

February 29, 2024

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 2024 (scripts)

February 16, 2024

Event Summary

[Company Name]	ENVIPRO HOLDINGS Inc.	
[Company ID]	5698-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending June 2024	
[Fiscal Period]	FY2024 Q2	
[Date]	February 16, 2024	
[Number of Pages]	32	
[Time]	13:30 – 14:35 (Total: 65 minutes, Presentation: 40 minutes, Q&A: 25 minutes)	
[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]	31	
[Number of Speakers]	4	
	Tomikazu Sano	Representative Director and President, CEO
	Naoki Takekawa	Director
	Sadaharu Saito	General Manager of Corporate Management
	Kazunori Sakai	Manager of Corporate Planning

Presentation

Moderator: Now it's time to begin the financial results presentation of ENVIPRO HOLDINGS Inc. First, I would like to introduce the four people we are welcoming from the Company. Mr. Tomikazu Sano, Representative Director and President, CEO. Mr. Naoki Takekawa, Director. Mr. Sadaharu Saito, General Manager of Corporate Management. Mr. Kazunori Sakai, Manager of Corporate Planning.

Today, Mr. Sano, the President of the Company, will give us an explanation. After the explanation, we will hold a questions and answers session. Now then, Mr. Sano, please start.

Sano: Hello, everyone. I am Sano, President of ENVIPRO HOLDINGS. Thank you very much for taking time out of your busy schedule to join us today. I will now begin to explain the financial results.

Summary of Financial Results for FY 2024 1st Half Highlights



Consolidated Financial Results

Net sales	YoY
¥25,789 million	9.4% up
Operating profit	YoY
¥726 million	16.5% down
Ordinary profit	YoY
¥1,004 million	1.0% down
Profit*	YoY
¥692 million	2.4% down

[Our Group's Business Environment]

- The average ferrous scrap price (Tokyo Steel Tahara Tokkyu Grade Seaborne Price) was **¥50,176/t** during the six months ended December 31, 2023. (in the same period of the previous fiscal year ¥47,315/t)
- Crude steel production volume worldwide **increased**. Although metal prices were stable due to global inflation along with well-balanced high supply and demand, market prices of cobalt, nickel, and lithium were **lackluster** due to easing demand and supply.

[TOPICS]

- Handling volume: **324,000 t** (YoY **7.4% up**)
- In July 2023, **NEWSCON Netherlands opened**
- **LIB* Recycling Ibaraki Plant** in progress for operation. (operation scheduled in June 2024)

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

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First of all, I would like to give you a summary of the financial results for Q2, which some of you may have already reviewed since it has already been disclosed. Net sales increased and profit decreased. The increase in revenue was due to a rise in the price of ferrous scrap, which is our main commodity, by about JPY3,000, and a slight increase in the volume handled.

The prices of base metals were maintained at a certain level, but in Q2 of last year, or October in our case, the prices of minor metals, especially nickel, cobalt, and lithium for battery materials, dropped significantly in H2, putting pressure on profits.

So, as I mentioned earlier, the volume handled has increased by 324,000 tons. The Netherlands branch has been in operation since July, and although the situation is such that it is sometimes profitable and sometimes not profitable in a single month, the number of customers is steadily increasing and we are accumulating potential, so we will dispatch another employee from Tokyo starting today.

Then we purchased a lithium-ion battery plant in Ibaraki last year. We have not yet installed the equipment, but we are currently working on the civil and construction work in the surrounding area, with a target of starting operation in June of this year.

Summary of Consolidated Statements of Income



(¥ million)

	June/2023	June/2024		
	1 st half	1 st half		
	Actual	Actual	YoY	
			Increase/ Decrease	Ratio
Handling volume (1,000t)	301	324	22	7.4%
Net sales	23,582	25,789	2,207	9.4%
Gross profit	4,356	4,184	(171)	(3.9%)
Operating profit	870	726	(143)	(16.5%)
Ordinary profit	1,014	1,004	(9)	(1.0%)
Profit before income taxes	1,036	1,019	(17)	(1.7%)
Profit*	709	692	(16)	(2.4%)
Marginal profit*	4,093	5,023	930	22.7%
EBITDA*	1,267	1,349	82	6.5%
Fixed costs*	3,280	4,235	955	29.1%

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

*Marginal profit = Net sales - Variable costs

*EBITDA = Operating profit + Depreciation + Amortization of goodwill

*Fixed costs = [Cost of sales - Selling, General & administrative expenses - fixed cost equivalency of Non -operating expenses] - [Foreign exchange gains - non-operating income except equity method profit]

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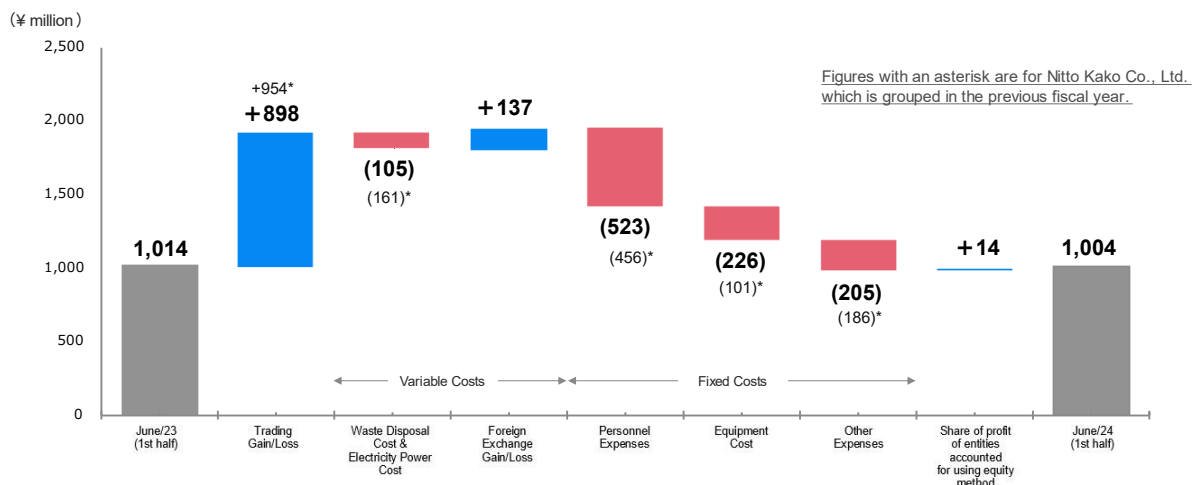
Same here as before, we use marginal profit as one major indicator, which is the third from the bottom.

This is about JPY5 billion compared to last year's JPY4 billion, an increase of about JPY930 million, but the fixed cost which is the first from the bottom has also increased from JPY3.3 billion to JPY4.2 billion. Earning power or potential has been enhanced, but it has not been translated into profit, including the so-called efficiency issue.

Analysis of Difference in Consolidated Ordinary Profit (YoY)



- **Trading Gain/Loss** : Increased due to grouping of Nitto Kako Co.,Ltd.
- **Foreign Exchange Gain/Loss** : Impact of foreign exchange losses incurred in the same period of the previous year
- **Personnel Expenses** : Increased in personnel, regular salary increase and base increase of more than ¥10,000 (in previous fiscal year)
- **Equipment Cost** : Investment in new plants and new facilities



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And the trading marginal gain was JPY898 million. There is a company called Nitto Kako, which was acquired through TOB, and the trading marginal gain of this company, which is shown in parentheses, amounted to JPY954 million. Some existing businesses are not earning trading margins. Then there is the cost of electricity, which is putting a little pressure on profits.

Then, foreign exchange increased profit by JPY137 million because the global trading business had a large foreign exchange loss in the last fiscal year.

Personnel expenses increased by JPY523 million. This is JPY456 million for Nitto Kako, and the rest is the increase for existing companies. As I will explain later, we invest about JPY150 million a year in human resources.

Then, equipment costs have increased because of the increase in equipment. Other expenses also increased in the same manner, together with the Nitto Kako portion, resulting in an increase in revenue and a decrease in profit.

Summary of Business Results by Segment



		June/2023	June/2024		TOPICS	
		1 st half	1 st half			
		Actual	Actual	YoY		
			Increase/ Decrease	Ratio		
Resource Circulation Business	Handling volume (1,000t)	129	121	(8)	(6.2%)	<ul style="list-style-type: none"> ■ Handling volume of metal scrap fell below. ■ Cleaning and dismantling work and high -margin products contributed to revenue. ■ Increase in sales due to grouping of Nitto Kako Co., Ltd., which manufactures polymer products.
	Net sales	8,529	10,283	1,754	20.6%	
	Segment profit	748	789	41	5.5%	
Global Trading Business	Handling volume (1,000t)	217	247	29	13.5%	<ul style="list-style-type: none"> ■ Handling volume increased as the global sales environment recovered, although the metal scrap purchasing conditions remained sluggish. ■ Profit increased on account of the shipping environment, which is recovering, and the impact of the foreign exchange market. ■ In logistics agency services, strong shipments and cost reduction contributed to revenue.
	Net sales	16,831	17,445	613	3.6%	
	Segment profit	113	292	179	157.7%	
Lithium-ion Battery Recycling Business	Net sales	775	718	(57)	(7.4%)	<ul style="list-style-type: none"> ■ Handling volume increased amid continued strong demand for materials for batteries. ■ Market prices remained low due to easing demand and supply for cobalt, nickel, and lithium. ■ Ibaraki Plant in progress for operation (operation scheduled in June 2024).
	Segment profit	288	132	(156)	(54.2%)	
Others	Net sales	222	242	20	9.3%	<<Environment Management Consulting Business >> <ul style="list-style-type: none"> ■ Pushed ahead with new initiatives, such as TNFD response support, consulting services related to circular economy, and CO₂ calculation system development and boosted investment in human capital. <<Welfare Service Business for People with Disabilities >> <ul style="list-style-type: none"> ■ The number of new users, as well as cumulative total number of users, increased mainly in Type B Continuous Employment Support.
	Segment profit	50	54	4	8.2%	

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Next, the results by segment. In the resource circulation business, the volume handled has rather decreased, but the profit increased slightly due to the issue of scrap prices, including the handling of relatively high-margin commercial materials such as dismantling and cleanup, and the fact that sales in this polymer division have increased due to Nitto Kako joining the Group.

In the global trading business, as I mentioned earlier, we are increasing the volume handled, and unit prices are rising slightly. In addition, last year was too bad.

As a result, we increased revenues and profits. We have created a logistics agency service company called Cyterrace, which has shown solid growth and contributed greatly to the company's success.

Then, lithium-ion battery recycling business showed a decrease in revenue and profit. This actually started with an annual budget of JPY60 million. At that time, we assumed that the prices of nickel, cobalt, and lithium would drop a little more, but the prices were maintained at that level in Q1 and started falling in Q2. We have a black mass product that we are making now, and the price of this product has dropped by about half, so although revenue has decreased, we have increased the volume of products we handle by about 1.7 times.

Therefore, in addition to storing up potential, we are now working hard to increase the number of business partners. Although the current figures are not clear, I believe that we are now building up our growth potential. In other businesses, sales increased, and profits were slightly higher.

Quarterly Ordinary Profit by Segment



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In the global trading business, we were in the red in Q2 of last year, so compared to that, this quarter was relatively better.

As for lithium-ion batteries, we have just increased the volume of lithium-ion batteries we handle, but we are unable to get a price difference. We usually conduct bidding for three to six months for incoming shipments, so it is difficult to secure profits when the market is on the decline. The opposite can also be true, which is a common occurrence in our business. Under these circumstances, we are suffering in terms of profit.

Summary of Consolidated Balance Sheets



(¥ million)

	As of Jun. 30 2023	As of Dec. 31 2023	Increase/ Decrease	TOPICS
Current assets	19,088	17,231	(1,856)	¥559 million in merchandise and finished goods -¥1,359 million in other current assets, -¥764 million in cash and deposits
Non-current assets	14,598	15,238	639	
(Property, plant and equipment)	10,844	11,241	396	¥556 million in machinery, equipment and vehicles, -¥61 million in construction in progress
(Intangible assets)	148	176	27	
(Investments and other assets)	3,605	3,821	216	¥220 million in investment securities
Total assets	33,686	32,470	(1,216)	
Current liabilities	10,415	9,223	(1,191)	¥178 million in income taxes payable -¥660 million in short-term borrowings, -¥586 million in other current liabilities
Non-current liabilities	6,446	6,101	(344)	-¥282 million in long-term borrowings
Total liabilities	16,861	15,324	(1,536)	
Net assets	16,825	17,145	320	¥276 million in retained earnings, ¥131 million resulting from the disposal of treasury shares -¥112 million in non-controlling interests.
(Equity)	16,386	16,826	440	Equity ratio 51.8% (48.6% as of June 30, 2023)
Total liabilities and net assets	33,686	32,470	(1,216)	

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This is the balance sheet, and here the equity ratio has increased compared to the end of last year to 51.8%.

Summary of Consolidated Statements of Cash Flows



(¥ million)

	June/2023 1 st half	June/2023 Full year	June/2024 1 st half	TOPICS
Cash flows from operating activities	1,361	2,332	1,357	(inflows) ¥1,285 million in increase in other, net, ¥1,019 million in profit before income taxes, ¥73 million in decrease in advance payments to suppliers (outflows) ¥881 million in decrease in accounts payable – other, ¥155 million in decrease in trade payables, ¥97 million in income taxes paid
Cash flows from investing activities	(921)	(3,838)	(690)	(inflows) ¥54 million in proceeds from sale of property, plant and equipment (outflows) ¥688 million in purchase of property, plant and equipment, ¥39 million in purchase of intangible assets
Cash flows from financing activities	(2,015)	(92)	(1,411)	(inflows) ¥301 million in proceeds from long -term borrowings (outflows) ¥660 million in net decrease in short -term borrowings, ¥558 million in repayments of long -term borrowings, ¥415 million in dividends paid
Effect of exchange rate change on cash and cash equivalents	(62)	(62)	(19)	
Net increase (decrease) in cash and cash equivalents	(1,637)	(1,668)	(763)	
Cash and cash equivalents at beginning of period	8,913	8,913	7,245	
Cash and cash equivalents at end of period	7,275	7,245	6,481	

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Please see the cash flows later.

Revision of Consolidated Financial Forecast		Factors behind the Revision of Financial Forecast					
Net sales	YoY ¥54,000 million 9.8% up	<ul style="list-style-type: none"> Continued uncertainties resulting from the prolonged stagnation of the Chinese real estate market, the unsettled state of the world, and concerns about an economic downturn stemming from protracted global inflation, etc. 					
Operating profit	YoY ¥1,330 million 13.8% down	<ul style="list-style-type: none"> In Resource Circulation Business, margins will decrease due to intensified domestic collection competition. 					
Ordinary profit	YoY ¥1,700 million 10.6% down	<ul style="list-style-type: none"> In Lithium-ion Battery Recycling Business, margins will decrease in the second half of the year due to easing supply and demand for battery materials. 					
Profit*	YoY ¥1,210 million 2.1% down	<ul style="list-style-type: none"> In Global Trading Business, Deterioration of export environment due to high domestic prices and low overseas prices of metal scrap, etc. 					
Prerequisites of the Forecast	Ferrous scrap price	Electrolytic copper price	Gold price	Silver price	Nickel price	Cobalt price	Exchange rate
	¥50,000/t	¥1,200/kg	¥9,000/g	¥100,000/kg	¥2,150/kg	¥4,000/kg	¥140/US\$

*Profit: Profit attributable to owners of the parent

As for the forecast for this fiscal year, as we have already announced, we expect an increase in revenue and a slight decrease in profit. We are taking a conservative view, but as you are probably more familiar with, the economic situation in China is quite unstable. We are taking a slightly safer view, but we are not optimistic, especially since minor metals will be greatly affected.

In the resource circulation business, competition has existed for a long time especially the Chinese scrap industry, they entered this industry too early. They received a lot of criticism, and they are in the process of creating a company that is better than the Japanese companies. They have a real animal spirit, they are authentic, and they work on weekends and even at night.

A Chinese company bought a Japanese company, and he said with a bitter smile that Japanese people do not work very hard. They are that aggressive that they are becoming a very big threat, and it is our job to do what we can to counter them.

In the lithium-ion battery recycling business, we expect to generate JPY132 million in H1 and JPY135 million for the full year. Our policy is to increase the number of facilities and the volume of batteries handled.

The global trading business, which has been ongoing since last year, is in the first year of a business model change, but it will take two to three years to complete. We are in the midst of various initiatives for next year.

Forecast for the Consolidated Results - FY2024



(¥ million)

	June/2023		June/2024		June/2024		
	Actual	Revised Forecast (Feb 9, 2024)	YoY		Previous Forecast (Aug 10, 2023)	Compared to Previous Forecast	
			Increase/ Decrease	Ratio		Increase/ Decrease	Ratio
Handling volume(1,000t)	625	693	67	10.8%	800	(106)	(13.4%)
Net sales	49,189	54,000	4,810	9.8%	58,000	(4,000)	(6.9%)
Gross profit	8,499	-	-	-	10,740	-	-
Operating profit	1,542	1,330	(212)	(13.8%)	1,800	(470)	(26.1%)
Ordinary profit	1,901	1,700	(201)	(10.6%)	2,250	(550)	(24.4%)
Profit before income taxes	1,759	-	-	-	2,250	-	-
Profit*	1,236	1,210	(26)	(2.1%)	1,670	(460)	(27.5%)
Marginal profit*	8,744	-	-	-	11,080	-	-
EBITDA*	2,475	-	-	-	3,150	-	-
Fixed costs*	7,364	-	-	-	9,332	-	-
ROE	7.7%	-	-	-	9.8%	-	-

*Profit: Profit attributable to owners of the parent

*Marginal profit = Net sales - Variable costs

*EBITDA = Operating profit + Depreciation + Amortization of goodwill

*Fixed costs = [Cost of sales · Selling, General & administrative expenses · fixed cost equivalency of Non-operating expenses] - [Foreign exchange gains · non-operating income except equity method profit]

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This is not much different now.

Forecast for the Consolidated Results - FY2024



(¥ million)

Net sales	June/2023		June/2024		June/2024			
	Actual	Revised Forecast (Feb 9, 2024)	Composition Ratio	Previous Forecast (Aug 10, 2023)	Compared to Previous Forecast		Composition Ratio	
					Increase/Decrease	Ratio		
Consolidated	49,189	54,000	100.0%	58,000	(4,000)	(6.9%)	100.0%	
Resource Circulation Business	18,852	21,500	35.9%	25,000	(3,500)	(14.0%)	37.6%	
Global Trading Business	34,485	36,500	60.9%	40,000	(3,500)	(8.8%)	60.1%	
Lithium-ion Battery Recycling Business	1,635	1,450	2.4%	1,000	450	45.0%	1.5%	
Others	463	500	0.8%	500	0	0.0%	0.8%	
Adjustment	(6,247)	(5,950)	-	(8,500)	2,550	-	-	

Segment profit	June/2023		June/2024		June/2024			
	Actual	Revised Forecast (Feb 9, 2024)	Composition Ratio	Previous Forecast (Aug 10, 2023)	Compared to Previous Forecast		Composition Ratio	
					Increase/Decrease	Ratio		
Consolidated	1,901	1,700	100.0%	2,250	(550)	(24.4%)	100.0%	
Resource Circulation Business	1,565	1,570	67.8%	2,070	(500)	(24.2%)	69.9%	
Global Trading Business	220	510	22.1%	750	(240)	(32.0%)	25.4%	
Lithium-ion Battery Recycling Business	575	135	5.8%	60	75	125.0%	2.0%	
Others	99	100	4.3%	80	20	25.0%	2.7%	
Adjustment	(558)	(615)	-	(710)	95	-	-	

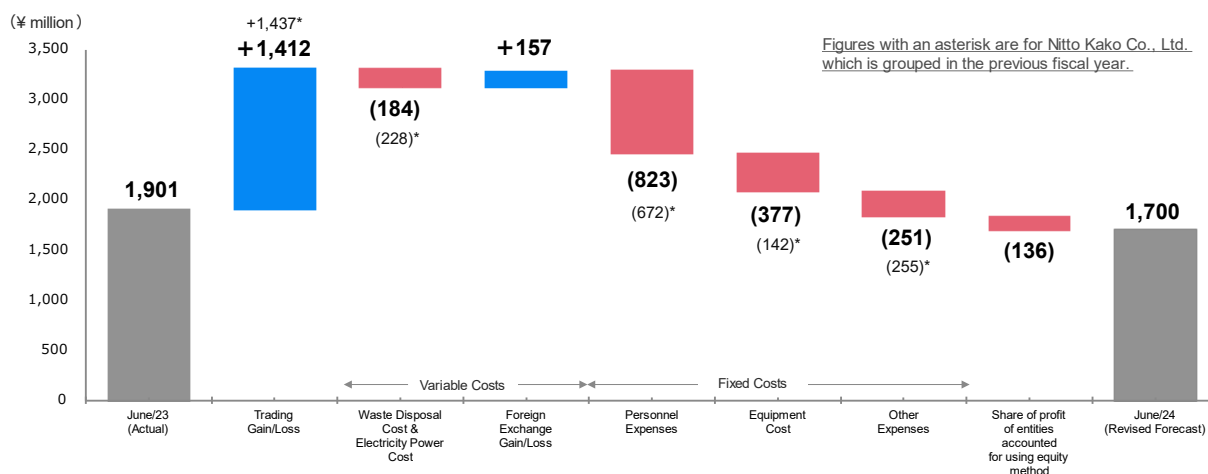
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Here, too, as I have explained a little, we expect the resource circulation business to see an increase in revenue and a slight increase in profit, the global trading business to see an increase in revenue and an increase in profit, and the lithium-ion battery business to see a decrease in revenue and profit, similar to H1.

Analysis of Difference in Consolidated Ordinary Profit (YoY)



- **Trading Gain/Loss** : Increased due to grouping of Nitto Kako Co.,Ltd.
- **Personnel Expenses** : Human capital investment (hiring and training of business promoters, regular salary increases and base salary increases)
- **Equipment Cost** : Investment in new plants and new facilities (Gold, silver and copper sediment sludge collection , LIB recycling etc.)



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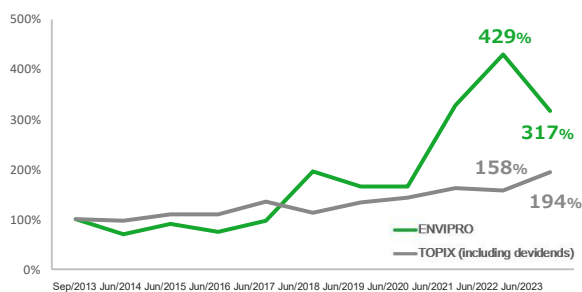
Last year, it was JPY1.9 billion. We are making this under the expectation that we will not be able to earn trading margins in existing businesses, because trading margins amounted to JPY1.412 billion, of which JPY1.437 billion was earned by Nitto Kako. Dust costs and exchange rates are what they are. Then there are personnel expenses. As I mentioned at the beginning, personnel expenses will increase by JPY150 million due to existing businesses, and Nitto Kako's portion will be JPY672 million, for a total increase of JPY823 million. The cost of equipment and other expenses will also increase, totaling JPY1.7 billion. These figures may sound a bit small, but we are planning to ensure that we will be able to generate a profit.

TSR and Dividends



Total Shareholder Return (TSR) since listing

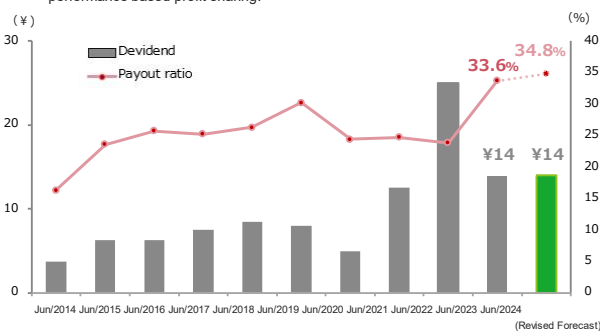
- **Outperformed TOPIX** in 10 year period



*The closing price on September 25, 2013 is regarded as 100.

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 set a target consolidated payout ratio of **25-35%** as an indicator of performance-based profit sharing.



*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.

(¥)	Sep. 25, 2013 Closing price	Jun. 2014	Jun. 2015	Jun. 2016	Jun. 2017	Jun. 2018	Jun. 2019	Jun. 2020	Jun. 2021	Jun. 2022	Jun. 2023
Share price (End of June)	204	140	178	139	174	369	300	292	614	794	552
Dividends per share	-	3.75	6.25	6.25	7.5	8.5	8	5	12.5	25	14
Payout ratio	-	16.3%	23.6%	25.7%	25.2%	26.3%	30.2%	24.4%	24.7%	23.8%	33.6%

(¥)	Jun. 2024 (Previous Forecast)	Jun. 2024 (Revised Forecast)
Share price (End of June)	-	-
Dividends per share	16	14
Payout ratio	28.5%	34.8%

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This shows TSR and dividends. Please take a look at this for reference.

Mid-Term Plan 2028 Financial Targets



	Net sales	Ordinary profit	ROE	ROIC
Jun. 2028	¥80bn	¥5bn	13%	9%

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

Targets by Segments

Net sales	June/2028	Ordinary profit	June/2028
Consolidated	80bn	Consolidated	5bn
Resource Circulation Business	33bn	Resource Circulation Business	3.65bn
Global Trading Business	51.5bn	Global Trading Business	1.5bn
Lithium-ion Battery Recycling Business	2.7bn	Lithium-ion Battery Recycling Business	0.5bn
Others	0.9bn	Others	0.3bn

Prerequisites (August 22, 2023 As of the establishment of the Mid-Term Plan 2028)

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\$

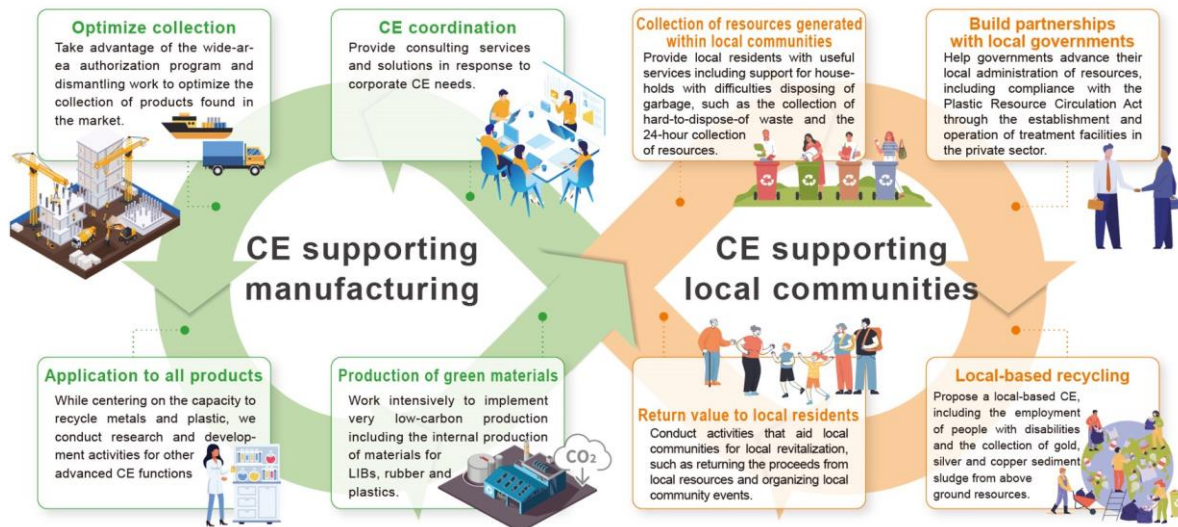
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This shows our major initiatives for the future. First, in August of last year, we announced a five year medium-term plan for the year 2028. We are rolling, so we are making it again this year for 2029, but we are a little behind the first year. We are working on the budget for the next fiscal year and are now preparing various items to make sure that our goals are in line with this medium-term plan.

Of course, we need to have a certain level of supporting figures to disclose, so I don't say this lightly, but we would like to do this in a way that makes a profit, perhaps by funding a portion of the potential that has been accumulated.

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.



This shows a strategic concept for this medium-term plan. Our strategy is to lead the circular economy. Recently, the term circular economy has already appeared in the popular press, and I am sure many of you are familiar with it.

In this context, we see it in two categories: the circular economy that supports manufacturing, and then the circular economy that supports the region.

The national government has also issued these measures in two parts, and various subcommittees have already started to discuss how to partner for this purpose and how to expand the circle of partnership.

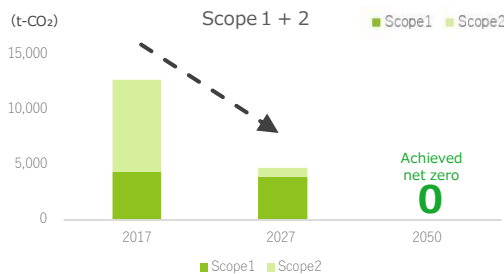
However, we are working on a small scale in the area of circulars that support the community, but in the end, it is a matter of how the local government will be involved in the so-called cleaning operations, etc., so the time frame is a bit long. However, we would like to get an early start, and since it will take five or 10 years to complete the project, for the time being we would like to focus on the circular economy that supports this manufacturing.

Realization of Decarbonized Society by 2050

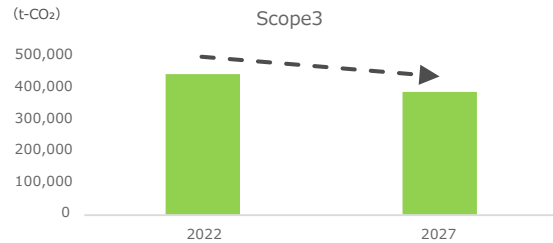


Transformation into a manufacturer of materials obtained from aboveground resources through low-carbon processes (QCDC)

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

*The reduction standards disclosed in the SBTs are for a 42% reduction in Scope 1 and 2 emissions over 10 years, and for a 12.5% reduction in Scope 3 emissions over five years.
 *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.

In doing so, we have already achieved a 63% reduction in CO₂ emissions compared to 2017 levels in Scope 1 and Scope 2, which are related to our own factories and purchased products.

In addition, we have started to work on the Scope 3 supply chain, which aims to reduce 12.5% over five years, and the process to produce low-carbon products will also be done in a low-carbon manner.

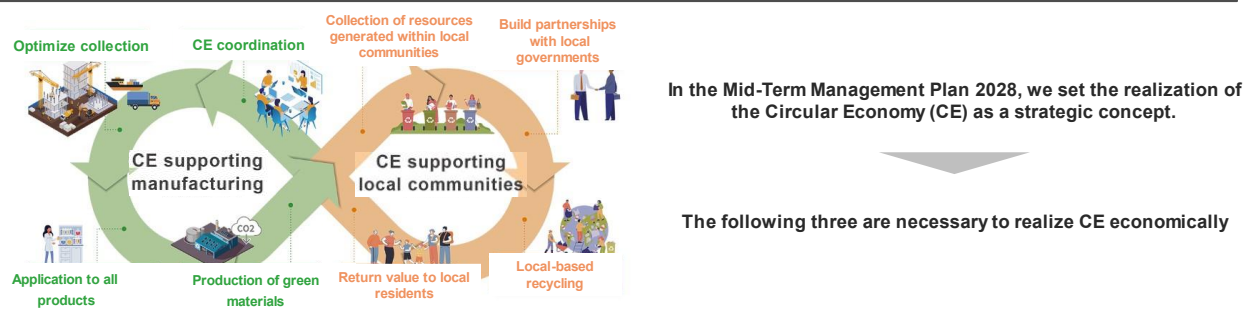
As I mentioned before, we have already entered an era in which various battery manufacturers are clearly stating that, although cost is the first consideration, they are also comparing the two in terms of CO₂ emissions. I think these areas will also come into effect properly later on.

I don't know if it seems like we are a little ahead of the curve and doing things first, but these things are being recognized by the world, and I believe this will be another sales force.

Toward the Realization of a Circular Economy



To achieve the Medium-Term Management Plan, the necessary parts to achieve CE are being aligned



Establish a system that attracts goods

1. Support the development of product applications that utilize recycled raw materials and establish a CE supply chain .
2. Responding to the various needs of manufacturers and others by improving processing capacity and technology, as well as expanding the regions and products we can handle
3. Providing CE services with actual conditions through "visualization of circulation" such as traceability, etc.

The same thing is shown here, but it was still a matter of how to collect things.

We can really compete with the animal spirit by working together with manufacturers to create a collection system from the sales stage, and then distributing the materials.

Plus, we will create this structure. This is precisely the best time for this circular economy, and the most important thing to do is to collect through this mechanism and sell through this mechanism.

What should be done to build a mechanism for those goods to come together, which is exactly the supply chain of the circular economy. In order to create such a system, we need to meet the various needs of our customers by supporting the development of applications for products that utilize recycled materials and recycled raw materials, improving our own processing capacity and technology, and expanding the range of regions we serve and the range of products we handle.

The recycling rate is very important, but so is traceability. The flow of goods, and then the flow of CO2 emissions. We are trying to visualize this area, so to speak.

It says visualization of circulation, but we need to make sure that this is done properly and that the term greenwashing, which has been in vogue recently or has appeared in newspapers, is not considered false, and that the circular economy is put forward based on supporting data. We have to support data in a way that is not just words or images.

We would like to make sure that we are able to handle this and other matters, and that we are able to expand our sales activities to various manufacturers, so that they will say, "Well, then, let's leave this to you."

Major Initiatives in Focused Businesses



1 LIB Circular

- Expand transactions with LIB manufacturers (handling volume: 1.7 times of the previous year)
- Establish a system for collecting used LIBs (portable LIBs, small LIBs from local governments, ESS LIBs).
- Research on new black mass production equipment

2 Polymer circular

- Realization of rubber material recycling case studies (p.20)
- Opening of the Polymer Circular Laboratory (p.21)
- Research and Development for Tire to Tire

3 Waste incineration ash recycling

- Increase the market share of collection of gold, silver & copper sediment sludge from riddling ash (Number of contracted local governments: 35 to 39)
- Collection of gold, silver & copper sediment sludge from incinerator bottom ash and recycling the ash
- Installation of ash recycling line directly connected to incinerator

4 Cleaning and dismantling work nationwide

- Obtained large cleanup projects for hospitals, hotels, etc.
- Dismantling of wind power generators
- Realization of a wide -area dismantling scrap CE case in collaboration with electric furnace manufacturers (p.26)

5 CE Consulting & Solution

- Focus on circular economy consulting (p.27)
- Establishment of product circular economy model (collection logistics, and re -production) for major companies
- Promotion of DX of Circular Economy ("Visualization" of CE)

★ Received a score of "A" in Climate Change Disclosure



Received a score of "A-", the second highest out of nine.

21

As for the lithium-ion batteries, which have been mentioned many times earlier, we do not currently produce many used automobile-derived products.

Level of 100 or 150 units, or something like that coming in now, little by little, mainly for imported cars, but what we are mainly doing now is to expand business with manufacturers that make batteries.

A new company has already begun operations in Ibaraki. In addition, a second plant is scheduled to open in June, which will increase production considerably, several times over the current level. In addition, there are already various plans to locate factories in the west, and we will be making various preparations to accommodate these plans.

On the other hand, there are also a few used batteries, and I just mentioned that very few of these are derived from automobiles, but so-called portable batteries for camping and that kind of thing are starting to appear quite a bit now.

Manufacturers also need to create associations and establish a system to collect goods over a wide area, in other words, a system to collect goods for sale. There are many accidents now, and there have been many fire accidents involving lithium-ion batteries. So, we are currently working on such assistance while also recycling of used batteries, and creating a system for collecting those portable lithium-ion batteries.

We receive frequent visits from local governments. We also receive visits from the Ministry of the Environment and the Ministry of Economy, Trade and Industry. The Ministry of the Environment is now thinking about how to create a system to collect small batteries, which are causing fires at the cleaning centers, by sorting them. We would like to be involved in this project as a partner company.

Then there are the stationary lithium-ion batteries that are surplus from solar power generation and other sources but cannot send electricity. Hokkaido and Kyushu originally started solar power generation on this premise, but those are starting to appear little by little.

Then, we have received a few inquiries, not for such large items, but for private residence as well. This is a collection mechanism, where we ask them to pick up one unit and then bring it back to us again in batches. Logistics has become a very important issue, and we are currently working with logistics companies to create such a system. And we are now working on a new black mass production device that uses heat to spray the electrolyte.

Toyota companies are already promoting non-burnable recycling. I know that there are already a few companies in Europe and the US that are selling the technology, if not commercializing it. Therefore, we would also like to collect electrolyte. We are burning them now. To be precise, we are drying them out. Some customers would like to see a higher level of recycling, i.e., collecting even the electrolyte and recycling it again in some form, although horizontal recycling is the best.

This is where I think we should be doing the next best thing, while still working on the current situation, and researching better manufacturing methods, or rather, how to incorporate technology, in the next steps to be taken in the future.

Then there is the polymer circulators, which we call polymers, rubber and plastics. Rubber is mostly thermal recycling, which means that we have been using fuel for a long time. Even now, in fact, it is gaining new attention again as a fuel in place of coal. Even as fuel, though, we are now trying to fight for it.

Since we have done very little in the way of material recycling of rubber up to now, we decided to do so by creating the Polymer Circular Laboratory. This is on page 23 and I will explain it later.

Ultimately, this is a tire-to-tire project, a tie-up with a tire manufacturer, so it is not something we can do on our own initiative.

We will send various samples, including how to ensure the stability of supply, and finally, material recycling of tires. Not all of it, but parts of it, but I am trying to do something that is not being done now.

And as for waste incineration ash, which I have already made my life's work, it has only been three months since the last announcement, so the number has not grown that much, but more and more municipalities have already started bidding for municipal incinerators, including the condition that the riddling ash be taken separately in the standard bidding documents.

Therefore, we used to ask people to do this as part of our educational activities, but we no longer have to go that far. However, it will take a long time, since it will take three or five years to start operation, but we would like to steadily expand this area.

Then, since it is mainly contained in incinerator bottom ash, we see the market for riddling ash as JPY7 to JPY10 billion. We see the market for gold, silver and copper sediment sludge in the incinerator bottom ash as JPY70 to JPY100 billion. And this is a gold mine that reproduces every year.

We would like to do a project to recover gold and silver from the incinerator bottom ash in some way by introducing such technology or a company that does it, since we do not have the know-how to turn the incinerator ash into a resource. We are currently working on a project to recover gold and silver from the incinerator bottom ash. It has not yet materialized.

In Europe, there is already a line that is directly connected to incinerators, not municipal incinerators, but private incinerators, and collects useful metals, including gold and silver. We are currently working with a manufacturer to determine the best way to do this.

The fourth is the cleanup and demolition of large areas throughout the country, and as I have already mentioned this many times here, we've been doing a lot of cleanup work for hospitals and hotels. Once you

cleanup one hospital, you have a lot of contacts, or should I say contacts, that spread throughout the country, so the business has expanded a bit.

In addition, we are gradually accumulating know-how on how to sell used products, MRI, and other items that are not simply recycled into resources. This actually came from a tie-up with a financial institution, where commercial products are now very much on the rise in terms of projects.

Last year, we established a company in Aomori that specializes in dismantling wind power generators, a subsidiary of our equity method company. Then I will talk later on page 26 about a case study of the circular economy of wide-area demolition scrap in cooperation with an electric furnace manufacturer.

Then, circular economy consultation and solutions. We have a consulting company called Bright Innovation, which has been providing consulting services for CDP, TNFD, and various other climate change-related ratings, and now we have started consulting services for the circular economy.

We are currently conducting various seminars and receiving quite a variety of responses. First, we go in as a consultant, and then we provide real, various solutions, so to speak, we are a consulting company with an actual business.

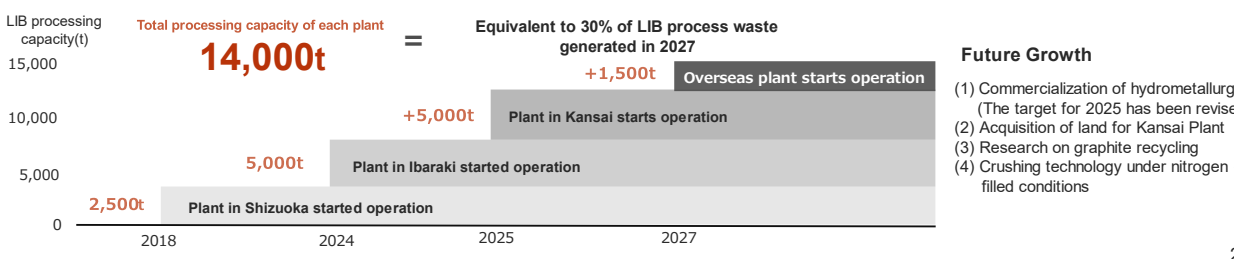
From our point of view, the consulting company owned by the recycling company will serve as a sales contact, and we will provide realistic and concrete methods while providing various consulting services, which is probably not possible in any other way. We will provide this service together with our clients, including DX.

Since last year, we have been applying, or should I say responding CDP, but last year we got a B and this year we got an A-, It was a good rating there. It is also because of that consulting firm. So CDP, which is headquartered in the UK, sends the survey to nearly 2,000 major companies. It's a one-sided story: if you don't answer, you get an F grade. They are large companies, and CDP knows an awful lot about them because they are responding here. Then we hope that just being an A- in CDP will be a sales tool.

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



Since we have also put this in the medium-term plan, it means that the market for lithium-ion batteries will expand greatly.

As you can see on the bottom row, Ibaraki is starting on schedule. Then, Kansai is set for 2025, but I don't know if this may be a little late.

Overseas, we have recently begun to receive offers to work together with Japanese companies, although I think it would be best not to be too optimistic about whether this might be moved forward or backward.

There is also the issue of our ability, so it is not so easy for us to accept. We are a company that does not engage in smelting and refining, so if we can take our business to that level, we will be able to expand overseas, even if only in the black mass category. I think we can make inroads into overseas markets if we are able to do so.

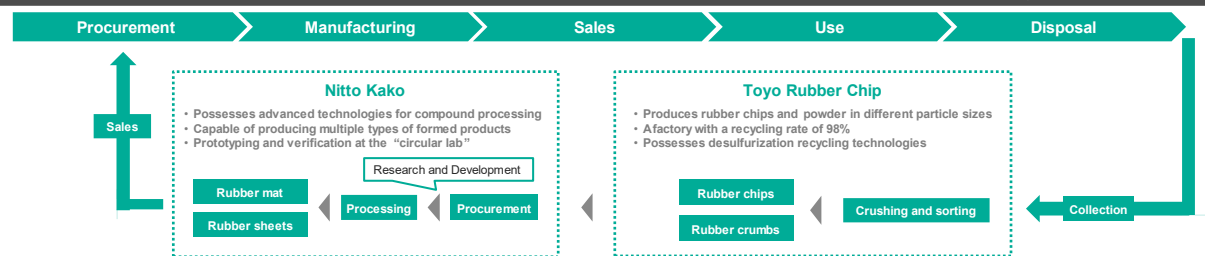
I believe that our customers will look at us from a completely different perspective than they would look at a company that manufactures so-called black mass intermediate goods or a company that engages in smelting and refining.

And then there's graphite, which is what it says here, carbon. We still want to recycle here, too. Now, in fact, we sell it to electric furnace makers and foundry makers as fuel and carburizing material.

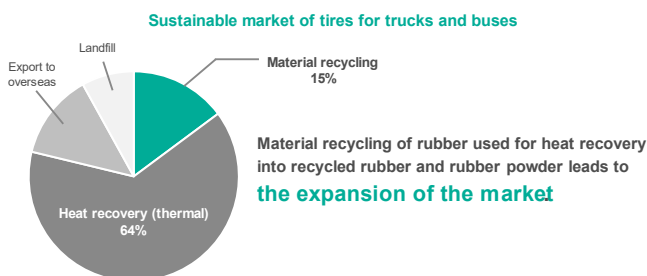
But that is also thermal recycling, so we are requested to recycle it as carbon and in material terms. This is a high bar, but it's nothing that can't be done.

We are not alone in this, but we are also approaching graphite manufacturers and other such companies and asking them if they would like to join us in supplying the raw materials. Although it is not something we can do on our own, I think there is still a lot of room in the industry to raise the level of material recycling and physical sorting of batteries alone.

The tender offer of Nitto Kako resulted in the completion of a carbon-free production scheme and paved the way for a rubber CE.



CE example: A circular economy for tires



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

This describes the polymer business. We are handling the so-called entrance side, which is crushing and sorting waste, and then using it to make rubber products from virgin materials, so we are trying to recycle rubber materials in combination with Nitto Kako, and Toyo Rubber Chip, which joined the Group in 2015. This combination is, in my opinion, a very golden combination, and we don't have that in Japan.

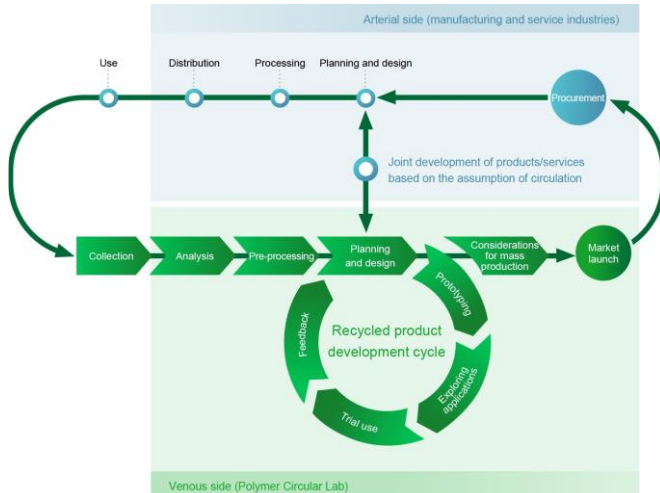
I believe the rubber industry is already a mature industry. It is no longer growing as an existing business. However, I think that if we take this new approach of the circular economy, I think that this business will increase in a different way, and I think that it will.

Nitto Kako was originally a subcontractor to automobile manufacturers. I was very much impressed by the severity of the work and the high level of quality control and delivery management, as we had never been involved in subcontracting before.

However, as an industry, we cannot set our own prices, so it is difficult to monetize our products. However, if we take this circular economy angle, we can become a rubber manufacturer of a different type of business. We are now thinking of integrating these functions, and I believe that this will lead to a new type of business that will be different from the one we are used to.

Supporting the development of Circulation friendly products* catering to the CE era

Polymer Circular Lab (conceptual flowchart)



* Circulation friendly products: Products that are designed to facilitate the easy recycling of resources, such as designs that are easy to dismantle and which utilize single materials.

- Batch coordination of venous supply chain
- Support and contracted prototyping for development of circulation friendly products
- Acceleration of companies' circulation friendly products development processes
- Establishment of CE supply chains matching actual conditions

Various sorting, molding process, analytical equipment



Press molding machine



Shredding & optical sorting machine



Tensile testing machine



Injection molding machine

The Polymer Circular Lab is getting inquiries from various customers. See the round shape at the bottom of this left-hand side. We make a prototype, then explore applications, then try it out, and then give feedback again.

We did not have such a laboratory, so until now, when we received inquiries, we had to ask other companies to do the work, but now we are preparing to build a so-called experimental facility where we can do everything within the Group and invite customers to come and work with us to create such a system.

These things probably cannot be done by waste management companies. Industry peers of Nitto Kako can't do it either. So, in that sense, although it may sound a bit wordy, I think there are new things that can be achieved by combining both of these functions.

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

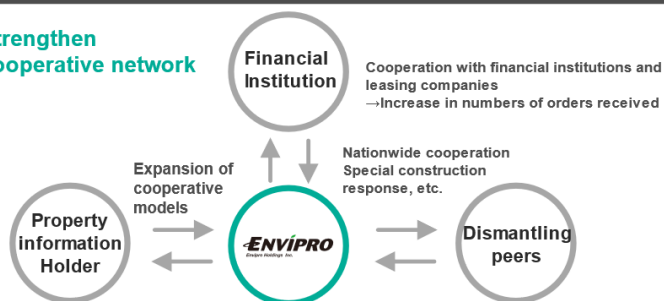
- 01 End of life coming for large facilities in early period of decarbonization.
 - Photovoltaic power generation equipment
 - Onshore wind power generation facilities, etc.
- 02 Restructuring of manufacturing and other businesses related to decarbonization
 - Automobile related
 - Petroleum related,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

This explains demolition and cleanup, and I've already mentioned this earlier, so I don't want to dwell on it, but we are still at about JPY150 million in operating profit this fiscal year. We are trying to make this about JPY800 million by 2028.

We are now preparing to expand our business as a professional demolition company, rather than as a side job for scrap dealers.

Coordinating the distribution of dismantled scrap for wide-area projects in cooperation with electric furnace manufacturers

■ **Background**

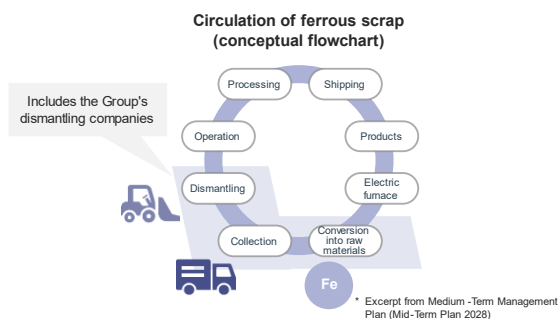
- The need for pickup by shipping will increase as a response to the 2024 problem.
- The need for the use of green steel* will increase as a means of achieving CN*.

■ **Collaboration with Tokyo Steel**

The ferrous scrap collection yard in Amagasaki, Hyogo, which is operated by the Tokyo Steel Group, is scheduled to begin operation as a Tokyo Steel Kansai Satellite Yard (as of May-June 2024).

■ **Customer benefits**

Omitting complicated customer contact point operations and visualizing circulation (see below)



● **Traceability systems**

Traceability functionality is required to centrally manage whether delivered metal scrap has really been circulated.

The Group applies its understanding of the commercial distribution of goods to fulfill this role.



* CN: Carbon neutrality.
* Green steel: Steel materials with reduced CO₂ emissions during production.

● **CO₂ emissions calculation systems**

Visualizes the amount of CO₂ generated in the production processes for raw materials used in buildings.

Development is carried out in cooperation with the Group's consulting firms.



Tokyo Steel, the largest electric furnace manufacturer, has a satellite yard in Amagasaki, which originally had about 6,000 square meters of land, which we collect and sell freely, but we have offered half of it to Tokyo Steel to be used as a collection point for their products. For this reason, our relationship with Tokyo Steel is now very deep.

In this context, for example, to demolish a building, you have to demolish it, although we are inquired from the developer's point of view, because they are the general contractor. However, the tenants of the building are to build the building in a way that produces as little of this CO₂ as possible. So, I heard that there are people who are quite like that, who will move in there, and they will sell the demolished products to the electric furnace manufacturer, and then the products of the electric furnace will be used as aggregate for the building again.

We are still in the process of working on about three cases, and we think we may have a role to play in coordinating the circulation of the same thing, though not necessarily in the same way.

It hasn't taken shape yet, but this global trading business has scrap dealer clients all over the country, so they do the processing there, on the spot, and we specify it. I think it would be possible to create a new form, such as having an electric furnace manufacturer, probably Tokyo Steel will be the main player, transport to our port, and then selling from there.

Depending on the weight of our role, we may also be able to serve as a point of contact for sales of such products. This is one of the businesses that will be born in a slightly new type of circular economy.

I still have to dig a little deeper, and I haven't yet sublimated it to a business model, but I just feel it has some potential. In addition, NEWSCON in the global trading business has been working on this as an example of a business model changeover the past two to three years.

Examples of Circular Economy Consulting Services



Service	Details
◆ CE type waste and recyclables collection model development	<ul style="list-style-type: none"> ▶ Creating CE-oriented collection models for waste and recyclables (collection methods, collection contractors, and collection routes) ▶ Demonstrative testing of collection models and establishment of joint collection operations with joint collection partners
◆ Recycling process verification and analysis	<ul style="list-style-type: none"> ▶ Coordination of processing (shredding, pelletizing, etc.) for verifying recycling of product waste ▶ Verifying the possibilities of waste recycling processing and recycled raw material molding ▶ Composition analysis of recycled raw material prototypes
◆ Waste pre-processing Recycled raw material manufacturing and molding	<ul style="list-style-type: none"> ▶ Pre-processing of product waste (shredding, sorting, etc.) ▶ Coordination in establishing material recycling and chemical recycling models for recycling waste ▶ Recycled raw material manufacturing and molding processing
◆ Procurement and sale of recycled raw materials	<ul style="list-style-type: none"> ▶ Market research and procurement for recycled raw materials (recycled plastic raw materials, recycled mineral raw materials, etc.) ▶ Sale of recycled raw materials
◆ Application development for recycled products	<ul style="list-style-type: none"> ▶ Feasibility studies and joint development of applications for recycled products using recycled raw materials ▶ Planning and consideration of recycled products (finished goods)
◆ Recycling technologies	<ul style="list-style-type: none"> ▶ Provision of samples for verification of new recycling technologies (provision of samples, procurement of prototype materials, etc.) ▶ Joint development of new recycling technologies
◆ Traceability	<ul style="list-style-type: none"> ▶ Creation and provision of circular economy traceability systems
◆ Visualization of CO ₂ emissions	<ul style="list-style-type: none"> ▶ Calculation of CO₂ emissions in circular economy processes ▶ Calculation of CO₂ emission reduction effects by using recycled raw materials (circular economy LCA)

This is an example of our circular economy consulting service, so I won't go into detail here, but I would like to explain how we respond to the needs of various clients, provide consultation, and follow up on the actual business form.

New departments established to promote new initiatives and accelerate business growth

Establishment of CE planning department

Objectives	Achieve specific examples of CE	<ul style="list-style-type: none"> ■ Increase in number of inquiries • Many consultations from major companies • Recent issues include strengthening capabilities to respond to collaborative networks, and scheme leveling.
Outline	A planning department was set up within the metal resources company, to handle duties ranging from scheme proposal to hypothesis validation. It will work to speed up the process cycle.	

Establishment of DX promotion department

Objectives	Improve productivity and promote CE utilizing DX	<ul style="list-style-type: none"> ■ Utilizing engineering division know -how • Utilize extensive know -how on automation and efficiency improvement, accumulated by our in-house engineering division • Accelerate system development capabilities and develop in line with actual conditions at factory sites
Outline	In addition to developing CO2 emissions calculation systems and traceability systems, the department will also work to improve our internal systems.	

Establishment of overseas strategy office

Objectives	Transform our overseas business portfolio during Mid-Term Plan 2028	<ul style="list-style-type: none"> ■ Research on overseas CE-building opportunities, and domestic and international collaborations / wide-area recycling opportunities • Commence efforts to validate hypotheses concerning overseas on-site CE business investment opportunities • Pursue breakthroughs by introducing technologies through domestic and international collaboration and securing economic scale
Outline	The department will utilize Group-wide assets and overseas bases to accelerate the overseas deployment of Japanese business models (outbound strategies) and import of overseas business models (inbound strategies).	

This is the last page. For this purpose, a department dedicated to the planning of the circular economy has been established within a metal resources company. The circular economy department is now in full swing, consolidating all of the offers and information from the various customers that come to the Group in different ways and distributing them differently. We have already received various inquiries.

I feel that the awareness of the circular economy in society has suddenly increased over the past six months or so. In a sense, we have been ahead of our competitors because this is our own business, but the response has been slow, but recently the response has been very positive.

There is a time lag before we can monetize it, which is another excuse for this fiscal year, but we have not yet reached that level of monetization, so we are working on preparation, but I am confident that this will come alive in the next fiscal year and the year after that.

Then, as for the promotion of DX for this purpose, this is a very necessary tool for the circular economy as well. We are going to do what ordinary scrap dealers cannot do. What is normal, you may ask, though. As the use of DX becomes more widespread, anyone may be able to use it for general purposes, but we created the DX Promotion Department in January of this year to take the initiative.

Then there is the Overseas Strategy Office. This says January 1, but we actually started around October of last year. We are having those people come together as we are recruiting now, so we have people with that kind of experience.

We also have offices in Vietnam, the Netherlands, and the UK, and they are what we call liaison offices or information bases. We have five or six employees in Vietnam, and we are currently working on various mechanisms to see if we can actually do work there or conduct business there.

Conversely, the Overseas Strategy Office, which includes the incorporation of various foreign technologies in terms of inbound. There is only one person in the office, and we are looking to add another person in the future, but we would like to strengthen this area as part of our future development. With this, I will conclude my explanation. Thank you very much.

Question & Answer

Moderator [M]: Now, as I mentioned, I would like to begin the Q&A session with those present in the audience. If you have any questions, please raise your hand and a staff member will bring the microphone to you.

The entire IR meeting, including the Q&A portion, will be transcribed and made available to the public. If you wish to remain anonymous, please do not give your name when asking a question.

Hariya [Q]: My name is Hariya from Ichiyoshi Research Institute. There are about three questions, and I would like to ask them one at a time. First of all, regarding the revision of business performance, you have reviewed each business, etc., and there have been many downward revisions in profit, especially in the resource circulation business. What is the background to this and what is the forecast for the future?

I think the assumption is that there will not be much recovery in H2, but if this trend continues for a while, I think it will be very difficult. Could you first tell me how you see this area?

Sano [A]: I don't think there will probably be a rapid recovery in the short term. However, the price of base metal will not change, so I am not too worried about that, but as I have been saying, I still think that we need to materialize the collection mechanism properly.

We are already working on several initiatives for the circular economy, and various things are already in motion, so I believe that the resource circulation business will be very attractive in the medium term if we can create a solid system for collecting them. However, we have included it in our forecast in the sense that it is unlikely that there will be an immediate and rapid recovery in H2.

Hariya [Q]: I'm sorry. I'm not sure I understand, but the downward revision was made because the competition for collections has become tougher than originally thought. Do you mean to say that it will become easier and easier from competition because of the various mechanisms that will be established in the future?

Sano [A]: If we don't create a system that allows us to collect goods at a distance from that competition, it is already obvious that the competition will intensify in the same way again in the medium to long term. So competition for collections, or rather for business, has not suddenly become severe.

However, with the entry of the Chinese, we can say that the new players have made it more demanding than it used to be.

Hariya [Q]: So your view has changed from six months ago?

Sano [A]: No, of course that should have been there six months ago, but a high level company was born. Before, I used to criticize all the Japanese scrap dealers, the so-called yard operators, who were all pointed out to be illegal.

They responded to that, and companies that raise their level, not all of them, but two or three in that area, started to come to my attention. So I have a feeling that this is going to be a bit different competition than I have seen in the past.

Hariya [Q]: I understand. The second is the global trading business, which was so bad last year that the forecast for this fiscal year is for an increase in profit, but this is also slightly lower than the forecast at the beginning of the fiscal year. I think it means the effect of high domestic prices on low overseas prices.

Do you think these things will continue? Or do you think we just happen to be in such a cycle in terms of market conditions right now and are not too worried about it?

Sano [A]: I believe that high domestic prices and low overseas prices will continue. This company started in 1992, and I believe that the shelf life of the business model is somewhat over after just exactly 30 years.

Therefore, we are now in a situation where we have to change our business model in terms of domestic work, imports from abroad, trilateral work, and many other things. There, I say two to three years in a nutshell, because one year is not possible.

However, the trend of low overseas prices and high domestic prices can sometimes be reversed. In addition, since the domestic market, including Korea, is like an inland sea, it is not the case that East Asia is expensive and Southeast Asia is cheap, or that Southeast Asia is inexpensive.

The pie, and by domestic, I mean to East Asia, with at least as far as South Korea. When Korean purchases are high, they are still going to compete with Japan again, but we are going above and beyond. Most recently, I've heard various stories about getting another such contract from a Korean company, so it's back and forth.

As a base, export. Nippon Steel and JFE are increasing the number of electric furnace makers from countries with an overwhelming surplus of steel scrap to countries with a shortage of ferrous scrap.

The increase in the number of electric furnace makers means that the demand for ferrous scrap will increase, so scrap that used to go out of the country by several million tons will now flow back into the country. There will be no more room to let them out. We are in the midst of a trend in that direction, and I don't think it will get better.

It is not just exporting one way or the other, as we are already in an era where the previous business model is no longer viable. However, there are not many recyclers in our class who can make contacts overseas.

In this context, including the relationship, we are importing batteries, or importing anode materials for battery raw materials from the US, or importing black mass, and we have already started such things now, so we are going to utilize these functions in the business category that will grow in the future, and change the business model.

In a world where everything changes, everything passes, and people are always awake, those involved are beginning to see some possibilities. So I'm not too worried about it.

I believe that the time will come in another one or two years when we will surely transform our business model and market it to the world as a new type of business.

Hariya [Q]: I understand. The third point is that, unfortunately, you have made a downward revision this fiscal year, and I think profits will be at a standstill for the next two years.

I think that you have not changed your mid-term goal of JPY5 billion in ordinary profit, and I think that your direction is to increase profits in the next fiscal year. Regarding the next fiscal year, which business are you most excited about? Is it lithium-ion, resource recycling, or a new business?

Sano [A]: The most certain thing is the resource recycling business, and I think it will definitely generate profits since the number of customers and the collection system will start to move in H2 of the next fiscal year.

Lithium-ion battery business will surely increase the amount handled by perhaps 30 or 50 percent again. However, we are assuming that profits will not be very high, and we will be satisfied if profits are about the same as this fiscal year.

However, the market development, as for lithium carbonate, during the past week or so, yesterday and the day before, there is an atmosphere that the market has hit the bottom, so it will probably change again.

However, as I have said every time, the main focus is on the period after 2030, and we need to increase the potential, or rather, we need to create a mechanism for collection, the technology, the new black mass production process, and of course the hydrometallurgical facilities, and the amount and mechanism for collecting the materials. I think it will take a few years to properly develop them.

Of course, we will not stop at a loss, so while we make a modest profit, when the market is good, we will be able to generate JPY500 to JPY600 million again, or even JPY100 million again, as before. The volume handled is gradually increasing, or rather increasing by 20% or 30%.

We are looking toward 2030, and hydrometallurgical process is tentatively scheduled to start up in 2026 or 2027. We consider now to be a period of preparation for this, so we intend to do this without really factoring in the contribution of lithium-ion batteries to next year's results.

Then, the logistics company in the global trading business is certainly growing now. Another distribution company, NEWSCON, which was originally in the trading business, is also seeing more and more new buds emerging, and the employees are very motivated, so I really have an emotional feeling that they will do it.

In fact, various new seeds are being born, and I am sure that in H2 of next year or so, a distribution company, NEWSCON, will contribute there as well. So that's the part we were originally working on.

And as for rubber, I don't know if it will take a little time to go to tires, maybe two years, but once there, we will be in a different type of business at once, so I personally think we can make it in the mid-term business plan.

Hariya [M]: I understand. Thank you very much.

Moderator [M]: Thank you for your question. Any other questions?

Ando [Q]: Thank you for your explanation. My name is Ando from SMBC Nikko. I have two questions. The first is the partnership with Tokyo Steel for the Kansai Satellite Yard, and I was wondering if it is correct to understand that this will be a yard exclusively for Tokyo Steel and other companies will not be able to use it.

When that happens, what kind of risk are you looking at in terms of a certain guaranty, for example, a certain amount of collection or a certain amount of usage, or in extreme cases, if Tokyo Steel suddenly decides to use only half of the amount?

Sano [A]: We only have 6,000 square meters, but we are going to rent out 3,000 square meters of it to Tokyo Steel, so we will continue our existing business on the one hand. The H2, H3, and other grades that Tokyo Steel prefers, and the comparatively higher grades of, for example, scrap metal, or HS, which can compete well in exports, are to be done on their own, so it is not a yard only for Tokyo Steel.

Since Tokyo Steel is building a collection base in the Kansai region, we believe that they will back us up by offering a certain price and being considerate of the steelmakers in the Kansai region, since their main objective is to collect goods.

In addition, for this purpose, I would like to work with so-called electric furnace manufacturers, including from demolition projects, although it is not a building circular as I mentioned earlier. I don't know if I will be scolded for saying Tokyo Steel, Tokyo Steel because we are also dealing with other manufacturers.

In the sense of lending the yard, we are highlighting Tokyo Steel because it deepens our relationship with them, but we are asking them to cooperate with us in collecting goods, have them processed by scrap dealers we know in the Kansai region, and then bring them to Amagasaki.

HS will be handled in NEWSCON's existing yard, while H2 and H3 will be handled in Tokyo Steel's yard, and we will work together to increase the handling volume and turnover.

Since we are not a buyer and seller, we will receive money for our proposals, so it is good for Tokyo Steel to increase collection, and it is also very good for us, so as I mentioned earlier, we will collect commercial materials through tie-ups with electric furnace manufacturers. Sorry, I couldn't explain it properly.

Ando [Q]: I understand very well. So, in relation to this, what is your relationship with blast furnaces, or what is the pull of blast furnaces? In the future, they will probably need a huge amount of scraps, but what do you think of such a move, such as asking your company to work with us?

Sano [A]: Blast furnaces will be put into converter furnaces, but when the electric furnaces are built in 2028 or 2029, they will probably say a lot of things to us. We receive more offers from overseas blast furnaces to build such bases in Japan, or to shred their H2 and H3 into high-quality scrap. If you are a trade newspaper reporter, you would know that offers to work together on such projects are not limited to our company, but we have received offers from overseas companies. We have not received any offers from Japanese companies.

Ando [Q]: Thank you very much. And another point is about lithium-ion batteries, one thing is that in addition to lithium, I think cobalt and nickel will also come out, but what is the contribution to earnings? And whether or not lithium is overwhelming.

Another is that the lithium market is extremely volatile, and the risk of market fluctuations could affect the continuity of this business. Please tell us what you are thinking about to cover, for example, the risk of it dropping even worse and not being viable as a business.

Sano [A]: Fortunately or unfortunately, whether we like it or not, we see that as being greatly affected by the market. If it drops significantly, this time it will break down to the so-called a mine, or the mechanism that would recover the lithium, so I think it will balance out again somewhere there.

Benchmarking Chinese companies, for example, even hydrometallurgical plants are doing both buying and selling, and so-called processing contracting is not affected by market prices because they receive wages. I learned about this type of business when I went to China last year.

So now they are trying to create a closed loop of batteries back to themselves. Even to the company that makes this black mass, now they are free to sell and buy. Perhaps from now on, rather than us doing it, the battery manufacturers will ask us to process and put them back in themselves, or something like that.

Alternatively, automakers will no longer enclose and sell used batteries freely. Then we would return it as black mass, or if we could refine it and get their approval, we would return it to them as nickel sulfate, cobalt sulfate, or lithium carbonate.

Or go to the precursor beyond. I don't think we can go as far as cathode materials, but I believe that becoming a manufacturer in this way will bring stability to our business, and I have a feeling that our customers would like that as well.

Gradually, this time, it becomes uninteresting, or rather, it becomes a subcontractor, so there is something uninteresting about the type of business, and the business is stable. On the other hand, there are many types of businesses where, ideally, half of the business is done by the company itself, although I am not sure what

percentage of the business is done by the company if they do it. All of them, some of them you can't put back, so you have to make a profit from that kind of thing.

Here, on the contrary, we take advantage of the market to make a profit. I am sure that this will be such a model, where the market price will no longer increase when it goes down or up but will not decrease when it goes up or down. This is also just my own opinion, but I feel that such a trend is coming.

Ando [M]: Okay, I understand. Thank you very much.

Moderator [M]: Thank you for your question.

Akuwa [Q]: My name is Akuwa from Chemical Daily. Thank you very much. I, too, would like to ask three questions about lithium-ion batteries. First of all, regarding the progress of the expansion, you mentioned that the Kansai region is a little behind schedule due to land acquisition, while the overseas region is ahead of schedule. Please elaborate more on this area. I have heard from various companies that construction in the Kansai region has been delayed a bit due to the Expo. Does your company believe that the delay will be due to that area?

Also, you mentioned earlier that you are going to include the UK base in your overseas activities. I wonder if you could tell us what your current thinking is in this area.

Sano [A]: As for Kansai, we have yet to acquire land. There were various candidates, including furnished real estate. Ibaraki is furnished real estate, so that is our first priority, because construction costs are high. We are currently in the process of searching for a site, including a vacant lot, because of the cost and also because of the very late delivery date. I mentioned today that it will be difficult to realize the project by 2025 because we have not decided on a location.

I said that we are moving up the timing of our overseas expansion because we have received various offers. It is not backed up by anything in particular. It just means that we may possibly give priority to overseas expansion.

As for the UK, I would like to do it in a way that the tone is a bit downgraded from last year, while receiving some offers, but not all of them can be done, so we will be looking for good partners as we go along.

Akuwa [Q]: Thank you very much. Secondly, you mentioned earlier that you are reviewing the wet smelting project for the year 2025, but you said that you hope to have it up and running in 2026 or so.

On the other hand, Mitsubishi Materials, with whom you have a tie-up, is building a pilot plant to demonstrate hydrometallurgical process in the future. Do you have any plans to expand the alliance to include hydrometallurgical process with Mitsubishi Materials?

Sano [A]: In a manner of speaking, the joint research has been completed, and various discussions on business development have already been completed, so let's wait and see how things go. While maintaining a certain distance, we will cooperate in any way we can, such as providing black mass.

I have a deep relationship with Mitsubishi Materials in terms of circuit boards and other things, however, we have not reached the point where we are willing to work together. We have been talking with our partners about how we would like to work with them, including various other partners, as we search for the right one.

Akuwa [Q]: Okay. One last point, which may overlap with the previous question, I would like to ask you about market conditions and this expansion plan. Prices for nickel and lithium are probably much lower than those in the medium-term plan, and you do not expect to see much of an upturn this year either. First, I would like to ask whether you intend to proceed with this expansion plan.

You mentioned earlier that in order to respond to market conditions, for example, you are going to process and sell the products. How do you actually proceed in concrete terms? Could you please discuss these two points?

Sano [M]: What was the first one?

Akuwa [Q]: Do you intend to go ahead with this expansion plan in the face of declining market conditions?

Sano [A]: You are right. By increasing the number of processes handled, even if profits do not increase significantly, the Company will rotate in a way that will allow it to last for a number of years. We need to do that ahead of time while supplementing that part of the business with other projects.

Conversely, when market conditions are down and competitors, including domestic industry peers, become less aggressive, we see this as an opportunity in a sense.

In the mid- to long-term, since this is a strategic project, we are investing people, goods, and money in a variety of areas ahead of schedule. I also feel that if we don't do that, we won't be able to make a difference. After all, we have to take a certain amount of risk in order to pull his head out of the sand. It's not good enough for the Company to go under, but I just thought it would be nice to at least be injured. I think we have to take risks while trying to avoid serious illnesses.

The change in business type is not so much about us, but about the battery makers, who are in the process of creating their own closed loop, where the hydrometallurgical process is done, including overseas, we make the black mass, and then overseas. So we are no longer doing this in Japan. They are saying closed loop from 2026, so we have no choice but to go abroad now. I imagine it will be Korea or something like that, though, since China is currently having difficulties with various countries.

So, we are now part of the picture they have created as a processing industry, and at the moment, we make black mass and receive processing fees. If I myself can do hydrometallurgical process, or if I am contracted to do that, the scope of my processing business will expand as well.

There are two parts: the part where we buy and sell, where we own things and take the market risk, and the part where we do not. I don't think that all of them will be contracted out for processing, so rather than our initiative, we will be part of the strategies, so to speak, of battery manufacturers and automobile companies. They will become such manufacturers.

Rather than making a product and providing it to the client, it will surely be a bit passive, like making and providing a product that the client has told you to make.

Akuwa [M]: Thank you very much.

Moderator [M]: Thank you for your question. You may have more questions, but since it is a little past the closing time, I would like to conclude the financial results briefing. Thank you for your explanation, Mr. Sano. Thank you again to all participants.

Sano [M]: 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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