KOBELCO
Kobe Steel Group



















Shinsho Corporation

Integrated Report 2023

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

We at Shinsho Corporation will pursue the kind of proposal-based business that only a manufacturer-affiliated trading company can offer. Leveraging our comprehensive capabilities as the core trading company of the Kobelco Group, we will further refine our support for manufacturing and the creation of added value that we have cultivated to date.
To achieve further growth together with our clients, we will continue our challenge of creating “a new world, new era, and new values”

Shinsho quality throughout the world

Shinsho Corporation has expanded its overseas bases based on a five-division structure: Iron & Steel, Ferrous Raw Materials, Nonferrous Metals, Machinery & Electronics, and Welding. We will continue to strengthen the functions of our overseas bases and work closely with our bases around the world in our efforts to deliver to all locations products and services of the same quality as we deliver in Japan, in addition to high value-added solutions for tomorrow.

Priority Initiatives	We have set “Reducing weight in EVs and automobiles” and “A Resource Circulation Business” as our areas of focus and are putting initiatives in place to respond to actions towards carbon neutrality.

Strengthen functions and cooperation in priority regions

East Asia (14 companies)

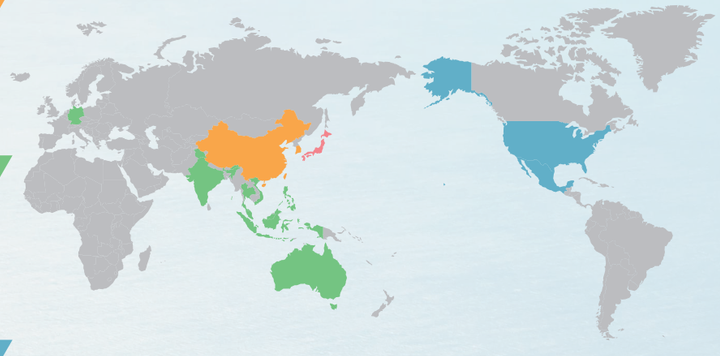
- Expand trading among Kobelco Group companies and in the automotive industry, LCD panel industry, and others, with Kobelco Trading (Shanghai) Co., Ltd. as a key player.
- Expansion of aluminum processing (Suzhou Coil Center and Kobelco Precision Parts (Suzhou) and (Yangzhou))

ASEAN, India and Middle East (19 companies)

- Expanding transactions in automotive/bicycle industry and in the field of ferrous and nonferrous raw materials through 19 companies’ network.
- Promote information gathering and intra-regional cooperation to capture demand in the infrastructure sector (Vietnam, Cambodia, etc.)

North and Central America (9 companies)

- Strengthening the wire material business in North and Central America through sales locations (North America, Mexico), secondary wire processing locations (North America) and closer connections with our operational center (Japan).





P43
Contribution to Tomorrow's Manufacturing





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.**



P59
Activities in Global Environment

Core Values

- Contribution to tomorrow's manufacturing
- Corporate activities with compliance
- Activities in global environment
- Corporate culture respecting diversity
- Realization of personal growth

Corporate Message

Designs for Business

Ongoing globalization and diversifying customer needs are rapidly changing the business environment.
How do we conduct our business so that products get to customers? How do we make connections between technology and society to create new value?
We at Shinsho Corporation have a distinct advantage: as part of the Kobe Steel Group, we view the world from the perspective of a global manufacturer dedicated to high quality production. We create perfect designs that will add value to your business.



Editorial Policy

Since 2022, Shinsho Corporation has been publishing an integrated report with the aim of providing all stakeholders—including shareholders and investors—with a more in-depth understanding of Shinsho's medium- to long-term value creation. For information not included in this publication, please visit our website.

https://www.shinsho.co.jp/english/

In addition, with reference to the International Integrated Reporting Framework (IFRS Foundation) and the "Guidance for Collaborative Value Creation" by the Ministry of Economy, Trade and Industry, the compilation is a concise summary of financial information as well as important nonfinancial information that affects corporate value.

Reporting period: April 1, 2022 to March 31, 2023
(Some corporate activities prior to April 1, 2022 and following March 31, 2023 are included.)
Scope of report: Shinsho Corporation and its Group companies
[Referenced guidelines]
- International Integrated Reporting Framework (IFRS Foundation)
- Guidance for Collaborative Value Creation by the Ministry of Economy, Trade and Industry

[Key Initiatives]
- Sustainable Development Goals (SDGs)
- Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Mediums for Information Disclosure



Integrated Report

Integrated report
https://www.shinsho.co.jp/english/ir/library/integrated_report.html

Detailed IR information
To our investors
https://www.shinsho.co.jp/english/ir/

Detailed information on sustainability
Sustainability report
https://www.shinsho.co.jp/english/csr/

Notes on Forward-Looking Statements

This report contains projections and forward-looking statements regarding the Company's plans, strategies, and performance for the future. These statements are not historical facts; rather, they are assumptions and beliefs based on information available to the Company at the time of issuance. It also involves risks and uncertainties related to economic trends, intense competition in the marine transport industry, market demand, fuel prices, exchange rates, and tax and regulatory systems. Please be aware that actual results may therefore differ from the Company's projections.

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Shinsho Corporation's Pursuit of Growth

This idea came to fruition in 1946 with the birth of the Taihei Corporation (precursor to Shinsho Corporation), the first manufacturer-affiliated trading company in postwar Japan handling Kobe Steel's products. At the time, manufacturers around the world were losing their production bases due to the war and their distribution functions were paralyzed. The founders of the company were passionate about supporting the future of manufacturing through a specialized trading company directly connected with manufacturers, and they strove to deliver high-quality products.
This spirit of "manufacturing" has been passed down from generation to generation in the rough and tumble of the times. Today, we still develop our proposal-based business as a specialized trading company from the perspective of manufacturing.

[Our history]

1940s-1960s

The Company was founded as the first postwar manufacturer-affiliated trading company, amid a shift of Japan's industrial structure from a military-driven to civilian-driven one. Thereafter, our business performance boosted in step with the rapid economic growth that is symbolized by the three booming economic times, namely "Jinmu," "Iwato," and "Izanagi," and we also entered overseas markets.

1970s-1980s

A wave of structural recession struck the world, the mass production- and mass consumption-era was over, and the distribution system also changed significantly. The Company worked to increase overseas bases and improve our management structure as functions expected of trading companies become increasingly diverse and complex.

1990s-2000s

Japan's economy found itself in a difficult situation due in part to effects of the collapse of the bubble economy, the Great Hanshin-Awaji Earthquake, and the collapse of the Lehman Brothers. During the time of sluggish performance in the iron and steel industry from 1999 to 2000, the Company reviewed its business leveraging its unique viewpoints and features cultivated so far.

2010s

Japan's economy was damaged by the Great East Japan Earthquake and the real economic growth rate remained low, despite the lift in stock prices due to Abenomics. We worked to strengthen the profit base that supported global expansion and further increased bases mainly in Asia, while actively implementing M&As and business investment and deepening Group business.

2020s

The Company celebrated the 75th anniversary in 2021 and formulated the long-term vision as our second founding. Aiming for a further leap forward, we have been engaged in activities including expansion of non-trade business, investments in new businesses, and SDG-related businesses.

Contribution to Tomorrow's Manufacturing

[Major events]

1946
Established as the first postwar manufacturer-affiliated trading company under the name Taihei Corporation.



Taihei Corporation Head Office Building

1960
Company name changed to Shinsho Corporation.

1961
Shinsho Corporation listed in the Second Section of the Tokyo and Osaka Stock Exchanges.

1966
The Shinsho American Corporation (now Shinsho American Corporation) was established.



The Shinsho American Corporation

1968
Shinsho Corporation is listed in the First Section of the Tokyo and Osaka Stock Exchanges.

1972
Conducted initial public offering.
(Capitalization: 2,812 million yen)

1975
Conducted second public offering.
(Capitalization increased to 3,930 million yen.)

1977
System of two head offices adopted, one in Osaka and one in Tokyo.

1982
Shinsho Metal Processing Corp. (now Shinsho Non-Ferrous Metals Corp.) established.

1986
Shinsho Metal Products Corporation (now Shinsho Steel Products Corporation) established.

1988
Thai Escorp Ltd. established.



Thai Escorp Ltd.

1995
Grand Blanc Processing LLC established.

1996
Shinsho Non-Ferrous Metals Corporation established.

1998
Shanghai Shinsho Trading Co., Ltd. established.

2001
Shinsho Steel Products Corporation established

2006
Capitalization increased (to 5,650 million yen) through issuance of new shares.

Suzhou Shinko-Shoji Material Co., Ltd. established.
Kobelco Trading (Shanghai) Co., Ltd. established.

Kobelco Trading (Shanghai) Co., Ltd. established.



Kobelco Trading (Shanghai) Co., Ltd.

2009
Osaka Head Office relocate to the current Yodoyabashi Square location.

2011
Matsubo Corporation acquired.

2014
Kobelco Tsutsunaka Trading Co., Ltd. acquired as subsidiary.

2015
KTN Co., Ltd. acquired as subsidiary.

2016
SC Welding Corporation acquired as subsidiary.

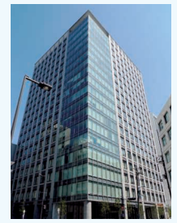
2018
Morimoto Kosan Co., Ltd. acquired as subsidiary.

2019
Kobelco Tsutsunaka Trading Co., Ltd. merged with Nakayama Corporation and changed the name to Shinsho Metals Corporation.

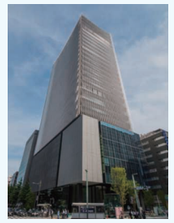
Tokyo Head Office relocated to the current location of Museum Tower Kyobashi.

2021
75th anniversary

2022
Shinsho Corporation transferred to the Tokyo Stock Exchange Prime Market.



Osaka Head Office



Tokyo Head Office

FY2022 (Consolidated)

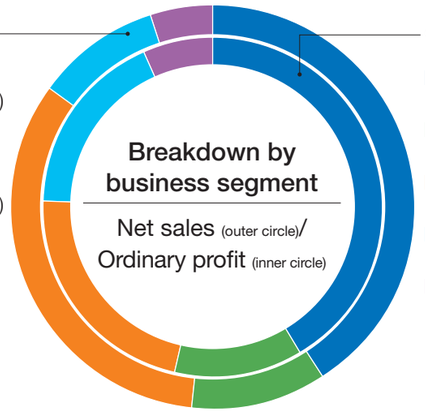
Net sales 584.9 billion yen / Ordinary profit 12.7 billion yen

● FY2022 overview

Gross profit increased across all segments.
The Iron & Steel segment enjoyed higher market prices for main raw materials and steel, although the handling volume decreased due to the drop in automobile production. The Nonferrous Metals segment posted a decline in profits due to the lower handling volume of rolled copper products, but the sales of aluminum for automotive applications remained strong at subsidiaries in China. The Machinery & Electronics segment saw higher handling volume of construction machinery parts, while business was buoyant for the Welding segment both in and outside of Japan. Thanks also to the strong performance at entities accounted for using equity method and other firms we have invested in, we posted earnings growth.

Net sales

- Iron & steel
  238.6 billion yen (up 18.3% year on year)
- Ferrous raw materials
  64.5 billion yen (up 42.6% year on year)
- Nonferrous metals
  194.5 billion yen (up 15.4% year on year)
- Machinery & electronics
  58.1 billion yen (up 4.9% year on year)
- Welding
  28.9 billion yen (up 23.8% year on year)



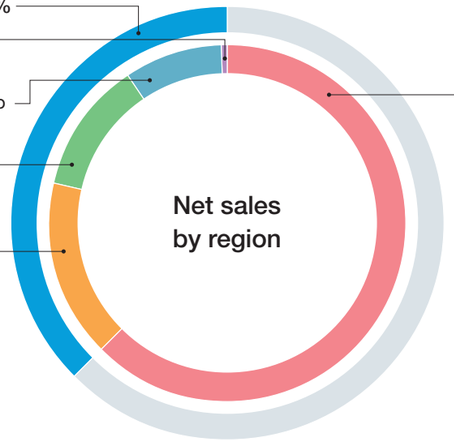
Ordinary profit

- Iron & steel
  5.1 billion yen (up 24.4% year on year)
- Ferrous raw materials
  1.5 billion yen (up 108.5% year on year)
- Nonferrous metals
  2.7 billion yen (down 11.8% year on year)
- Machinery & electronics
  2.2 billion yen (up 37.2% year on year)
- Welding
  0.8 billion yen (up 148.0% year on year)

The Company and its Group companies always ascertain the needs of customers and do business in places closer to their respective customers.

Overseas net sales ratio: 37.4%

- Other
  2.8 billion yen
- North America & Mexico
  51.0 billion yen
- ASEAN & India
  70.5 billion yen
- China
  94.2 billion yen
- Japan
  366.3 billion yen



Our customers

● Automotive field ● Shipbuilding field ● Iron & steel field ● Nonferrous metals field ● Construction field
● Machine tool field ● Electronic components field ● Semiconductor field ● Consumer electrical appliances field
● Precision instruments field ● Plant & engineering field ● Foodstuffs field ● Paper & pulp field ● Electric power field
● Aerospace field ● Petroleum & chemicals field, etc.

● Features of each segment

The Company aims to make Contribution to Tomorrow's Manufacturing using its domestic and global networks with the five business segments at the core.
For details, please refer to sections on each segment. (pages 43–56)

Iron & Steel Division	**Evolving a high-quality and stable supply chain.** The Iron & Steel Division procures and provides steel products from around the world according to the needs of each customer, with Kobelco Group products as its mainstay items. In its challenge to create new added value, the Division is also working to refine its know-how in supply chain building, including by setting up local secondary processing manufacturers abroad and enhancing logistics capabilities.
Ferrous Raw Materials Division	**Going beyond providing a stable supply of resources indispensable for the production of steel to contribute to decarbonization and the creation of a circular society by processing renewable products and fuels.** In this time when the needs of customers are changing in a drastic way, the Division aims to make full use of the network it has built across countries around the world to maintain a stable supply of resources indispensable for steel production, while also accelerating transactions in renewable products and fuels.
Nonferrous Metals Division	**Continuing to create high added value as a total production group** Nonferrous Metals Division has always been pursuing the satisfaction of its customers mainly with aluminum and copper products for automotive, semiconductor, and air conditioning applications, offering not only materials but also proposals that incorporate added value such as processing, assembly or recycling. Looking ahead, the Division plans to actively invest in resource recycling and exploration of new fields and technologies.
Machinery & Electronics Division	**Supporting our customers' manufacturing by providing reliable service.** The Machinery & Electronics Division plans to bolster its logistics capabilities and expand local maintenance bases, which will enable the Division to contribute to stable manufacturing work by providing maintenance services and delivering materials using a supply chain comprised of extensive and robust domestic and international networks.
Welding Division	**Offering new solutions that integrate IT with a wealth of knowledge on welding.** Welding Division is capable of providing total welding solutions including the welding materials of Kobe Steel, which has the largest share in the Japanese market, as well as welding raw materials, welding equipment, and welding robotic systems. In 2020, the Division and related Group companies underwent an organizational restructuring that strengthened its function as a trading company, allowing the Division to better serve its customers with new technologies and high added value.

Number of employees



1,404 (Consolidated)
561 (Non-consolidated)

(As of March 31, 2023)

Group companies



13 domestic companies
42 overseas companies
Total of 55 companies

(As of March 31, 2023)

Global expansion



70 bases

*Includes entities not accounted for using equity method.



Takafumi Morichi,
President and CEO

As we address our issues, we will strive to accelerate further growth by contributing to manufacturing.

Toward the creation of new value

Under our 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," we have led the industry since our establishment in 1946 as the first postwar steel manufacturer-affiliated trading company. As the core trading company of the Kobelco Group, we have introduced a variety of products, including steel, to the world and developed new products and businesses that contribute to the advancement of manufacturing. In doing so, we have grown into a highly unique trading company. On the occasion of our 75th anniversary in 2021, we set our long-term vision as "A trading company that supports manufacturing for tomorrow and contributes to society" and made a fresh start, positioning it as our second founding.

In 2022, we published our inaugural integrated report, in which I conveyed my President's Message with the two key themes of breaking away from our "naivete" toward the Kobelco Group and our determination to never give up. As it was not possible to convey the full background to that message at the time, I later held 12 explanatory sessions with about 90 employees in managerial positions of group head level or higher. In these sessions, I shared with them how I value the significance of "self-help," based on my own experiences and the lessons I learnt when I faced adversity in my days at Kobe Steel. Other points that I explained in more detail included that my use of the word "naivete" was not meant as a criticism, but as an expression of my expectation that we should be able to achieve more outcomes, the significance of our second founding, the hurdles we needed to overcome as a company listed on the Prime Market, and the kinds of changes that we needed to make to overcome those hurdles. External stakeholders also provided feedback that they were able to understand the Group in more depth. I now feel that we are well on the way to sharing the same direction that the Company is heading in with our stakeholders.

As we face the need to review our business model for the achievement of carbon neutrality, if we are to achieve sustainable growth, changes that are not merely an extension of the past will be needed. This will require revising our conventional thinking and approaches. I constantly encourage employees to think and act from their own initiative with a free mindset, instead of simply following a precedent. I believe that it is important to demonstrate the kinds of abilities that only humans possess, such as the ability to consider the appropriate actions and strategies according to the circumstances when responding to change and the ability to re-examine things from new perspectives. I am leading Shinsho Corporation in a way that will allow every one of our employees to update their own knowledge and awareness, so that we can form a flexible and agile organization.

Perception of the business environment

As we face complicated geopolitical risks, with the ongoing conflict between Ukraine and Russia and tensions between the United States and China, we are strengthening our initiatives to minimize risk. Also, amid the intensification of international competition, securing the appropriate human resources is becoming more difficult, and talent mobility is increasing around the world. I perceive a need to consider whether or not it is possible to maintain conventional employment models and whether such models will accommodate job-based needs.

Moreover, for the first time in several decades, there has been a significant change in the financial situation. Our company includes elements of trading company finance, in that we provide our clients with usance (essentially lending money through the provision of a grace period for payment) in the course of our business. Consequently, when interest rates rise, we are forced to consider the balance with profit margins and make difficult choices about whether or not to continue with certain transactions. For this reason, we will include ROIC in the next Medium Term Management Plan in an effort to strengthen our business portfolio management. We intend to continue working to enhance corporate value by visualizing capital efficiency in each division and implementing measures to improve it.

Progress of the Medium Term Management Plan

In the three-year Medium Term Management Plan launched in FY2021, we set an overall strategy aimed at realizing enhanced profitability and engaged in this strategy with an emphasis on management and employees facing the same direction. As a result, we have achieved record profits for two consecutive years, and we are now in a position to meet our profit targets in the final year of the Plan. While the favorable business environment has been a factor, it is entirely thanks to the hard work of our employees and the cooperation of our business partners that we have achieved this result.



On the other hand, our profit margin is lagging behind those of our peers, and I recognize this as our greatest issue. The major factor behind this situation is that we have accumulated few risk-bearing investments and loans. Unfortunately, at this point, we are short of our three-year business investment plan target of 20.0 billion yen. Given that the previous Medium Term Management Plan also finished without achieving our target, we knew that this was going to be our most difficult issue to address, and as suspected, it was a high hurdle to overcome. We recognize that business investment is imperative if we are to increase our profit margin and that now is precisely the time for us to sow seeds for the future. With about six months left of the current Medium Term Management Plan, we will face its targets squarely, without running away, and strive to accumulate projects that will lead to a higher profit margin.

To realize more active development of investment projects, it is vital that we build a culture that encourages us to take on bold challenges. I had already perceived the weakness in our "ability to explore" as an issue to address, and I believe that, no matter how long it takes, we need to nurture that ability for the sake of our future. To this end, we will strive to improve the willingness and ability of individuals to take initiative in this regard. Leveraging the DX that is currently being promoted, we intend to establish an environment in which individual employees can share useful information with each other in a timely fashion, to help us overcome the challenges we face.

▶ Details of Medium Term Management Plan 2023 Progress (p. 19)

Toward the formation of a new culture

I believe that, to overcome the issues that have become apparent, organizational reforms will also be necessary. Such reforms will help us to promote a culture in which every employee can speak up without reserve, even to people in different divisions, giving each other suggestions such as, "If it were me, I would be able to do this" or "Why don't you try this?"

Also, different business divisions have different environments, and not all of our businesses have the same flexibility and wealth of growth opportunities. For example, the Iron & Steel Division deals in large transaction volumes, and its transportation costs are also immense. As such, it could be described as a long-term, stable business with a limited number of clients. On the other hand, in the Nonferrous Metals and Machinery & Electronics businesses, whose transactions vary in scale, it is easier to try out growth opportunities and, if they fail, move onto the next challenge. Given this kind of background, the organizational cultures of those divisions also differ. It is not a matter of which is right or wrong, but, given that we will need to be more dynamic than ever if we are to grow on a global scale, my hope is that blending these two different cultures together will generate positive effects. We are also seeing a change in our clients in the Iron & Steel business. For example, with the progress being made toward local production for local consumption, if cars are to be made in China, the iron will be procured in China, processed in China, and sold in China. The same goes for the United States. Although our Iron & Steel business has a long history, our clients have started to change, so we, too, need to change.

Having said that, the fact is that, even today, it is this long-term, stable business that remains our most profitable sector. Therefore, unless we defend this business properly, there will be no future for us. In this respect, while defending this business, we also need to take offensive action, and I believe that this will require breaking down the walls of the organization while sharing information. As I have canvassed

the opinions of our employees in this regard, I am hearing voices of expectation for this kind of organizational reform, particularly among our younger employees. For the next Medium Term Management Plan, we are considering whether we can take action to break down, in a good way, the traditions that we have established over many years.

As our divisions that operate flexible businesses with many growth opportunities are able to move forward along with the current momentum, they have strong prospects for further expanding their opportunities with a little encouragement. However, we should also pursue growth opportunities in our long-term, stable businesses, even amid their difficult circumstances. We all share the same perception that the hurdle will be high. For this reason, instead of seeing it as an issue for just one division to address, I am considering providing support through such means as revising our organization and forming a dedicated team, so that we can address it as an issue for the entire Company. It is also important that we create a culture in which information, perceptions of the current situation, and issues are shared by everyone, so we will proceed with this as a matter of urgency.

Promotion of diversity

We have also established a project team for the promotion of diversity and launched initiatives in earnest.

An in-house awareness survey conducted prior to launching this initiative revealed that, while the need for diversity is being voiced everywhere in the world, understanding of its significance has been inadequate. Acknowledging that the management team, including myself, have failed to face this reality squarely until now, we have begun taking steady steps to give people a better understanding of the significance and necessity of our efforts. The project team is working with a high level of awareness, involving many people, so the management team will also take the lead in the promotion of diversity, receiving advice from the team along the way.

We are currently focusing on initiatives for the promotion of diversity in Japan, but we are also aware of the need for approaches that are suited to the characteristics of each country. I am particularly concerned about this point because, if we were to control these initiatives from Japan and make decisions based solely on Japanese values, the situation may be different or such approaches may be inappropriate. To establish a structure in which overseas subsidiaries can make their own decisions, we will also consider transferring more authority to locally-hired staff.

Contribution to the achievement of carbon neutrality

Our initiatives for the achievement of carbon neutrality have been making progress not only in Europe, but in Asia, China, and other regions. In the midst of such developments, we have designated "Electrification and weight reduction of motor vehicles" and "resource recycling businesses" as priority fields, and we are accelerating our responses to carbon neutrality. Our goal is to approximately triple the handling volume of environmentally friendly products (e.g., biomass fuel, cold iron materials) we handle in FY2030 compared with FY2022.



The Kobelco Group, of which the Shinsho Group is a member, possesses advanced technologies and a variety of products and services that contribute to reducing CO_2 emissions. It is aiming for growth by expanding sales of such products and services on a global scale. The Kobelco Group has the world's largest share in the Direct reduction ironmaking process, and Shinsho Corporation also has past project experience in this area. For this reason, we are considering another attempt at handling Direct reduced iron(DRI).

Maximizing stakeholder value

At a time when online communication has become more prevalent due to the COVID-19 pandemic, I have renewed my awareness of the importance of visiting customers in person. In fact, meeting customers face-to-face allows us to obtain more timely information, and the proximity between us, as a manufacturer-affiliated trading company, and our clients is becoming increasingly important. Our relationships with our business partners are something that we have long held most dear. Deepening and strengthening those relationships lie at the heart of the trading company's business.

We will continue to take pride in our manufacturing and support its peripheral businesses. The next Medium Term Management Plan will be a challenging one, as we aim to balance a variety of factors. They include focusing on both defense and offense and steadily pursuing our business once again, such as by meeting customers face-to-face, while responding to the various changes that are happening globally. There is a high degree of difficulty involved, but we will face those challenges head-on, without running away.

We pledge to continuously enhance our corporate value through dialogue with our stakeholders, and we look forward to your continued guidance and encouragement.

Value Creation Process

Since our foundation, our trade businesses have been the core of our operations. It is from those businesses that we ascertain supply and demand so that we may respond to the needs of our users, and we provide value in the form of finance, logistics, and product information to build a commercial distribution channel.
Two years ago, as we celebrated our 75th anniversary, we positioned this opportunity as our second founding, and we are now focusing on initiatives for the environment, human resources, and DX promotion within the Group, as well as working to expand our non-trade businesses, invest in new businesses, and engage in SDG-related businesses.

Input

Strengths cultivated as a manufactureraffiliated trading company

Intellectual capital/manufacturing capital

Efficient, high-value supply chain

Group capital

Workplace capabilities
Shinsho Corporation
Creating a new business structure by quickly catching information from the Kobe Steel Group
- Shinsho Corporation Group: 13 domestic companies, 42 overseas companies

Social capital

Long-standing relationships with commercial partners worldwide

Human capital

Highly individual, resilient human resources

Financial capital

Stable financial foundation

Natural capital

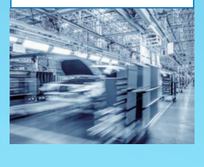
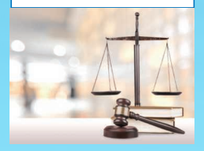
Efficient use of various resources

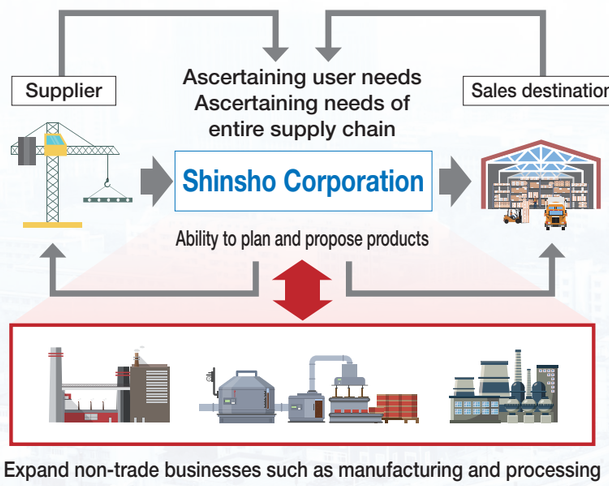
▶▶ P.17-18

Business model

Planning and proposals that lead to the resolution of social issues

Shinsho Corporation material issues ▶▶P.43-68

Contribution to tomorrow's manufacturing	Corporate activities with compliance	Activities in global environment	Corporate culture respecting diversity	Realization of personal growth
				



Expand non-trade businesses such as manufacturing and processing

Fortifying financial foundation

- Reforming human resources system
- Reforming corporate function
- Enhancing financial structure
- Promoting DX

Outcome

Realizing our long-term management vision: "A trading company that supports manufacturing for tomorrow and contributes to society"

Economic value

- ROE: 9% or higher
- Deb equity ratio: 1.0 times
- Capital ratio: 20% or higher



Social value

- Build high-quality, sustainable social infrastructure
- Create jobs and develop economies in emerging countries
- Decent work





Environmental value

- Reduce CO_2 emissions 46% reduction by 2030 (compared with FY2018)
- Fortify resource recycling business





Six Types of Capital That Support Value Creation

To realize our long-term vision, the Group is working to maintain and strengthen six types of capital that we have been building up since our foundation.

Intellectual capital/ manufacturing capital



Efficient, high-value supply chain

Overview

Leveraging our technological capabilities and expertise that are unique to a manufacturer-affiliated trading company, we make proposals from diverse supply sources to assist with our clients' value creation. We conduct business investments with an emphasis on the creation of businesses that will contribute to the realization of a sustainable society.

Features

- Ability to propose solutions to meet emerging needs
- Global supply structure and logistics expertise
- Ability to support overseas business development and launch
- Business investment target: **20.0** billion yen (FY2021–FY2023)

Maintenance and strengthening initiatives

- Enhancement of supply chain linkages through DX
- Acquisition of new expertise through M&As
- In-house training
- Introduction of highly-efficient equipment
- Further improvement of added value and thorough pursuit of QCD*

*QCD: Quality Cost Delivery

Group capital



Workplace capabilities

Overview

As the core trading company of the Kobelco Group, which has diverse business entities, we promote business opportunities in a process of selection and concentration, allocating personnel from the sales front through to the production front and analyzing the latest information.

Features

- Strengths in five Divisions: Iron & Steel, Ferrous Raw Materials, Nonferrous Metals, Machinery & Electronics, and Welding
- Obtain the latest information through cooperation with Kobelco Group

Maintenance and strengthening initiatives

- Integrated trading, from raw materials to finished products
- Meeting user needs with the comprehensive capabilities of the Group
- Contribution to each Division's sales through human resources exchanges

Social capital



Long-standing relationships with commercial partners worldwide

Overview

As a proposal-oriented, manufacturer-affiliated trading company that is fully qualified to talk about the value chain, we have established local subsidiaries for over 50 years, and we have built relationships of trust with our global business partners. We strive to build relationships so that we can continue to grow and prosper together.

Features

- Sales destination (Nonconsolidated) **2,157** (Domestic and overseas)
- Supplier (Nonconsolidated) **3,245** (Domestic and overseas)

Maintenance and strengthening initiatives

- Construction of sustainable supply chain
- Participation in industry associations
- Contribution to society through business activities

Human capital



Highly individual, resilient human resources

Overview

We have established a framework where "people who learn and act on their own" are commended, by which we will actively support employees to value their independence and enable them to continue to grow autonomously as a driving force for the promotion of diverse businesses.

Features

- Employees Consolidated: **1,404** Nonconsolidated: **561**
- Ratio of women in career-track positions **11.2**%
- Education and training expenses **126** million yen

Maintenance and strengthening initiatives

- Enhancement of human capital investment
- Periodic engagement surveys
- Establishment of a work environment that promotes diversity
- Promotion of health and productivity management

Financial capital



Stable financial foundation

Overview

We will allocate the cash generated through business activities and the sale of cross-shareholdings to growth investments and shareholder returns, to realize sustainable profit growth and enhance corporate value.

Features

- Equity capital **72.5** billion yen
- Interest-bearing debt **63.6** billion yen
- ROE **13.6** %
- Debt equity ratio **0.9** times
- Capital ratio **18.3** %

Maintenance and strengthening initiatives

- Diversification of financing instruments
- Enhancement of cash management
- Promotion of business portfolio reorganization

Natural capital



Efficient use of resources

Overview

Shinsho Corporation handles scrap metal and biomass fuels for the efficient use of finite resources. We have been contributing to the realization of a circular society since we were first founded. Setting "Activities in global environment" as a material issue, we are working on the efficient use of natural capital and the reduction of our environmental footprint.

Features

- Reduce CO_2 emissions by expanding transactions in resource recycling businesses such as scrap metal and biomass fuels
- Environmental management system (ISO 14001) certified
- Electricity consumption **1,038,000** kwh
- Solar power generation at production bases

Maintenance and strengthening initiatives

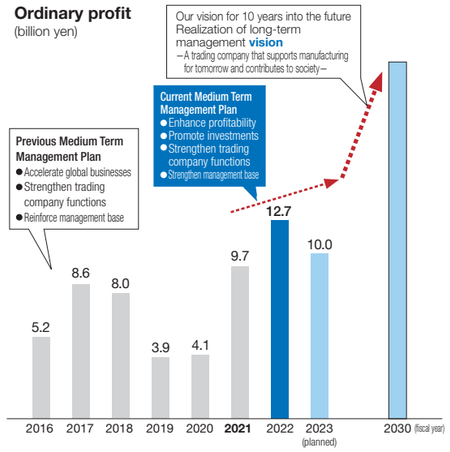
- Expansion of resource recycling businesses
- Promotion of introduction of renewable energy

Medium Term Management Plan (FY2021-2023) Progress

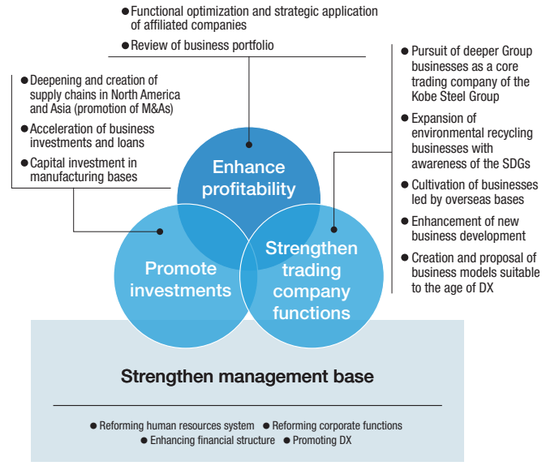
FY2023 is the culminating year of Medium Term Management Plan 2023.
The focal point of this final year of the Plan will be the continuation of investments and loans for the expansion of non-trade businesses. We will spur on new investments and work to enhance the corporate value of the companies in which we have invested.

Long-term management vision

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



Overall strategy



Awareness of business environment

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 products 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. The company's Group will aim to maintain and expand our competitive power, and provide new values, to promote business reforms and achieve continuous growth.

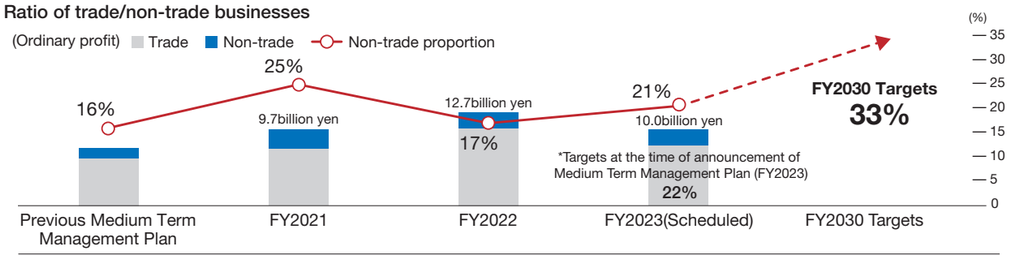
We will define "Electrification and weight reduction of motor vehicles" and "resource recycling businesses" as our key fields, and work to respond to the demand for carbon neutrality.

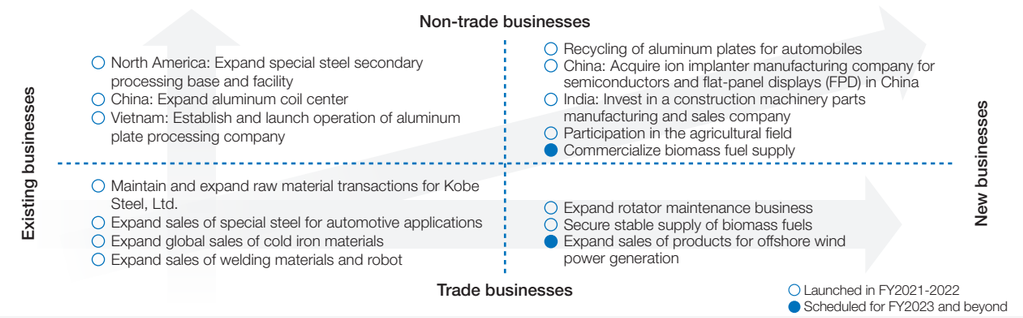
Enhance profitability

Progress in trade and non-trade businesses

While our trade businesses—which involve the buying, selling, and brokering of commodities—have accounted for the majority of our revenues, we intend to focus on cultivating businesses that contribute to the realization of a sustainable society and endeavor to enhance the corporate value of the companies in which we have invested. The Company will expand its operations and scale of business by seizing new trade business opportunities as its non-trade businesses expand.

Ratio of trade/non-trade businesses





Promote investments

Status of investments and loans

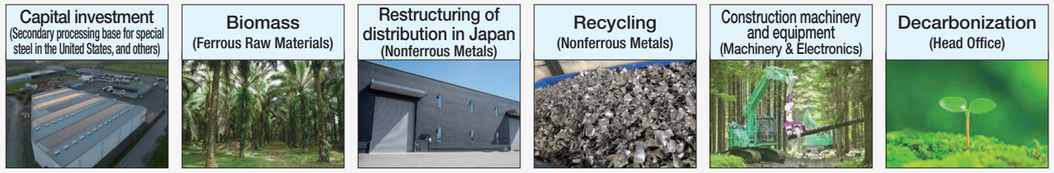
Under our Medium Term Management Plan, we plan to invest 20.0 billion yen over the three years. In addition to expanding the supply chain developed in North America and Asia, we plan to enter into product logistics for suppliers of materials and secondary and tertiary fabricated products, and strengthen processing and manufacturing facility functions, while also executing M&A and new investments.

Status of investments and loans

	FY2021 Results	FY2022 Results	FY2023 Planned	3-year total
Investments and loans	2.0 billion yen	3.0 billion yen	8.8 billion yen	13.8 billion yen
DX & IT investments	3-year total: 3.8 billion yen			
Total	17.6 billion yen (Investment scale at the time of development of Medium Term Management Plan: 20.0 billion yen)			

Major capital investment/investment and loans plans for FY2023

Major project areas (segments/bases)



Promote investments

Status of implementation of medium term key measures

Iron & steel : Increased secondary processing capacity for special steel for automotive applications in North America. Refer to p. 53 for details.

Ferrous raw materials : Started handling imports of biomass fuels. Refer to p. 45 for details.

Nonferrous metals : We are working to increase fabrication capacity and recycling of aluminum plates for automobile applications. Refer to p. 47 and p. 61 for details.

Machinery & Electronics : A construction machinery parts manufacturing company has been established in India as a joint venture and it began operations in September 2023. Refer to p. 49 and p. 54 for details.

Welding : Through M&A, we took over the solvent materials business of Air Liquide Japan, and started operation in January 2022.

	Japan	China/ East Asia	Southeast Asia	North America	Europe	India/Middle East/ Africa/Others
Automotive field (including various transport machinery)	●Special steel	●Aluminum plates ●Special steel	●Copper connectors ●Welding materials	●Special steel	●Nonferrous metal processing	
Primary raw material fields (Steel production raw materials, unprocessed metals)		●Kobe Steel Procurement of raw materials for the Group nonferrous metals business	●Ferroalloys			
Environmental recycling fields	●Aluminum scrap		●Biomass fuels	●Cold iron materials procurement ●Biomass fuels		●Nonferrous raw materials
Architectural fields	●Construction steel material and products		●Nonferrous metal processing			
Electronics fields (for secondary batteries, semiconductors)	●Battery components ●Target materials	●Precision aluminum processing	●Aluminum plate cutting			
Construction machinery and equipment fields	●Welding materials ●Construction machinery parts		●Machine maintenance			●Construction machinery part joint ventures ●Thick plate fusion

●Existing initiative ●New initiative

Strengthen trading company functions **Strengthen management base**

Promoting DX

The objective of DX promotion is to enhance corporate value, and we will simultaneously promote three approaches: “cultivating DX human resources,” “productivity improvement/work style reforms,” and “creating value from the customer’s perspective.” Under the supervision and leadership of the Corporate Planning Department’s DX Promotion Team, a DX supervisor has been appointed in each sales division to promote DX across all segments.

Under “cultivating DX human resources,” one urgent issue to address is the development of leaders who can serve as the driving force to design, plan and promote DX and digital business. We have set a target of developing 30 such employees in total from FY2022 to FY2024 (10 employees per fiscal year). We are also promoting the enhancement of digital literacy in all employees utilizing training and other methods.

In the area of “productivity improvement/work style reforms,” we will leverage digital technology to promote the efficiency of administrative tasks and communication, with the aim of increasing the importance of proper sales activities.

With regard to “creating value from the customer’s perspective,” in the interest of bolstering marketing, we are considering a system to share sales information such as customers, business inquiries, and sales activities—which have previously been shared only within sales divisions based on rules specific to each division—across the divisions.

FY2023 Key Measures

Cultivating DX human resources
- Cultivating promoters of DX
- Conducting company-wide DX training

Productivity improvement / work style reforms
- Company-wide deployment of sales information management system

Creating value from the customer’s perspective
- Consideration of supply chain business reform

Strengthen management base

Launch of Diversity Promotion Project Team and promotion of initiatives

In October 2022, a Diversity Promotion Project Team was launched with the aim of establishing a culture of mutual respect among our employees of diverse ethnicities, skills, and experiences, including women and global human resources. For the promotion of initiatives in this area, we sorted out the issues to be addressed based on interviews with our employees and with Group companies and other firms and compiled a range of measures to be taken, along with their order of priority, in our effort to instill understanding of the significance of diversity promotion. In June 2023, lunchtime sessions were held at our Head Offices in Tokyo and Osaka to report on the Diversity Promotion Project Team’s activities and give participants the opportunity to discuss the issue freely. In this inaugural employee-participation activity, participants were able to deepen their understanding of diversity by voicing their own opinions and listening to others. We will continue to hold these lunchtime sessions and promote the creation of appealing workplaces where people can demonstrate their individuality and work with vigor, irrespective of gender and ethnicity.

We will take on the challenge of creating “a new world, new era, and new values” through the promotion of diversity, so that the Company and employees can achieve even further growth. Refer to pages 65–67 for details.



Diversity Promotion Project Team



Lunchtime session

Progress on key KPIs

We have achieved most of the targets for each of the key KPIs in the Medium Term Management Plan for FY2022. We are also on track to meet the targets for FY2023, excluding ROA and capital ratio. We recognize fund efficiency as an issue to address, as the increases in trade receivables and product inventory due to higher sales are pushing down ROA and capital ratio.

	Medium term target values	FY2021 results	FY2022 results	FY2022 achievements	FY2023 Forecast
Ordinary profit	FY2023: 9.5 billion yen or higher	9.7 billion yen	12.7 billion yen	Achieved	10.0 billion yen
ROE	9% or higher	12.0%	13.6%	Achieved	9.5%
ROA	3% or higher	3.0%	3.3%	Achieved	2.4%
Capital ratio	20% or higher	17.3%	18.3%	Not achieved	18.2%
Debt equity ratio	Around 1.0 times	1.1 times	0.9 times	Achieved	0.9 times

Message from the Chief Financial Officer



FY2022 results and FY2023 forecast

In FY2022, the global economy exhibited a moderate slowdown due to factors such as the prolonged Russian invasion of Ukraine and the raising of policy interest rates in Europe and the United States to combat rising inflation. Under these circumstances, while we felt the effects of the downturn in automobile production caused by semiconductor shortages, we also benefited from higher market prices of major raw materials and steel. Further, the impact of the falling yen helped to push up profits, and our revenue improved significantly from the previous fiscal year, primarily in the Iron & Steel and Ferrous Raw Materials segments. As a result, net sales totaled 584.9 billion yen, ordinary profit was 12.7 billion yen (up approx. 1.3 times year on year), marking a new record high for the second consecutive year, and net income attributable to shareholders of the parent was 9.2 billion yen (up approx. 1.3 times year on year).

Our results are particularly susceptible to the impact of automobile production and semiconductor supply and demand, and we do not foresee a rapid recovery by the Japanese automakers in North America and China in FY2023. In terms of semiconductor demand as well, with the previous year's slump forecast to continue, particularly in the Asian region, negative growth is predicted for the first time in four years. Due to this and other factors, the business environment remains unclear. Also, amid interest rise risks, we have budgeted for increases in selling expenses and general and administrative expenses to reinvigorate sales activities as the pandemic has subsided. As such, for FY2023, we forecast net sales of 652.0 billion yen and ordinary profit of 10.0 billion yen.

Change in ordinary profit by business segment

	FY2021 results	FY2022 results	FY2023 Forecast	Change from FY2022 (%)
Iron & Steel	4.1 billion yen	5.1 billion yen	4.4 billion yen	(14.4%)
Ferrous Raw Materials	0.7 billion yen	1.5 billion yen	1.5 billion yen	+ 0.1%
Nonferrous Metals	3.0 billion yen	2.7 billion yen	2.2 billion yen	(17.8%)
Machinery & Electronics	1.6 billion yen	2.2 billion yen	1.3 billion yen	(40.1%)
Welding	0.3 billion yen	0.8 billion yen	0.6 billion yen	(25.4%)
Other	(0.1 billion yen)	0.4 billion yen	0.0 billion yen	—
Total	9.7 billion yen	12.7 billion yen	10.0 billion yen	(21.1%)

Medium Term Management Plan 2023 progress

With "Strengthen management base" as the cornerstone, all of the themes of our Medium Term Management Plan are essential to the sustainable development of Shinsho Corporation. While advancing our trading company functions, we will accelerate investments and loans and reorganize our business portfolio to better suit the changes in the business environment, in our aim to improve our profitability.

In particular, our plan is to make 20.0 billion yen in investments and loans over the three years of the Medium Term Management Plan, which includes 3.8 billion yen in DX/IT-related investments in addition to business investments. In the Iron & Steel Division, we have invested in the expansion of facilities at our company processing wire rods in the United States and in the Nonferrous Metals Division, we have executed an investment for the full-scale launch of an automotive aluminum panel recycling business.

In the latter Division, this fiscal year, we acquired the nonferrous metal wholesale business of INAGAKI-SHOUTEN Co., Ltd., a trading company specializing in nonferrous metals headquartered in Osaka. With this acquisition, we are working to strengthen our business through the further expansion of our customer base, including newly incorporating a business model of high-mix low-volume procurement and sales.

We are also undertaking the reform of the human resources system, and corporate functions, enhancing the financial structure, and promoting DX as key issues for strengthening the management base. Our progress in each of these areas is as follows.

Reforming human resources system

We believe that the most important issue to focus on in the reinforcement of our management base is human resource development. With the aim of developing and producing people who learn and act on their own, that is, the kind of people the Company needs, we have recently revamped our human resources system. The objective of this revamp is to transform into an organization in which employees can make proposals to and co-create with the management team and their superiors by themselves and involve others in their own and other Divisions to take on the challenge of new value creation. We have introduced a new personnel system in which employees can change courses to aim for a career path toward a managerial position or switch their professional group to an area-limited career-track after joining the Company. We are pursuing activities that will allow our employees to work with enthusiasm.

With the aim of fostering a corporate culture of continued learning and developing human resources who are capable of taking charge of corporate management, we have introduced a rotation system to enable employees to systematically acquire the skills necessary for corporate management. This includes broadening their horizons by transferring them to other business Divisions and improving their management skills by seconding them to Group companies.

Through the lens of promoting diversity, the project team launched in FY2022 is playing a central role in extracting issues from employee feedback and fostering a culture in which employees' individual characteristics and abilities can be fully demonstrated.

Reforming corporate functions

In April 2022, in the interest of further strengthening our commitment to sustainability, we formed the Sustainability Committee and identified our Basic Policy for Sustainability and important sustainability issues (material issues). Amid growing global interest in the SDGs and TCFD, we recognize that sustainability initiatives are an important management issue for medium- to long-term corporate value enhancement, and we are working to promote sustainability management and strengthen and improve our governance system.

In addition, the effectiveness of the Board of Directors was assessed by a third-party organization in FY2023, following a similar assessment the previous year. The evaluation showed that the Board of Directors was generally effective. It also confirmed that, among the issues identified in the previous fiscal year, our steady efforts resulted in improvements in the areas of implementation of officer training to contribute to more vigorous discussion in the Board of Directors and the deepening of discussion related to sustainability-related issues. On the other hand, the third-party assessment led to the recognition that, for the further improvement of effectiveness, in terms of communication with stakeholders, including shareholders and investors, we need to provide appropriate feedback to the management team on opinions and suggestions obtained through dialogues and utilize them in the management of the Company. The assessment also recognized the need for opportunities for discussions related to promotion of management conscious of capital cost and stock prices as well as the need for deeper supervision related to evaluation and remuneration of officers.

Message from the Chief Financial Officer

Enhancing financial structure

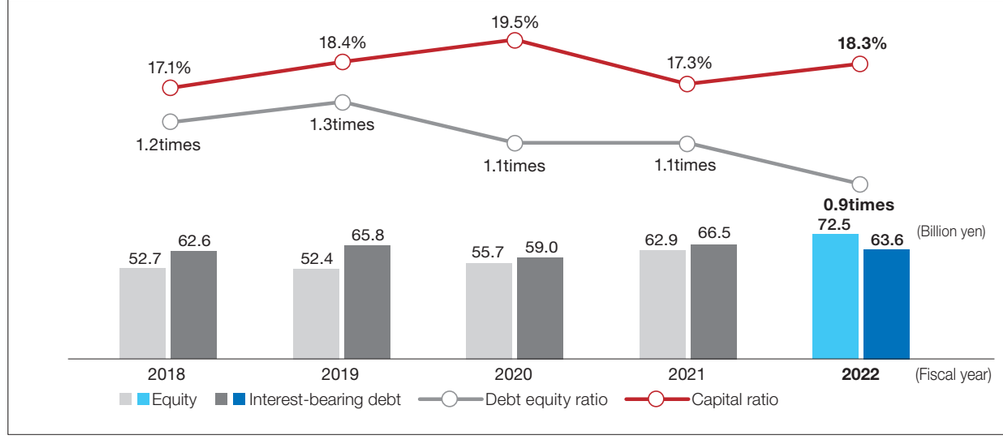
Regarding the numerical targets set forth in the Medium Term Management Plan, ROA and capital ratio are forecast to fall short of their targets, and we recognize that continuing to enhance profitability is a financial issue. In the past few years, we have transformed our structure to one that can earn money by clearing negative assets. Examples include the withdrawal of business companies in Mexico and India and the optimization of energy-related business inventories in the United States. We are also actively working to increase the added value of our trade businesses through functional enhancements and to expand non-trade business profits through investments and loans.

M&A and investment plans will primarily be funded from cash flow. In addition to cash flow from operating activities, we will apply the cash flow from the sale of cross-shareholdings and other assets to investment, but we recognize that the diversification of fund raising is still one of the issues to address. Although it has been some time since we issued corporate bonds, we hope to raise funds through direct financing in the future. To this end, having maintained a debt equity ratio of around 1.0 times and ensured financial discipline, we are working to secure financial stability and achieve effective management, while pursuing stable business and growth investments with an awareness of raising our credit rating and an emphasis on our balance sheet. Moreover, to further enhance sustainable corporate value and strengthen our business portfolio management, we are considering the inclusion of ROIC in our next Medium Term Management Plan. By visualizing capital efficiency in each Division, we will focus not only on the amount of profit, but on profitability against invested capital.

Preparations for interest rate hikes in the near future remain a point of concern, and we will explore ways of improving profitability and expanding our business with interest rate rise risk in mind.

Balance sheet status

Medium Term Management Plan targets: Capital ratio of 20% or higher, debt equity ratio of about 1.0 times



Promoting DX

For DX, we are comprehensively reviewing our existing business, values, and organization to break free from the status quo, contribute to society, and achieve sustainable growth. Setting the objective of DX promotion as enhancement of corporate value, we will simultaneously promote three approaches: “cultivating DX human resources,” “productivity improvement/work style reforms,” and “creating value from the customer’s perspective.” Since cultivating DX human resources is the key to achieving this goal, in addition to helping human resources recruited internally to upskill by providing specialized training, we are working to make more efficient the operation of high-burden work, to clarify the data that will lead to the creation of customer value, and to develop a mechanism for the collection and collation of these data.

Reorganization of business portfolios by increasing non-trade proportion

To enhance profitability, we are expanding the proportion of non-trade businesses and rolling out a variety of initiatives in each segment with a focus on the growth markets of “Electrification and weight reduction of motor vehicles” and “resource recycling businesses.” In terms of investment, we are considering initiating greenfield investments, but we believe that M&A is effective in swiftly acquiring the business itself, including high-quality human resources and technologies.

In recent years in the nonferrous metals field, we have acquired and integrated three Japanese distribution companies to form a new company, Shinsho Metals Corporation. While increasing profitability through efficiency improvements achieved by the reorganization of our business, we are working to expand the products that we handle, in our efforts to improve consolidated profit. In the welding field, in addition to transferring the business that Shinsho Corporation had been conducting to an affiliated company, SC Welding Corporation, we took over and used other methods to acquire related businesses from other companies with the aims of expanding our products and improving sales efficiency. These moves have resulted in increased profitability.

In 2022, we invested in the UMI No. 3 Decarbonization Investment Limited Partnership (UMI Decarbonization Fund). We also invested in an agricultural production company that aims to develop high-density forced cultivation that is completely free of agrochemicals and unaffected by climate change. The objective of these investments is to further strengthen our initiatives toward climate change, including in the decarbonization area. Another aim is the creation of new businesses that will give us a foothold for entering business areas that are new territory for our company.

To prepare for electrification and weight reduction of motor vehicles, Suzhou Shinko-Shoji Material Co., Ltd. in China expanded its leveler shear capacity in response to increased demand for aluminum. In the resource recycling businesses as well, we are expanding global sales of cold iron materials and developing the nonferrous metal scrap recycling business. We are also increasing our knowledge in the decarbonization area by securing stable supplies of biomass fuels and handling LNG transport-related equipment, thus steadily preparing to develop business in this area.

Going forward, we will increase profitability including by using options such as switching investees, and secure cash flow to pursue investments. While doing so, we aim to achieve a non-trade proportion of 33% by FY2030 and chart a trajectory toward sustainable growth.

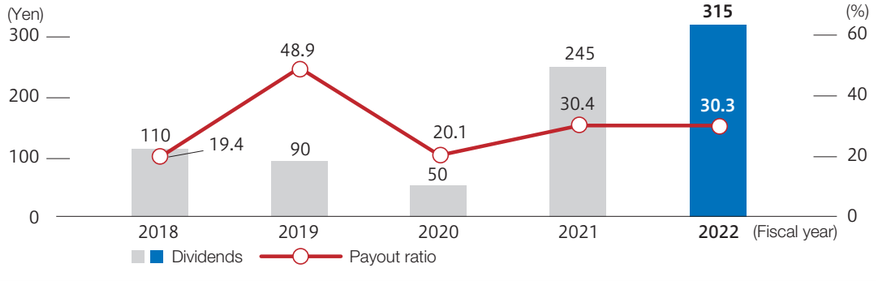
Shareholder return policy

Shinsho Corporation regards the return of profits to shareholders as one of our most important management issues. Our basic policy is to continue to pay dividends commensurate with each fiscal year’s performance, while taking into consideration factors such as enhancements to financial structure and internal reserves required for future business deployment.

Based on the above policy, we have set the annual dividend per share for FY2022 at 315 yen (up 70 yen from the previous year). As for dividends for FY2023, we will continue to pay dividends based on business performance as in the previous year.

Dividends

Targeted payout ratio of 30% as set forth in the Medium Term Management Plan
Achieved target dividend payout ratio of 30.3% in FY2022



Human Resources Strategy toward Realization of Long-Term Management Vision

To promote the business strategies of the Medium Term Management Plan and realize the long-term management vision, it is essential to strengthen the management base. It is also important to cultivate and produce people who learn and act on their own, which is the objective of our human resources system reform.

Based on the human resources system and development system that were revamped in the previous fiscal year, we are working to foster a corporate culture of continuous learning and to develop the managers and professionals of tomorrow.

Organizational goals

Create new value through proposals and co-creation with management and supervisors, and by engaging with people inside and outside the department.

Backcasting: Praised for moving closer to achieving the desired goal.
Spirit to take on challenges driven by curiosity: Proposal-driven, incorporating our own curiosity and ideas.
Interconnection: Diverse individuals collaborating beyond their own affiliations.

Key points for the realization of the business vision	Key points for the realization of the organizational vision	Human resources policy
Imagine potential needs	Backcasting	**Wider and higher antennas** Instead of simply becoming constrained by the business at hand, **start from a desirable future vision, then look backward to the present.**
Trial and error with no preconceptions	Spirit to take on challenges driven by curiosity	**Excitement like you've never seen before** Enjoy the **challenge of creating new value** by changing familiar ways of doing things and utilizing each individual's diverse ideas, without being overly bound by the requirements of our work.
Maximize stakeholder value	Interconnection	**Involvement that expands possibilities** Create **relationships of mutual growth** by working together across organizational boundaries, believing in possibilities, and setting high expectations.

Education system that produces people who learn and act on their own

By fostering a culture in which people learn and act on their own, we aim to realize our Medium Term Management Plan and our long-term management vision of "A trading company that supports manufacturing for tomorrow and contributes to society."

Mindset	Skills retention	Skills reinforcement	Human resources achieving results produced
Foster a culture in which people learn and act on their own	Retain basic conduct and professionalism as a trading company employee Acquire the ability to forge one's own career path	Strengthen management Create new businesses/ new value	Produce management human resources Produce professional human resources
Training type Mindset	**Training type** Skill	**Training type** IT/Foreign language, etc.	**Training type** Management succession plan
Training contents Understand roles / Subordinates management training	**Training contents** Limitless learning opportunities from GLOBIS / Business skills training offered by GLOBIS /17 courses	**Training contents** EF Online English conversation / DX Training	**Training contents** Coaching
Target Promoted employees 99 / Line leaders 102	**Target** All employees / Total 363	**Target** Non-management applicants 248 / Internal recommendation (10-12 persons every year)	**Target** Employees selected internally

Issues to address and measures to take for the promotion of human resources strategy

As it had become apparent that, despite managers' awareness of the vision and human resources policy, they were not being put into action, we held a "training session on human resources policy" targeting people in managerial positions. These sessions served to give attendees a more in-depth understanding of human resources policy and the human resources system, while at the same time, providing an opportunity to exchange opinions with members of other Departments who have different perspectives.

In the post-session survey, around 90% of the attendees responded that the sessions helped them come to certain realizations. In light of these outcomes, we are considering holding these sessions on a regular basis.



Training session on human resources policy

Objectives

1. Impart attendees a fresh understanding of our business and organizational goals as well as human resources policy.
2. Make attendees understand that one of their roles is to convey to their subordinates in an appropriate way the intentions (messages) contained in the human resources system.
3. Reflect on their own behavior and consider what they need to change

Feedback from attendees

- My understanding of human resources policy was insufficient. I realized anew the importance of taking initiative and setting an example for my subordinates.
- Pressures of work prevented me from addressing this, but I realized that people in managerial positions in other Divisions were actively addressing it, which pushed me to realize that I need to change my own behavior as well.
- I learned about the perspective of tacit assumptions, which made me realize the importance of approaching these issues in a way that considers the individual characteristics of my subordinates and junior colleagues.

VOICE

Message from the officer in charge of the Human Resources Department



Yasuyuki Watanabe,
Director and Executive Officer in charge of the Human Resources Department

We introduced a new human resources system in April 2022. This system is designed to foster a culture in which people learn and act on their own to achieve our long-term management vision of "A trading company that supports manufacturing for tomorrow and contributes to society." We believe that it is important for employees to have their own vision for self-development and to achieve the gradual improvement of their skills, thus continuing the cycle of growth. However, after receiving considerable feedback from frontline employees who had difficulty understanding the background and purpose of the career course revamp, which was one of the system reforms, we held human resources policy training for employees of all ranks. In this way, we are pursuing activities that will enable all employees to understand the importance of fostering a culture in which they will learn and act on their own.

Based on our recognition of commitment to human capital management as a key issue, we will promote initiatives to enhance employee engagement, while pursuing human resources allocations that place the right people in the right positions and establishing an environment in which diverse people can demonstrate their abilities based on diverse values. In FY2023, we will work on the visualization of employees' skills and the value of their experience by introducing a talent management system. This will be put to use in the optimization of human resources allocations.

Having launched a project team to undertake activities to promote diversity, we will accelerate these activities by recruiting support members from across the entire Company, to expand participation in the project and strengthen its momentum even further. We will also implement related training on a Group-wide basis to enhance the corporate value of the Group.

Promoting Sustainability Management at Shinsho Corporation

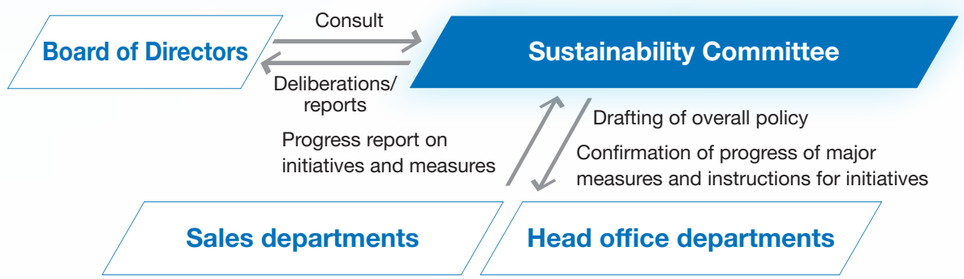
In April 2022, in the interest of further strengthening our commitment to sustainability, we established a Basic Policy for Sustainability and important sustainability issues (material issues), as well as a Sustainability Committee as an advisory body to the Board of Directors.

Amid growing worldwide interest in the Sustainable Development Goals (SDGs) and the Task Force on Climate-related Financial Disclosures (TCFD), we have clarified the material issues we are addressing and established a system to promote sustainability management and reinforce governance, based on the recognition that sustainability initiatives are an important management issue in medium- to long-term enhancement of corporate value.

Basic Policy for Sustainability

Shinsho Corporation's company motto is "Integrity." Our Corporate Philosophy is that we are committed toward securing prosperity for our clients and shareholders through the creation of new value.
Guided by this philosophy, we promote an array of initiatives addressing environmental and social issues around the world through our business activities.
We also promote fair and transparent governance.
We are contributing to the establishment of the sustainable society that all people desire.

Sustainability promotion structure



- Promotion of products and services in consideration of the global environment
- Execution and promotion of all head office departments policies

- Initiatives to reduce greenhouse gas emissions
- Promotion of environmental management system (ISO 14001)
- Promotion of diversity, etc.

Sustainability topics

August 2022: Voiced support for COOL CHOICE
October 2022: Launched the Diversity Promotion Project Team
December 2022: Made the CDP's 2022 Climate Change B List
January 2023: Invested in a decarbonization fund
March 2023: Received certification under the Certified Health & Productivity Management Outstanding Organizations Recognition Program 2023



Identification of important sustainability issues (material issues)

At the beginning of FY2021, we formulated our long-term management vision, "A trading company that supports manufacturing for tomorrow and contributes to society," and our Medium Term Management Plan, and revised our Core Values, which will serve as the basis for our activities toward bringing this vision to fruition. With regard to the revision, to clarify our commitment to sustainability, we selected issues to be addressed by the Company with reference to the 17 goals and 169 targets of the SDGs, taking into consideration the Company's Corporate Philosophy and the impact of the Group's business activities on its stakeholders. Subsequent discussions among management and at Board of Directors meetings narrowed down the issues, which were then set forth as Core Values.

In identifying the important sustainability issues (material issues), we have reexamined the issues that we need to address. As a result, we confirmed that we will continue to work on the Core Values as material issues, and after discussion and approval by the Board of Directors, we decided to officially make them material issues on April 1, 2022.

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.

Shinsho Corporation Group stakeholders

Shareholders | Business partners | Employees | Regions

etc.



Examples of issues we have chosen to address

- Global
- Consideration for the environment
- Work-life balance
- Legal/compliance
- Contribution to society
- Stakeholder capitalism

Core Values = Important issues (material issues)

1 Contribution to Tomorrow's Manufacturing ➡ p. 43
2 Corporate Activities with Compliance ➡ p. 57
3 Activities in Global Environment ➡ p. 59
4 Corporate Culture Respecting Diversity ➡ p. 65
5 Realization of Personal Growth ➡ p. 67



Corporate Governance

Strengthening the Governance Structure

We are enhancing corporate governance, a foundation for sustainable growth.

Basic views on corporate governance

The Shinsho Corporation Group positions the strengthening of corporate governance as an important issue in corporate management. By maintaining sound management, as well as responding promptly and flexibly to changes in the business environment and increasing competitiveness, we manage the Company in a way that leads to trust from shareholders and business partners. The stance above constitutes our basic views on corporate governance.

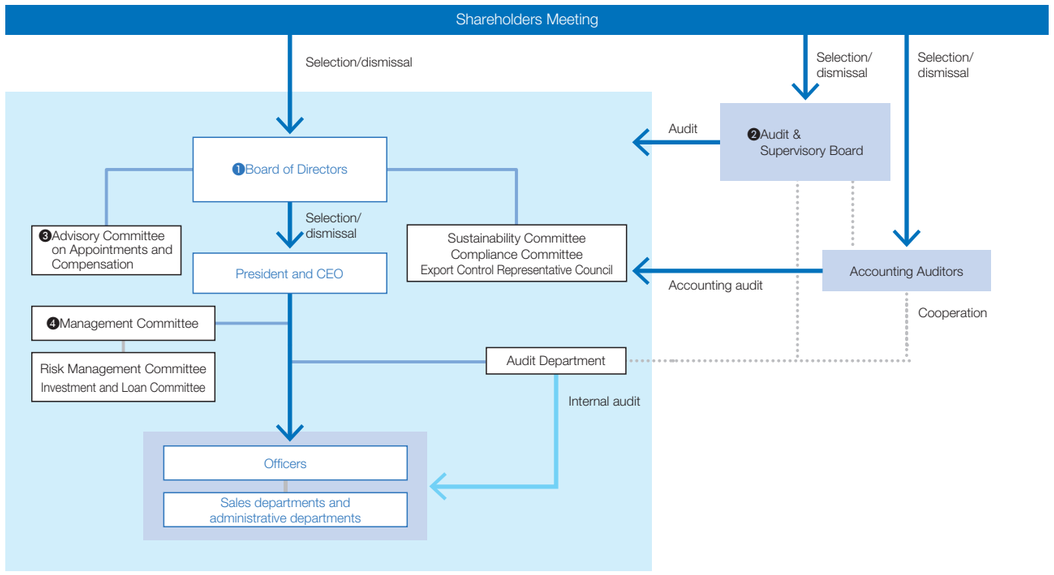
Based on our Corporate Philosophy, the Group believes that increasing our corporate value, supporting the manufacturing for tomorrow, and contributing to society through our corporate activities, are ways to meet the expectations of all our stakeholders, including our shareholders and business partners.

Corporate governance structure

❶Board of Directors (met 20 times in FY2022)

The Board of Directors consists of six Directors (of which two are Outside Directors) and, in principle, meets at least once every month. The Board serves as a decision-making body, as well as a body that supervises business execution of Directors and Officers. Specifically, it discusses and makes decisions on important matters on management, and also receives quarterly reports from all Directors and Officers on the execution of their duties and the state of business performance.

[Advisory bodies]
- Sustainability Committee (refer to p. 29 for details)
- Compliance Committee (refer to p. 57 for details)
- Export Control Representative Council (refer to p. 58 for details)



❷Audit & Supervisory Board (met 12 times in FY2022)

The Audit & Supervisory Board consists of four Audit & Supervisory Board Members (of which two are Outside Audit & Supervisory Board Members) and formulates annual audit policies, audit plans, etc. Audit & Supervisory Board Members attend important meetings, such as Board of Directors and Management Committee meetings and keep track of the state of corporate management and overall business. In addition, they browse and look into important documents, creating a structure to constantly monitor Directors' execution of duties.

❸Advisory Committee on Appointments and Compensation (met 5 times in FY2022)

The Advisory Committee on Appointments and Compensation was established to ensure transparency and fairness of the decision-making process of the Board of Directors. It is chaired by an Independent Outside Director, and a majority of its members are Independent Outside Directors/Audit & Supervisory Board Members. The Committee selects Directors and Audit & Supervisory Board Members, as well as deliberates on Directors' remuneration, etc.

❹Management Committee (met 14 times in FY2022)

The Management Committee serves as an advisory body for the President and CEO, and consists of full-time Directors, Officers, and full-time Audit & Supervisory Board Members. The Committee deliberates in advance on important matters discussed by the Board of Directors. It also discusses other important matters including business strategies and other directions of management, and considers and reports on specific actions to be taken.

[Advisory bodies]
- Risk Management Committee (refer to p. 39 for details)
- Investment and Loan Committee
  To manage risks and improve capital efficiency in investments and loans, the Investment and Loan Committee discusses the appropriateness of investments and loans in light of internal criteria, and works to minimize risks.

●Appointment of Outside Directors and Outside Audit & Supervisory Board Members

We consider it important that our management is monitored from an external, objective, and impartial standpoint. We therefore select Outside Directors/Audit & Supervisory Board Members who have expertise and experience in corporate management. This strengthens the function to monitor corporate management, specifically decision making and business execution.

●Independence of Outside Directors/Audit & Supervisory Board Members

In addition to the provisions concerning Outside Directors and Outside Audit & Supervisory Board Members in the Companies Act, we have established the "Independence Standards for Outside Directors/Outside Audit & Supervisory Board Members," referring to the Tokyo Stock Exchange's standards for independence of independent directors/auditors. In accordance with our standards, we confirm that the independence of candidates for Independent Outside Directors/Audit & Supervisory Board Members is secured in terms of their substance as well as their qualifications, backgrounds, and knowledge.

[Independence Standards for Outside Directors/Outside Audit & Supervisory Board Members]

	Item	Standards	Requirements concerning past years/ Requirements concerning relatives
1	A major business partner of the Group or an executor of business thereof	A business partner whose amount of transactions accounted for more than 2% of the Group's consolidated net sales in the immediately previous fiscal year	●A person who has fallen under any of the items on the left in the past three years ●A relative within second degree of kinship to a person who falls under any of the items on the left
2	A person whose major business partner is the Group or an executor of business thereof	A person whose amount of transactions to the Group accounted for more than 2% of the person's consolidated net sales or total revenue in the immediately previous fiscal year	
3	A principal shareholder of the Company or an executor of business thereof in the case that such shareholder is a corporation	A person who, directly or indirectly, owns 10% or more of all the voting rights of the Company	
4	A consultant, accounting professional such as a certified public accountant or legal professional such as an attorney-at-law who receives money or other financial benefit from the Group excluding remuneration for Director/Audit & Supervisory Board Member. (If a corporation or an association, etc. receives such financial benefit, a person who is affiliated with such organization)	A person who received financial benefit amounting to more than 10 million yen from the Group, excluding remuneration for Director/Audit & Supervisory Board Member in the immediately previous fiscal year	
5	A person who receives a large amount of donations from the Group or an executor of business thereof	A person who received financial benefit amounting to more than 10 million yen from the Group in the immediately previous fiscal year	
6	An executor of business of a company of which the Group is a principal shareholder	A person of which 10% or more of all the voting rights is owned by the Group	
7	A financial institution that is a principal lender to the Group or an executor of business of the parent or a subsidiary of such financial institution	A financial institution from which borrowings at the end of the immediately previous fiscal year accounted for more than 2% of the Company's consolidated total assets	
8	Other	A person with special reasons that prevent him/her from fulfilling duties as an Independent Outside Director/Audit & Supervisory Board Member, such as those that may cause conflict of interests with the Company	—

Corporate Governance

Separation of management and execution

We have adopted an executive officer system, where there is a clear division of roles between managerial decision making and business execution. Under the Board of Directors' supervision, Officers (including those serving concurrently as Representative Directors or Directors) selected by the Board of Directors execute matters delegated to them in accordance with rules and regulations covering the management authority. We thus work toward speedy and efficient corporate management. Every quarter, Executive Directors and Officers report to the Board of Directors on the state of business execution, including performance of departments.

Other structures

To ensure the soundness of business activities, head office departments with expertise deliberate in advance on matters subject to approval, in accordance with rules and regulations covering the management authority and other matters. Those departments monitor the Group's business performance and, in cooperation with the Planning & Administration Department set up in each sales division, give specific advice and guidance as necessary, such as instructions for improvement.

In addition, Audit & Supervisory Board Members, Accounting Auditors, and the Audit Department exchange views regularly and take other measures to strengthen cooperation, thereby striving to monitor the legality and appropriateness of each department's business execution.

Through the above structures and their activities, we not only ensure strict compliance with laws and regulations but maintain and enhance the soundness and transparency of management and prevent management risks.

Remuneration for Directors/Audit & Supervisory Board Members and its determination process

As it is also important to provide incentives so that our management team takes risks appropriately and engages in active business management, in determining remuneration, the Company has introduced in our remuneration system Employee stock ownership plan trusts as long-term incentive remuneration, in addition to monetary remuneration consisting of fixed remuneration and performance-linked remuneration which is short-term incentive remuneration. Through the system, we will strive to effectively motivate the team to increase our corporate value continuously and over the medium to long term.

Remuneration for Directors

Remuneration paid to Directors is the sum that includes remuneration for Officers and determined through a resolution of the Board of Directors after deliberation by the Compensation Advisory Committee.

The remuneration consists of rank-specific fixed remuneration and performance-linked remuneration. However, in addition to the foregoing, the Company introduced a new stock compensation plan in FY2022, upon obtaining approval at the 104th Ordinary General Meeting of Shareholders held on June 24, 2022, for Directors and Officers (excluding Outside Directors and non-residents of Japan; hereinafter, "Directors, etc."), with the aim of further boosting their motivation to contribute to improvement of the medium- to long-term business performance and maximization of corporate value. As a result of the introduction of the plan, remuneration for Directors, etc. consists of fixed remuneration, performance-linked remuneration as a short-term incentive, and stock compensation as a long-term incentive. Remuneration for Outside Directors, who are independent of business execution, continues to consist only of fixed remuneration, because they are in charge of the role of a supervisory function.

The upper limit of the remuneration for Directors has been resolved at the 99th Ordinary General Meeting of Shareholders held on June 28, 2017, to be 352 million yen per year (out of which, 29 million yen per year for Outside Directors). Stock compensation, which is non-monetary remuneration for Directors, etc. is set separately from the upper limit from the perspective of operation of the system.

Remuneration for Audit & Supervisory Board Members

Remuneration paid to Audit & Supervisory Board Members consists only of fixed remuneration from the perspective of their role and independence. As for the amount of remuneration for individual Audit & Supervisory Board Members, the amount of remuneration according to job duty and responsibility of each Audit & Supervisory Board Member is determined through discussion by the Audit & Supervisory Board within the scope of the total amount of remuneration for Audit & Supervisory Board Members.

The upper limit of the remuneration for Audit & Supervisory Board Members has been resolved at the 99th Ordinary General Meeting of Shareholders held on June 28, 2017, to be 75 million yen per year (out of which, 22 million yen per year for Outside Audit & Supervisory Board Members). The number of Audit & Supervisory Board Members of the current fiscal year is four (out of which, two are Outside Audit & Supervisory Board Members).

Roles and activities of the Compensation Advisory Committee

As an advisory body to the Board of Directors, the Compensation Advisory Committee deliberates on the appropriateness of the amount, etc. of remuneration for Directors/Audit & Supervisory Board Members and submits its opinions to the Board of Directors.

The Compensation Advisory Committee deliberated on whether the amount of remuneration for Directors/Audit & Supervisory Board Members for the current fiscal year was appropriate in view of the basic policy on corporate governance stipulated in Japan's Corporate Governance Code. Afterwards, the Board of Directors passed a resolution on the amount of remuneration for Directors/Audit & Supervisory Board Members, and the amount was set within the maximum amount approved by the General Meeting of Shareholders.

Details of performance-linked remuneration

<Performance-linked remuneration>

Performance-linked remuneration as a short-term incentive is evaluated on a 14-point scale, based on such factors as the degree of achievement of performance targets and comparison with the results of the previous fiscal year of group-wide consolidated financial results and financial results of departments they are in charge, respectively, using ordinary profit, which is a short-term numerical target for performance management, as a benchmark.

If a person receives the lowest rating rank under the 14-point scale, performance-linked remuneration is not paid to the relevant person. Meanwhile, in the case of the highest rating rank, the amount of performance-linked remuneration is predetermined at around 33% to 58% of the fixed remuneration for each job rank, and the higher the level of responsibility for performance, the higher the ratio of the amount of performance-linked remuneration to the remuneration, etc. will be.

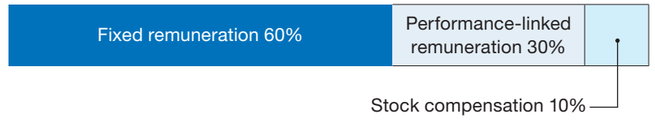
<Stock compensation>

For stock compensation, as a long-term incentive, the number of points is determined every year based on the standard amount for each job rank in accordance with the Policy on Distribution of Shares, so that such number of points remains around 10% of fixed remuneration, and such points are granted on June 1 of each year. One point is converted to one share in common shares of the Company, and a Director who retires from office of Director will receive shares, etc. according to the number of points that have been accumulated.

Remuneration for Directors/Audit & Supervisory Board Members by category

Category	Remuneration			Notes
	Fixed remuneration	Performance-linked remuneration	Stock compensation	
Directors (excluding Outside Directors)	○	○	○	The remuneration system aims to raise motivation toward performance improvement and corporate value increase.
Outside Directors	○	–	–	Outside Directors earn only fixed remuneration, which encourages them to fulfill their expected oversight role (monitoring the management from an independent standpoint).
Audit & Supervisory Board Members	○	–	–	Audit & Supervisory Board Members earn only fixed remuneration, which encourages them to fulfill their expected role of auditing Directors' execution of duties from an independent standpoint.

Breakdown of remuneration for Directors/Audit & Supervisory Board Members*1



*1 The model assumes that 100% of the reference value set by the Company is paid. The breakdown above may change depending on company performance, share price fluctuations, and other factors.

Actual remuneration for the fiscal year ended March 31, 2023*2

Category	Total amount of remuneration, etc. (million yen)	Total amount of remuneration, etc. by type (million yen)		Number of eligible Directors / Audit & Supervisory Board Fixed remuneration Members
		Basic remuneration	Performance-linked remuneration	
Directors (Outside Directors)	172 (14)	136 (14)	36 0	10 (4)
Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members)	67 (14)	67 (14)	0 (0)	4 (2)

*2 There have been no points for stock compensation granted to Directors (excluding Outside Directors and non-residents of Japan) in the current fiscal year, so the amount is not presented. As for the stock compensation, it was resolved at the 104th Ordinary General Meeting of Shareholders held on June 24, 2022, that money of up to 280 million yen is to be put in trust for Directors, etc. every covered period (five fiscal years), and that the upper limit of the total number of points granted to Directors, etc. through the trust is 16,000 points per fiscal year.

Corporate Governance

List of Executives

<Directors>



Takafumi Morichi,
Representative Director, President and CEO



Masahito Adachi,
Representative Director and Senior Executive Officer



Yasuyuki Watanabe,
Director and Executive Officer



Shinya Yoshida,
Director and Executive Officer



Yoshio Tano,
Outside Director



Miyuki Nakagawa,
Outside Director

<Audit & Supervisory Board Members>



Akira Ichikawa,
Audit & Supervisory Board Member



Kanehisa Ueda,
Audit & Supervisory Board Member



Hiroko Kaneko,
Outside Audit & Supervisory Board Member



Shinya Miyawaki,
Outside Audit & Supervisory Board Member

<Officers>

Senior Executive Officers	**Satoshi Nishimura**	Officers	Hiroyuki Arizono	Toshinori Fujiwara
Executive Officer	**Masato Matsubayashi**		Hironobu Takashita	Mitsuharu Karikomi
	Masaaki Takada		Yutaka Koba	Ryosuke Misawa
	Shinji Urade		Jun Takahashi	Yoshiyuki Nakagawa

WEB Please see our website for details.
https://www.shinsho.co.jp/english/info/executives.html

Years in position, skills matrix, and board meeting attendance

In order to realize the Company's Corporate Philosophy and management plan and enhance the corporate value of the Company and the Group, the Company has identified six skills that it expects from Directors and Audit & Supervisory Board Members: (1) management experience, (2) global perspective, (3) sales and marketing, (4) treasury, accounting, and finance, (5) legal affairs and compliance, and (6) sustainability and governance. The skills possessed by each Director and Audit & Supervisory Board Member are as below.

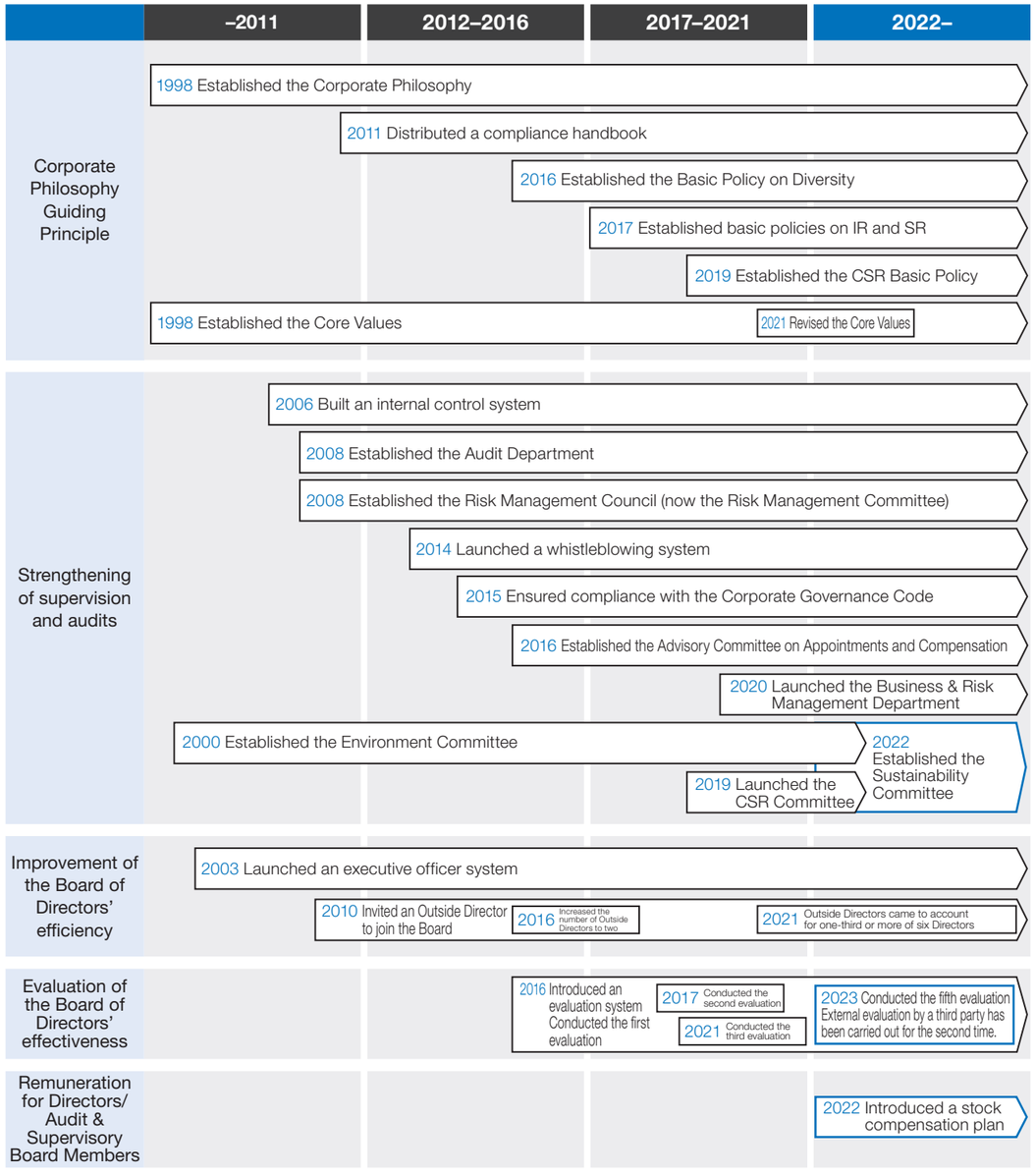
Name and Position	Years in position	Board meeting attendance (FY2022)		Expertise of Directors/Audit & Supervisory Board Members					
		Board of Directors	Audit & Supervisory Board	Corporate management	Global business	Sales/ Marketing	Finance/ Accounting	Legal/ Compliance	Sustainability/ Governance
Takafumi Morichi, Representative Director, President and CEO	6	20/20 100%	–	○	○		○	○	○
Masahito Adachi, Representative Director and Senior Executive Officer	1	16/16 100%	–	○	○	○			○
Yasuyuki Watanabe, Director and Executive Officer	2	20/20 100%	–	○	○		○		○
Shinya Yoshida, Director and Executive Officer	1	16/16 100%	–	○	○	○			○
Yoshio Tano, Outside Director	1	16/16 100%	–	○	○				○
Miyuki Nakagawa, Outside Director	1	16/16 100%	–				○	○	○
Akira Ichikawa, Audit & Supervisory Board Member	3	20/20 100%	12/12 100%		○	○		○	○
Kanehisa Ueda, Audit & Supervisory Board Member	New	–	–			○	○		○
Hiroko Kaneko, Outside Audit & Supervisory Board Member	4	20/20 100%	12/12 100%		○			○	○
Shinya Miyawaki, Outside Audit & Supervisory Board Member	3	20/20 100%	12/12 100%	○		○			○

*1 Directors, Audit & Supervisory Board Members, and Officers are in office as of June 23, 2023.
*2 The stated numbers of attendance in meetings of the Board of Directors for Masahito Adachi, Shinya Yoshida, Yoshio Tano, Miyuki Nakagawa are those after assuming office at the 104th Ordinary General Meeting of Shareholders.

Corporate Governance

Initiatives to strengthen corporate governance

Based on the understanding that enhancing corporate governance is an important management issue, we have implemented and worked on the below initiatives to strengthen governance. By introducing a performance-linked remuneration system and have Directors share awareness toward profit with shareholders, we aim to improve profitability and medium- to long-term business performance.



Evaluation of the Board of Directors' effectiveness

We aim to strengthen the Board of Directors' functions of making managerial decisions and supervising the management, so that we can increase corporate value and meet our stakeholders' expectations. In addition, for the fiscal year under review, the evaluation was conducted by a third-party organization for the second consecutive year to secure objectivity and fairness, as well as to be open to adopting outside opinions.

As a result of deliberation, the Board of Directors was evaluated as effectively functioning, as Outside Directors had expressed opinions constructively and an effective risk management system had been put in place through the Risk Management Committee, etc. Moreover, it was confirmed that, among the issues identified in the previous fiscal year, implementation of the training for Directors/Audit & Supervisory Board Members that contributes to vitalization of discussion by the Board of Directors and deepening of discussion related to sustainability-related issues had been improved through our steady efforts. On the other hand, we recognized that, in order to further improve the effectiveness, we need to provide appropriate feedback to the management team on opinions and suggestions obtained through continuous constructive dialogues with shareholders and investors and utilize them in the management of the Company. We also recognized the need to ensure opportunities for discussions related to promotion of the management conscious of capital cost and stock prices, as well as to deepen the supervision related to evaluation and remuneration of Directors/Audit & Supervisory Board Members. In light of these issues we found, we will make improvements to enable the Board of Directors to function more effectively.

Evaluation method

Target:

In March 2023, all six Directors and four Audit & Supervisory Board Members answered questionnaires to evaluate effectiveness

Questions:

1. Structure and operation of the Board of Directors
2. Management strategies and business strategies
3. Corporate ethics and risk management
4. Performance monitoring, evaluation of the management team, nomination, and compensation
5. Dialogue with shareholders, etc.

Future initiatives

- Continuous dialogues with shareholders and investors and appropriate feedback to the management team
- Discussions related to promotion of the management conscious of capital cost and stock prices, and deepening of the supervision related to evaluation and remuneration of Directors/Audit & Supervisory Board Members

Cross-shareholdings

Classification of and our stance on investment shares

We do not own investment shares for the purpose of pure investment. Investment shares held for purposes other than pure investment are classified into those for business investment and general investment. The former means owning 20% or more of voting rights or investing in practically affiliated entities where we own less than 20% of voting rights but ultimately bear management risks. The latter means that we own less than 20% of voting rights and bear no or minor management responsibilities.

Shareholding policy

Decisions on shareholding are made after a comprehensive consideration. We hold shares for business purposes, such as to maintain and strengthen business relationships and to facilitate business activities. We also take into account economic rationality, including investment returns and potential links with medium- to long-term corporate value increase.

The Investment and Loan Committee checks each fiscal year the transition of business performance, free cash flow statuses, and other financial information on investees, as well as investment profits and other relevant information. The Committee reports the results to the Board of Directors.

In addition to checking the propriety of holding such shares considering the Company's operating policy, the Board of Directors confirms that the combined total of profit and dividends gained by transactions with the issuing company surpasses the Company's weighted average cost of capital (WACC), specifically, the economic rationality. As a result, we sold promptly the shares for which the necessity of cross-shareholdings is insignificant, and we have reduced eight cross-shareholdings during the current fiscal year.

Voting rights are exercised after a comprehensive consideration. We confirm that proposals do not undermine shareholder value, and take into account the impact on business transactions with the Company.

Risk management

Policy
By managing risks, we aim to (1) ensure continuity and stable development of business; (2) protect the interests of stakeholders, such as shareholders, investors, and business partners; and (3) physically and financially protect all executives and employees.

Structure
In principle, voluntary management and voluntary checks by each department constitute our risk management. Risks are constantly managed through the cycle of planning, implementing, checking, and improving. In 2020, the Business & Risk Management Department was established to centrally oversee company-wide risk management. We have thus taken measures to strengthen risk management at Group companies, including helping subsidiaries and affiliates manage relevant tasks and managing health and safety at manufacturing companies.

Implementation of risk management
Based on given risk categories, employees responsible for departmental risk management identify specific risk items and control measures for each item, and create risk management standards. Based on the standards, a “Risk Management Action Plan” is created once a year, and the implementation status of the plan is evaluated by the Budget Review Committee every six months. If the evaluation finds any flaws in risk management, measures are taken to make improvements. Each department regularly identifies and reassesses risks and revises the risk management standards.

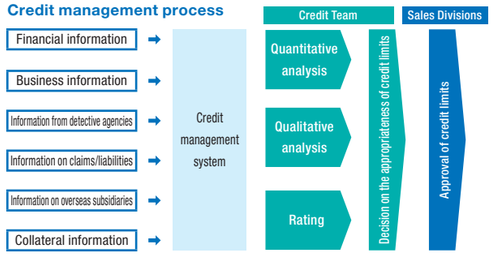
Departmental risk management managers summarize risk management activities, as well as the status of risk management and risk occurrence, in the department in charge. They make reports to the general manager for risk management at least once a year. The general manager for risk management makes reports on the status of company-wide risk management to the Board of Directors at least once a year.

Risk Management Committee
Chaired by the Director who supervises head office departments and composed of officers in charge of head office departments, Audit & Supervisory Board Members, general managers of head office departments, and others, the Risk Management Committee meets twice a year.

As an advisory body to the Management Committee, the Risk Management Committee monitors through the “Risk Management Action Plan” the internal control system concerning company-wide and department-specific risks and its operational status. The Committee also discusses an array of measures and policies for appropriate risk management and submits the results to the Management Committee, thereby enhancing the risk management system of the entire Group. In addition, matters regarded as necessary by the Management Committee are reported to the Board of Directors.

Credit management
The Credit & Legal Department in the head office has the Credit Team, which carries out credit management for the Company and its Group companies in Japan and overseas in cooperation with sales divisions and prevents generating non-performing loans. In the credit management process, a range of information about business partners is registered in the system. The Credit Team analyzes and evaluates the data and decides whether the credit limits are appropriate. Based on the team’s decision, the relevant sales division or President and CEO gives approval.

In addition, we also invite outside lecturers and offer sales departments a range of rank-specific training about credit management.



Examples of credit management training

Step 1	Step 2	Step 3	Step 4
Training on the use of the credit management system	Training on financial analysis	Training on credit protection	Training on overseas credit management
Learn the basic policy for credit management and how to use the system	Learn how to read financial statements and the basics of financial analysis	Learn measures and procedures of protection	Learn country-specific business practices, country risks, and credit management methods

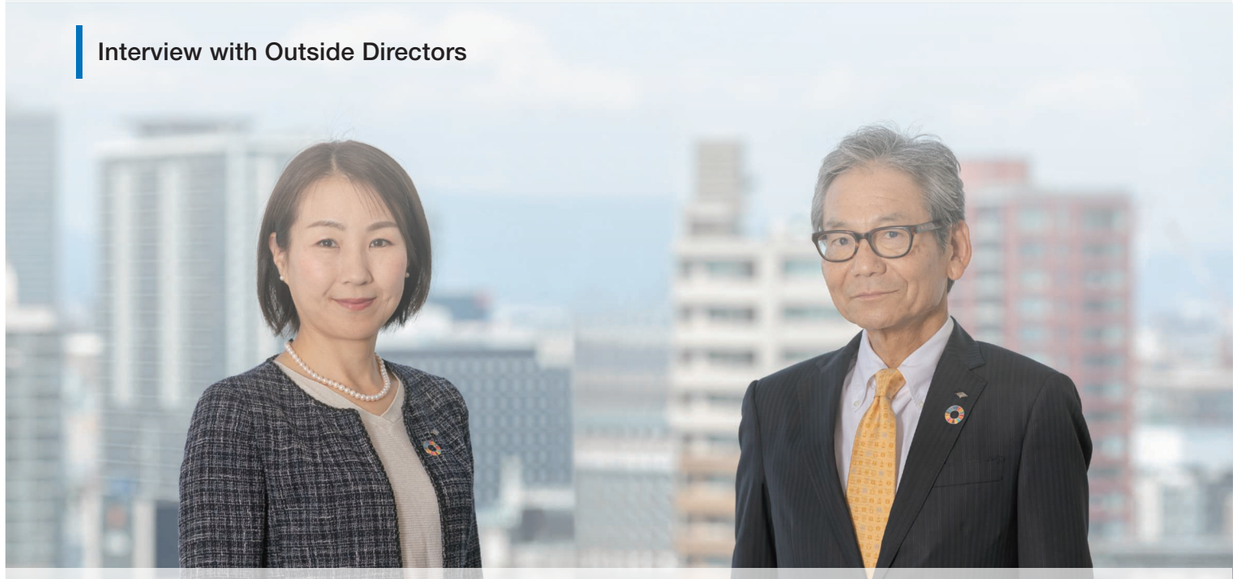
Risk management for investment projects
The Investment and Loan Committee meets regularly (once a month in principle) to manage risks associated with investment projects.

Monitoring method
- After an investment, a review is carried out every fiscal year.
- The Investment and Loan Committee checks the progress based on the financial status, transition of business performance and free cash flows, investment profits, and other relevant information on the investee.
- The Committee chair reports the results to the Board of Directors.

Criteria for withdrawal from investment projects
If an investment project falls under one of the following criteria, the department that has applied for the project discusses at the Investment and Loan Committee whether to withdraw or continue and refer the matter to the Management Committee.

1. The project’s net worth has turned negative.
2. The following discrepancy has occurred between the plan in the project proposal and the actual performance:
   Business investment: The free cash flows for the most recent three years (cumulative total) are 30% or more lower than those in the plan (excluding the performance up to the first fiscal year of actual operation).
   General investment: The investment profits for the most recent three years (cumulative total) are 30% or more lower than those in the plan (excluding the performance up to the first fiscal year of actual operation).
3. Operating cash flows have been negative for three consecutive years.

Interview with Outside Directors



Enhancing the Corporate Value of Shinsho Corporation

A year has passed since Mr. Yoshio Tano and Ms. Miyuki Nakagawa were appointed as Outside Directors of Shinsho Corporation. In this conversation, they exchanged their candid opinions about a variety of topics, such as the Company’s corporate culture and their impressions, the situation in the Board of Directors, and their expectations of the Company, for the enhancement of its corporate value.

Miyuki Nakagawa, Outside Director
Ms. Nakagawa reflects her knowledge and experience in the management of the Company based on her track record of achievements in a wide range of fields, including as a certified public accountant and a panel of a public-sector body.

Yoshio Tano, Outside Director
Mr. Tano reflects his knowledge and experience in the management of the Company based on his management achievements and abundant experience as President of Kobelco Systems Corporation.

Corporate culture and impressions of Shinsho Corporation

Tano: From my experience serving as the president of a systems company in the Kobelco Group, my sense of companies in the Group is that they tend to be conservative, and I thought that the Company would be no exception. However, I have sensed that a change in attitude, including breaking away from its dependence on the trade business and on Kobe Steel, is beginning to penetrate within the Company. Personally, I see this development as a promising one for the Company’s growth, and I would like to support it.

Nakagawa: Regarding the corporate culture, my image of Shinsho Corporation was that, as a trading company, it would emphasize hierarchical relationships in the vein of a traditional college sports club. However, the impression that I have actually gained is of a flat, moderate atmosphere. In terms of the enhancement of corporate value as well, it is considerate of the environment and society, and it is more proactive than I expected in its commitment to the promotion of sustainability management and the strengthening of corporate governance, so I have been greatly impressed.

Tano: Shinsho Corporation’s strength lies in its ability to impart a positive impact on the whole of society through the provision of materials for manufacturing, for the further development of society and solutions to issues. On the other hand, when it comes to its responsiveness, or sense of speed, from my background in the IT industry, my impression is that it is somewhat lacking in this regard. I understand the importance of risk management as a trading company, but for that very reason, it tends to avoid risks, so I would like to see it demonstrate a greater spirit of challenge. I believe my mission is to inspire the Company to help it move away from its past corporate culture and become more proactive.

Interview with Outside Directors



Nakagawa: Regarding the departure from its past corporate culture, I think that the Company needs to transform from a male-dominated, homogenous organization into an organization with a more open atmosphere. In situations of high uncertainty that require drastically new thinking, it is important to accept the changes in the environment and to change oneself freely. The Company began a variety of measures and initiatives in the diversity promotion project that it launched in 2022, so I look forward to the changes to come.

Operation of and discussions in the Board of Directors

Tano: In terms of operation, as it was my first year as a Director, I had some difficulty understanding the background and history of individual proposals at the same level as full-time Directors, so there were occasions in which I hesitated to participate in discussions as an outside director. However, the Company has made efforts to augment that and to invigorate the discussions, including providing explanations of the briefing materials prior to the Board of Directors meetings. This has been a great help to me.

Nakagawa: In those pre-meeting explanations, staff members with detailed knowledge of the matters in question explain the proposals in a way that is easy to understand. Moreover, because all of the briefing materials from past Board of Directors meetings have been made available, we are able to confirm the history of ongoing matters when we need to. For some questions of a more specialized and detailed nature, such as accounting issues, I have been provided with separate answers or they have briefed me in an online meeting, and their responses have been appropriate and prompt. Efforts of this nature have enabled us to obtain adequate information to prepare for the Board of Directors meetings. The atmosphere in the Board of Directors meetings is a pleasant one, and attendees feel comfortable speaking up. The meetings are also run with ample time to allow lively discussions.

Tano: Much of this has to do with President Morichi's ability to facilitate the meetings, and an atmosphere conducive to expressing our opinions with candor has been created. In terms of the content of discussions, the focus has been on how to transform the business portfolio to increase the proportion of non-trade businesses. We discuss topics such as consideration of the inclusion of ROIC in the next Medium Term Management Plan and how to add depth to the Company's sustainability management to meet stakeholders' expectations.

Nakagawa: On the topic of sustainability management, I mentioned earlier that the diversity project was launched last year. Within that project, there has been discussion about promoting the advancement of women, such as increasing the ratio of female employees in managerial and career-track positions. In my previous position in an auditing firm, I was also the member of a project team for the promotion of advancement of women, so I understand the importance of such initiatives and how difficult it is to move them forward. This is one reason for my great interest in initiatives to promote the advancement of women at Shinsho Corporation.

Progress of the Medium Term Management Plan, and realization of the long-term management vision: "A trading company that supports manufacturing for tomorrow and contributes to society"

Tano: While business performance KPIs are expected to be achieved partly thanks to favorable market conditions, the pace at which the corporate structure is being strengthened has been unsatisfactory. In particular, a shortage of human resources is holding back the promotion of DX. Because a delay in the promotion of DX will also lead to a decline in corporate competitiveness, I view cultivating DX human resources as a matter of urgency.

Nakagawa: The Company has set an investment target of 20.0 billion yen in the current Medium Term Management Plan, but at this stage, its progress has been behind schedule. While, in some respects, this delay in progress was inevitable due to the impact of COVID-19, the promotion of investment is imperative for the realization of future growth. Having said that, the Company should avoid underestimating the risks and making unreasonable investments simply from a desire to invest. As an accounting specialist, as well as from my position that allows me to monitor the situation objectively from outside, I watch carefully for things like whether the Company is overestimating an investment project, whether there are points that have been overlooked or hidden risk factors, and whether it has lost its objectivity.

Tano: The fact remains that trade businesses, being more susceptible to market conditions, can face an inability to control themselves and a lack of expandability. For this reason, the transformation of the portfolio toward non-trade businesses, where revenue can be controlled, will be the key to realizing the long-term management vision. At the same time, the development of human resources who are sensitive to changes in the business environment and able to respond to such changes—including cultivating DX human resources—will be a key measure in the next Medium Term Management Plan.

Nakagawa: In light of the growing complexity of the business environment and the increasing sophistication and specialization of operations, there are some areas in which merely making use of existing human resources will not be enough to keep up. For this reason, I believe that the Company should work on enhancing mid-career recruitment and be more proactive in developing specialist human resources. I also believe that it should consolidate its foundations in readiness to make a great leap forward in the future. In particular, I sense a need to further strengthen the supervision of small overseas subsidiaries and the profit management of overseas offices, where it is difficult for internal controls and monitoring to work effectively.

Expectations of Shinsho Corporation

Tano: To enhance corporate value in the future, regular reviews of the business portfolio are a given, but another key challenge will be to increase the independence of individual employees, so that they can convey the processes of the Company's activities to the management team more openly and operations can be implemented appropriately and adequately. I also hope to see much more updating of initiatives that make better use of people, and of the development of working environments.

Nakagawa: In my view, there is still room for more progress in the active promotion of women. To demonstrate diversity in the truest sense, I hope that the Company will quickly transform into an organization that can produce prospective female executives from within the Company's own ranks. Besides female employees in managerial positions, there are also not many foreign nationals being recruited or female employees being sent on overseas assignments. It would be a good idea to set quantitative targets and do more work in these areas.

Tano: Also, to increase career development options for women, it is also worth considering a structure in which employees who return to work after a leave of absence are able to aim for a career path. Increasing the number of plans that will encourage career development will lead to the promotion of women's advancement. On the recruitment front, perhaps because there have been insufficient efforts to promote Shinsho Corporation externally, even though it is a good company, I think it is a shame that the Company is not very well known among jobseekers. By actively spreading the word that Shinsho Corporation is a company that is essential to society and one that employees can be proud of, I hope that the Company continues to be a presence that will be trusted and supported by stakeholders.

Nakagawa: Under the slogan, "A trading company that supports manufacturing for tomorrow and contributes to society," we are seeing results from initiatives that are not constrained by existing frameworks. They include proposing and delivering facilities that will contribute to the improvement of customers' productivity, instead of just selling products, which will increase customers' revenue and, in turn, lead to an increase in sales. The Company is demonstrating its strengths that are unique to a trading company, and I feel that it has capacity to grow. It is also making active efforts toward carbon neutrality and growing it into a major business, so I look forward to future developments in that area.

