

**SHINSHO
CORPORATION
AND
CONSOLIDATED
SUBSIDIARIES
FINANCIAL
STATEMENTS**

(Year ended March 31, 2013)

2013

SHINSHO CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | March 31, 2013 | March 31, 2012 | 2013 Thousands of U.S. Dollars |
|--|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 18,535 | 17,476 | 197,082 |
| Notes and accounts receivables | 130,101 | 148,751 | 1,383,325 |
| Inventories | 22,430 | 24,792 | 238,498 |
| Advance payments | 7,261 | 9,827 | 77,210 |
| Deferred tax assets (Note 6) | 666 | 705 | 7,085 |
| Other current assets | 2,888 | 2,377 | 30,713 |
| Allowance for doubtful receivables | (225) | (287) | (2,400) |
| Total current assets | 181,659 | 203,642 | 1,931,515 |
| Property and equipment: | | | |
| Land | 1,312 | 949 | 13,952 |
| Building and structures | 4,441 | 4,679 | 47,225 |
| Equipment and fixtures | 3,371 | 3,114 | 35,848 |
| Others | 1,606 | 1,065 | 17,085 |
| Accumulated depreciation | (5,496) | (5,549) | (58,445) |
| Total property and equipment | 5,235 | 4,258 | 55,665 |
| Investments and other assets: | | | |
| Goodwill | 490 | 620 | 5,210 |
| Investment securities | 23,561 | 19,586 | 250,523 |
| Long-term loans and receivables | 106 | 169 | 1,134 |
| Deferred tax assets (Note 6) | 572 | 852 | 6,088 |
| Others | 2,875 | 2,518 | 30,579 |
| Allowance for doubtful receivables | (294) | (242) | (3,136) |
| Total investments and other assets | 27,312 | 23,505 | 290,400 |
| | | | |
| Total Assets | 214,206 | 231,406 | 2,277,581 |

See accompanying notes to consolidated financial statements.

| | March 31, 2013 | March 31, 2012 | 2013 Thousands of U.S. Dollars |
|--|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | | |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Notes and accounts payables | 115,728 | 130,659 | 1,230,495 |
| Short-term loans and current portion of long term debt (Note 3) | 25,872 | 30,225 | 275,093 |
| Taxes payable | 497 | 997 | 5,288 |
| Deferred tax liabilities (Note 6) | 15 | 8 | 162 |
| Accrued bonuses to employees | 737 | 779 | 7,839 |
| Other current liabilities | 14,582 | 21,137 | 155,046 |
| Total current liabilities | <u>157,432</u> | <u>183,807</u> | <u>1,673,925</u> |
| Long-term liabilities: | | | |
| Long-term debt, less current portion (Note 3) | 23,402 | 17,039 | 248,825 |
| Guaranteed deposits received | 923 | 932 | 9,820 |
| Employees' retirement benefit (Note 8) | 602 | 612 | 6,402 |
| Directors' retirement benefit | 34 | 30 | 362 |
| Deferred tax liabilities (Note 6) | 123 | 38 | 1,314 |
| Negative goodwill | 68 | 154 | 729 |
| Other long-term liabilities | 140 | 260 | 1,494 |
| Total long-term liabilities | <u>25,294</u> | <u>19,066</u> | <u>268,949</u> |
| Contingent liabilities (Note 5) | | | |
| Equity: | | | |
| Owners' Equity | | | |
| Common Stock | 5,650 | 5,650 | 60,077 |
| Capital surplus | 2,703 | 2,703 | 28,746 |
| Retained earnings | 22,844 | 21,415 | 242,899 |
| Treasury stock | (17) | (17) | (183) |
| Total owners' equity | <u>31,181</u> | <u>29,752</u> | <u>331,539</u> |
| Accumulated other comprehensive income (loss) | | | |
| Net unrealized gain (loss) on available-for-sale securities | 705 | 264 | 7,498 |
| Net unrealized gain (loss) on derivative instruments | 43 | (11) | 463 |
| Foreign currency translation adjustments | (2,191) | (3,377) | (23,300) |
| Total accumulated other comprehensive income (loss) | <u>(1,442)</u> | <u>(3,124)</u> | <u>(15,337)</u> |
| Noncontrolling interest | 1,740 | 1,904 | 18,504 |
| Total Equity | <u>31,479</u> | <u>28,531</u> | <u>334,705</u> |
| Total liabilities and equity | <u>214,206</u> | <u>231,406</u> | <u>2,277,581</u> |

See accompanying notes to consolidated financial statements.

SHINSHO CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | March 31, 2013 | March 31, 2012 | 2013 Thousands of U.S. Dollars |
|--|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| Net sales (Note 10) | 769,660 | 874,659 | 8,183,524 |
| Cost of sales | 747,121 | 852,637 | 7,943,877 |
| Gross profit | 22,538 | 22,022 | 239,647 |
| Selling, general and administrative expenses | 17,083 | 15,463 | 181,640 |
| Operating income | 5,455 | 6,558 | 58,006 |
| Other income | | | |
| Interest income | 44 | 46 | 478 |
| Dividends income | 470 | 456 | 5,006 |
| Purchase discount | 91 | 122 | 973 |
| Foreign exchange gains | 74 | 86 | 787 |
| Amortization of negative goodwill | 349 | 177 | 3,711 |
| Gain on sale of investment securities | - | 3 | - |
| Gain on sale of stocks of affiliates | 22 | - | 236 |
| Others | 230 | 293 | 2,445 |
| | 1,282 | 1,186 | 13,639 |
| Other expense | | | |
| Interest expense | 620 | 680 | 6,597 |
| Loss on sale of notes and account receivables | 681 | 869 | 7,247 |
| Sales discount | 278 | 322 | 2,958 |
| Loss on revaluation of derivatives | 221 | 178 | 2,357 |
| Loss on impairment of fixed assets | 331 | - | 3,519 |
| Loss on sale of investment securities | 29 | - | 315 |
| Loss on write-down of investment securities | - | 375 | - |
| Others | 275 | 133 | 2,924 |
| | 2,437 | 2,559 | 25,920 |
| Net income before income taxes, noncontrolling interests and equity in earnings of affiliates | 4,300 | 5,185 | 45,725 |
| Income taxes (Note 4) | | | |
| Current | 1,713 | 2,025 | 18,215 |
| Prior years | 607 | - | 6,460 |
| Deferred | 226 | 391 | 2,408 |
| | 2,547 | 2,417 | 27,084 |
| Noncontrolling interests | 75 | 149 | 800 |
| Equity in earnings of affiliates | 202 | 319 | 2,152 |
| Net income | 1,880 | 2,937 | 19,994 |
| | (yen) | (yen) | (dollars) |
| Net income per share | 21.24 | 33.17 | 0.23 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | March 31, 2013 | March 31, 2012 | 2013 Thousands of U.S. Dollars |
|---|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| Common stock: | | | |
| Balance at beginning of year | 5,650 | 5,650 | 60,077 |
| Balance at end of period | 5,650 | 5,650 | 60,077 |
| Capital surplus: | | | |
| Balance at beginning of year | 2,703 | 2,703 | 28,746 |
| Balance at end of year | 2,703 | 2,703 | 28,746 |
| Retained earnings: | | | |
| Balance at beginning of year | 21,415 | 18,965 | 227,707 |
| Effect of changes in accounting policies applied to foreign subsidiaries | 79 | — | 848 |
| Cash dividends | (531) | (487) | (5,650) |
| Net income | 1,880 | 2,937 | 19,994 |
| Balance at end of period | 22,844 | 21,415 | 242,899 |
| Net unrealized gain (loss) on available-for-sale securities: | | | |
| Balance at beginning of year | 264 | (52) | 2,810 |
| Net change in unrealized gain (loss) on available -for-sale securities | 440 | 316 | 4,688 |
| Balance at end of period | 705 | 264 | 7,498 |
| Net unrealized gain (loss) on derivative instruments: | | | |
| Balance at beginning of year | (11) | (27) | (121) |
| Net change in unrealized gain (loss) on derivative instruments | 55 | 15 | 585 |
| Balance at end of period | 43 | (11) | 463 |
| Foreign currency transaction adjustment: | | | |
| Balance at beginning of year | (3,377) | (2,931) | (35,914) |
| Net change in foreign currency translation adjustments | 1,186 | (445) | 12,614 |
| Balance at end of period | (2,191) | (3,377) | (23,300) |
| Treasury stock: | | | |
| Balance at beginning and end of year | (17) | (16) | (182) |
| Net change in treasury stock | (0) | (0) | (0) |
| Balance at end of period | (17) | (17) | (183) |
| Noncontrolling interest: | | | |
| Balance at beginning and end of year | 1,904 | 1,797 | 20,246 |
| Net change in noncontrolling interest | (163) | 106 | (1,741) |
| Balance at end of period | 1,740 | 1,904 | 18,504 |
| Total shareholders' equity | 31,479 | 28,531 | 334,705 |
| | (thousands) | (thousands) | |
| Number of shares of common stock authorized | 270,000 | 270,000 | |
| Number of shares of common stock issued | 88,606 | 88,606 | |

See accompanying notes to consolidated financial statements.

SHINSHO CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | March 31, 2013 | March 31, 2012 | 2013 Thousands of U.S. Dollars |
|---|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| Operating activities: | | | |
| Net income before income taxes, noncontrolling interests and equity in earnings of affiliates | 4,300 | 5,185 | 45,725 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation | 724 | 622 | 7,704 |
| Amortization of consolidated adjustment account | | | |
| Amortization of negative goodwill | (207) | (114) | (2,210) |
| Increase (Decrease) of reserve and provision | (19) | (194) | (208) |
| Interest and dividend income | (515) | (503) | (5,484) |
| Interest expense | 620 | 680 | 6,597 |
| Loss on impairment of fixed assets | 331 | — | 3,519 |
| Loss on sale of property | 2 | (1) | 27 |
| Loss (Gain) on sale of stocks of affiliates | (22) | — | (236) |
| Loss on sale of investment securities | 29 | (3) | 315 |
| Loss on write-down of investment securities | — | 375 | — |
| Decrease (Increase) in trade receivables | 17,582 | 6,672 | 186,950 |
| Decrease (Increase) in inventories | 2,804 | (1,544) | 29,824 |
| Increase (Decrease) in trade payables | (14,086) | (5,371) | (149,773) |
| Decrease (Increase) in other receivables | (251) | 174 | (2,677) |
| Other, net | (5,009) | 5,570 | (53,266) |
| Sub-total | 6,283 | 11,546 | 66,807 |
| Interest and dividend received | 746 | 693 | 7,932 |
| Interest paid | (624) | (669) | (6,635) |
| Income taxes paid | (2,813) | (2,660) | (29,911) |
| Net cash provided by operating activities | 3,592 | 8,910 | 38,193 |
| Investing activities: | | | |
| Purchase of property and equipment | (1,381) | (764) | (14,691) |
| Proceeds from sale of property and equipment | 5 | 24 | 63 |
| Purchase of investment securities | (2,350) | (92) | (24,996) |
| Proceeds from sale of investment securities | 40 | 381 | 428 |
| Purchase of stocks of affiliates | (616) | (3,238) | (6,552) |
| Proceeds from sale of stocks of affiliates | 74 | — | 789 |
| Change in short-term loans, net | 56 | (3) | 596 |
| Increase in long-term loans | (6) | (0) | (63) |
| Collection of long-term loans | 243 | 272 | 2,585 |
| Other, net | (376) | (676) | (4,002) |
| Net cash used in investing activities | (4,311) | (4,096) | (45,843) |
| Financing activities: | | | |
| Change in short-term debt, net | (2,783) | 919 | (29,594) |
| Proceeds from long-term debt | 11,008 | 9,260 | 117,050 |
| Repayment of long-term debt | (6,709) | (9,874) | (71,341) |
| Repayment of finance lease debt | (21) | (16) | (227) |
| Dividends paid | (531) | (487) | (5,650) |
| Dividends paid to noncontrolling interest | (3) | (9) | (40) |
| Proceeds from paid-in capital of noncontrolling interest | 376 | 27 | 4,004 |
| Other, net | (0) | (0) | (0) |
| Net cash used in financial activities | 1,335 | (180) | 14,200 |
| Effect of exchange on cash and cash equivalents | 473 | (161) | 5,029 |
| Net increase (decrease) in cash and cash equivalents | 1,089 | 4,471 | 11,579 |
| Cash and cash equivalents at beginning of year | 17,460 | 12,989 | 185,656 |
| Effect of changes in consolidated subsidiaries | (36) | — | (384) |
| Cash and cash equivalents at end of year | 18,513 | 17,460 | 196,851 |

See accompanying notes to consolidated financial statements.

SHINSHO CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Shinsho Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Japanese yen figures less than a million yen are rounded down to the nearest million yen and U.S. dollar figures less than a thousand dollars are rounded down to the nearest thousand dollars, except for per share data. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 financial statements to conform to the classifications used in 2013. The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94.05 to \$1, the rate of exchange at March 31, 2013. Such translation should not be construed as representations that Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(1) Scope of Consolidation

The Company had 29 subsidiaries (majority-owned companies) at March 31, 2013.

The accompanying consolidated financial statements include the accounts of the Company and 27 of its subsidiaries for the year ended March 31, 2013, which are listed below:

Shinsho American Corporation
Kobelco Trading Shanghai Co.,Ltd
Suzhou Shinko-shoji Material Co.,Ltd

Shinsho Non-ferrous Corporation
Shinsho Steel Products Corporation
Shinko Shoji Singapore Pte.Ltd
Shinsho Australia Pty.Ltd.
Shinsho (Philippines) Corporation
Thai Escorp Ltd.
Shinsho (Malaysia) Sdn.Bhd.
Taiwan Shinsho Corporation
Matsubo Corporation
15 other consolidated subsidiaries

(2) Elimination and Combination

For the purposes of preparing the consolidated financial statements of the Company and its consolidated subsidiaries, all significant inter-company transactions, account balances and unrealized profits among the Company and its consolidated subsidiaries have been entirely eliminated to "Noncontrolling Interests". In the elimination, any differences between the cost of investments in subsidiaries and the amount of underlying equity in net assets of the subsidiaries is treated as an asset "Goodwill" or a liability "Negative goodwill", and amortized over the period of five years on a straight-line basis.

(3) Equity method of accounting for investments in affiliates

The Company had 23 affiliates (companies owned from 20% to 50% actually) at March 31, 2013. The equity method is applied to these 14 investments.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments. Cash equivalents are generally at the maturity of three months or less and readily convertible to cash. Cash equivalents near maturity indicate insignificant risk of changes in value because of changes in interest rates.

(5) Investment securities

Securities are classified into the categories based on the purpose of holding, which can result in the different measurement and can account for the changes in the fair value. Debt securities that are intended to be held to maturity ("held-to-maturity debt securities") are measured at amortized cost in the balance sheet. Securities other than held-to-maturity debt securities and the equity investment in subsidiaries and affiliates ("other securities") are measured at the fair value. The difference between the fair value and the historical cost is recorded in the category of

shareholder's equity. The historical cost is determined by the moving average cost. Securities that have no market price are stated at their historical cost.

(6) Inventories

Inventories are mainly stated at cost determined by the moving average method. (unless market value of inventories declines significantly and is not expected to recover to cost, in such cases costs are reduced to net realizable values).

(7) Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed principally by the declining balance method. However, depreciation of buildings booked from April 1, 1998 is computed using the straight-line method.

(8) Long-lived assets

The Company reviews its long-lived assets for the impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected as a result of the continuous use and eventual disposition of the asset or asset group. The impairment loss would be measured when the carrying amount of the asset exceeds its recoverable amount, which is higher of the discounted cash flows from the continuous use and eventual disposition of the asset or the net selling price at disposition.

(9) Allowance for retirement and severance benefits

Accrued employees' retirement benefits in subsidiaries are provided mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

(10) Allowance for doubtful receivables

The allowance for doubtful receivables is provided in amounts which are sufficient to cover possible losses on collection. It consists of individually estimated uncollectible amounts and amounts calculated using the actual rate of historical bad debt.

(11) Finance leases

Effective April 1, 2008, "Accounting Standard for Lease Transactions"(ASBJ Statement No.13) and "Guidance on Accounting Standard for Lease Transactions"(ASBJ Guidance No.16) were applied. Lease assets related to finance lease transactions that do not involve the transfer of ownership

are depreciated on a straight-line basis, with the lease period used their useful lived and no residual value. For finance lease transactions which took place before April 1, 2008, the accounting method remains same, as for ordinary operating lease transactions.

(12) Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(13) Translation of foreign currency accounts

Current and non-current monetary assets and liabilities denominated by foreign currencies are translated into Japanese yen at the exchange rates at the end of fiscal year, and the resulting exchange gains and losses are recognized in the income statement. Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the exchange rates at the end of fiscal year except for stockholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at the average exchange rates. The resulting translation adjustments are reflected in the consolidated financial statements as "Foreign currency translation adjustments".

(14) Derivative financial instruments

The Company and its subsidiaries use derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates and commodity prices. Derivatives include foreign currency forward contracts and commodities futures, which are utilized by the Company to reduce foreign currency exchange rate risks and commodity price risks. The Company and its subsidiaries do not enter into derivatives for trading or speculative purposes. The Company and its subsidiaries have taken various steps, including the establishment of internal management rules, to ensure that transactions are implemented appropriately and that risk is managed. Gains and losses on hedge of existing assets or liabilities are included in carrying amounts of those assets or liabilities and ultimately recognized the income as a part of those carrying amounts. Gains and losses related to qualifying hedges of firm commitments and anticipated transactions are deferred and recognized the income, or adjustments of carrying amounts,

when the hedged transaction occurs.

(15) Net income per share

The computation of net income per share is based on the weighted average number of issued shares of common stock outstanding during the relevant period.

3. Short-term debt and long-term debt

Short-term debt at March 31, 2013 and 2012 consisted of the following:

| | (¥ millions) | | (\$ thousands) |
|--|---------------|--------|----------------|
| | 2013 | 2012 | 2013 |
| Short-term loans principally from banks at March 31, 2013 and 2012 represent short-term notes with the interest on the principal at the average rate of 1.158% and 1.077%, respectively. | 21,244 | 23,515 | 225,882 |

Long-term debt at March 31, 2013 and 2012 consisted of the following:

| | (¥ millions) | | (\$ thousands) |
|---|---------------|---------|----------------|
| | 2013 | 2012 | 2013 |
| Long-term loans from banks, insurance companies and other financial institutions due through 2020, at the averaged rate of 0.804% | 28,030 | 23,749 | 298,036 |
| Less current portion | (4,628) | (6,710) | (49,210) |
| | 23,402 | 17,039 | 248,825 |

The aggregate annual maturity of long-term debt at March 31, 2013 were as follows:

| Year ending March 31 | (¥ millions) | (\$ thousands) |
|----------------------|---------------|----------------|
| 2015 | 1,141 | 12,138 |
| 2016 | 8,017 | 85,247 |
| 2017 | 4,377 | 46,548 |
| 2018 and thereafter | 9,864 | 104,890 |

4. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise of the corporation tax, inhabitants' taxes and the enterprise tax, which in the aggregate resulted in the normal statutory tax rate of approximately 38% and 41% for the years ended March 31, 2013 and 2012. The effective tax rates reflected in the statements of operations differ from the statutory tax rates. The difference is due primarily to the timing difference in the recognition of certain income and expenses for tax and financial reporting purposes, and the effect of permanent non-deductible expenses.

5. Contingent Liabilities

Contingent liabilities at March 31, 2013 and 2012 were as follows:

| | (¥ millions) | | (\$ thousands) |
|-------------------------------|---------------|-------|----------------|
| | 2013 | 2012 | 2013 |
| As endorser of notes endorsed | 2,121 | 2,289 | 22,559 |
| As guarantor of loans | 1,127 | 349 | 11,992 |

6. Deferred income taxes

Significant components of deferred tax assets and liabilities at March 31, 2013 and 2012, were as follows:

| | (¥ millions) | | | (\$ thousands) |
|--|---------------|---------|----------|----------------|
| | 2013 | 2012 | 2013 | |
| Deferred tax assets: | | | | |
| Allowance for doubtful receivables | 199 | 34 | 2,117 | |
| Accrued bonus | 307 | 322 | 3,274 | |
| Loss on devaluation of inventories | 123 | 45 | 1,308 | |
| Loss on devaluation of fixed assets | 448 | 316 | 4,774 | |
| Loss on devaluation of investment securities | 986 | 485 | 10,485 | |
| Loss on devaluation of membership right | 104 | 110 | 1,107 | |
| Accrued for severance benefit for employee | 206 | 209 | 2,195 | |
| Operating loss carry forwards | 851 | 785 | 9,058 | |
| Others | 492 | 596 | 5,236 | |
| Valuation allowance | (2,103) | (1,070) | (22,364) | |
| Gross deferred tax assets | 1,616 | 1,835 | 17,192 | |

Deferred tax liabilities:

| | | | |
|--|-------|-------|---------|
| Unrealized gain on available-for-sale securities | (413) | (273) | (4,399) |
| Others | (103) | (51) | (1,096) |
| Gross deferred tax liabilities | (516) | (324) | (5,495) |
| Net deferred tax assets | 1,100 | 1,510 | 11,697 |

7. Lease transactions

- Finance leases other than those which transfer the ownership

Lease expenses on finance lease contracts without the ownership transfer for the year ended March 31, 2013 and 2012, were as follows:

| | (¥ millions) | | (\$ thousands) |
|-----------------------|---------------|------|----------------|
| | 2013 | 2012 | 2013 |
| Lease rental expenses | 23 | 37 | 248 |

The amount of outstanding future lease payments due at March 31, 2013 and 2012, which included the portion of interest thereon, were as follows:

| | (¥ millions) | | (\$ thousands) |
|-----------------------|---------------|------|----------------|
| | 2013 | 2012 | 2013 |
| Future lease payments | | | |
| Within one year | 4 | 23 | 50 |
| Over one year | 1 | 5 | 11 |

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, at March 31, 2013 and 2012 which included the portion of interest thereon, were as follows:

| | (¥ millions) | | (\$ thousands) |
|--------------------------|---------------|-------|----------------|
| | 2013 | 2012 | 2013 |
| Acquisition cost | 175 | 235 | 1,862 |
| Accumulated depreciation | (169) | (206) | (1,800) |
| Net book value | 5 | 29 | 62 |
| Depreciation | 23 | 37 | 248 |

Depreciation is based on the straight-line method over the leased term of the leased assets, assuming no residual value.

- Operating lease

Under non-cancelable operating leases, future minimum lease payments at March 31, 2013 were ¥18million (\$201 thousand)

of which ¥9million (\$100 thousand) is due within one year.

8. Retirement and severance benefits plans

The Company and certain of its consolidated subsidiaries have the defined contribution plan and various defined benefit plans, which are the welfare pension fund plan and the lump-sum retirement benefit plan.

The Company terminated a retirement annuity plan and a lump-sum payment plan at March 31, 2011. And effective April 1, 2011, the Company transferred its retirement annuity plan and a lump-sum payment plan to its defined contribution pension plan.

Additional retirement benefits which may be paid to employees upon retirement have not been included in the actuarial calculation of the projected benefit obligation.

The liabilities for retirement and severance benefits included in the liability section of the consolidated balance sheet at March 31, 2013 and 2012 consisted of the following:

| | (¥ millions) | | (\$ thousands) |
|---|---------------|-------|----------------|
| | 2013 | 2012 | 2013 |
| Projected benefit obligation | 1,007 | 1,039 | 10,710 |
| Fair value of plan assets | (405) | (427) | (4,308) |
| Allowance for severance and retirement benefits | 602 | 612 | 6,402 |

Components of net periodical severance and retirement cost for the year ended March 31, 2013 and 2012 were as follows:

| | (¥ millions) | | (\$ thousands) |
|---|---------------|------|----------------|
| | 2013 | 2012 | 2013 |
| Service cost-benefits earned during the year | 91 | 45 | 976 |
| Interest cost on projected benefit obligation | – | – | – |
| Expected return on plan assets | – | – | – |
| Amortization of transitional obligation | – | 1 | – |
| Contribution payment to the defined contribution pension plan | 246 | 236 | 2,625 |
| Others | 61 | 100 | 655 |
| Net periodical severance and retirement cost | 400 | 384 | 4,258 |

9. Derivative transactions

(1) Hedge accounting not applied

The following tables summarize the outstanding contract amounts and fair values of financial derivatives of the Company at March 31, 2013 and 2012, for which hedge accounting has not been applied.

| | (¥ millions) | | (\$ thousands) |
|-------------------------------------|---------------|-------|----------------|
| | 2013 | 2012 | 2013 |
| a. Currency related: | | | |
| Forward currency exchange contracts | | | |
| Sell (U.S. dollar) | | | |
| Contracts outstanding | 8,051 | 6,749 | 85,613 |
| Fair values | (451) | (220) | (4,800) |
| Sell (Chinese yuan) | | | |
| Contracts outstanding | — | 342 | — |
| Fair values | — | 4 | — |
| Sell (Others) | | | |
| Contracts outstanding | 5 | 2 | 62 |
| Fair values | (0) | 0 | (0) |
| Buy (U.S. dollar) | | | |
| Contracts outstanding | 1,194 | 1,421 | 12,697 |
| Fair values | 2 | 4 | 21 |
| Buy (Others) | | | |
| Contracts outstanding | 383 | 258 | 4,080 |
| Fair values | (4) | (2) | (51) |
| b. Commodities futures: | | | |
| Sell (Japanese yen) | | | |
| Contracts outstanding | 273 | 513 | 2,912 |
| Fair values | 12 | (8) | 130 |
| Buy (Japanese yen) | | | |
| Contracts outstanding | 265 | 522 | 2,819 |
| Fair values | (3) | (1) | (37) |

(2) Hedge accounting applied

The following tables summarize the outstanding contract amounts and fair values of financial derivatives of the Company at March 31, 2013 and 2012, for which hedge accounting has been applied.

| | (¥ millions) | | (\$ thousands) |
|-------------------------------------|---------------|-------|----------------|
| | 2013 | 2012 | 2013 |
| a. Currency related: | | | |
| Forward currency exchange contracts | | | |
| Sell (U.S. dollar) | | | |
| Contracts outstanding | 1,351 | 1,019 | 14,372 |
| Fair values | 11 | 16 | 122 |
| Sell (Euro) | | | |
| Contracts outstanding | 711 | 439 | 7,561 |
| Fair values | 43 | 12 | 457 |
| Sell (Chinese yuan) | | | |
| Contracts outstanding | 644 | 577 | 6,855 |
| Fair values | — | — | — |
| Sell (Others) | | | |
| Contracts outstanding | 172 | 342 | 1,830 |
| Fair values | (8) | (24) | (87) |
| Buy (U.S. dollar) | | | |
| Contracts outstanding | 0 | 7 | 5 |
| Fair values | — | — | — |
| Buy (Euro) | | | |
| Contracts outstanding | 237 | 234 | 2,520 |
| Fair values | (3) | 1 | (36) |
| Buy (Others) | | | |
| Contracts outstanding | 5 | 79 | 63 |
| Fair values | (0) | 3 | (0) |
| b. Commodities futures: | | | |
| Sell (Japanese yen) | | | |
| Contracts outstanding | 401 | 823 | 4,265 |
| Fair values | 20 | (33) | 216 |
| Sell (U.S. dollar) | | | |
| Contracts outstanding | 402 | 761 | 4,275 |
| Fair values | 6 | (42) | 71 |
| Buy (Japanese yen) | | | |
| Contracts outstanding | 137 | 425 | 1,463 |
| Fair values | (4) | (3) | (48) |
| Buy (U.S. dollar) | | | |
| Contracts outstanding | 379 | 549 | 4,038 |
| Fair values | (17) | 29 | (184) |

10. Segment Information

For the year ended March 31, 2012

| | Iron & Steel | Ferrous Raw Materials | Nonferrous Metals | Machinery & IT |
|---|--------------|-----------------------|-------------------|----------------|
| Net sales | | | | |
| Outside customers | 273,484 | 363,149 | 182,164 | 53,602 |
| Inter - segment | – | – | 0 | – |
| Total | 273,484 | 363,149 | 182,165 | 53,602 |
| Segment profit or loss | 2,964 | 858 | 686 | 260 |
| Segment assets | 88,591 | 38,986 | 52,862 | 33,680 |
| Other items | | | | |
| Depreciation | 175 | 54 | 180 | 147 |
| Interest income | 16 | 4 | 17 | 6 |
| Interest expense | 173 | 129 | 137 | 173 |
| Increase from tangible fixed assets and intangible assets | 401 | 119 | 536 | 323 |

For the year ended March 31, 2013

| | Iron & Steel | Ferrous Raw Materials | Nonferrous Metals | Machinery & IT |
|---|--------------|-----------------------|-------------------|----------------|
| Net sales | | | | |
| Outside customers | 254,855 | 298,868 | 158,226 | 61,758 |
| Inter - segment | – | – | 1 | 0 |
| Total | 254,855 | 298,868 | 158,228 | 61,758 |
| Segment profit or loss | 2,580 | 993 | 467 | 319 |
| Segment assets | 84,339 | 31,131 | 48,973 | 31,349 |
| Other items | | | | |
| Depreciation | 212 | 87 | 199 | 150 |
| Interest received | 22 | 4 | 14 | 7 |
| Interest expense | 162 | 138 | 124 | 136 |
| Increase from tangible fixed assets and intangible assets | 825 | 190 | 481 | 264 |

For the year ended March 31, 2013

| | Iron & Steel | Ferrous Raw Materials | Nonferrous Metals | Machinery & IT |
|---|--------------|-----------------------|-------------------|----------------|
| Net sales | | | | |
| Outside customers | 2,709,787 | 3,177,756 | 1,682,369 | 656,656 |
| Inter - segment | – | – | 21 | 0 |
| Total | 2,709,787 | 3,177,756 | 1,682,390 | 656,656 |
| Segment profit or loss | 27,438 | 10,566 | 4,969 | 3,399 |
| Segment assets | 896,747 | 331,010 | 520,717 | 333,322 |
| Other items | | | | |
| Depreciation | 2,261 | 934 | 2,121 | 1,598 |
| Interest received | 237 | 45 | 151 | 80 |
| Interest expense | 1,732 | 1,469 | 1,327 | 1,452 |
| Increase from tangible fixed assets and intangible assets | 8,778 | 2,023 | 5,117 | 2,809 |

Notes: The segment is classified with the kind of inventories and the common sales route based on the sales department of the Company.

(Millions of yen)

| Welding | Others | Total | Corporate / Elimination | Consolidated |
|---------|--------|---------|-------------------------|--------------|
| 51,010 | 375 | 923,787 | (49,127) | 874,659 |
| – | – | 0 | (0) | – |
| 51,010 | 375 | 923,787 | (49,127) | 874,659 |
| 783 | (676) | 4,877 | 307 | 5,185 |
| 18,766 | 380 | 233,268 | (1,862) | 231,406 |
| 36 | 27 | 622 | – | 622 |
| 11 | 0 | 56 | (9) | 46 |
| 78 | – | 692 | (11) | 680 |
| 33 | – | 1,414 | – | 1,414 |

(Millions of yen)

| Welding | Others | Total | Corporate / Elimination | Consolidated |
|---------|--------|---------|-------------------------|--------------|
| 37,859 | 370 | 811,938 | (42,277) | 769,660 |
| – | – | 2 | (2) | – |
| 37,859 | 370 | 811,940 | (42,279) | 769,660 |
| 440 | (500) | 4,301 | (0) | 4,300 |
| 15,270 | 340 | 211,403 | 2,802 | 214,206 |
| 47 | 26 | 724 | – | 724 |
| 8 | 0 | 57 | (12) | 44 |
| 70 | 0 | 633 | (12) | 620 |
| 76 | – | 1,838 | – | 1,838 |

(Thousands of US\$)

| Welding | Others | Total | Corporate / Elimination | Consolidated |
|---------|---------|-----------|-------------------------|--------------|
| 402,543 | 3,936 | 8,633,049 | (449,525) | 8,183,524 |
| – | – | 21 | (21) | – |
| 402,543 | 3,936 | 8,633,071 | (449,546) | 8,183,524 |
| 4,685 | (5,326) | 45,732 | (6) | 45,725 |
| 162,365 | 3,616 | 2,247,780 | 29,800 | 2,277,581 |
| 503 | 285 | 7,704 | – | 7,704 |
| 95 | 2 | 613 | (134) | 478 |
| 751 | 0 | 6,733 | (136) | 6,597 |
| 814 | – | 19,544 | – | 19,544 |

Investor Information (As of March 31, 2013)

| | |
|--|--------------------------|
| Founded | November. 12 1946 |
| Number of Employees | 531 (Consolidated 1,204) |
| Fiscal Year | April 1 – March 31 |
| Ordinary General Meeting of Shareholders | June of each year |
| Authorised Share Capital | 270,000,000 |
| Number of Shares Issued | 88,605,625 |
| Number of Shareholders | 5,146 |

Principal Shareholders

At March 31, 2013, the ten largest Shareholders of the Company's Shareholders were as follows:

| | Thousands of shares | Investment Ratio |
|--|---------------------|------------------|
| Mizuho Trust&Banking Co., Ltd. (Kobe Steel,Ltd. Retirement Benefit Trust Account) | 19,062 | 21.52% |
| Kobe Steel, Ltd. | 11,791 | 13.31 |
| Client Stock Ownership | 6,104 | 6.89 |
| Sumitomo Mitsui Banking Corporation | 2,068 | 2.34 |
| Sinfonia Technology Co., Ltd. | 1,500 | 1.69 |
| Mr. Masayoshi Yamauchi | 1,320 | 1.49 |
| Employee Stock Ownership | 1,285 | 1.45 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,206 | 1.36 |
| Bank of Tokyo-Mitsubishi UFJ, Ltd. | 1,092 | 1.23 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,091 | 1.23 |

Note: The Investment ratio is computed excluding 34,174 shares of treasury stock held by Shinsho Corporation.

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