

Medium Term Management Plan 2023

May 20, 2021

- A trading company that supports manufacturing for future,
and contributes to society -

Corporate Philosophy

“Integrity” is Shinsho Corporation’s company motto. We are committed toward securing prosperity for our clients and shareholders through the creation of new values.

Core Values

1. Contribution to tomorrow's manufacturing
2. Corporate activities with compliance
3. Activities in global environment
4. Corporate culture respecting diversity
5. Realization of personal growth

Our company was established in 1946 as the trading arm for Kobe Steel, Ltd. and its affiliated companies focused on sales of nonferrous metal products and tools, and since then we expanded our business to include steel products, ferrous raw materials, machinery, welding electrodes, and electronics-related products, and secured our stable revenue structures.

On the other hand, the global steel industry is experiencing fundamental changes, and rapid growth of emerging Chinese steel producers has brought the production volume of Japanese crude steel down below 100 million tons per year, and new era of 80 million tons per year threshold is on the brink of arriving to us.

Also, the global trend targeting for carbon neutralization is bringing significant changes to our activities. To ensure the survival of the globe we live on into the future, we must focus on developing our economic activities with utmost care for the environment, while achieving sustainable growth.

We believe that, in addition to the existing business activities, it is essential for our successful growth to materialize development of each and every item of business opportunities one after another which may involve positive investments, which can contribute realize new sustainable society, and with this background we are determined to diligently perform this Medium Term Management Plan.

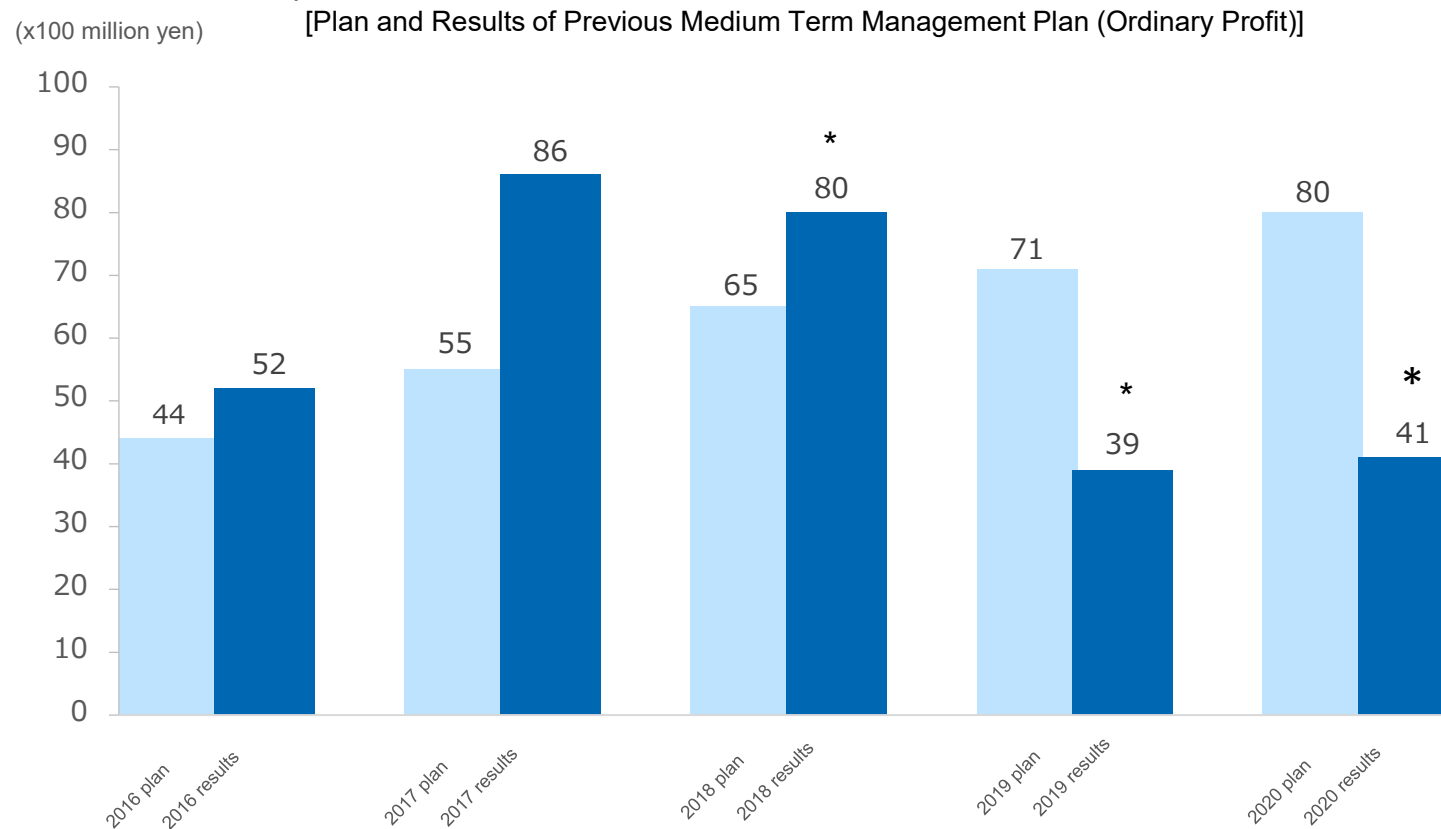
We welcome all changes as business opportunities, and while enhancing our stable revenue streams, we will spare no effort to challenge toward the creation of “new world, new era, and new values” to achieve further growth.

Contents

- 1** Review on the Previous Medium Term Management Plan
- 2** Overview of the Current Medium Term Management Plan
- 3** Activities Toward the SDGs

Review on the Previous Medium Term Management Plan

Looking at the grand total for the previous five years of our Medium Term Management Plans, our ordinary profit results were 30 billion yen as compared to the planned goal of 31.5 billion yen, so our target was substantially reached. However, in the past two years our performance has slow down due to the declaration of impairment for our North American energy-related businesses and the impacts from COVID-19.



➤ In FY2020, overall demand decreased due to the impacts of COVID-19.

* ➤ Our Iron & Steel segment recorded impairment for its North American energy-related businesses of 600 million yen in FY2018, 3 billion yen in FY2019, and 1.1 billion yen in FY2020.

| | | Key Measures | Review and Actions |
|--------------------------------------|-----------------------------|---|---|
| Acceleration of global businesses | North America Mexico | <ul style="list-style-type: none"> Enhancement of special steel businesses through coordination between local sales bases, special steel processing bases, and Japan. | <ul style="list-style-type: none"> Special steel businesses showed steady performance, and energy-related businesses implemented revisions. The business environment for Japanese-affiliated automobile manufacturers in Mexico changed due to US protectionist policies, and the withdrawal of our Mexican business companies was finalized. |
| | China | <ul style="list-style-type: none"> Expansion of transactions for Kobe Steel's Group companies focusing on Kobelco Trading (Shanghai), the automobile industry, and the LCD panel industry, among others. | <ul style="list-style-type: none"> Transactions expanded for Kobe Steel's Group companies and industries such as the automobile industry, including those aimed at EVs. |
| | ASEAN countries India, etc. | <ul style="list-style-type: none"> Application of internal regional networks to lead to expansion of transactions in the automobile and two-wheeled vehicle industry, and in segments such as Iron & Steel and Ferrous Raw Materials. Acquisition of infrastructure demand. | <ul style="list-style-type: none"> Investments in a Vietnamese aluminum processing company was expanded, and establishment of joint venture for construction machinery part production in India was finalized. |
| Business investments, new businesses | | <ul style="list-style-type: none"> Promotion of business investments aimed toward strengthening earnings bases, including M&As. (total investment amount of 30 billion yen or more) | <ul style="list-style-type: none"> SC Welding Corporation and MORIMOTO KOSAN were converted to subsidiaries. Kobelco Tsutsunaka Trading and Nakayama Corporation were merged, Shinsho Metals was launched, and business transfer of Tsutsumi Shindo was conducted. Total amount of investments remained at 10.5 billion yen. |
| Governance and risk management | | <ul style="list-style-type: none"> Thorough enforcement of risk management including compliance and occupational safety management, and enhancement of corporate governance. | <ul style="list-style-type: none"> Business & Risk management department was established. Risk management system was enhanced, with the Risk Management Committee designated as the advisory body for the Management Council. CSR Basic Policy was enacted. |
| Improvement of financial structure | | <ul style="list-style-type: none"> Enhancement of equity capital (50 billion yen or more). Construction of global CMS. Equity ratio of 20% or higher. ROE of 8% or more. | <ul style="list-style-type: none"> Equity capital reached goal of 50 billion yen. Operation of global CMS was started. Equity ratio was 19.5%, substantially achieving goal. ROE was 4.1%, so goal was not achieved. |

[ROA of Our Company and Other Companies in Same Businesses]

* ROA excludes business impairment of North American energy-related businesses, and associated losses

| | Our Company (*) | Company A | Company B |
|--------|-----------------|-----------|-----------|
| FY2017 | 2.9% | 4.8% | 4.7% |
| FY2018 | 2.8% | 4.2% | 4.9% |
| FY2019 | 2.5% | 3.7% | 4.5% |

Improvement of profitability

Enhancement of growth strategies

**Further reinforcement of
management foundations**

Overview of the Current Medium Term Management Plan

Environmental changes for steel market

- Decrease in domestic demand, due to declining birthrate and aging population, and expansion of overseas production by customers.
- Intensification of competition, due to changes in overseas markets toward the use of local materials and local parts.

Expansion of nonferrous product market

Expansion of demand for copper connectors, resulting from the progressing shift of components to aluminum associated with demand for lighter weights of electric vehicles, and the advancement of progress toward electrical equipment.

Rise in demand for renewable energy

- Increase in carbon neutrality in the power generation, steel manufacturing, and automobile fields.
- Increase in demand for renewable fuels and ferrous/nonferrous scrap.

Increase in demands by society, including the SDGs

- Rise in awareness of environmental protection (stricter regulations toward industrial waste).
- Stricter regulations in various countries for the handling of scrap and other substances.
- Rise in demands to address issues such as work style reforms and gender equality.

Social changes due to COVID-19

- Changes in consumption structure due to changes in living styles.
- Changes in business formats such as the spread of at-home work, and online business meetings.

Active financial and monetary policies by various countries

Active financial policies by various countries as COVID-19 measures.
Raw materials inflation due to increase of money supply.



As the business environment changes, manufacturing is also approaching an age of great reform. Our company's Group will aim to maintain and expand our competitive power, and provide new values, to promote business reforms and achieve continuous growth.

We will define “weight reduction of EVs and automobiles” and “resource recycling businesses” as our key fields, and work to respond to the demand for carbon neutrality.

Long-term management vision

A trading company that supports manufacturing for tomorrow and contributes to society

[Ordinary Profit (x100 million yen)]

Our goal in 10 years

Achievement of long-term management **vision**

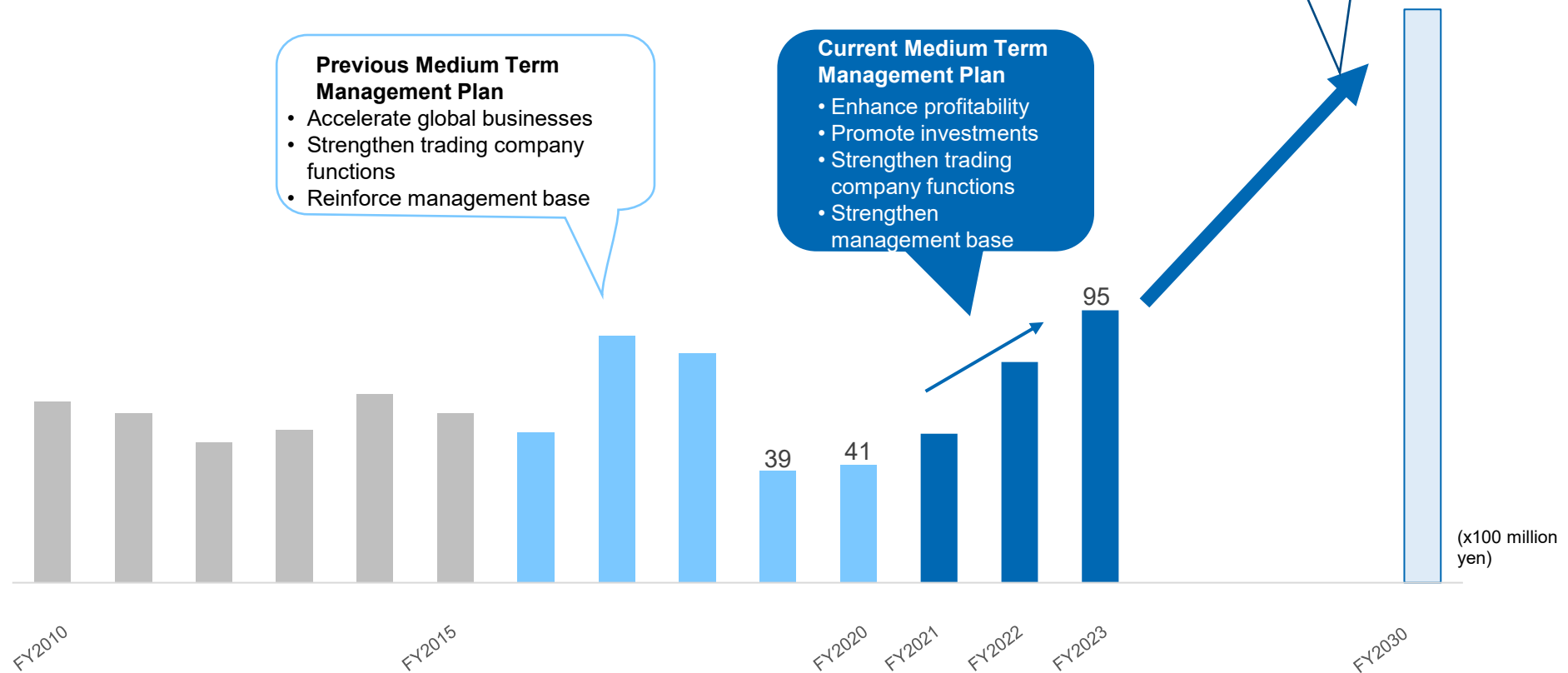
- A trading company that supports manufacturing for tomorrow and contributes to society -

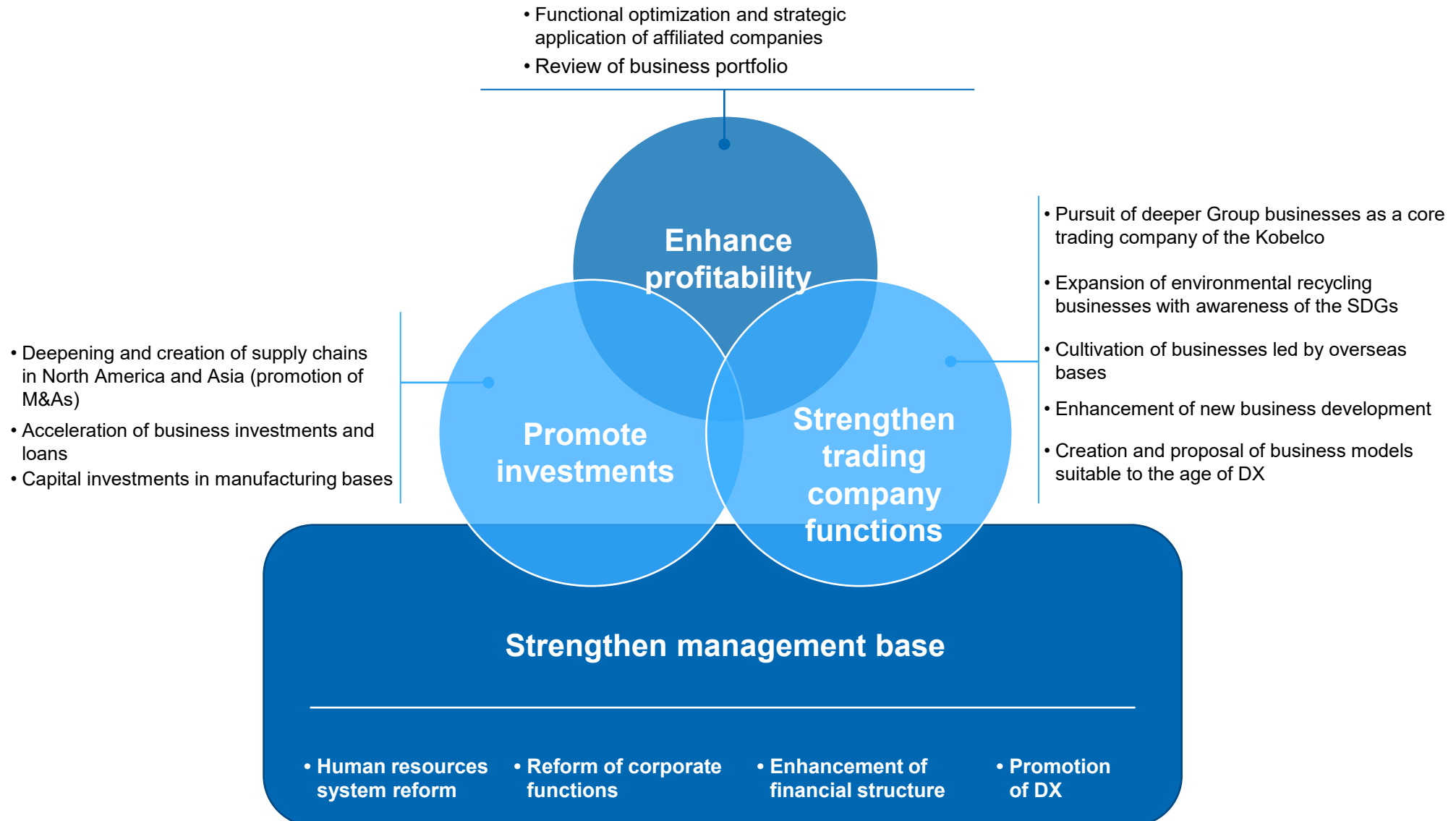
Previous Medium Term Management Plan

- Accelerate global businesses
- Strengthen trading company functions
- Reinforce management base

Current Medium Term Management Plan

- Enhance profitability
- Promote investments
- Strengthen trading company functions
- Strengthen management base





Promotion of investments to strengthen profitability, enhancement of trading company functions

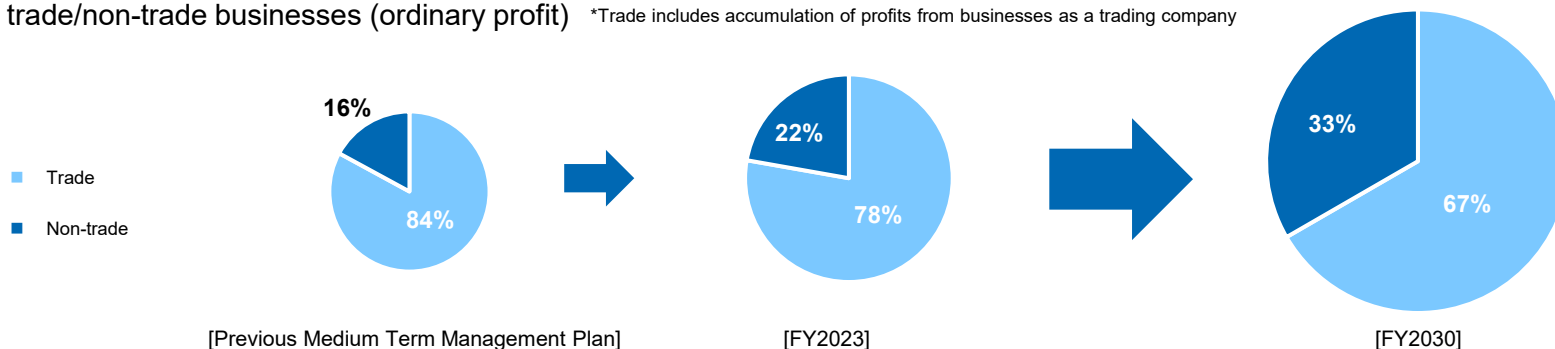
| Segment | Measures |
|--------------------------|---|
| Iron & Steel | <ul style="list-style-type: none"> • Diversification of purchasing sources, enhancement of processing functions, enhancement of supply chains through JIT response. • Enhancement of construction materials business. |
| Ferrous Raw Materials | <ul style="list-style-type: none"> • Expansion of transactions for steel scrap. • Establishment of foundations through expansion of transactions for biomass fuels and their commercialization. |
| Nonferrous Metals | <ul style="list-style-type: none"> • Expansion of processing bases, equipment augmentation for demand of weight reduction of EVs and automobiles. • Enhancement of aluminum and copper scrap recycling, and third-country transactions. |
| Machinery & Electronics | <ul style="list-style-type: none"> • Expansion of machinery maintenance business. • Expansion of overseas procurement of construction machinery parts. |
| Welding | <ul style="list-style-type: none"> • Enhancement of solution sales through advancement of technology. • Expansion of scale through M&As. |
| (Strategic subsidiaries) | Shinsho Steel Products, MORIMOTO KOSAN, Shinsho Metals, Shinsho Nonferrous Metals, Matsubo, SC Welding |
| Company-wide | Establishment of company-wide inter-departmental strategy team (M&A, new business creation). Development of businesses led by overseas bases. |

Medium Term Key Measures (by Industrial Field and Sales Region)

- Existing initiative
- New initiative

| | Japan | China and East Asia | Southeast Asia | North America | Europe | India and Middle East Africa, other |
|---|---|--|--|--|-------------------------------|--|
| Automobile fields (including various transport machinery) | ● Special steel | ● Aluminum plate materials ● Special steel | ● Connectors (copper) ● Welding materials | ● Special steel | ● Nonferrous metal processing | |
| Primary raw material fields (steel production raw materials, unprocessed metals) | | ● Kobe Steel Gr Nonferrous metals business raw material procurement | ● Ferroalloys | | | |
| Environmental recycling fields | ● Aluminum scrap | | ● Biomass fuels ● Miscellaneous electric wire scrap | ● Steel scrap procurement ● Biomass fuels | | ● Nonferrous raw materials |
| Architectural fields | ● Construction steel material and products | | ● Nonferrous metal processing | | | |
| Electronics fields (for secondary batteries, semiconductors) | ● Battery components ● Sputtering target | ● Precision aluminum processing | ● Aluminum thick plate cutting | | | |
| Construction machinery and equipment fields | ● Welding materials ● Construction machinery parts | | ● Machine maintenance | | | ● Construction machinery part joint ventures ● Thick plate fusing |

Ratio of trade/non-trade businesses (ordinary profit) *Trade includes accumulation of profits from businesses as a trading company



Arrange environments allowing employees to apply their abilities and work with the right people positioned in the right places, in order to be a company growing together with our people

Human resources system reform

- ◆ Introduction of new human resources system
 - Diversification of career routes
 - New establishment of region-limited regular positions
- ◆ Enrichment of training system
 - Fostering a corporate culture for continuous learning
 - Development of the highest professional competence
- ◆ Promotion of diversity
 - Creating an environments promoting women to be active.
 - Expansion of the responsibilities of overseas staff

Enhancement of corporate functions

Construction of risk management system

Enhancement of governance

- Compliance Committee
- Risk Management Committee
- Investment and Loan Committee
- Environment Committee
- CSR Committee

Enhancement of financial structure

- Promotion of interim target for ROE of 9% or more, ROE of 3%
- Reduction of cross-shareholdings

Promotion of DX

- Operational reforms, improvements to efficiency (introduction of RPA, promotion of EC)
- Work style reforms (promotion of at-home work, online meetings)

Enhance profitability

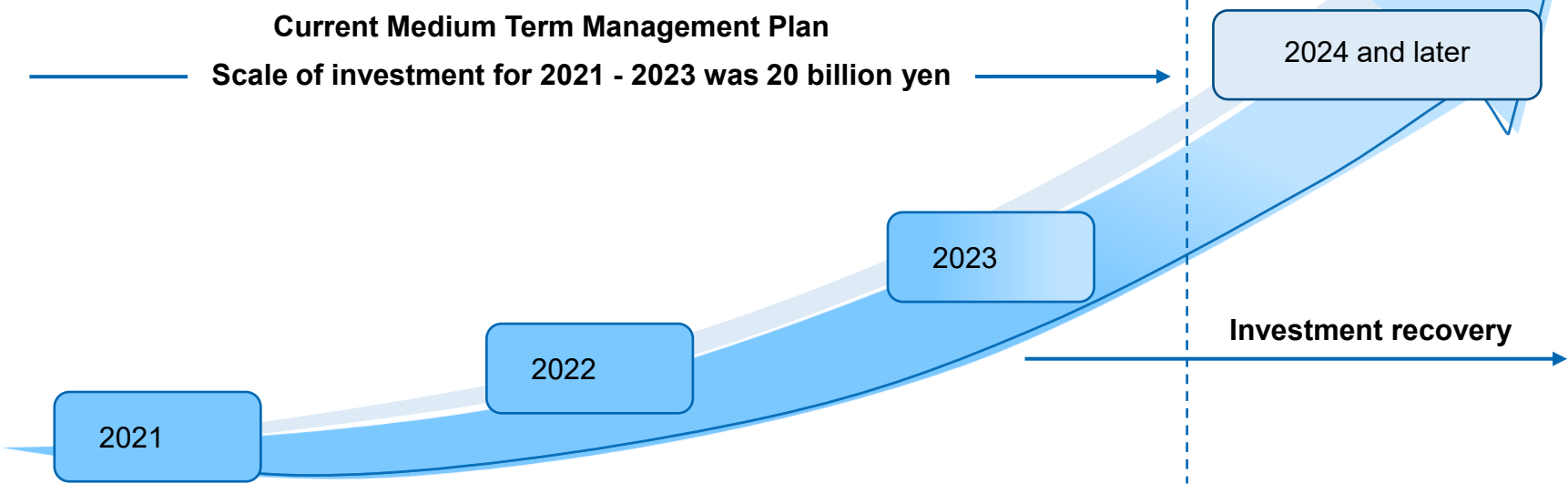
Promote investments

Strengthen trading company functions

Main M&As of Medium Term Management Plan, and investment plans

Investment period Recovery period

| Project Name | Investment Amount | Fiscal Year for Start of Recovery | | | |
|---|-------------------|-----------------------------------|------|------|----------------|
| | | 2021 | 2022 | 2023 | 2024 and later |
| Steel material processing businesses for automobiles (China, North America) | 2 billion yen | | | | |
| Environmental recycling businesses (Japan, Southeast Asia) | 3 billion yen | | | | |
| Aluminum processing businesses (North America, China, Southeast Asia) | 8 billion yen | | | | |
| Distribution reorganization through M&As (Japan, Southeast Asia) | 2 billion yen | | | | |
| Other: expansion of overseas channels and enhancement of supply chains | 5 billion yen | | | | |
| Total | 20 billion yen | | | | |



Average from previous Medium Term Management Plan

| | |
|-----------------|---------------|
| Ordinary profit | 6 billion yen |
| ROE | 7% |

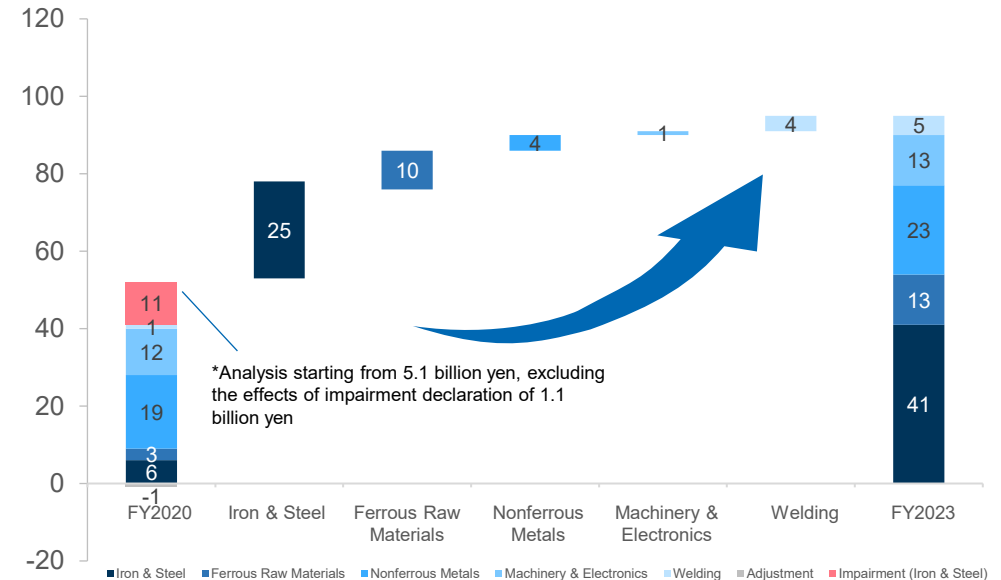


FY2023 goal

| | |
|-----------------|-------------------------|
| Ordinary profit | 9.5 billion yen or more |
| ROE | 9% or higher |

[Analysis of Differences between FY2020 Results and FY2023 Goals (by Segment)]

(Ordinary profit: x100 million yen)

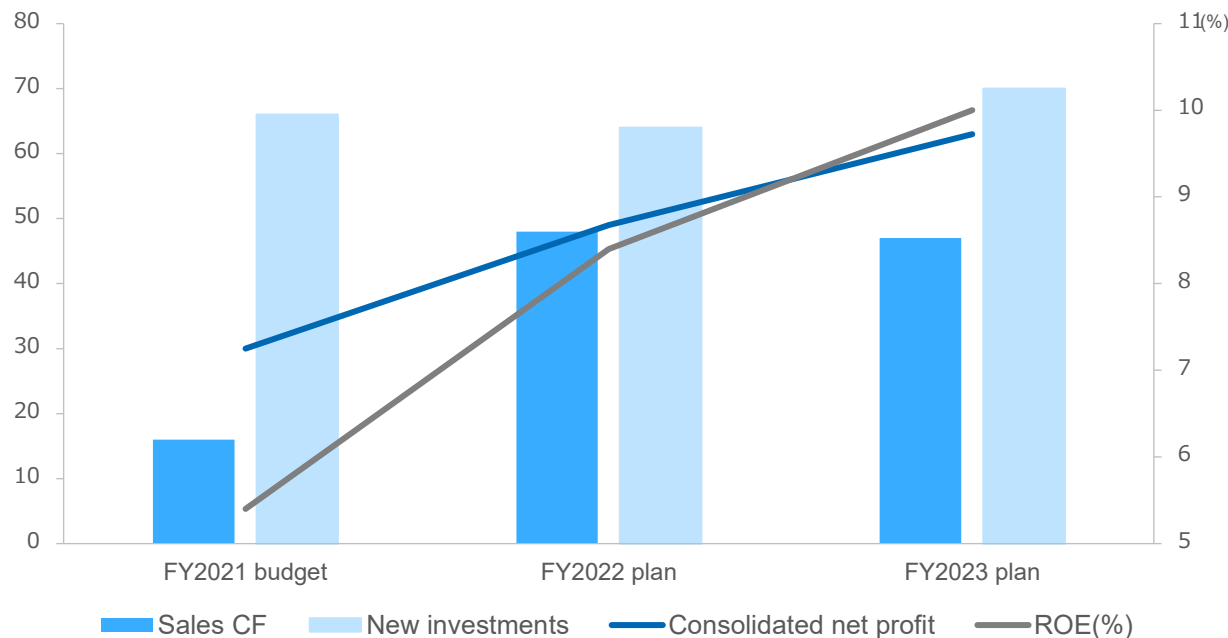


*FY2023 data incorporates adjusted values in each segment

| Segment | Major Elements of Profit Increase Plan |
|-------------------------|--|
| Iron & Steel | Overseas sales expansion and acquisitions to meet local demand (China, United States and others) |
| Ferrous Raw Materials | Expansion of handling of steel scrap and biomass fuels |
| Nonferrous Metals | Increase in handling of semiconductors, automobile components, and copper tubes for air conditioners |
| Machinery & Electronics | Expansion of overseas handling of construction machinery parts |
| Welding | Reorganization of distribution through M&As, enhancement of sales functions |

| | | | |
|-------------------------|---|--------------------|----------------|
| Consolidated net profit | | 3-year grand total | 15 billion yen |
| Sales cash flow | | 3-year grand total | 11 billion yen |
| New investments | M&As / capital investments | 3-year grand total | 11 billion yen |
| | Expansion of overseas sales channels and enhancement of supply chains | 3-year grand total | 9 billion yen |
| ROE | | 9% or higher | |
| ROA | | 3% or higher | |
| Equity ratio | | 20% or higher | |
| D/E ratio | | Roughly 1.0 times | |

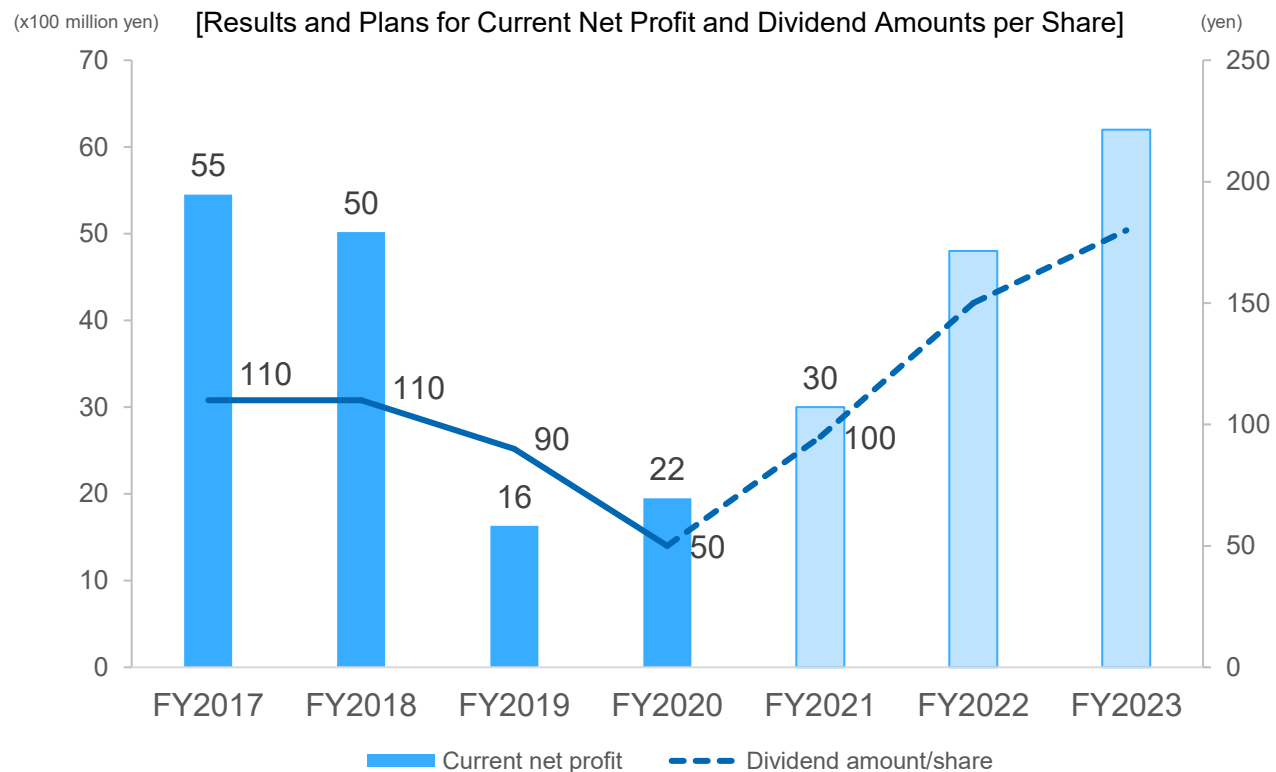
(x100 million yen)



Deploy **active investment strategies** through sales CF and improvement of resource efficiency














Aim for further expansion of profitability

| | |
|---------------------------------|---|
| Basic dividend policy | Considering enhancements to financial structure and internal reserves required for future business deployment. Maintain stable dividends with a targeted payout ratio of 30%. |
| FY2020 dividend | 50 yen/share (interim 15 yen/share, term-end 35 yen/share) Dividend payout ratio: 20.1% |
| Expected FY2021 dividend | 100 yen/share Dividend payout ratio: target of 30% |

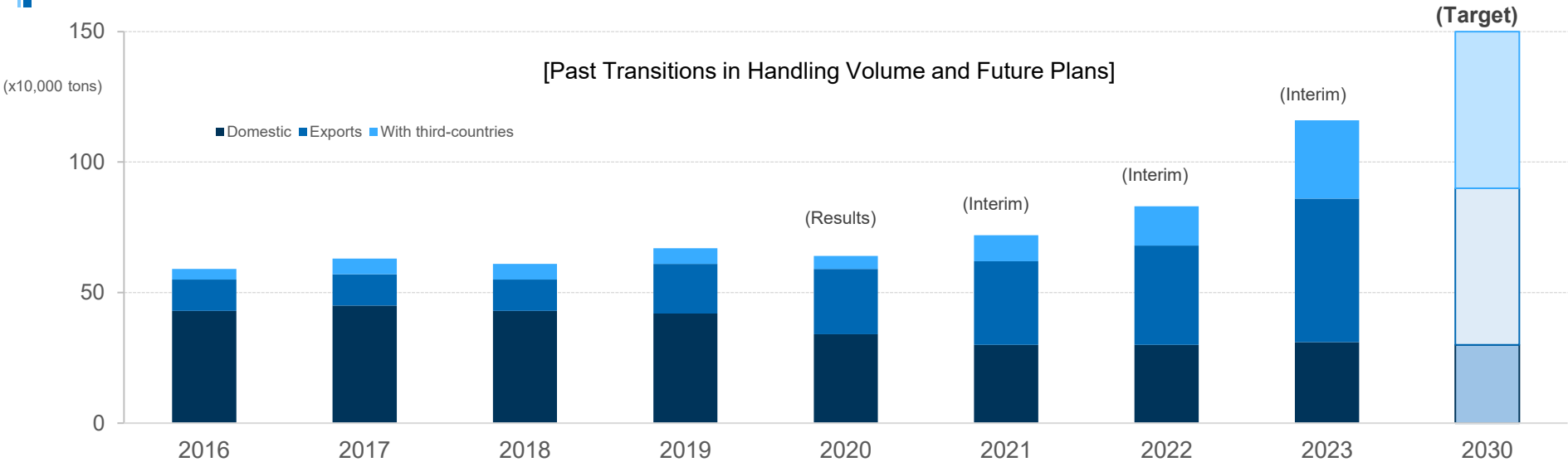


3

Activities Toward the SDGs

| SDGs Items | Our Company's Initiatives |
|---|--|
|   | <ul style="list-style-type: none"> • Increase handling of components for renewable energy equipment (Iron & Steel) • Recycling of ferrous and nonferrous metals (Ferrous Raw Materials, Nonferrous Metals) • Recycling of plastic for electric wire coverings (Nonferrous Metals) and reuse and recycling of solar panels (Nonferrous Metals) |
|  | <p>Construction of infrastructure which is safe and resistant to natural disasters (Iron & Steel)</p> |
|    | <p>Provision of renewable fuels such as PKS (coconut shells), wood pellets, and RPF (Ferrous Raw Materials)</p> |
|   | <p>Handling of ferroalloys manufacturing by using hydroelectric power (Ferrous Raw Materials)</p> |
|  | <p>Handling of lithium-ion batteries components for EVs (Nonferrous Metals, Machinery & Electronics, Welding)</p> |
|    | <p>Work style reforms, new human resources systems, promotion of employee health</p> |
|  | <p>Provision of relief supplies to developing countries as a part of CSR activities</p> |

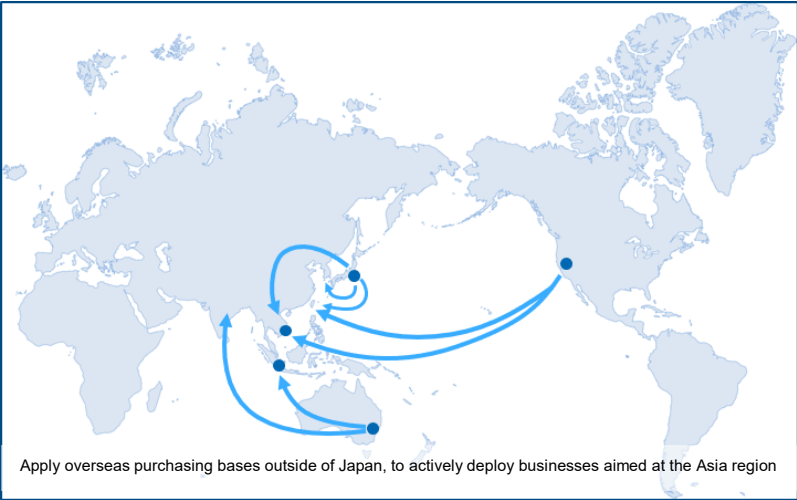
Activities toward global sales expansion of steel scrap



Three measures aimed at achieving targets

- 1 Enhancement of global management system
- 2 Enhancement of domestic and overseas purchasing
- 3 Skill improvement of sales personnel

Future vision of global deployment



Activities for stable supply of biomass fuels and commercialization of supply businesses

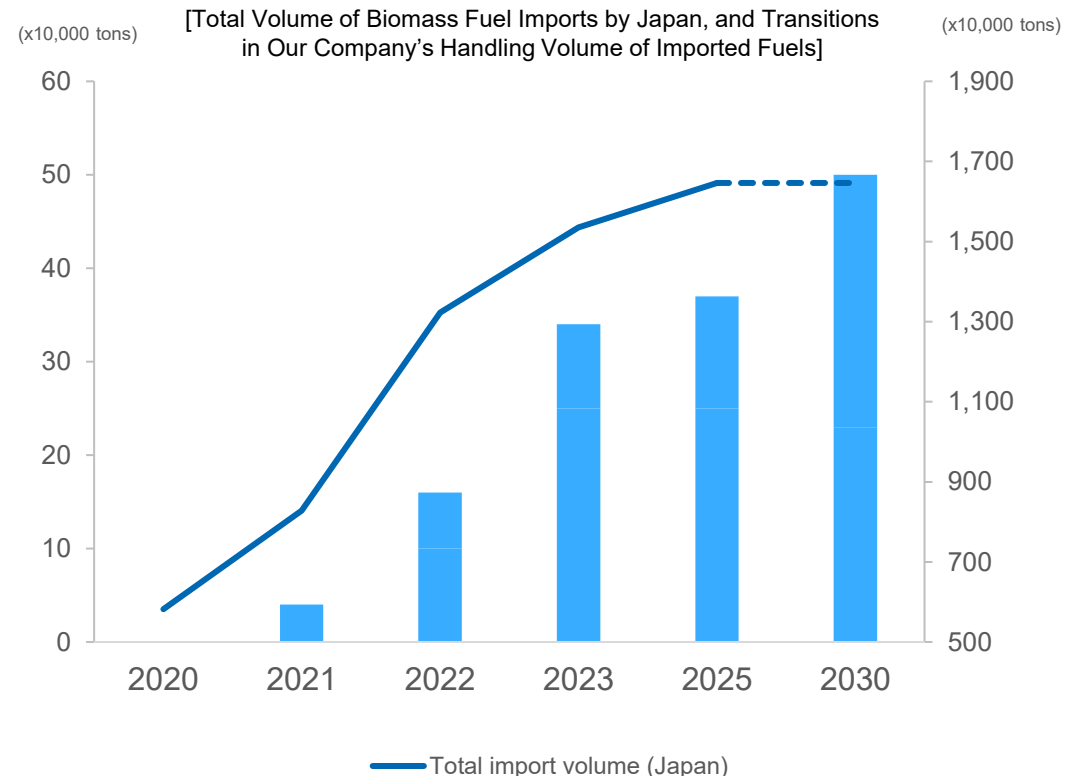
Initiatives in the Medium Term Management Plan

- ◆ Build supply chain and aim for biomass fuel handling volume of 500,000 tons, by establishing local PKS stock yards and enriching purchasing networks
- ◆ Expand handling of PKS and other alternative fuels through active business deployment (manufacture of EFB pellets and wood pellets, tree planting, etc.)

Initiatives in phases

Phase 1
(2021 - 2023) Produce performance results and build supply chain

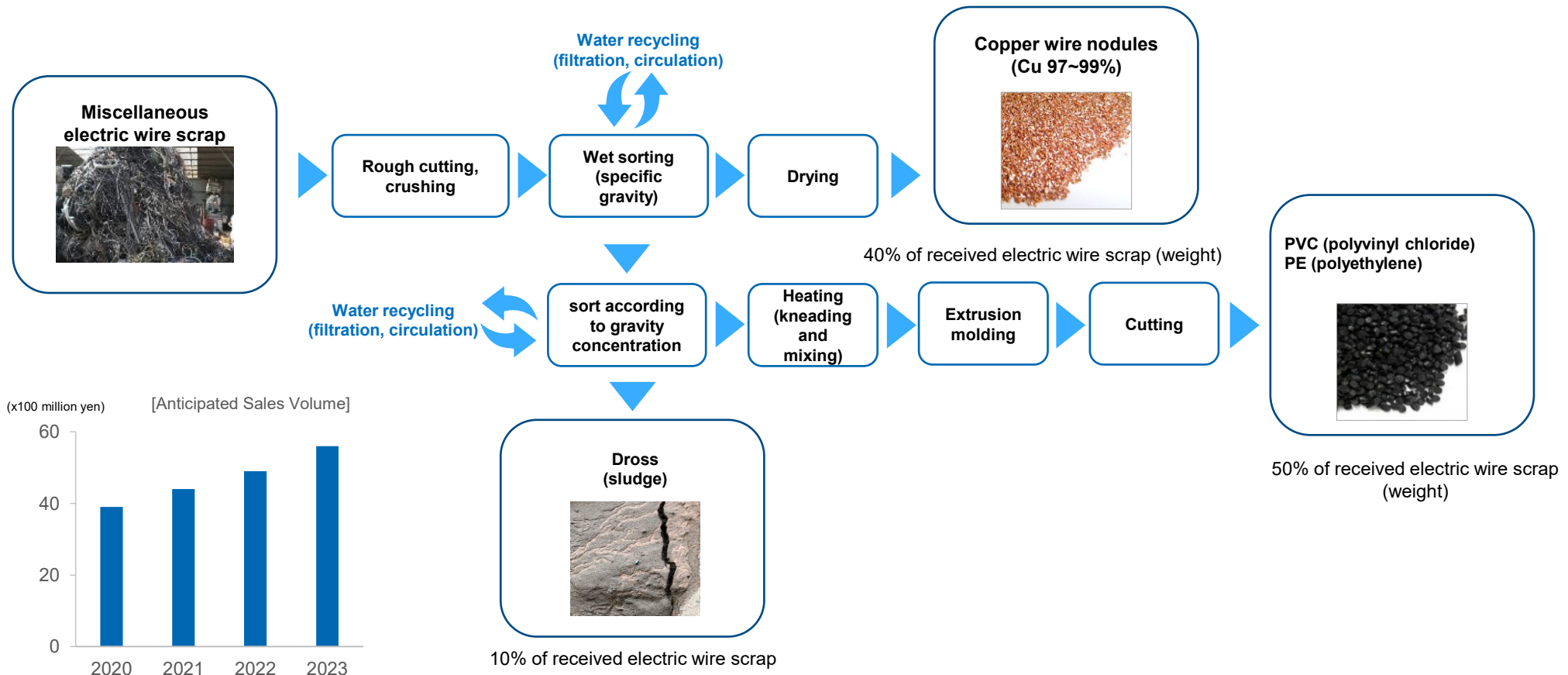
Phase 2
(2023 onward) Investigate commercialization of biomass fuel supply businesses



The SDGs and Our Company's Initiatives / Recycling of Miscellaneous Electric Wire Scrap

Trying to control to the great possible extent the effects of environmental burden by constructing processing systems.

The amount of wiring (miscellaneous electric wire scrap) generated domestically during building demolition is 100,000 tons per year. Currently, 40% of miscellaneous electric wire is recycled as copper wire nodules, but in actuality the remaining 60% is disposed of as industrial waste. On the other hand, our company is recycling as much as 90% under the following scheme together with local companies in Malaysia. In Japan, we aim to achieve complete recycling, which includes chemical recycling.



Overseas Networks

