have one more plant actually, so I thought I should change the picture this morning. It's a second city hall, so to speak, with garbage. Large trash.

There are boxes for also various papers, clothes, and scrap metal. The trash for which we charge a disposal fee goes through the office. We accept trash that would be brought to a cleaning center or trash center 24/7.

Municipal offices are closed at the end of the year. We are closed on Sundays, but we are open during the daytime, including at the end of the year, to provide convenience to our citizens.

We are now discussing with the town to add one piece of product plastic here, which is related to the new waste plastic law that went into effect last April, and we are getting a good feeling about it. We already have this kind of track record. We made one model in this way, a slightly thicker model, and made it properly.


We are getting inquiries about it from various places, from various government agencies, now. We are asked for a little consultation on the new waste plastic law.


However, we can make this kind of proposal in a way that is not just about the plastic involved in that new waste plastic law. We would like to develop these two types of circular economy models: product circulars and regional circulars.

Medium-Term Management Plan (2027.6 Target)



 **Net Sales**
¥75bn

 **Ordinary Profit**
¥5bn

 **ROE**
13%

	Net Sales	Ordinary Profit	Specific Initiatives
Resource Circulation Business	28bn	3.8bn	Collection of gold, silver & copper sediment sludge from waste incineration ash and recycling Cleaning and dismantling work nationwide Plastic recycling
Global Trading Business	52bn	1.5bn	Resource distribution Expansion of handling volume Resource distribution Expansion of items handled Reuse distribution
Lithium-ion Battery Recycling Business	3.3bn	0.2bn	Establishment of collection system Establishment of production system Development of hydrometallurgical plant
Others Environment Management Consulting Business Welfare Service Business for People with Disabilities	0.7bn	0.2bn	Expansion of circular economy consulting Promotion of DX business Development of pre-employment transition support

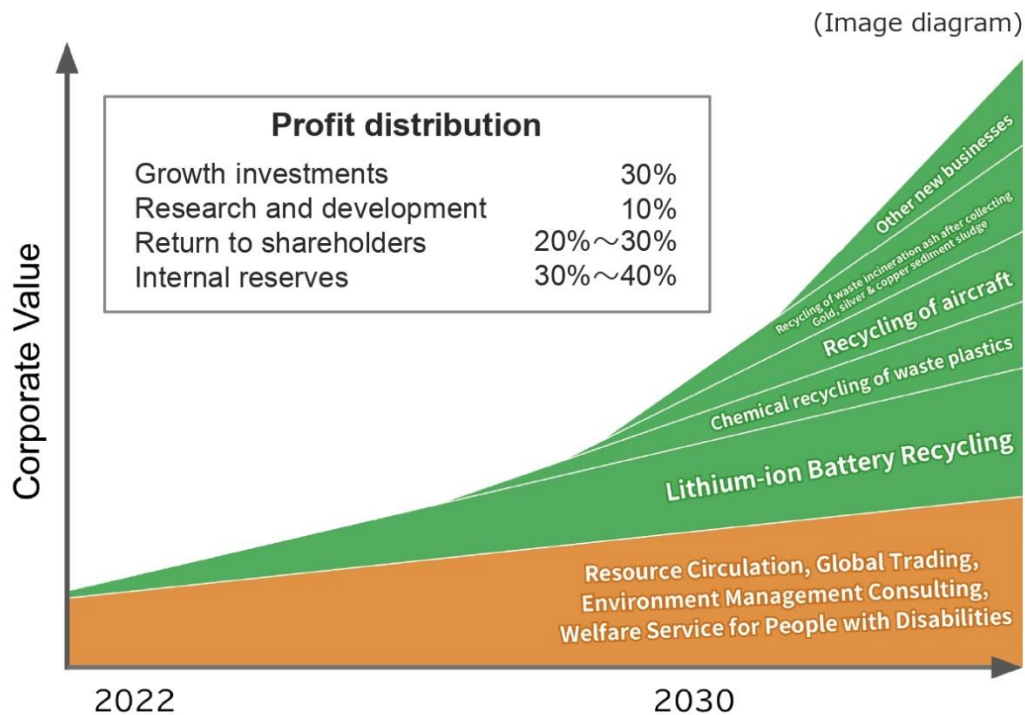
*Excerpt from the Medium-Term Management Plan disclosed on August 23, 2022 28

These are the figures we announced in our mid-term plan last August.

It is often pointed out that the Lithium-ion Battery Recycling Business is not making a profit in relation to its sales, and this is because we have to collect materials and build a plant, which incurs upfront investment costs.

In the future, by FY2027, the hydrometallurgical plant should be running, so we do not expect such a profit at first. In the Lithium-ion Battery Recycling Business, I think that over the next five years or so, we will increase the volume handled and sales will increase, but profits will not increase that much. I believe that it will not blossom until 2030 or later.

To realize the optimization of the business portfolio by deepening or withdrawing from existing businesses, investing aggressively in growth sectors, and searching for new businesses



This is disclosed every time. In this way, we will first organically grow our own existing business, while boldly taking on the challenge of new businesses. We would like to become a company that can truly play a role in contributing to a sustainable society.

I am sorry to have to say this every time, but I believe that social contribution is an extension of our business desire. I am not sure if my words are too beautiful to convey this, but I will grow the Company significantly through my business as a businessman. Not only that, but the real social contribution of what we do has increased. Social roles have increased tremendously.

I know this may sound irreverent, but I believe that the growth of our company will increase our contribution to society, and although I may sound cocky, I will strive to manage our business on a daily basis with this in mind.

That is all. Thank you very much.

Moderator: Thank you for your explanation.

Question & Answer

Moderator [M]: Okay, from here on, we will move on to the question-and-answer session.

The briefing, including the questions and answers, will be transcribed in its entirety and made available to the public. Therefore, if you give your company name or your name when asking a question, it will be made public as is. If you wish to remain anonymous, please do not give your name when asking a question.

So, please go ahead.

Sahara [Q]: My name is Sahara from Marusan Securities. Thank you for your explanation. I would like to ask three things.

According to your downwardly revised plan, ordinary profit for H2 will be slightly less than JPY1.2 billion, JPY900 million for the resource circulation business, JPY440 million for the global trading business, JPY180 million for the lithium-ion battery recycling business, and about JPY34 million for other items.

Is this level of ordinary profit the actual value of your company right now considering the increase in personnel expenses, or is it a slightly lower profit margin level because you still have a bit of high-priced inventory? The first point is that I would like to know what is likely to happen to profits in H2 and beyond.

The other two questions are simple. In building a hydrometallurgical plant with Mitsubishi Materials, will the capital ratio be 50/50? I would like to know is what the capital structure would be and whether it would be 70/30 to your company, since it can be done on the lines of Mitsubishi's plant. Please explain if there is anything you could share. This is the second one.

Lastly, if the TOB of Nitto Kako is successful, how much synergy in terms of sales and how much in terms of profit can we expect by joining forces with your company? It may still be at the blueprint stage, but I would be happy to learn more. That is all.

Sano [A]: Thank you for your questions.

First of all, we have made downward revisions, and despite higher labor costs, how is it possible to be more profitable in H2?

First of all, we are getting the feeling that the global trading business will be hit too hard in H1. In the resource circulation business segment, the market is currently a bit up. January has already passed.

Compared to H1, we are somewhat receiving such a windfall. I am not doing this separately by feel here, but the figures are calculated by the people at each operating company based on a certain arrangement. We assume that business performance is better in H2 than in H1, so personnel expenses and energy prices have gone up.

We made a downward revision in the expectation that the numbers would be better than H1. Is this answer clear?

Sahara [Q]: When considering the next fiscal year, is it likely to be better than the profit margin of H2? Or is this the actual value of the Company's performance? I would like to ask if there were any factors that were too bad.

Sano [A]: For the next fiscal year, it will probably be an extension of H2, and there are a number of things we have been working on, so the volume of products we handle will increase, including the riddling ash mentioned earlier. The company ECONECOL, which is now the biggest earner, is building a factory in Fuji and will start operation partly in February and move.

So, the occupancy rate drops in H2, but we are still able to generate such a high level of profit, and we would like to aim for even higher numbers in the next fiscal year.

There are few bad factors. Also, some of the various business models and circulars that I mentioned are becoming more concrete. Our job is to consistently collect materials, but such a collection mechanism or the demolition project itself takes two to three years starting from the estimation.

That kind of potential is accumulating, so it can be profitable. Is that okay for the first one?

Sahara [M]: Yes, thank you.

Sano [A]: Regarding the second, we will be deciding with the other party, but I think there are many themes to consider in terms of what kind of negotiations we will have when we borrow the other party's place.

Also, we have not yet calculated any figures regarding Nitto Kako after the TOB is completed. Do we have any?

Takekawa [A]: Well, as we have already disclosed, the amount of this investment will be in excess of JPY1.8 billion.

Including incidental expenses, the total cost will be a little less than JPY2 billion. This investment is based on the expectation that the investment will be fully recovered.

As explained earlier, we are aiming for synergies in the medium- to long-term, including tire-to-tire business, but I would only like to say that we are currently on track to recover the listing and other costs. I am sorry, but I would like to refrain from giving specific figures.

In anticipation of such a situation, we have now initiated the tender offer in order to acquire it. That is all.

Sahara [M]: Thank you very much.

Moderator [M]: Thank you very much.

Please ask your questions.

Participant [Q]: I have two questions.

The first is about hydrometallurgy. Is it correct to take it that there are no more technical problems with hydrometallurgy? If it is resolved, as you mentioned, is the location an issue, or is it too early to build a plant because the volume itself is still too small? What are the current challenges? This is the first one.

Another question, this is regarding the difference between Nitto Kako and TOYO RUBBER CHIP. Does Nitto Kako have more technology and the ability to grind finer? Also, please tell me how Nitto Kako differs from TOYO RUBBER CHIP. For example, Nitto Kako has a pipeline to tire manufacturers.

That is all.

Sano [A]: Thank you for your questions.

This hydrometallurgical technology has already been established for quite some time. This is the technology that Korea and China are using now.

However, in our current joint development efforts, we have to do our own processes, such as how to remove impurities by dissolving the material in acid prior to hydrometallurgy. One of the first things we are technically doing is to develop technologies in this area.

We see hydrometallurgical as a technology that is not that difficult once we get to that point. On the other hand, there are new hydrometallurgical technologies such as emulsion flow technology. We will not adopt these technologies this time, but I am sure that the hydrometallurgical technology itself will evolve in the future.

This time, however, we will use an existing technique called mixer-settler. One of the current challenges is how to efficiently and properly perform that pre-processing.

Then the biggest challenge is quantity. We can't gather the volume, so there are two major smelting companies that have already raised their hands. Even if you say you will do it in advance, the quantity will not be gathered until after 2030. We are not trying to delimit the age, but people usually think it is premature.

We take the risk and build the plant based on certain calculations, including, of course, the initial deficit. We have a saying that a machine calls for scrap, and it is only when such a machine begins to work that various people become more serious about it.

Also, we are not receiving 100% from the battery manufacturers, and because of the principle of competition, we are splitting the share into three equal parts, but companies with a background in hydrometallurgy can make closed-loop proposals, so they will probably be given priority.

If we pursue only what we are doing at the front end now, the next time another company launches hydrometallurgy, even what was coming to us will be gone. In that sense, there is a part of us that is like attacking for the sake of defense.

I believe that Mitsubishi Materials, when making its business plan, probably factored in the fact that procurement of raw materials would be difficult in the beginning. I think it is a matter of making that decision or not.

We had planned to go it alone, but we decided to cooperate it this time because we felt it would be too much to ask. That is the situation with Mitsubishi Materials now.

Also, the difference between Nitto Kako and TOYO RUBBER CHIP, which I mentioned earlier, is that TOYO RUBBER CHIP is in the preliminary stage of the recycling process.

For example, with tires, there are companies that grind whole tires, some by inches, some by one or two inches. In the beginning, TOYO RUBBER CHIP and we also bought from that company, and some of it was sold as fuel to paper makers.

TOYO RUBBER CHIP is good at further grinding this into smaller pieces. They make some rubber products for various railroad crossings, but their main axis of business is shredding and sorting. In addition, compounds, they don't mainly secure raw materials, produce a certain level and molding process. It's just they are only able to do so to some extent.

Nitto Kako, on the other hand, does very little shredding and sorting. It's more of a processing. We are a company that is good at processing what TOYO RUBBER CHIP provides and doing the upstream process. We even supply tires on an OEM basis.

This is produced after the raw materials are supplied by the partner, and I believe that it is a company that is very skilled in quality control and has a high level of technology. This industry is not really going to get bigger. It's weird that it never gets bigger.

This company has OEM technology, but they have not been able to make a profit if you will pardon the expression. They have a lot of subcontracting type business and should be in a position to be able to set prices in the world of the circular economy that I have been talking about.

I have great expectations for this company because of the significant changes in its business model. We have to leave this TOB to God. For the sake of the world, I would like to work together with this company to take on the challenge of recycling various rubber materials.

I have said a little too much. That is all.

Moderator [M]: Thank you very much.

Now it's time to close, so we will end the Q&A session here.

This concludes today's financial results briefing. Thank you, President Sano and the Company members, for your explanation.

Sano [M]: Thank you very much.

Moderator [M]: Also, thank you very much, everyone, for joining us today.

Please make sure you have not forgotten anything, and please be careful on your way home. Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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