

August 30, 2023

Company Name: ENVIPRO HOLDINGS Inc.

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(Code No.: 5698 TSE Prime)

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ENVIPRO HOLDINGS Inc.

Financial Results Briefing Session for the Fiscal Year Ended June 2023 (scripts)

August 25, 2023

Event Summary

[Company Name]	ENVIPRO HOLDINGS Inc.	
[Company ID]	5698-QCODE	
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[Event Type]	Earnings Announcement	
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[Venue]	Kabutocho Heiwa Building 2F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)	
[Venue Size]	145 m ²	
[Participants]	40	
[Number of Speakers]	4	
	Tomikazu Sano	Representative Director and President, CEO
	Kyohei Shibata	General Manager of Corporate Planning
	Sadaharu Saito	Financial Director
	Kazunori Sakai	Manager of Corporate Planning

Presentation

Moderator: We will now begin the presentation of the financial results of ENVIPRO HOLDINGS Inc. for FY2023.

First, I would like to introduce the four people we are welcoming from the Company. CEO Tomikazu Sano, General Manager of Corporate Planning Kyohei Shibata, Financial Director Sadaharu Saito, and Manager of Corporate Planning Kazunori Sakai.

We will start with CEO Sano giving an explanation. After the explanation, we will take time for questions and answers.

Please note that you will find a questionnaire in your handouts. Please fill out this form if possible.

Let's proceed.

Sano: Ladies and gentlemen, this is Sano. Nice to see you all. Thank you very much for coming today in spite of your busy schedule and the heat. Now, due to time constraints, I would like to begin the explanation immediately.

Since the mid-term plan is in the second part of today's session, I will speed up the first part a bit, especially since we are talking about past numbers.

Consolidated Financial Results	Main Topics
<p>Net sales ¥49,189 million (Down 14.2% YoY)</p>	<ul style="list-style-type: none"> ■ The average ferrous scrap price (Tokyo Steel Tahara Tokkyu Grade Seaborne Price) was ¥49,082/t during the fiscal year ended June 30, 2023. (In the same period of the previous fiscal year ¥55,520/t) ■ The average price of cobalt was lower than in the same period of the previous fiscal year, although the average prices of lithium, nickel and copper rose year on year. ■ Increase in electricity costs caused by higher energy prices, occurrence of foreign exchange losses resulting from the drastically strengthening yen. ■ Restructuring of 2 overseas affiliates that handle used cars-related products. (Loss on liquidation of business: ¥160 million) ■ New plant, M&A <ul style="list-style-type: none"> • Resource Circulation Business: At a New plant to collect gold, silver and copper sediment sludge, etc., facilities started operations sequentially from February 2023. (Fuji City, Shizuoka) • Making Nitto Kako Co., Ltd. a consolidated subsidiary (Resource Circulation Business: Manufacture and sale of rubber and resin products. Consolidated P/L in 4Q period) • Lithium-ion Battery Recycling Business: A new plant started operation in October 2022 (Fuji City, Shizuoka) • Acquired land/building for a new plant with target of June 2024 starting operation (Hitachinaka City, Ibaraki)
<p>Operating profit ¥1,542 million (Down 53.9% YoY)</p>	
<p>Ordinary profit ¥1,901 million (Down 54.4% YoY)</p>	
<p>Profit* ¥1,236 million (Down 60.3% YoY)</p>	

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

As you can see, for FY2023, both sales and profits declined significantly. The initial budget was set at JPY2.9 billion in ordinary profit, which was revised downward midway through the period.

A significant item is the JPY160 million loss on liquidation of two overseas subsidiaries dealing in used automobile merchandise, which is reflected in the profit for the period.

On a positive note, our gold, silver, and copper sediment sludge, which collects gold, silver, platinum, palladium, and other metals, is now in operation. This is the factory in Fuji, but the one we have set up in Hokkaido is now in full swing, and we will focus on this area of business, as I will explain later.

Furthermore, in terms of spending the largest amount of money, we successfully conducted a tender offer for Nitto Kako Co., Ltd., a manufacturing company of rubber and resin products. Currently, we are carrying out PMI in a favorable manner.

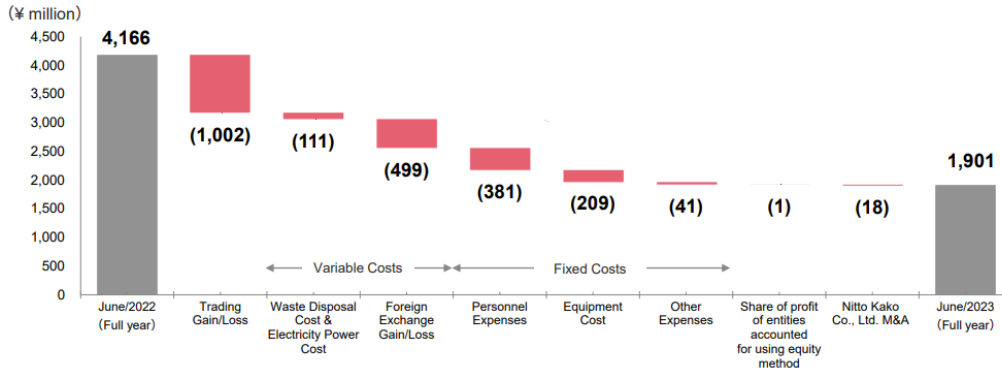
As for lithium-ion Battery Recycling Business, a new plant in Fuji started operation in October last year. AESC, a battery manufacturer, is planning to expand its business in Ibaraki, and we are developing a plant with land and buildings in Hitachinaka City, Ibaraki Prefecture, which is scheduled to start operation in June next year.

Analysis of Difference in Consolidated Ordinary Profit (YoY)



Main Topics

- **Trading Gain/Loss :** Significant decrease in Resource Circulation Business and Global Trading Business; increase in Lithium-ion Battery Recycling business
- **Foreign Exchange Gain/Loss :** Foreign exchange losses occurred compared to foreign exchange gains in the previous period
- **Personnel Expenses :** Increased personnel, regular salary increase and base increase of more than ¥10,000
- **Equipment Cost :** Investment in new plants and new facilities (Gold, silver and copper sediment sludge collection function, LIB recycling function, etc.)
- **Other Expenses :** Financial advisor fees for M&A of Nitto Kako Co., Ltd.



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Next, to the waterfall diagram. Obviously, there was a trading loss of 1 billion yen.

In the foreign exchange business, there was a foreign exchange gain of about JPY300 million in the previous fiscal year. The difference loss for this fiscal year is about JPY199 million, and about JPY200 million has been paid out, which means that the loss has been reduced by about JPY500 million compared to last year.

Regarding personnel expenses, as noted above, we raised the regular and base salary from JPY10,000 to JPY15,000 depending on the company. After all, the take-home pay was a bit low at the company in Hokkaido. Because of this, we are also actively hiring people and, therefore, labor costs are increasing.

The same is true for equipment costs, which are increasing as various machines are put into operation.

Summary of Business Results by Segment



		June/2022		June/2023		
		Actual	Actual	YoY		Composition Ratio
				Increase/Decrease	Ratio	
Resource Circulation Business	Net sales	20,397	18,852	(1,544)	(7.6%)	34.0%
	Segment profit	2,752	1,565	(1,186)	(43.1%)	63.6%
	<ul style="list-style-type: none"> ■ Handling volume remained at the same level as the previous fiscal year due to aggressive sales activities, even as volume of metal scrap generated declined. ■ Earnings spread narrowed due to deterioration in the purchasing environment associated with lower volume generated. ■ Expenses increased due to higher energy prices, strengthened investment in human capital, and the start-up of new plants. ■ At a New plant to collect gold, silver and copper sediment sludge, etc., facilities started operations sequentially from February 2023. (Fuji City, Shizuoka) ■ Making Nitto Kako Co., Ltd. a consolidated subsidiary. (Manufacture and sale of rubber and resin products, Consolidated P/L in 4Q period) 					
Global Trading Business	Net sales	42,989	34,485	(8,504)	(19.8%)	62.2%
	Segment profit	1,147	220	(926)	(80.8%)	9.0%
	<ul style="list-style-type: none"> ■ Decrease in overseas demand for steel scrap due to worldwide decline in crude steel production volume. ■ With high domestic prices and low overseas prices, differences between overseas and domestic prices shrank, the profitability declined, and the handling volume also decreased. ■ Impact of foreign exchange losses resulting from the drastically strengthening yen exerted pressure on earnings. ■ Improvement in the shipping environment owing to the rapid fall in ocean freight rates for containers, etc., and logistics agency service contributed to revenue. ■ Restructuring of 2 overseas affiliates that handle used cars-related products. (Loss on liquidation of business: ¥160 million) 					

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Let's proceed to each segment. As mentioned earlier in my explanation, the main topic in the Resource Circulation Business is the incorporation of Nitto Kako in Q4.

Furthermore, in the Global Trading Business, while there was a profit of JPY1.147 billion last year, the trading company specializing in resources recorded a deficit of JPY220 million, mainly centered around ferrous scrap, when viewed individually. We did not lose money in terms of operating profit because we were profitable in the non-ferrous sector.

We started a new logistics agency company in January this year. You originally spun off the logistics division of 3WM, a company that sold used auto parts, and made a lot of money there. On the other hand, 3WM has been conducting scrap and build in terms of operations, while withdrawing from the UAE and Uganda.

In this environment, the logistics agency business has grown significantly and is likely to continue to grow, finally generating a profit of JPY220 million for the segment.

Summary of Business Results by Segment



	June/2022		June/2023			
	Actual	Actual	YoY		Composition Ratio	
			Increase/Decrease	Ratio		
Lithium-ion Battery Recycling Business	Net sales	1,347	1,635	288	21.4%	3.0%
	Segment profit	478	575	96	20.2%	23.4%
Others	Net sales	443	463	20	4.6%	0.8%
	Segment profit	120	99	(21)	(17.7%)	4.0%

Lithium-ion Battery Recycling Business

- The handling volume increased due to improved productivity owing to the improvement in facility operating rate.
- Cobalt and lithium price has declined since January due to the easing of supply and demand for materials for batteries, and profitability declined.
- A new plant started operation in October 2022. (Fuji City, Shizuoka)
- Acquired land/building for a new plant with a target of June 2024 starting operation. (Hitachinaka City, Ibaraki)

Others

- «Environment Management Consulting Business»
 - The system enhancement due to increased demand for consulting to CDP, TCFD response support etc. regarding carbon neutrality and circular economy is advanced.
- «Welfare Service Business for People with Disabilities»
 - A new office opened in Nagano area and started new services in collaboration between agriculture and welfare service.

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Of these, only the Lithium-ion Battery Recycling Business has seen an increase in both sales and profits.

However, as we will see later, profits were quite low in Q4, and the market prices of nickel and cobalt, and especially lithium, are currently quite low. The overall lithium market price, or the multiplier, has dropped to about half of last year's unit sales price, which was the highest in the past fiscal year, due to a decline in the market price and a drop in the multiplier.

As for the others, they are also necessary for us, but they do not have much of a financial impact.

Quarterly Ordinary Profit by Segment



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Let's proceed to the segments. The Resource Circulation Business posted generally low numbers. The Global Trading Business is suffering greatly, as I have already mentioned. I will explain more about this later.

The Lithium-ion Battery Recycling Business was also good in H1 of the year. However, the market has been gradually declining since Q4. Although the volume of batteries handled has been increasing and the business has been revitalized, it is currently in a difficult situation to generate profits.

As for the others, the numbers are shown at the lower-right bottom of the slide.

Summary of Consolidated Balance Sheets



(¥ million)

	As of Jun. 30 2022	As of Jun. 30 2023	Increase/ Decrease		As of Jun. 30 2022	As of Jun. 30 2023	Increase/ Decrease
Current assets	18,448	19,088	639	Current liabilities	9,968	10,415	447
Non-current assets	10,515	14,598	4,083	Non-current liabilities	2,776	6,446	3,670
(Property, plant and equipment)	7,161	10,844	3,683	Total liabilities	12,744	16,861	4,117
(Intangible assets)	96	148	52	Net assets	16,219	16,825	606
(Investments and other assets)	3,257	3,605	347	(Equity)	15,808	16,386	577
Total assets	28,963	33,686	4,723	Total liabilities and net assets	28,963	33,686	4,723

Main Topics (Change from June 30, 2022)

- A main factor of increase asset and liability items is due to making Nitto Kako Co., Ltd. a consolidated subsidiary in 3-4Q period.
- Current assets (Other current assets: ¥1,832 million, Notes receivable-trade: ¥579 million, Cash and deposits: ¥1,667 million, Accounts receivable-trade: ¥350 million)
- Non-current assets (Buildings and structures: ¥1,704 million, Land: ¥1,149 million, Machinery, equipment and vehicles: ¥1,125 million, Construction in progress: ¥383 million, Deferred tax assets: ¥118 million)
- Current liabilities (Notes and accounts payable-trade: ¥1,072 million, Other current liabilities: ¥763 million, Short-term borrowings: ¥1,110 million, Income taxes payable: ¥455 million)
- Non-current liabilities (Long-term borrowings: ¥3,056 million, Retirement benefit liability: ¥523 million)
- Equity ratio 48.6% (54.6% as of June 30, 2022)

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Next, the balance sheet.

The total asset amounted to JPY33.6 billion. With the addition of Nitto Kako, the total asset has increased.

Because net assets have not increased accordingly, the equity ratio has gone down from 54.6% to 48.6%

Summary of Consolidated Statements of Cash Flows



	June/2022	June/2023	Increase / Decrease
Cash flows from operating activities	3,873	2,332	(1,541)
Cash flows from investing activities	(1,404)	(3,838)	(2,434)
Cash flows from financing activities	(765)	(92)	673
Effect of exchange rate change on cash and cash equivalents	92	(62)	(154)
Net increase (decrease) in cash and cash equivalents	1,796	(1,668)	(3,464)
Cash and cash equivalents at beginning of period	7,117	8,913	1,796
Cash and cash equivalents at end of period	8,913	7,245	(1,668)

Main Topics

- Cash flows from operating activities : (Inflows)
 - ¥1,868 million in decrease in trade receivables
 - ¥1,759 million in profit before income taxes
 - ¥935 million in depreciation
- (Outflows)
 - ¥1,063 million in changes in other, ¥808 million in income taxes paid
 - ¥521 million in share of profit of entities accounted for using equity method
- Cash flows from investing activities : (Inflows)
 - ¥71 million in proceeds from sales of property, plant and equipment
 - ¥57 million in proceeds from withdrawal of time deposits
- (Outflows)
 - ¥2,627 million in purchase of sales of property, plant and equipment
 - ¥1,303 million in purchase of shares of subsidiaries resulting in change in scope of consolidation
- Cash flows from financing activities : (Inflows)
 - ¥4,213 million in proceeds from long-term borrowings
- (Outflows)
 - ¥2,300 million net decrease in short-term borrowings
 - ¥1,027 million in repayments of long-term borrowings
 - ¥741 million in dividends paid

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The next slide is about the cash flow; you may take a closer look as needed.

Forecast for the Consolidated Results - FY2024



Main Topics

Consolidated	<ul style="list-style-type: none"> • Instillation of the corporate philosophy and cultivating a good corporate culture (Making a disciplined group of autonomous individuals with emergent abilities) • Promotion of strategies (Deepening and withdrawal from existing businesses, development of new businesses, and utilization of alliances) • Promotion of initiatives to realize management with awareness of cost of capital and stock price
Resource Circulation	<ul style="list-style-type: none"> • Increase in handling volume (Making Nitto Kako Co., Ltd. a group company, market recovery, productivity improvement) • Expansion of Gold, silver and copper sediment sludge collection business (New facilities in Fuji and Hakodate are in full-scale operation, research on ash recycling, etc.) • Expansion of dismantling and cleaning works nationwide (Increase of supervisory engineers, dismantling CE research, etc.) • Realization of concrete examples of Product CE (CE Center, promotion of Tire-to-Tire, etc.) • Promotion of Local CE (Local collection models in Nagano and Akita Prefectures, response to the new waste plastic law, etc.)
Global Trading	<ul style="list-style-type: none"> • Increase in handling volume (Recovery from the previous year's drop, strengthening of cooperation with domestic and overseas electric furnaces, etc., and utilization of collection yards (ports)) • Increase in handling volume in Europe by utilizing the branch in the Netherlands • Expansion of logistics service area by opening a branch in the UAE
Lithium-ion Battery Recycling	<ul style="list-style-type: none"> • Narrowing of profit spread and increase in handling volume of batteries (30% increase from the previous year) • Start operation of Ibaraki plant (Target operation in June 2024) • Securing a site for a new plant for BM production, considering commercialization of hydrometallurgy (Reviewing operation timing of FY2025)
Others	<ul style="list-style-type: none"> • Promotion of DX (Development of CO₂ emissions calculation system and support system of CDP answering) • Increase the number of consultants • Promotion of welfare services for people with disabilities through cooperation between welfare and environment or agriculture.

*CE: Circular Economy

*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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Here is the outlook for the current fiscal year.

I have written a lot about it here, but it mostly overlaps with what I will explain later in the mid-term plan, so please read it again when you have more time.

Forecast for the Consolidated Results - FY2024



Prerequisites						
Ferrous scrap price	Electrolytic copper price	Gold price	Silver price	Nickel price	Cobalt price	Exchange rate
¥50,000/t	¥1,200/kg	¥7,500/g	¥85,000/kg	¥2,800/kg	¥4,000/kg	¥125/US\$

	June/2023		June/2024		(¥ million)
	Actual	Forecast	YoY		
			Increase/Decrease	Ratio	
Handling volume (1,000t)	625	800	174	27.8%	
Net sales	49,189	58,000	8,810	17.9%	
Gross profit	8,499	10,740	2,240	26.4%	
Operating profit	1,542	1,800	257	16.7%	
Ordinary profit	1,901	2,250	348	18.3%	
Profit before income taxes	1,759	2,250	490	27.9%	
Profit*	1,236	1,670	433	35.1%	
Marginal profit	8,744	11,080	2,335	26.7%	
EBITDA	2,475	3,150	674	27.2%	
Fixed costs	7,364	9,332	1,967	26.7%	
ROE	7.7%	9.8%	2.1%	27.6%	

*Profit: Profit attributable to owners of the parent

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Sales are projected at JPY58 billion. In case you are wondering: Last year was a bad year, but we have budgeted for an increase in sales and profit.

Among them, gross profit or marginal profit, which is written below, we consider these figures as the size of the company. Sales pretty much go up and down depending on the market, so I think this marginal profit is the size of the Company. We are looking at this from the perspective of generating ordinary profit through efficient management, and this marginal profit is the largest in the past, partly due to the inclusion of Nitto Kako.

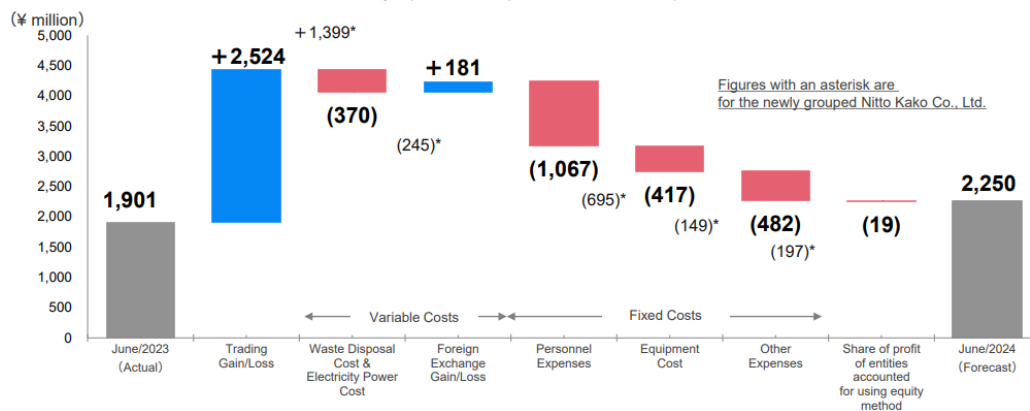
Likewise, fixed costs increased by about 2 billion yen for that amount, by raising the productivity of fixed costs in this area, we believe it is necessary to manage the fixed costs in such a way that they will be reflected in ordinary profit.

Analysis of Difference in Consolidated Ordinary Profit (YoY)



Main Topics

- **Trading Gain/Loss :** Significant increase in Resource Circulation Business and Global Trading Business; decrease in Lithium-ion Battery Recycling business
- **Electricity Power Cost :** Increase in energy prices, operation of new plants
- **Personnel Expenses :** Human capital investment (Securing personnel for business promotion, increase in personnel, regular salary increase and base increase)
- **Equipment Cost :** Operation of new plants and new facilities (Gold, silver and copper sediment sludge collection function, LIB recycling function, etc.)
- **Other Expenses :** Increase in machinery repair costs, expenses related to new plants, etc.



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Here, too, we are seeking to increase trading margins by JPY2.5 billion, and the figures with an asterisk are for Nitto Kako. Accordingly, within the trading gains and losses of JPY2.5 billion, JPY1.4 billion is attributed to Nitto Kako. The same is noted for Dust, where electricity costs are central, totaling JPY370 million including Nitto Kako.

We are looking at foreign exchange at plus or minus zero, and since there was a minus of almost JPY200 million in the previous year, that is a plus, and this is what we are looking at here because of the wording.

As for personnel expenses, for Nitto Kako is approximately JPY700 million. We may not be able to increase the base in the same way next year, but we will increase personnel expenses in order to improve the treatment of employees accordingly.

Nitto Kako is a manufacturing company, so we are also planning new facilities. Thus, equipment costs will also increase. Other expenses increased in the same manner, resulting in a budget of JPY2.25 billion.

Forecast for the Consolidated Results - FY2024



(¥ million)

Segment	June/2023		June/2024			Composition Ratio
	Actual	Forecast	YoY			
			Increase/ Decrease	Ratio		
Resource Circulation Business	Handling volume (1,000t)	262	275	12	5.0%	—
	Net sales	18,852	25,000	6,147	32.6%	37.5%
	Ordinary profit	1,565	2,070	504	32.2%	70.0%
	Ordinary profit ratio	8.3%	8.3%	(0.0%)	—	—
Global Trading Business	Handling volume (1,000t)	465	610	144	31.1%	—
	Net sales	34,485	40,000	5,514	16.0%	60.2%
	Ordinary profit	220	750	529	240.1%	25.3%
	Ordinary profit ratio	0.6%	1.9%	1.2%	—	—
Lithium-ion Battery Recycling Business	Net sales	1,635	1,000	(635)	(38.9%)	1.5%
	Ordinary profit	575	60	(515)	(89.6%)	2.0%
	Ordinary profit ratio	35.2%	6.0%	(29.2%)	—	—
Others	Net sales	463	500	36	7.9%	0.8%
	Ordinary profit	99	80	(19)	(19.7%)	2.7%
	Ordinary profit ratio	21.5%	16.0%	(5.5%)	—	—
Adjustment	Net sales	(6,247)	(8,500)	(2,252)	—	—
	Ordinary profit	(558)	(710)	(151)	—	—
Consolidated	Handling volume (1,000t)	625	800	174	27.8%	—
	Net sales	49,189	58,000	8,810	17.9%	100.0%
	Ordinary profit	1,901	2,250	348	18.3%	100.0%
	Ordinary profit ratio	3.9%	3.9%	0.0%	—	—

*Segment profit (loss) is stated as ordinary profit.

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This is by segment.

We are going to increase JPY500 million in the Resource Circulation Business, and we are also going to increase JPY500 million in the Global Trading Business.

The Lithium-ion Battery Recycling Business is a little on the safe side, partly because we are looking at it low because of the market. However, by reducing it by JPY500 million, we will increase sales in Others as well, but ordinary profit will not grow much, which means that there is no significant growth in profits.

Introduction



Today, the world is making major moves to achieve carbon neutrality by 2050.

A significant means of achieving carbon neutrality is a circular economy. It is an area where we can draw on the technologies and expertise we have cultivated over many years. We have especially to realize the importance of the roles we play.

So, we defined the concept behind our strategy for realizing carbon neutrality as “Lead a circular economy (CE)”. We will address two different facts of CE. One is the “CE supporting manufacturing”, and the other is the “CE supporting local communities”.

In addition to base metals, we also recycle minor metals, rare earths and precious metals. We are also exploring the advanced recycling of polymers such as plastics and rubbers. We will focus our efforts on the development of a collection system that is necessary for recycling and new recycling technologies. We will carry out a number of specific high level practices for the circular economy.

In combination with our separate overseas strategies, these business activities will surely bring us significant growth. This growth directly means that we will better serve society. Therefore, we will concentrate on the growth of business without any hesitation.

To flexibly respond to drastically changing market conditions, we have recently formulated a rolling five-year Medium-Term Plan as we did last year.

I hope that this announcement will help you understand our corporate culture, strategy and growth aspirations.

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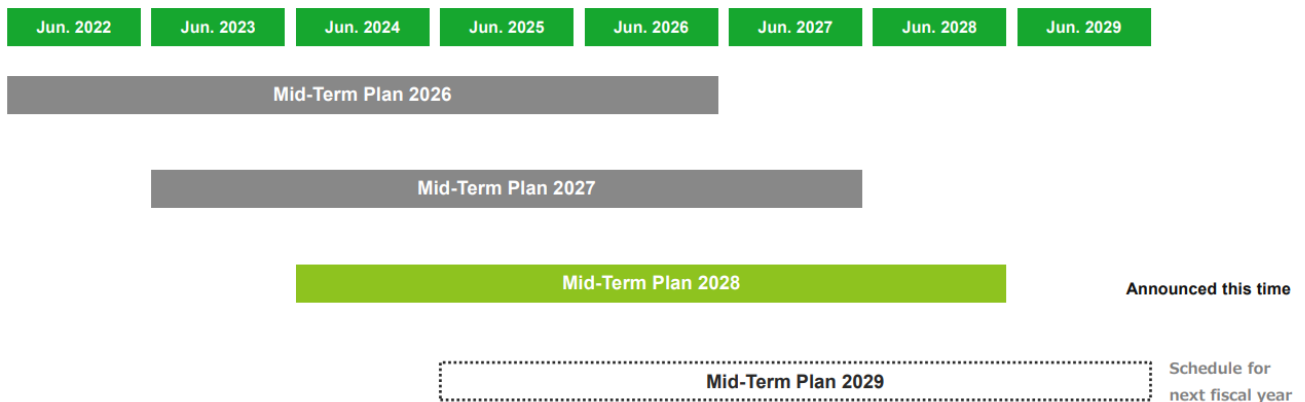
I will now explain our mid-term plan.

Here are my thoughts again, which I hope you will read later. It's about the fifth line from the bottom. The growth of ENVIPRO, in other words, will directly increase our contribution to society, so I would like to say that I am determined to focus on the growth of our business without any hesitation, and that is how I feel about our business.

Our Rolling Method



The Company is in a period of change, and in order to respond flexibly to the recent rapid changes in the market, the Company intends to reconsider its five-year Medium-Term Management Plan each fiscal year and roll it out.



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Here, when looking at rolling periods, we are doing it over five years, whereas in most other cases, it's generally done over a period of about three years.

Indeed, while not many organizations use the rolling approach, we have chosen to employ it. Amid changing circumstances, we are using a rolling method over a span of five years to enhance the accuracy of our projections for the initial three years.

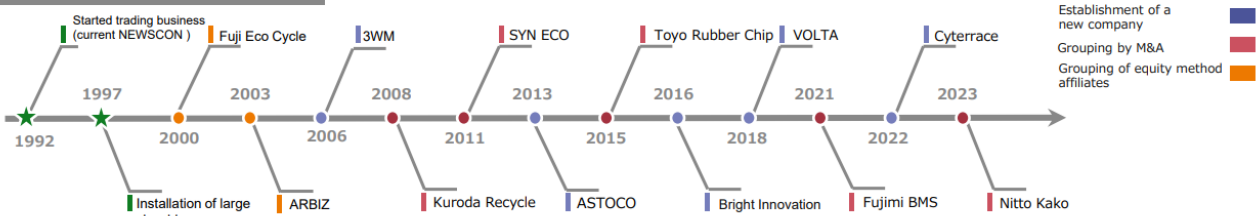
Discussing the situation five years ahead in the present time is quite challenging. While it might seem lengthy, we are employing this approach, partially to train ourselves, by shifting our focus one year at a time within a rolling five-year timeframe.

Review of Growth by New Companies

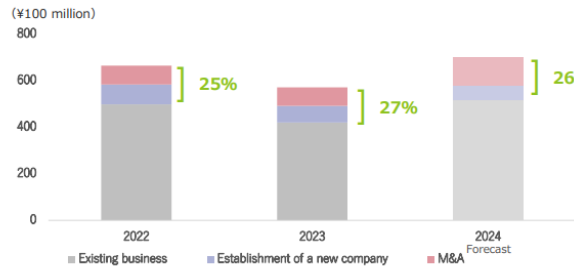


- We have achieved growth as one of our promising new businesses was developed into a new company.
- The goals of our M&A activities were chiefly expanding the scope of the recycling of rubber, wood and other materials and **reconstructing businesses** taking advantage of our expertise.

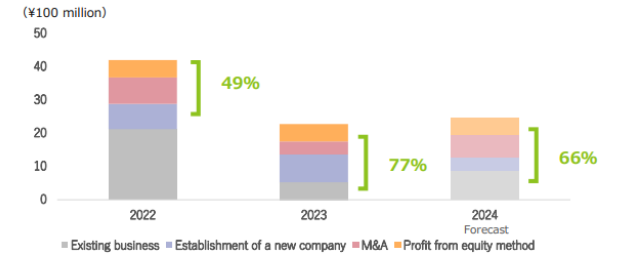
New Companies, M&A History



Changes in Net Sales Composition Ratio



Changes in Ordinary Profit Composition Ratio



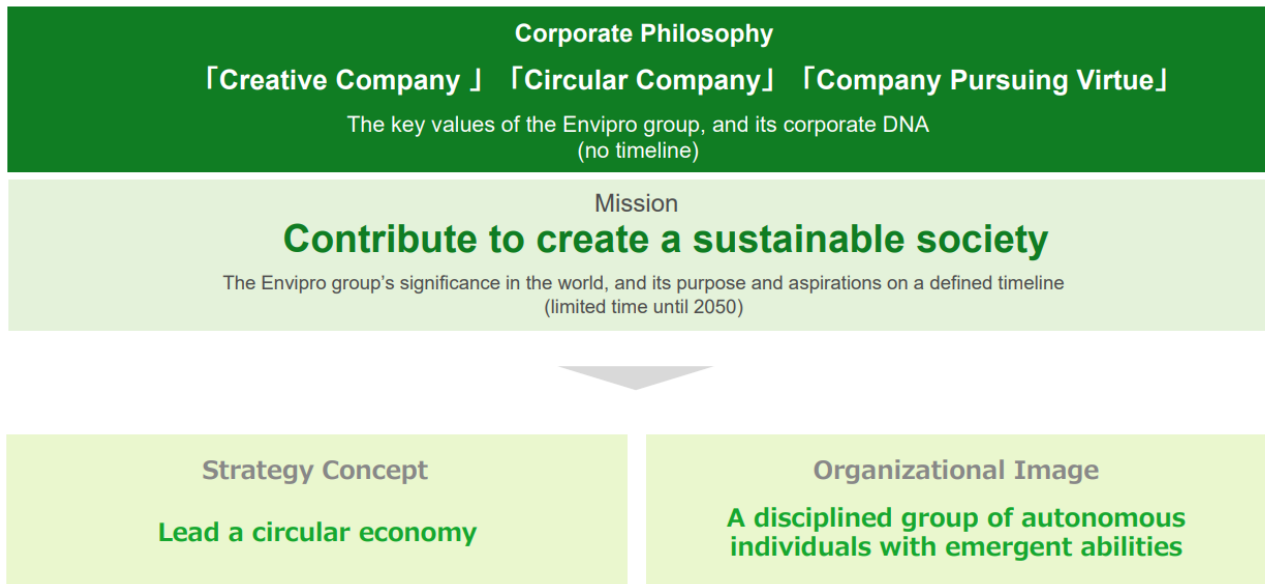
*The above graph is calculated from sales and profit before offsets.

In 1992, we created the trade department, now NEWSCON. In 1997, we started working with shredders. This was the catalyst for a major change in our company. Each of the two has since led to various mergers and acquisitions and the establishment of new companies or joint ventures.

Below, NEWSCON and ECONECOL are as existing business, in gray. Sales are so much bigger, and by all means NEWSCON is a trading business, so sales are very high. As a result, for the forecast for FY2024, for 26% of sales, but 66% of profits. The latter figure was 77% in the last fiscal year, and even when the highest profit of JPY4.1 billion was achieved, about half was generated from these new businesses.

We are writing here with the message that we will be even more proactive in our efforts from now on.

Basic Management Policy

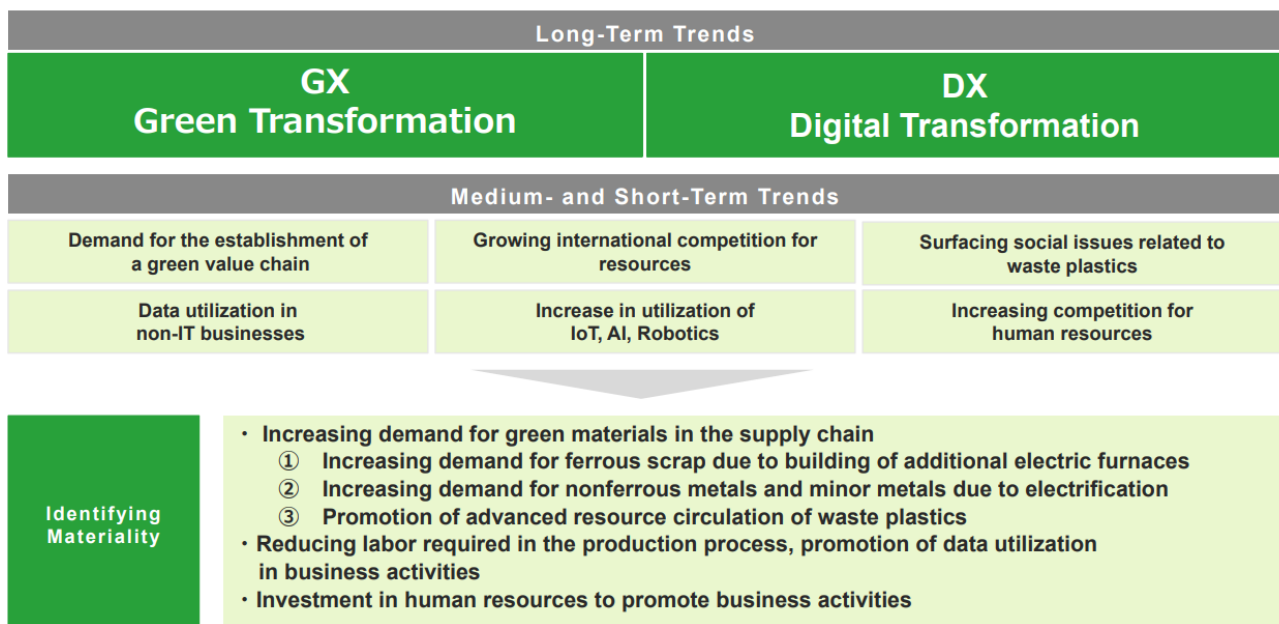


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Next is the medium-term management plan.

We have the corporate philosophy of being a “Creative Company, a Circular Company, and a Company Pursuing Virtue.” We read this during our morning meetings, and we make efforts to instill it within the company culture. We have a mission, a strategic concept, and an organizational image, and this is the basis of our management.

Identifying Materiality to realize the mission



8

Needless to say, our company is in the middle of the major trends of GX and DX.

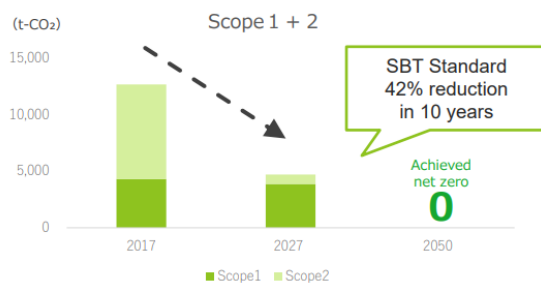
Furthermore, I believe that our industry, not to say our company, should play a leading role in the carbon neutrality movement. In this time, we are committed to leading the so-called circular economy.

Realization of Decarbonized Society by 2050

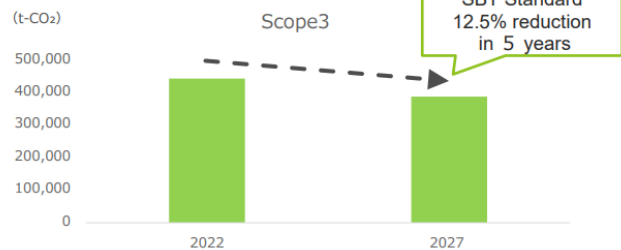


Transformation into a manufacturer of materials obtained from aboveground resources through low-carbon processes (QCDC)

To achieve levels of Q (quality), C (cost), and D (delivery time) that are comparable to a first-class manufacturing company. Moreover, to create a manufacturing process featuring an added factor, C (carbon neutrality).



Our target: **63%** reduction in Scope 1+2 (2017-2027)
50% reduced by FY2022 (compared to FY2017)



Our target: **12.5%** reduction in Scope 3 (2022-2027)
 Expansion of calculation categories from FY2022

Promoted RE100* and steadily reduced CO₂ emissions at plants
 Production through low-carbon processes → Supply of low-carbon raw materials and fuels

*RE100: An international initiative for companies that aim to procure 100% of the electricity required for their business operations from renewable energy sources.

*In July 2018, we became the world's first company in the recycling industry to join RE100.

*Renewable energy ratio and CO₂ emission reductions were revised in the previous fiscal year due to the effect of newly grouped company.

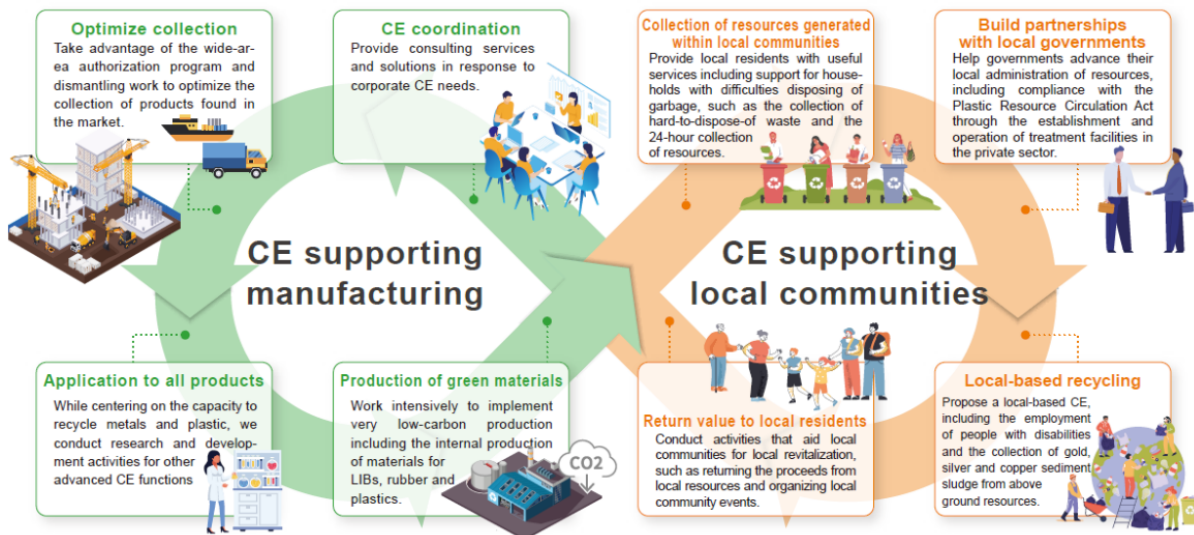
We will work on reducing CO₂ emissions at our own factories. Scope 1 and Scope 2 are managed by us, while Scope 3 involves various external companies that we request assistance from.

From now on, almost all general consumer goods, including digital product passports, and items that have been used, are subject to recycling through the Household Appliance Recycling Law, where people now pay for this service. This legal framework ensures the circulation of goods. Even so, the recycling rate is only around 60%, and it hasn't increased beyond that. However, the circular economy isn't enforced by legal mandates. It is driven by companies' voluntary actions as part of striving for what's known as carbon neutrality. This concept is being progressively promoted.

On the other hand, we will continue to recycle more and more as our core business, and we are also trying to reduce greenhouse gas emissions (carbon dioxide) at the plants where we recycle, which is Scope 1 and Scope 2. Low-carbon raw materials from low-carbon processes are becoming increasingly vocal. In this sense, we believe that how we operate recycling plants with low-carbon processes will increase customer satisfaction. In other words, it will be a major criterion for our customers to choose us.

Strategy Concept **Lead a circular economy**

Achieve a number of specific examples of "CE supporting manufacturing" and "CE supporting local communities" ahead of competitors. Take the initiative to increase the momentum of the circular economy across the country and contribute to a sustainable society.



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Next, our business strategy. I mentioned earlier that we will lead the circular economy. We are pioneering numerous examples of both circular economy models: CE (circular economy) supporting manufacturing and CE supporting local communities. These examples are achieved ahead of many other companies.

I believe this is not limited to our company, but nowadays, almost every day, various products are being discarded through websites and similar platforms, entrusting them to different shops for disposal. We are very grateful to hear that they would like to recycle and recycle them all together. Although there are still only a few concrete examples, we have received a tremendous number of inquiries, so we are actively working on such things.

For this purpose, it is very important to materialize the recycling technology behind it by improving it, or to create an infrastructure system to turn it around. I believe that CE supporting manufacturing will be a major epoch in the future. Taking the lead in this regard, our company is demonstrating the commitment to stand at the forefront of raising awareness for the circular economy throughout Japan. Recently, there has been an increase in the establishment of organizations related to circular economy initiatives. While it goes without saying, we are here to affirm our determination to be at the forefront of these efforts.

We see CE supporting manufacturing and CE supporting local communities as a circular economy of urban waste, so to speak. Most likely, when considering this over a period of 10 to 20 years, the nature of municipal waste management centers will undergo significant transformations.

Currently, a substantial amount of CO₂ is emitted through the incineration process, which is often accompanied by power generation. In our case, we collect precious metals from the ashes, so we do not intend to negate that aspect. However, I believe that a different approach will be taken, whereby urban waste as a whole will be used as a raw material from which certain products and goods will be made and distributed.

Currently, we haven't reached that level yet. To put it in simpler terms, it's on a smaller scale. Let's say, similar to a secondary municipal office within the community. Municipal offices might not operate on

weekends or evenings, but we do. It's done in collaboration with local governments, acting as their partner to provide this service.

I would like to expand such examples horizontally and build relationships with local governments. As I mentioned earlier, larger-scale initiatives like the one you mentioned can't be achieved solely by us. Therefore, we want to work with companies like incinerator manufacturers or those who purchase products resulting from these processes, and together establish the framework to further develop and expand this initiative.

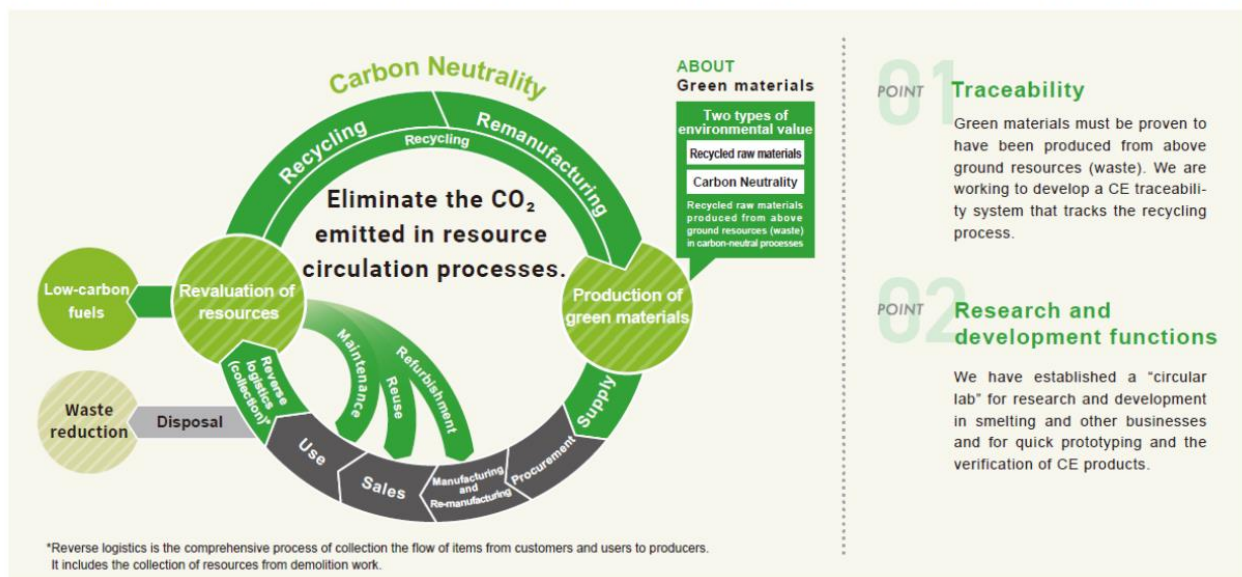
When we divide the circular economy into two parts, the one that can bring immediate profits or can be turned into a business opportunity would be CE supporting manufacturing.

However, because of the tremendous social implications, the other type, CE supporting local communities is important as well, though it takes a little too long to monetize. It is not immediately profitable, but we would like to develop it steadily.

CE supporting manufacturing



As a CE professional, we will use many different methods to revalue the products that have been produced and used by society.



11

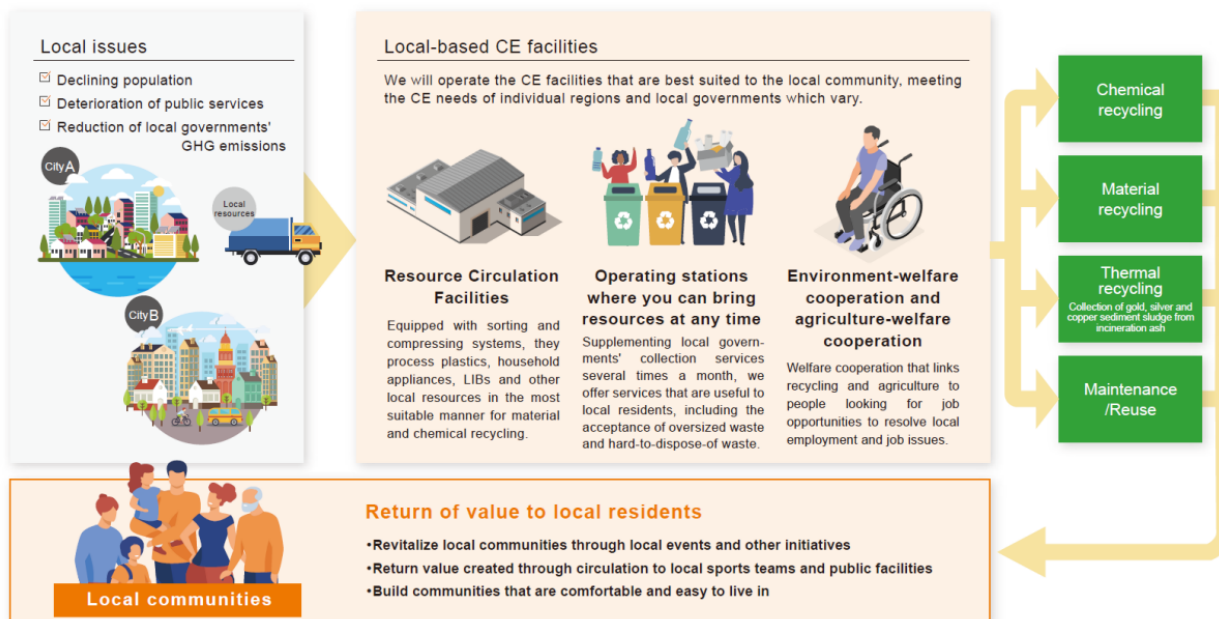
In terms of CE supporting manufacturing, which I have mentioned earlier, the digital product passport will capture the entire digital circulation of products such as iPads, desks, and many other things.

There's a concept known as "greenwashing" which relates to how products are presented, and currently, there isn't a well-established mechanism to ensure authenticity. However, the idea is to capture the flow of products and also capture the CO₂ emissions generated from them. This involves creating a cycle where resources are continually circulated.

It is said that renewable energy can reduce CO₂ emissions by half or 55%, but with this resource recycling and circular economy, CO₂ emissions can be reduced by 30% to 40%, and all major companies are beginning to seriously address this issue. This trend has been evident for the past two to three years.

I believe that CE supporting manufacturing will become one of our major businesses. In other words, it will be the beginning of the development of a business model different from the one we have been using until now.

CE supporting local communities



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This is our concept or image of CE supporting local communities.

SYN-ECO Plaza Azumino is located in Azumino City, Nagano Prefecture. We have been working on this project since about three years ago, mainly in Azumino City and Nagano City, with the permission of the local community, although the manufacturers generally take care of the specified home appliances. The project is also very close to the local community in this sense, as it includes the dismantling of buildings by people with disabilities.

However, as I mentioned earlier, the financial impact isn't that substantial. There's a concept called PBC, or public benefit corporation, which is prevalent in the US. It's somewhat akin to a public utility company. However, such things have had various positive effects on our main business by being closely connected to the local community, and we hope to spread such things throughout the country while exchanging various ideas with people in the same business.

Ultimately, I would like to achieve a circular economy of municipal solid waste in the region, including chemical recycling, material recycling, and thermal recycling.

Mid-Term Plan 2028 Financial Targets



	Net sales	Ordinary profit	ROE	ROIC
Jun. 2028	¥80_{bn} CAGR(2023→2028) 10%	¥5_{bn} CAGR(2023→2028) 21%	13%	9%
Jun. 2026	¥68.0 _{bn}	¥3.3 _{bn}	11%	~%
Jun. 2024	¥58.0 _{bn}	¥2.2 _{bn}	10%	~%
Jun. 2023	¥49.1 _{bn}	¥1.9 _{bn}	8%	6%

*ROIC = (Ordinary profit x (1 - Effective tax rate)) / (Equity + Interest-bearing liabilities)
*Equity and interest-bearing liabilities are averages of the beginning and end of the period.

Prerequisites (After July 2023)

Ferrous scrap price	Electrolytic copper price	Gold price	Silver price	Nickel price	Cobalt price	Exchange rate
¥50,000/t	¥1,200/kg	¥7,500/g	¥85,000/kg	¥2,800/kg	¥4,000/kg	¥130/US\$



Including these, we have set financial targets for 2028 of JPY80 billion in sales, JPY5 billion in ordinary profit, 13% ROE, and 9% ROIC.

Last year, we set the final fiscal year as FY2027, with a target of JPY75 billion in sales and JPY5 billion in operating profit. For FY2028, the next sales target after JPY75 billion is JPY80 billion. However, unfortunately, the operating profit target will be delayed by one year.

For FY2023, it is JPY1.9 billion, but in the year before that, ordinary profit was JPY4.1 billion. In that sense, the JPY5 billion target isn't that distant from there. Nevertheless, it represents a different business portfolio than the JPY4.1 billion achieved last year. It is 5 billion yen after 70 to 80% of the contents of the business have really changed, in a sense, it is not an exaggeration to say that this was our first challenge. This is not an extension of the past and will be if the market rises. We will create a new structure, and then we will make sure to achieve the JPY5 billion.

I understand that recently, even external directors made strong statements, urging us not to generalize foreign exchange and market conditions into a single category. It's quite natural for us to receive challenging feedback when we attribute financial vulnerabilities to foreign exchange losses caused by market fluctuations.

On the other hand, we cannot avoid being influenced by market prices, but unless we create a business model in which we do not have to use this as an excuse to talk about increases or decreases in sales and profits, we will probably not be able to gain the understanding and high evaluation of investors, including those in the market and the stock market. I would like to say that even if the same JPY5 billion is spent here, it is a little different from what we once thought it would be, and there are some aspects of the project that we have not yet imagined, but that is the kind of project we will be working on.

Financial Targets by Segments



- Resource Circulation Business, steadily generate profits in the cleanup and dismantling business, polymer (plastic, rubber, etc.) CE business, and gold, silver and copper sediment sludge collection from incinerator ash, etc., and create a new business model with CE supporting manufacturing and CE supporting local communities.
- Global Trading Business will recover from the decrease in net sales and profit in the previous fiscal year and then expand in scale and establish a new business model.
- Lithium-ion Battery Recycling Business will proactively invest to secure large shares of growing markets.

(¥100 million)

Net sales	2023	2024	2026	2028
Consolidated	491	580	680	800
Resource Circulation Business	188	250	285	330
Global Trading Business	344	400	450	515
Lithium-ion Battery Recycling Business	16	10	15	27
Others	4	5	6	9
Adjustment	(62)	(85)	(76)	(81)

Ordinary profit	2023	2024	2026	2028
Consolidated	19.0	22.5	33.0	50.0
Resource Circulation Business	15.6	20.7	25.0	36.5
Global Trading Business	2.2	7.5	12.0	15.0
Lithium-ion Battery Recycling Business	5.7	0.6	2.5	5.0
Others	0.9	0.8	1.5	3.0
Adjustment	(5.5)	(7.1)	(8.0)	(9.5)

*Amounts are rounded down.

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Let's proceed to the segments. The Resource Circulation Business will have sales of JPY33 billion in 2028, or about 30% of total sales, or 35% of the total. However, the profit will be JPY3.6 billion, or about 65%.

Conversely, the Global Trading Business has high sales, but profits are about 25%. I would like you to include the negative adjustment amount below and calculate it from 60 instead of 50. In that way, the rest will be lithium-ion batteries and others.

This Lithium-ion Battery Recycling Business is now operating in a very uncertain environment. We are doing business with existing battery manufacturers, and we are also marketing to battery manufacturers that Honda and Yuasa are going to produce in the future. However, we are facing a very difficult situation in terms of how we should develop our business in the midst of the trend to enclose raw materials, including the discussion of outsourced processing.

However, the first half of the project relies on this factory-generated scrap, and used scrap is relatively free. In this sense, I think we are in a situation where we can win the competition by developing various technologies, know-how, and human resources as a company using this factory-generated scrap in order to have a chance to do so.

As we will discuss later, we are slightly revising our plan to do everything up to hydrometallurgy by 2025. Under such circumstances, I think we should actively develop the black mass business and go a little further in 2028, but I would say that we should be restrained here. Regarding nickel, cobalt, and lithium, I mentioned earlier that we shouldn't be swayed by market conditions. However, considering the trends in these elements, we should approach them with caution. Thus, we're presenting these figures with safety in mind.

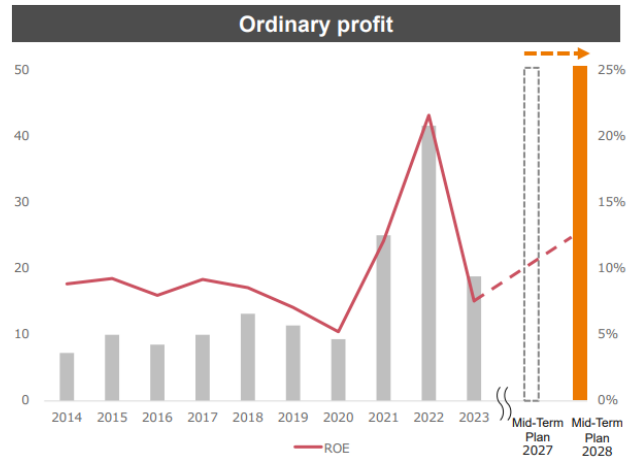
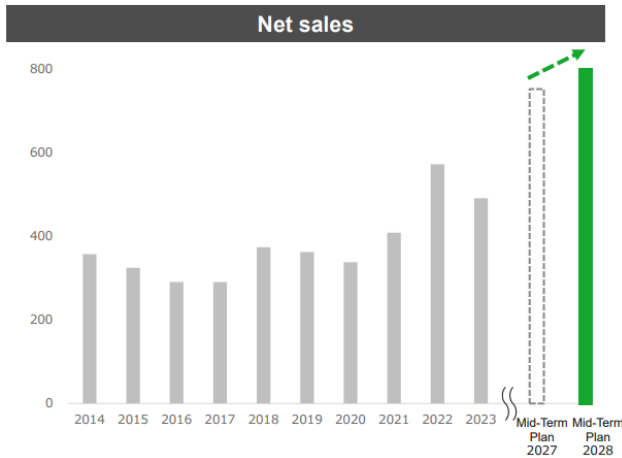
Conversely, we intend to make a solid profit without relying on batteries and to make a larger investment in batteries, so the picture is that we will earn profits from new businesses, including existing businesses.

Comparison with Mid-Term Plan 2027



- In 2020, economic activities were stagnant due to COVID-19. From 2021 onwards, we took advantage of the rise in the market prices of resources to gain high profits.
- The decrease of net sales and profit in the previous fiscal year was attributable to the soaring energy prices and investments in human capital. Accordingly, the achievement of the ordinary profit target in the Mid-Term Plan 2027 was delayed one year.
- During the Mid-Term Plan 2028 we will work intensively to transform our portfolio.

(¥100 million)



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As I explained earlier, the graph shows that sales in the medium-term plan created last year will increase in FY2028 compared to FY2027, but ordinary profit will be achieved one year later.

Resource Circulation ▶ Cleaning and Dismantling Work Nationwide



Increased demand for dismantling work due to the transition to decarbonization, partnerships with financial institutions and others accelerate business growth

Market Trends in Demolition Businesses Related to Decarbonization

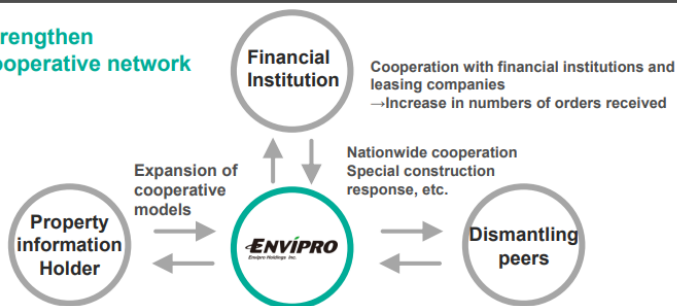
- 01 End of life coming for large facilities in early period of decarbonization.
 - Photovoltaic power generation equipment
 - Onshore wind power generation facilities, etc.
- 02 Restructuring of manufacturing and other businesses related to decarbonization
 - Automobile related
 - Petroleum related, etc.
- 03 New future demands related to decarbonization
 - Large storage batteries
 - Offshore wind power generation facilities, etc.

Dismantling Business Results and Targets (Ordinary profit including equity in earnings)



Initiatives for Growth

Strengthen cooperative network



Research on Dismantling CE

- 01 Response to large-scale facilities through ocean transportation
- 02 Advanced recycling of wind turbine blades
- 03 Collection of minor metals and rare earths

16

If the previous sections have been strategies, I will now move on to tactics, or perhaps I should say, explanations of individual and specific projects.

We are talking about a nationwide wide-area cleanup and dismantling business, so it is not enough to put a circulator on everything, such as a plant circulator or a building circulator, but there is a way of looking at everything as a circulator, and that is how we will conduct our business from that perspective.

In addition, we are working with financial institutions. Our equity method company has already formed a new company with a financial institution or a subsidiary of a major leasing company. That is a very large and fairly rapid growth area, and we are receiving that many inquiries, as if we are growing while putting in place a system on the other hand, although we can probably grow more because of the current difficulties in hiring a person in charge of the field to hire people.

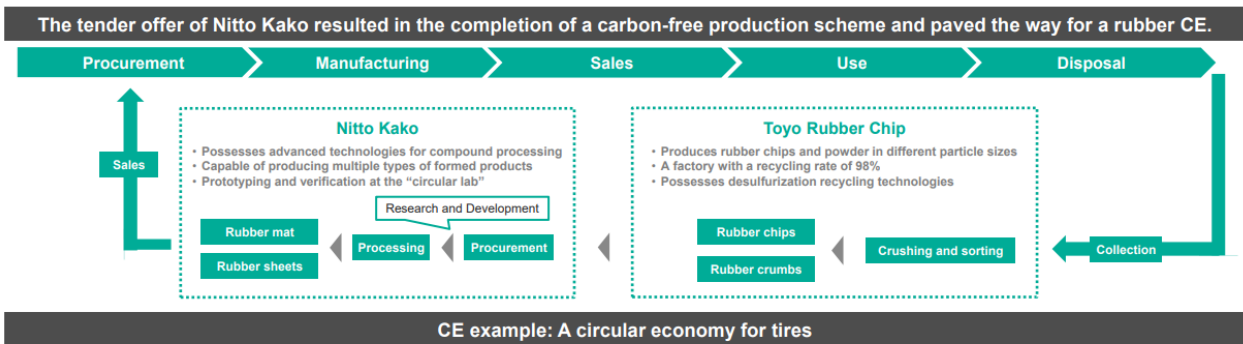
The reason for this is that financial institutions, especially leasing companies, are on the cutting edge of information. In addition, there are also bankers. I do not know the details of the changes in the Banking Law, but I have heard that there is a need on the part of the banks to be able to develop this type of business, including a combination with us, in a more flexible manner.

Amidst all this, by collaborating with the financial sector, we aim to approach things from a different perspective—one that involves gathering different information and adopting new approaches. This way, by FY2028, we've set a goal of 20% for the Resource Circulation Business. While it might seem a bit conservative, that 20% could potentially increase to 25%, meaning that, if we take JPY3.6 billion as a base, we can generate around JPY700 to JPY800 million in profit from this business.

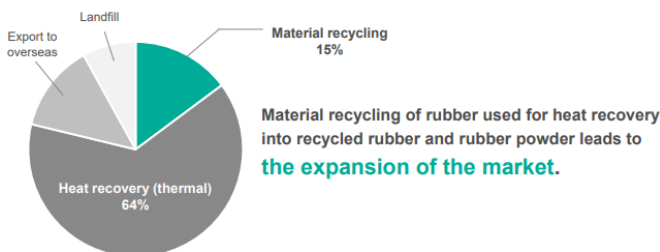
Already, the company created by the equity method that I mentioned earlier are making equivalent profits. Since it is a subsidiary under the equity method, we are only hit by 10% or 15% of the business, but we aim to create a similar business model and hope to earn 20 to 25% of the business from the demolition business.

That is the time lag, including plants, etc. that were built all the way after the war, and this sector is going to grow in the future, as a market. In that sense, I would like to increase the force of sales in combination with financial institutions to reach that first step and create that phase.

Resource Circulation ▶ Polymer (plastics, rubber and others) Business



Sustainable market of tires for trucks and buses



Strengths of Toyo Rubber Chip

- Producing artificial turf infills and other sustainable products using waste tires with different formulae
- *One of Japan's leading companies in terms of waste tire processing capacity and market share in the supply of recycled raw materials
- Developing and producing ultrafine particles derived from waste tires
- The first in Japan to study tire crushing technologies using a refrigeration crushing technology

Strengths of Nitto Kako

- Production of rubber mats and other circular products from waste tire chips and tire powder
- Nitto Kako is processing ultrafine particles derived from waste tires produced by Toyo Rubber Chip into compounds
- Aiming to produce raw materials for sustainable tires

Next, let's continue with polymer. We have not used the term polymer until now, but it encompasses everything including plastics and rubber.

So there was originally a company called Toyo Rubber Chip. Nitto Kako was subject to a TOB, and as for Toyo Rubber Chip, it involves the pulverization of various materials such as tires, used for artificial turf infill, or even finer materials like brake pads. Some of these materials are also included in certain tires. However, Nitto Kako tends to utilize these materials with a higher proportion of virgin materials initially.

It's important to note that Nitto Kako, which was originally Nitto Tire, includes natural rubber and other materials as raw materials in their manufacturing processes, especially within the realm of tire production. Even now, Nitto Tire occasionally appears in commercials for Major League Baseball, where Shohei Ohtani plays. I have never seen it though. Indeed, it's quite an unique history, considering that Nitto Tire was originally a tire manufacturer. In fact, we are still making forklift tires on an OEM basis.

In such a situation, there was almost no such circular economy concept in Nitto Kako. The inclusion of Nitto Kako within ENVIPRO has allowed us to paint a picture of the circular economy. As a result, we're currently receiving inquiries from various sources, including tire manufacturers, interested in participating in the circular economy.

This is because, until now, in this lower left pie chart, tires have mostly been used as fuel, as in thermal recycling. Therefore, we have all the mechanisms in place to collect.

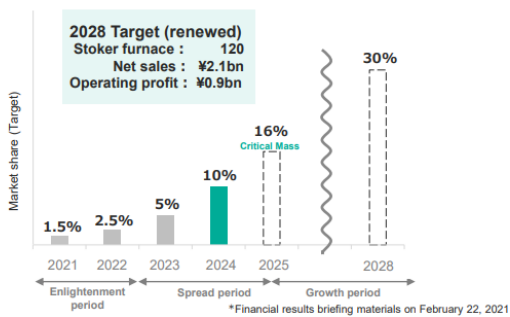
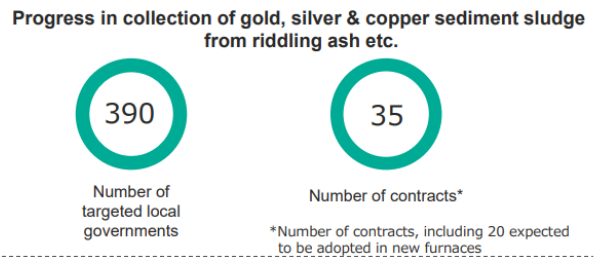
Amidst this, the focus lies in further processing and exploring how we can achieve material recycling through rubber-to-rubber recycling methods. This is now being done in various places, and we are even getting inquiries from sports product manufacturers and other companies that use rubber, but no one was doing rubber-to-rubber material recycling. Generally, we haven't heard of anyone conducting this as a business practice.

In the ultimate scenario, it would involve tire-to-tire recycling, but before reaching that point, the focus is on rubber-to-rubber recycling. While Toyo Rubber Chip alone couldn't achieve this in the past, the inclusion of Nitto Kako, a true manufacturer, has enabled such progress.

So it may sound a little strange to say that a recycling company is a rubber manufacturing company, but from the perspective of the circular economy, we cannot achieve this without entering the world of manufacturing.

In that sense, we focus on Nitto Kako as our core business. With the combination of Toyo Rubber Chip and Nitto Kako, the polymer business, we envision that by FY2028, this segment of our operations might contribute around 25% of the Resource Circulation Business, or approximately JPY800 million in profit.

Number of contracts increased to 35 from 23 in the previous year



For Further Growth

- 01 Collection of gold, silver & copper sediment sludge from incinerator bottom ash and recycling of incinerator bottom ash (ash block production, ash calcination, ash melting)
- 02 Installation of incinerator bottom ash recycling line directly connected to incinerator
- 03 Heavy metal removal and collection of gold, silver & copper sediment sludge from ash

18

As I've mentioned before, we are targeting 390 local governments with what is commonly known as riddling ash. The contract for the new furnace is in progress, and including that, we are at 35%, but we have not yet reached 10%, so we are just short of the 10% by 2024 shown in the bar graph on the left side below.

But critical mass in 2025, which is a marketing term, is expected to increase quickly from here. This is also a bit of a gap, 30% in 2028, but if we start moving, we will go all the way here.

Therefore, we would like to make a contract with about 100 or 120 local governments for 30% of the dust and ash, and generate JPY2.1 billion in sales and JPY900 million in operating profit, which is 25-30% of the Resource Circulation Business, respectively.

These three businesses would generate 65% to 70% of the Company's revenue. The remainder is an extension of our existing business, and since we have received various inquiries since I mentioned earlier, we will make profits from these sources, and we will work to change the structure of this business as well as our portfolio in the Resource Circulation Business from now on.

- The **1 million** ton handling volume is a significant KPI target for this segment.
- Sluggish overseas demand for resources slowed the resources export business. Meanwhile, the movement towards the circulation of resources is gathering momentum in Japan amid the intensification of the race for resources.
- Logistics agency business is growing steadily with the addition of customs clearance services, and a UAE branch is scheduled to start operation in November.

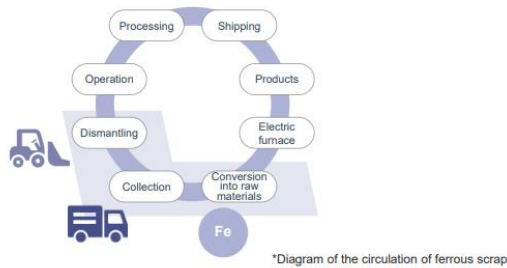
(1) Develop schemes to strengthen relationships with Japanese electric furnace manufacturers

Market summary

- In Japan, a system for circulating steel and other resources is being constructed.

Our strengths

- Play a role in "resource logistics" using a good deal of information and commercial distribution
- Collaborate within the Group to provide services covering the processes from "dismantling" to "conversion into raw materials" in the diagram below



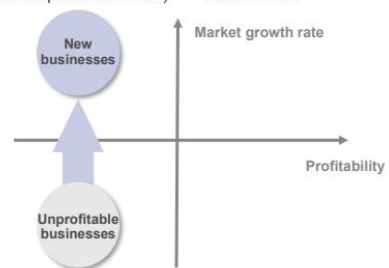
(2) Change the overseas business portfolio according to market conditions

Unprofitable businesses

- Withdrawal of 3WM Japan Coast
- Withdrawal of 3WM Uganda

New actions

- Launch a branch office in the Netherlands (started operation in August)
- Expansion of imports and trilateral trade
- UAE branch office for commissioned logistics (scheduled to open in November)
- Search for prospective sites for overseas LIB plants
- Import business models from overseas
- Expand business models in Japan to overseas sites



Next, our Global Trading Business. It says here that the business model is changing.

In 1992, our company, originally called Sano Maruka, now ECONECOL, was the first to export ferrous scrap to Japan. Exactly 30 years later, after 30 years of the business model, the value of ferrous scrap has changed. As the value changed and the price reflected this change, we were exporting only, making a profit on the margin between high overseas prices and low domestic prices, but this was hardly the case in the previous fiscal year.

Adding to that is the impact of foreign exchange losses, which has made the situation more challenging. However, amidst this, we're changing our business model. In the future, we plan to strengthen our collaboration with domestic manufacturers.

Of course, I don't believe that exports will disappear entirely. In a sense, it's natural to expect that trade with South Korea, located along the Sea of Japan, will continue to thrive. We do this both domestically and internationally, and until now, domestic manufacturers and we have not been seen as adversaries, but in a sense, we have been in conflict with each other because we export our products overseas.

On the other hand, there is one thing that we would like to explore in the future, which is collaboration with domestic electric furnace makers.

The other is in August, the Netherlands branch started operation this month. We are currently dispatching one person, who was originally in a trading company and is well versed in this business, so we are getting a variety of inquiries at once. From there, we are planning to make various internal efforts to do such things over the next five years, including from the branch to the collection center.

Imports and business within the EU have increased considerably in this way. Including them, we are really going to change our business portfolio significantly.

In terms of scrap and build, as I mentioned at the beginning, we will withdraw from the UAE, where 3WM's Japan Coast is located, and Uganda.

However, we have created a business plan in which the logistics agency business that grew there will generate a profit of about JPY500 million by FY2028. Therefore, we have asked the members who were in the UAE at 3WM to transfer there, and a UAE branch of a logistics agency called Cyterrace is scheduled to start operations in November.

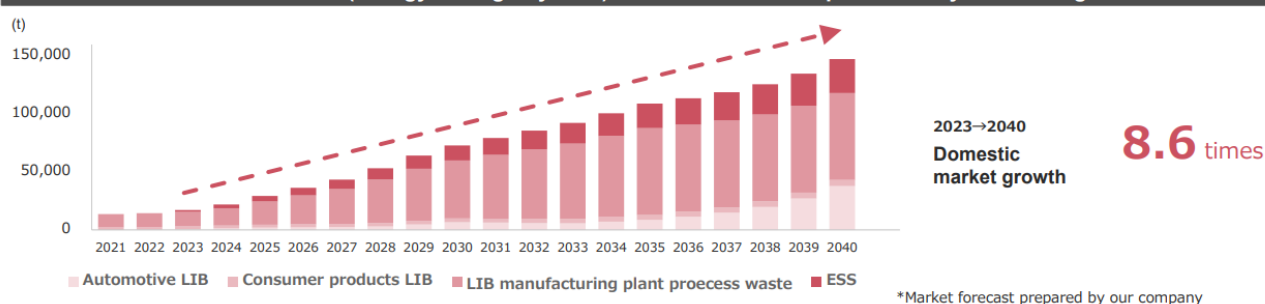
We are also trying to work on some new technologies and business models, and the collection of this kind of information has increased as a result of being onsite more than before.

Alternatively, looking at it from the perspective of whether our model can be replicated elsewhere, although it's quite challenging here, we want to position our Global Trading Business as a pioneer in that direction. Last year was undoubtedly a challenging year, but I believe we must have gained a lot from it as well. Financially, it was tough, but I think we gained something very significant in non-financial terms.

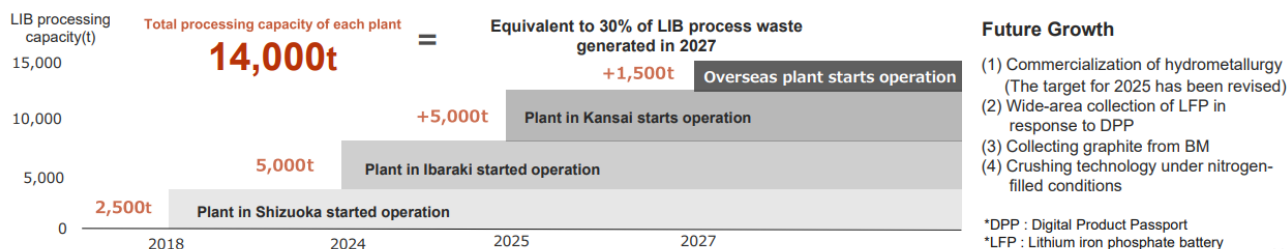
LIB Recycling Business ▶ Market Size and Plant Expansion Plans



Process waste → ESS(Energy Storage System) → waste LIB ··· Respond flexibly to market growth



Expand production capacity to achieve the top share in a growing market



This is exactly the story of a battery, and I think of this business as a kind of business that finds new solutions while absorbing within itself the ambiguity of uncertainties in various very complex movements.

Of course, the market is growing rapidly, and the circular economy, one of the few markets in Japan, is changing the shape of the existing market, but we will work more aggressively than ever to create a new market for batteries.

The plant in Ibaraki will open in June, so we will be able to make a certain amount of profit while communicating with our customers, including those in the Kansai area. Since we do business with customers in the Kansai area, we are planning to build a plant in the Kansai area as well, with a certain amount of foregone conclusion.

As for hydrometallurgy, as I mentioned earlier, we are in a situation where it will probably be delayed a bit. We are willing to take on a variety of new challenges, including things that no other company has done before, such as recovering graphite from black mass.

Play significant roles in the CE strategy based on high reliability and contact with large customers

CE coordination and provision of solutions

Consulting

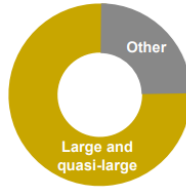
Circular economy
 CE strategy and model development
 Create a plastic circulation model
 Waste management support
 Wide-area waste treatment recognition system

Carbon neutrality
 Formulate policies and strategies for combating climate change
 Response to the TCFD recommendations
 Support for SBT, GDP and other ESG evaluations
 Calculation of CO₂ reduction effect

CE solutions
 (Capabilities of Group companies)

- Handling many different kinds of waste
- Capacity to handle the waste emitted across the country
- Carbon-free production at RE100 plants
- Research and development capabilities

Consulting track record



Percentage of customers that are large companies **75%**

Repeat order rate **88%**

* Large companies: Net sales of 1 trillion yen or more
 Quasi-large companies: Net sales of 100 billion yen to 1 trillion yen
 Other: Companies with net sales of 100 million yen or less

Understand the trends and respond to the latest needs

1. Deepen existing businesses

CDP questionnaires not answered by **3,675** companies/4,002 companies
 * Ratio to 4,002 listed companies in Japan

2. Promote DX (software development)

- Develop **traceability** systems
- Develop **CO₂ emissions calculation** systems

3. Respond to new needs

- **Global consulting**
- **Online consulting**
- **Biodiversity** (TNFD, etc.)

The Environmental Management Consulting Business is very repeatable. They are all large companies. We are consulting for the CDP, or the Carbon Disclosure Project, which is an interface, let's say, with large companies.

Currently, we're receiving various inquiries regarding the circular economy, and while the direct financial impact might not be significant, I believe that within our broader business strategy, our company holds a significant position.

Additionally, in this context, we are also creating various mechanisms for DX. As I have said before, the flow of goods and the flow of CO₂ are both captured while properly managing them in the sense of achieving a circular economy, and that the Company here is engaged in that exchange.

We have now decided to expand overseas as a consultant. We are preparing for this now. We have not yet reached the point of disclosure, but in that sense, overseas expansion is part of this Company's plan to do so.

Advance diversity and resolve local issues at the same time to realize CE supporting local communities

Agriculture-welfare cooperation

A program that encourage people with disabilities to participate in society in the form of engagement in agriculture to feel proud and fulfilled based on a model for resolving the various issues faced by agriculture at the same time

Advantages for workers

- Increase income for workers
- Offer rewarding jobs
- Operate business sites adjacent to farms to increase user engagement in agriculture

Contribution to Nagano Prefecture

- Resolve the labor shortage in agriculture (through working outside facilities, employment and other initiatives)
- Expand vegetable growing in Nagano



Work to turn an apple fruit the other way at an apple farm.

Environment-welfare cooperation

A business model in which people with disabilities collect resources etc. from disassembled computers to address environmental issues

Cooperation within the Group

- Percentage of Group employees that are people with disabilities*: 4.2%
- Assigned to the recycling operations of Group companies
- Strengthen collaboration with Group companies to expand practices to Kanagawa and elsewhere

Strengths of ASTOCO Inc.

- Manual sorting skills to perform detailed separation and sorting functions
- Flexible support for personnel in picking, disassembly and other operations

* As of June 1, 2023, excluding Nitto Kako and Cyterrace



Published by SYN ECO and ASTOCO of our group.

This picture book depicts people with disabilities working lively and being helpful to society, even in small roles, by connecting with many people.

Finally, as Welfare Service Business for People with Disabilities, this really has little or no financial impact, but I would say it softens the air of the Group. Our company has a strong “animal spirit” of pushing forward energetically. On the other hand, within this dynamic environment, there are around 30 individuals who are engaged in work involving people with disabilities. In talking with these people, I think it is very necessary to create such a good atmosphere in the Group as a whole.

As indicated by the actual figure of 4.2% employment of disabled individuals within the Group, engaging disabled individuals in the workforce and providing them with managerial roles through this Company is not only beneficial in terms of its practical implications but also serves a meaningful purpose.

I have a vague sense that, in terms of creating picture books and being truly community-based, we will be doing both environment and welfare, as well as agriculture and welfare, and that this will be incorporated into the local circular economy that I mentioned earlier.

Therefore, we would like to continue this business as a complementary function to the various circular economies of the main unit, even if the profit here is also small on its own. I was told by someone that we should stop this kind of unprofitable business and concentrate on our core business, but I would like to stick to it.

The rest is for reference, and I hope you will take a look at it later when you have more time.

Finally, for this round, it seems that we can naturally achieve the standard market. However, we have decided to challenge ourselves and aim for the prime market, pushing ourselves to the limit. We are talking about maintaining the prime market. In that sense, as it is now, I believe we can make it if we ensure the implementation of this mid-term plan.

We cannot influence the PER, but if we can properly present the Company's growth potential, I am sure that current profits and the PER will be in good shape.

At least don't strike out on a missed strikeout, and I don't know if there will be a strikeout by any chance, but if you strike out, I think the Company will be trained in the process, and regardless of those results, the organization will be very energized, and I am the most energized of all. The moment I thought I was going to prime. It was okay until last year, but not this season.

In this sense, the sensitivity of the management team will be heightened, and I believe that the organization will be tremendously strengthened here.

This is a bit like a declaration, but that's all I have to say. Thank you very much.

Question & Answer

Moderator [M]: We will now go to the questions. Let's proceed.

Hariya [Q]: My name is Hariya from Ichiyoshi Research Institute.

The first question is about the forecast for this fiscal year's operating profit. It seems that there is an increase of JPY500 million in the Resource Circulation Business, an increase of JPY500 million in the Global Trading Business, and a decrease of JPY500 million in the Lithium-ion Battery Recycling Business. Could you please provide more details about the factors contributing to each of these changes?

I assume that the gains from trading differences are expected to be positive. Could you explain the mechanism or approach behind this? As for the Lithium-ion Battery Recycling Business, is the decrease in profit primarily attributed to the simple concept that the decline in prices of nickel, cobalt, and lithium leads to a decrease in profit? Are there other reasons as well? Additionally, you mentioned being on the safe side. Could you clarify what you mean exactly? Is it related to pricing, and what aspects are being taken into account? Your explanations would be greatly appreciated.

Sano [A]: Firstly, in the Resource Circulation Business, as I mentioned earlier, topics like ridding ash and dismantling are currently experiencing significant growth. Additionally, we are dealing with various topics related to the circular economy, and we expect substantial profits to come from these areas. Considering that last fiscal year included factors like plant relocation that led to negative impacts, we believe that achieving a profit increase of JPY500 million is feasible and attainable.

Moving on to the Global Trading Business, the situation is slightly different now. Although the ferrous part resulted in significant losses, we have introduced some changes and are involved in various new activities within the domestic market.

Furthermore, our Netherlands branch has started generating profits gradually. This indicates that while it might take around three years for the overall business model to transform, these developments are already contributing to positive gains. With these considerations, even if we could only offset the significant losses from before and achieve a zero balance between gains and losses, we believe that a profit increase of JPY500 million is quite attainable.

Regarding the Lithium-ion Battery Recycling Business, we are increasing the volume of production. Consequently, even though the price is halved, the higher volume allows us to maintain similar revenue levels. In essence, we are receiving inquiries from various foreign car import companies and other sources, which will lead to an increase in transaction volume. However, there's a possibility that we might not achieve trading gains, so we are assuming that profits won't grow significantly.

The term "safe side" might have been used loosely, but it refers to the assumption that the prices of nickel, cobalt, and lithium won't rise. This means that we are assuming a scenario where prices won't increase but we will still increase our transaction volume. This is part of our strategy to gather materials through the battery business division, a company named VOLTA, and build infrastructure for the future.

While it might sound odd to say that profits exceeded expectations in the previous period, there were various timely factors that led to those profits. However, we anticipate that such timing might not repeat. On the other hand, we are still facing a situation where gaining trading gains is challenging, and we are conducting our operations with that prediction in mind. Although the current situation is slightly better than initially projected, there's still an unpredictable aspect to it.

Due to a cautious mindset, we are driven by the desire to proceed with safety in mind. After all, once we publicly announce something, we would rather not make downward revisions. This psychological aspect plays a role as well.

Hariya [Q]: Okay, thank you. The second question is about Lithium-ion Battery Recycling Business. There seems to be a delay in achieving the hydrometallurgy target by 2025. Also, the Lithium-ion Battery Recycling Business for FY2028 that you've presented is projected to be JPY500 million, which was also over JPY500 million in the previous fiscal year. It seems like it's been challenging to see substantial growth. Is this primarily due to market fluctuations, or are there additional difficulties, obstacles, or complexities that have become apparent when attempting this endeavor? I would appreciate it if you could provide some insight on this matter.

Sano [A]: Regarding hydrometallurgy, we have reached a stage of collaboration with Mitsubishi Materials. Currently, Mitsubishi Materials is primarily leading the research and development efforts. Going forward, decisions on how to expand the business and when to establish a pilot plant will somewhat rely on Mitsubishi Materials. We anticipate that the execution of these plans might be slightly delayed.

As mentioned earlier, in terms of establishing closed-loop systems by various battery manufacturers themselves, it's more relevant internationally than domestically. We, as a company, would create black mass and ask them to return it. This approach is more prominent overseas where certain battery manufacturers or funds are already engaged in recycling, particularly in the US and Europe. However, there aren't practical implementations of these systems despite the discussions. Only China has something like that in place.

Therefore, in response to the aim of creating a closed-loop circular economy by 2026 to 2027, we might not be able to meet those expectations. In such a scenario, even though we can manage to create black mass, the chance for us to carry it all the way to hydrometallurgy might be diminishing.

Nevertheless, in the process of producing black mass, there aren't many companies that can effectively manage the product. By differentiating ourselves in this area, the black mass business alone can generate substantial profits. We have both battery manufacturers and automobile manufacturers as clients. The involvement in battery business allows us to engage with a larger network of people, especially considering how automobile manufacturers deal with used batteries and the like.

Indeed, the current profit of JPY500 million might not seem substantial in the short term. However, in terms of deepening relationships while generating this profit, for example, Honda recently announced in the *Nikkei* newspaper that they are creating their own material recycling system.

The concept of circular economy encompassing the entire automobile industry, including batteries, is becoming more prominent. We can contribute in areas like batteries, as well as in tire recycling and even addressing neodymium magnets within motors. It's like a three-point set for EVs, although we can't exactly call it a set of battery, motor, and tire. Nevertheless, companies that can handle these aspects together, at least in primary processing, are few. This can have a very positive impact on other aspects of our business and deepen our relationships with automobile and battery manufacturers. So, I believe there will be opportunities somewhere down the line.

I was encouraged when I came across the term "negative capability," which refers to the ability to tolerate ambiguity. In the midst of considerable unseen factors, making business decisions as an executive is truly challenging. It's an intriguing aspect of this endeavor, and I find it quite fascinating.

Is that an answer? I'm sorry if my response seems evasive.

Hariya [M]: Thank you very much.

Moderator [M]: Thank you very much. Please follow up with a question.

Akuwa [Q]: My name is Akuwa from *Chemical Daily*. Thank you very much.

I would also like to ask you about your Lithium-ion Battery Recycling Business. First of all, regarding the delay in the hydrometallurgy, am I correct in understanding that this is basically a slight delay in commercialization on the part of Mitsubishi Materials?

Sano [A]: Since we're working together on this, it might not be accurate to say that Mitsubishi Materials is behind. However, in terms of technological development, Mitsubishi Materials is taking the lead, so our progress is somewhat dependent on their pace. From what I've heard, the discussion is currently focused on the pilot plant and what comes after, which would be the commercial plant. Given this, I anticipate there might be delays in the timeline.

Akuwa [Q]: I understand. On another point, you mentioned earlier that a business-like contract processing of black mass is likely to emerge. On the one hand, there's the uncertainty of the market that needs to be considered. In light of these two aspects, how do you plan to approach the situation regarding the Kansai Plant and the overseas operations, particularly the UK?

Sano [A]: Regarding the Kansai area, we are considering various options, including the possibility of partnering with other companies that share similar sentiments about the risks of purchasing land on our own and are also currently renting. There are companies in the Kansai area with whom we already have dealings, and we are extending those relationships to our facility in Shizuoka. However, since Honda and Yuasa will also establish themselves eventually, we feel that competing from Shizuoka might put us at a disadvantage. As for Kansai, we are looking for land with the intention of doing it for now.

As for overseas operations, we heard about companies attempting to establish hydrometallurgy processes in the UK. There are talks of potential collaboration from companies with significant investments, but nothing is certain at this point. We have been asked by them to do the black mass part with them, so if we were to do it, it would probably be together. Nothing is finalized though.

But overseas, in any case, all Japanese battery manufacturers, whether in the US or Europe, are far more likely to make batteries overseas than domestically. Therefore, if we can build a relationship in Japan, we may have a chance to compete overseas as a Tier 1 company.

Akuwa [Q]: While cooperating with local companies in the UK, right?

Sano [A]: Of course, yes. We need to have partnerships with local companies. However, it's uncertain.

Akuwa [M]: Okay, thank you.

Moderator [M]: Thank you very much.

With that, we will conclude today's briefing. Thank you very much.

[END]

Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
2. *This document has been translated by SCRIPTS Asia.*

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