

Ever Onward

Annual Report 2018

Year Ended March 31, 2018



A Leading Flat Knitting Machine Company Creating a Variety of Knitwear

Flat knitting machines are used to produce highly designable knitwear. Shima Seiki leads user industries and continuously takes on challenges to develop new technologies as a computerized flat knitting machine manufacturer.

The Merits of Knitwear

Knitwear is apparel or material made from loop-knitted fabric. It is elastic, soft to the touch, breathable and available in a rich variety of colors.

Using the appropriate material, knit can be worn all year regardless of the season.

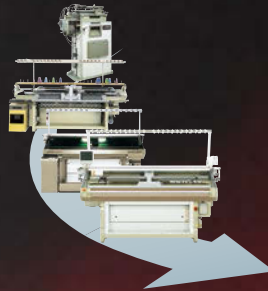


Knit one-piece dress made on the WHOLEGARMENT® flat knitting machine

Shima Seiki's Unique Features

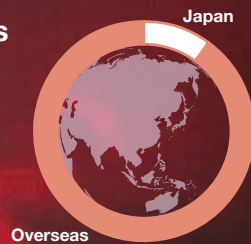
1 Ongoing Technological Innovation for Half a Century

Shima Seiki was established in 1962 as a manufacturer of glove knitting machines and continues to contribute to the global knitting and apparel industries through technological innovations as a comprehensive mechatronics company fusing mechanical and electronic technologies.



2 Over 90% of Sales are Overseas

From Italy, the center of the fashion industry, to China and Hong Kong, the world's largest knitwear manufacturing base, to ASEAN and other countries in South Asia, which are currently attracting attention as a new knitwear manufacturing base, Shima Seiki is earning accolades around the world.



3 Domestic Integrated Production System Provides Japanese Quality

All production is conducted at our headquarters factory in Japan. From parts to assembly, integrated production facilitates the efficient creation of a wide range of products and ensures quality products that are durable and stable. We are highly trusted by customers around the world.



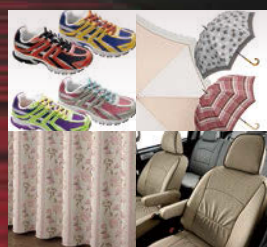
4 WHOLEGARMENT®, the Forefront of Flat Knitting Machines

WHOLEGARMENT® flat knitting machines, which create complete pieces of seam-free knitwear, are unique products developed by Shima Seiki. In addition to being highly designable and realizing a comfortable fit, WHOLEGARMENT® knitwear conserves resources by eliminating cutting losses and seam allowances. WHOLEGARMENT® knitwear contribute significantly to the resolution of issues related to the global shortage of skilled sewing technicians.



5 Proactive Development in Areas Other than Apparel

Centered on the design system business, we make a wide range of proposals in areas other than apparel, including for the SDS®-ONE APEX3 and P-CAM® automatic fabric cutting machines. We provide various industries with high-performance and high-quality manufacturing equipment.



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The Foundation That Supports Growth

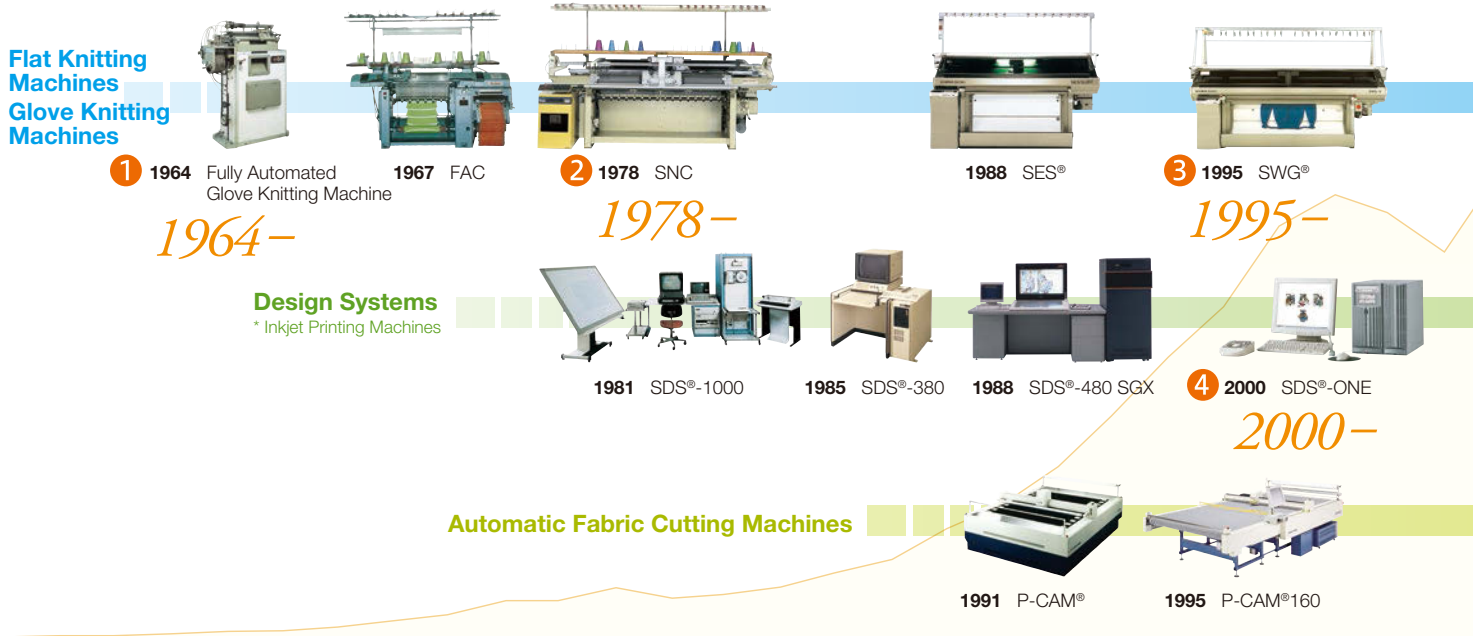
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Shima Seiki's History of Continuing to Create Value for Society

Shima Seiki was established in 1962. Two years later, we launched the world's first fully automated glove knitting machines. Since then, we have introduced a host of computerized flat knitting machines, design systems and other products into the world, having a major impact on the apparel industry. By commercializing these products ahead of the needs of the times, we have contributed toward the knitwear industry and the resolution of issues society faced at the time.



1 Fully Automated Glove Knitting Machines 1964-

Promoting the Uptake of Safety Gloves Using Elastic Yarn to Keep from Becoming Entangled in Equipment

At one time, Japanese factories experienced a spate of serious accidents in which workers became entangled in equipment, along with their work gloves, losing their lives. To prevent such accidents, Shima Seiki began producing safety gloves, which had elastic yarn knitted in around the wrist, making it easy to slip off the gloves should they become entangled.

The fully automated glove knitting machines that Shima Seiki developed greatly reduced the cost of manufacturing work gloves, which until then had been a luxury, contributing to their popularization. The technology used to automate the knitting of gloves also led to the later WHOLEGARMENT® flat knitting machines.



Leading-edge glove knitting machine at a factory



Medical gloves

2 Computerized Flat Knitting Machines 1978-

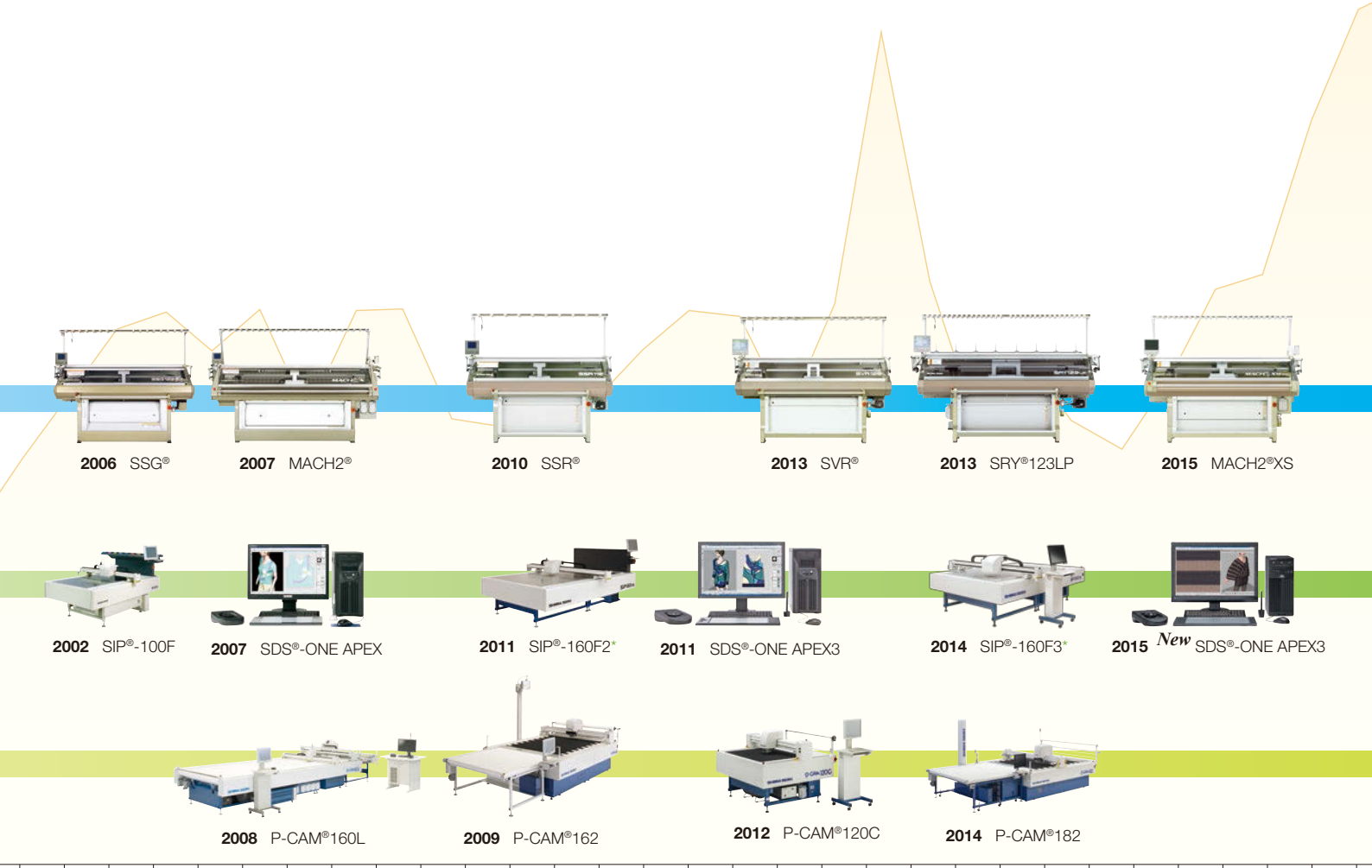
Responding to the Knitwear Industry's Needs of the Times by Contributing to Widely Varied, Small-Lot Production

In the 1970s, Shima Seiki took up the challenge of realizing a new concept, the computerized flat knitting machine, developing the Shimatronic® computerized flat knitting machine (SNC) in 1978.

The Japanese economy transitioned to a period of stable growth following the oil crisis of the 1970s. As trends shifted from mass manufacturing to widely varied, small-lot production, various adjustments and needle selections called for by experienced technicians moved from manual to computer-controlled operations, leading the knitwear industry down the path of widely varied, small-lot production.



Tradeshow booth at the ITMA exhibition in Milan (1983)



Shima Seiki's Net Sales (Consolidated from FY1989)

3 Completely Seam-free Computerized Flat Knitting Machines *1995-*

Helping to Improve Working Environments by Freeing Workers from Arduous Linking Work

Typically, knit garments are made by knitting individual pieces—such as the skirt, front and back body panels and the sleeves—that are then sewn together on machines. The pieces are then matched together using the linking process, aligning the individual seams. As the work is highly detailed and tiring on the eyes, workers who handle this task are said to retire from it in their 20s.

WHOLEGARMENT® flat knitting machines produce completely seam-free pieces as entire garments, eliminating this linking process. As a result, the machines reduce production costs and help to improve working environments.



WHOLEGARMENT® flat knitting machine

4 The SDS®-ONE Design System *2000-*

Dramatically Increasing Planning and Design Efficiency with High-Definition Virtual Samples

Trial pieces (samples) are essential to the apparel product planning and design process. Creating these samples, however, requires significant amounts of cost and time.

The SDS®-ONE substantially reduces the pattern generation time needed in knitwear design. In addition, using highly detailed virtual samples saves on the time and cost needed to produce actual samples, facilitating efficient production. Through the ability to provide products the market demands in a timely manner, the SDS®-ONE also allows appropriate inventory levels to be maintained, boosting overall industry efficiency.



Designs using SDS®-ONE APEX3

We help to resolve the issues society faces by centering on the apparel industry.

Principal Capital (Inputs, Consolidated)

Development Capabilities

The ability to **create unique**, world's-first products and services

Production Technology Capabilities

The technologies to **consistently** produce **high-quality** products through widely varied, small-lot production

Sales Capabilities

Sales in more than **80** countries
Overseas sales ratio of **90%**

Social Issues

Consumption of resources/
disposal of apparel inventories

Health damage due to
overwork

Low wages for simple work

Customer-Related Issues

Response to increasingly sophisticated fashion

Response to diverse manufacturing

Structural changes in market trends

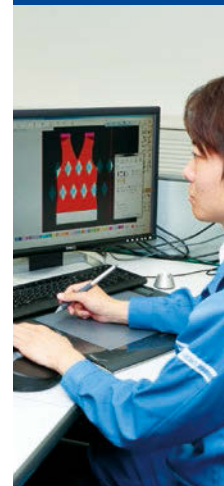
Reduction of losses generated during the production process

Improvements in the labor environment

Business Activities

One-Stop Provision of Development and Design, Production and Support

Development and Design



Production



Foundation Supporting the Company

Corporate philosophy:
Ever Onward

Stakeholders

Shareholders and investors

Local community

providing unique, world's-first products,

Human Resource Capabilities

1,931 employees
Cultivation of expertise through long-term employment and a corporate culture that fosters originality

Intellectual Property Capabilities (Non-Consolidated)

1,382 patents
319 registered trademarks

Financial Capabilities

An equity ratio of **80%**
ROE of **9.9%**

Outputs



Flat knitting machines



Design systems



Automatic fabric cutting machines



Glove and sock knitting machines

Support



10-year vision and medium-term management plan

Governance

Customers

Business partners

Employees

Value Created for Society (Outcomes)

Value Provided to Customers

Quick response with myriad designs

Ability to offer widely varied, small-lot production

Solutions that respond quickly to changing market trends

Increasingly efficient production process

Provision of a working environment that enables employees to continue working

Decrease in discarded apparel
Reduction of cutting losses

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Drop in excessive work

3 GOOD HEALTH AND WELL-BEING



Shift toward higher added value in the apparel industry

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



Financial Highlights

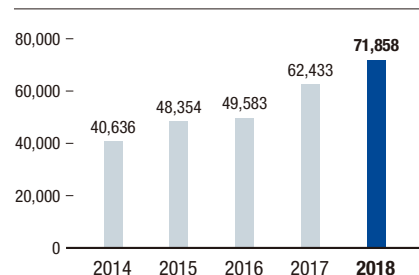
SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

Years ended March 31

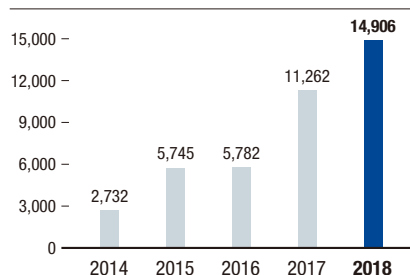
	2009	2010	2011	2012	2013	2014
For the Year:	Millions of yen					
Net sales	¥48,970	¥36,874	¥42,781	¥37,327	¥34,970	¥40,636
Gross profit	24,652	14,139	19,194	14,432	12,212	17,269
Operating income (loss)	8,528	651	5,908	883	(509)	2,732
Income (loss) before income taxes and minority interests	4,057	(1,042)	1,092	(537)	3,363	7,230
Net income (loss) attributable to owners of the parent	1,766	(1,885)	770	(642)	1,754	4,863
At Year-End:	Millions of yen					
Total assets	¥119,778	¥110,063	¥113,951	¥106,863	¥112,089	¥119,727
Net assets	91,064	87,473	86,591	84,167	87,382	93,222
Per Share Data:	Yen					
Net income (loss)	¥49.88	¥(54.52)	¥22.26	¥(18.60)	¥51.26	¥142.13
Cash dividends applicable to the year	40.00	30.00	35.00	40.00	25.00	32.50
Net assets	2,633.55	2,529.67	2,502.27	2,454.07	2,547.88	2,718.57
Ratios:	%					
ROA	1.4%	(1.6)%	0.7%	(0.6)%	1.6%	4.2%
ROE	1.9	(2.0)	0.8	(0.8)	2.0	5.4
Equity ratio	76.0	79.5	75.9	78.6	77.8	77.7
Overseas sales ratio	91.0	91.6	91.1	87.6	84.7	83.6

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥106.24=US\$1 and ¥130.52=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2018.

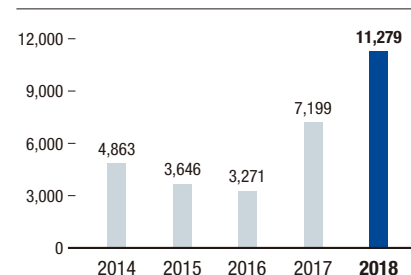
Net Sales (¥ Million)



Operating Income (¥ Million)

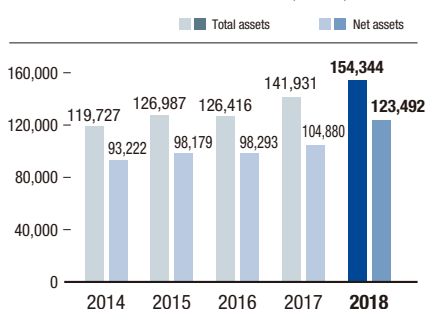


Net Income Attributable to Owners of the Parent (¥ Million)

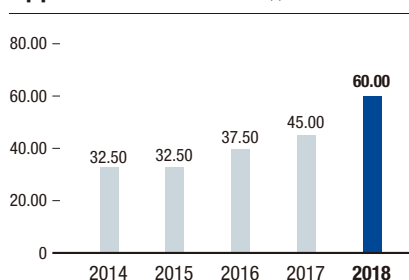


2015	2016	2017	2018	2017 ▶ 2018	2018	2018
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥48,354	¥49,583	¥62,433	¥71,858	15.1%	\$676,374	€550,552
21,866	23,345	29,048	33,438	15.1	314,740	256,191
5,745	5,782	11,262	14,906	32.4	140,305	114,205
7,006	4,803	9,979	15,443	54.7	145,360	118,319
3,646	3,271	7,199	11,279	56.7	106,165	86,416
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥126,987	¥126,416	¥141,931	¥154,344	8.7%	\$1,452,786	€1,182,531
98,179	98,293	104,880	123,492	17.7	1,162,387	946,154
				Percent change	U.S. dollars	Euros
¥106.54	¥95.61	¥209.97	¥316.82	50.9%	\$2.98	€2.43
32.50	37.50	45.00	60.00	33.3	0.56	0.46
2,863.49	2,867.00	3,039.66	3,381.85	11.3	31.83	25.91
3.0%	2.6%	5.4%	7.6%			
3.8	3.3	7.1	9.9			
77.2	77.6	73.8	80.0			
84.1	83.5	87.6	90.0			

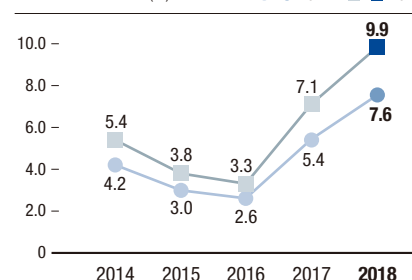
Total Assets / Net Assets (¥ Million)



Cash Dividends per Share Applicable to the Year (¥)



ROA / ROE (%)





We achieved record net sales, buoyed by favorable performance in the Flat Knitting Machine Segment. Through our new medium-term management plan, we aim to be a company that continues to innovate.

Mitsuhiro Shima

President

Ever Onward — Limitless Progress

The Company was established in 1962 by Masahiro Shima to surmount difficulties by producing the world's first fully automated glove knitting machine.

With “Ever Onward—Limitless Progress” as our corporate motto, we are constantly working to develop new technologies, unstinting in our efforts and continuously taking on challenges in unknown areas.

Since the time of our establishment, we have remained a step ahead of the needs of the time, developing a number of flat knitting machines and design systems and growing to become the world's leading manufacturer in these areas. In the 1990s, we succeeded in developing the WHOLEGARMENT® flat knitting machine for completely seam-free clothing, heralded as being comparable to the advances made during the Industrial Revolution.

Going forward, we will continue taking on the challenge of developing new technologies. Through a business model based on planning and proposals, we aim to contribute to the development of the apparel industry and other user segments.



Please explain some of the Company's major initiatives and business performance in the fiscal year ended March 31, 2018.



Net sales and income grew substantially, centered on sales in the Flat Knitting Machine Segment.

During the fiscal year ended March 31, 2018, we strove to provide products and services to meet the needs of various markets, in response to a variety of user requirements in Japan and overseas. At the same time, we made proposals carefully tailored to customers. Operating performance was particularly robust in our mainstay business, the Flat Knitting Machine Segment, notably in the Asian market. This strong performance continued from the second half of the year ended March 31, 2017, and continued throughout the year under review. The influx of orders was high, driving high levels of overall performance.

Consequently, consolidated net sales rose 15.1%, to ¥71,858 million, outstripping the previous year's solid performance and resulting in a new record. Increased production levels caused cost of sales to decline, prompting a 32.4% increase in operating income, to ¥14,906 million. Ordinary income surged 54.6%, to ¥15,525 million, being less affected by exchange rate fluctuations than in the preceding fiscal year. Net income attributable to owners of the parent also reached a historic high, climbing 56.7%, to ¥11,279 million.

The fiscal year under review marked the end of “Ever Onward 2017,” the medium-term management plan we announced in 2015. We essentially met the targets we had set three years ago (net sales of ¥70.0 billion, operating income of ¥15.0 billion, ordinary income of ¥15.0 billion and net income of ¥10.0 billion). A new medium-term management plan goes into effect from the fiscal year ending March 31, 2019. We aim to maintain or increase the vigor of the past three years to make a further leap forward.

Profile of Mitsuhiro Shima, President and Representative Director

March	1987	Joined the Company
March	1998	General Manager of System Development Division
June	2002	Director, General Manager of System Development Division
June	2007	Executive Director in charge of Control System Development Division, Intellectual Property Department and Total Design Center, General Manager of Graphic System Development Division
June	2011	Senior Executive Director in charge of Machinery Production Technology Division and Total Design Center, Director of Production Headquarters
June	2012	Executive Vice President in charge of Corporate Planning Division and Total Design Center, Deputy Director of Sales Headquarters
April	2015	Executive Vice President, Deputy Director of Sales Headquarters, in charge of Corporate Planning Division
June	2017	President, Representative Director, Director of Sales Headquarters, in charge of Corporate Planning Division
June	2018	President, Representative Director, Executive Officer, in charge of Corporate Planning Division (current)

Message from Top Management



Q₂

Would you describe conditions by business segment?

A₂

In the Flat Knitting Machine Segment, sales rose in ASEAN countries and the Chinese market.

Business was extremely favorable in our mainstay Flat Knitting Machine Segment, and overall unit sales grew to a new record level. Sales expanded in Asia, centering on our SSR[®] and SVR[®] models, in Bangladesh—a production hub for apparel bound for Europe and the United States—and ASEAN countries.

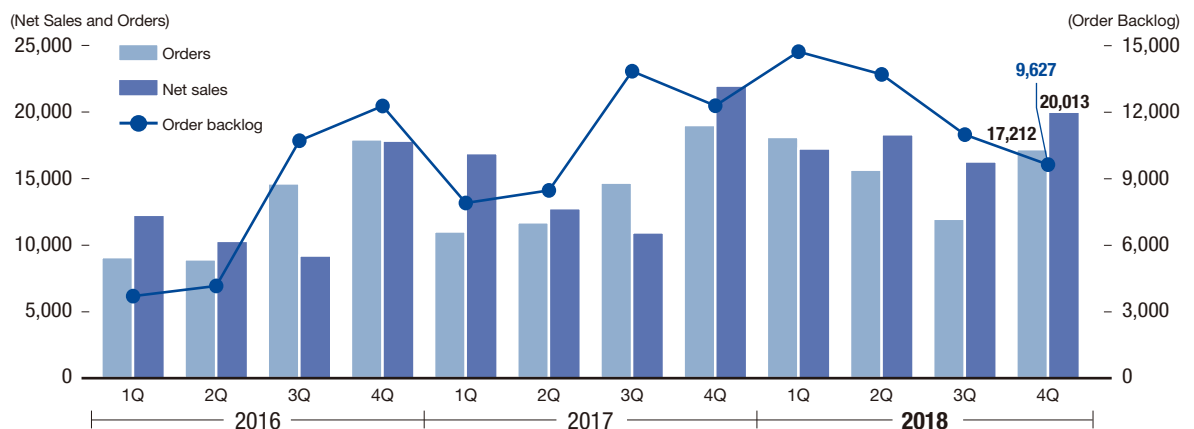
In China, as well, a vigorous domestic fashion business has led many client companies to make the strategic shift from OEM manufacturing to high-value-added manufacturing for the domestic market. For this reason, demand was high for the MACH2[®]XS and other WHOLEGARMENT[®] flat knitting machines. Another factor contributing to sales growth in the Chinese market was the growing trend to use computerized flat knitting machines in the production of sports shoes.

In the Middle East, business in Turkey—a production base for European apparel—was somewhat sluggish from the second half of the preceding fiscal year. From the second half of the year under review, however, orders centered on the SVR[®] surged, leading to a major year-on-year rise in sales.

In the European market, sales were favorable in the fashion center of Italy for high-end models, including WHOLEGARMENT[®] flat knitting machines and the SRY[®] and SIR[®] models, which are capable of high-value-added production.

In the Design System Segment, sales of the SDS[®]-ONE APEX3 were robust overseas, but due to a lackluster apparel market in Japan sales were up only slightly. In the Japanese market, we also strove to expand sales

Net Sales, Orders and the Order Backlog, by Quarter (Millions of yen)



(Consolidated fiscal years ended March 31)



- ① Première Vision (Paris)
- ② JFW JAPAN CREATION 2018 (Tokyo)
- ③ SHIMA CROSSTEX (Hong Kong)
- ④ 50th Osaka Sewing Machine Show 2018
- ⑤ Special sponsor of RoboCup Junior Japan Open 2018 Wakayama

routes outside the apparel industry for P-CAM® automatic fabric cutting machines, but sales were sluggish.

In November 2017, we held 55th anniversary commemorative events, which the entire Company pulled together to ensure were successful. We invited more than 1,000 customers from countries around the world to attend these events in Wakayama. We exhibited and demonstrated our most advanced machines, put on display some 500 knit samples of original designs, and held a fashion show employing virtual models, proactively making proposals. In addition to expanding orders, the event showcased our TOTAL FASHION SYSTEM®, effectively promoting it to numerous customers.



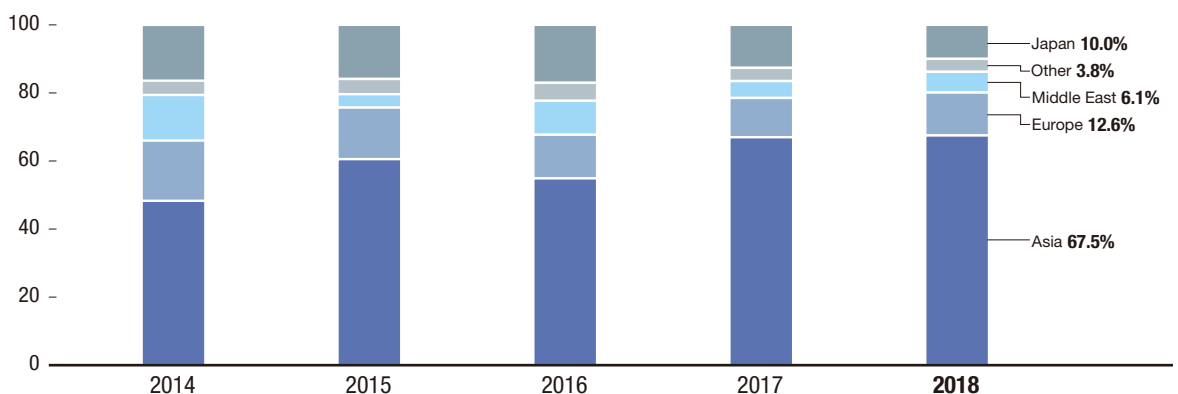
Please outline some of your key initiatives and business outlook for the fiscal year ending March 31, 2019.



We will cultivate engineers in various regions and promote global growth.

In the upcoming fiscal year, we will continue to make proposals tailored to customers in countries and regions around the world. Addressing our topmost priority, expanding sales of WHOLEGARMENT® flat knitting machines, we will make proposals to knitwear manufacturers and step up proposals to potential customers among leading apparel manufacturers. We aim to accelerate efforts around the world surrounding the trend toward seam-free knitwear, which is gathering steam in China. We also need to cultivate engineers capable of working on high-performance WHOLEGARMENT® flat knitting machines in demand regions. In April 2018, we opened an educational facility for engineers at knitwear manufacturing bases in China. Going forward, we intend

Composition of Sales by Region (%)



(Consolidated fiscal years ended March 31)

Message from Top Management



to open a similar center in Turkey, which is a production base for knitwear bound for Europe.

In October 2018, we will exhibit in Shanghai at ITMA ASIA+CITME 2018, Asia's largest textile machinery exhibition. To make the most of this opportunity, we will take the initiative in explaining the benefits of introducing WHOLEGARMENT® flat knitting machine, particularly to companies that are transitioning to business models based on planning and proposals and shifting to high added value. We will also concentrate on proposing the Shima KnitPLM®, a system that makes all manufacturing processes visible, offering support for production management, which is growing increasingly complex.

As a result of these initiatives, for the next fiscal year we forecast consolidated net sales of ¥76.0 billion, operating income of ¥16.0 billion, ordinary income of ¥16.0 billion and net income attributable to owners of the parent of ¥11.5 billion.



Please describe your new medium-term management plan and aspirations for the medium to long term.



We are undertaking initiatives via the new medium-term management plan with the aim of remaining a company that fosters innovation.

In May 2018, we unveiled “Ever Onward 2020,” our second medium-term management plan. When formulating the main points of this plan, we conducted hearings of all departments within the Company. Including young employees, we deliberated thoroughly within management and between departments, inspiring a sense of independent participation among employees and greatly increasing their motivation to achieve the plan's objectives.

The three years of the new medium-term management plan correspond to the “accelerated growth” phase for realizing our long-term vision. While moving forward with initiatives under the priority measures of the previous medium-term management plan, we will clarify our guidelines for realizing sustainable growth in a rapidly changing economic environment. We will also act in accordance with the two main thrusts of the new plan: “promote a differentiation strategy and expand our business domains” and “step up proactive investment toward future growth.”

The new medium-term management plan sets the numeric management target of achieving ¥100.0 billion in net sales by fiscal 2020, but numbers are not our only goal. I think that one of the most important cornerstones of a company's ability to achieve sustainable growth is to build an organization in which all employees have a sense of participation in management, generate creative ideas independently and act of their own accord. By executing our medium-term management plan, we aim to foster this sense of innovation. We aim to eliminate operational waste, raise efficiency, and substantially bolster work productivity and creativity across all departments—not just in the development department but also including the manufacturing and back-office departments.



Q₅

What is your message to shareholders and investors?

A₅

We will continue to return the results of our success.

Shima Seiki treats the return of profits to shareholders as a priority management issue. In view of our favorable performance, during the year under review we paid shareholder dividends totaling ¥60.00 per share (up ¥15.00 from the previous year), comprising an interim dividend of ¥25.00 and a year-end dividend of ¥35.00. For the upcoming fiscal year, we are targeting a consolidated payout ratio of 25%, and we intend to continue linking shareholder returns with operating performance.

Based on our corporate motto, “Ever Onward—Limitless Progress,” we will continue taking on the challenge of creating products and services that spark major innovation in the global fashion industry. We ask our shareholders and investors for your warm understanding and support as we undertake these initiatives.

Mitsuhiro Shima,
President

Achievements under the Previous Medium-Term Management Plan (FY2015–FY2017) and Issues Going Forward

We essentially achieved the numeric targets of “Ever Onward 2017,” our previous medium-term management plan for the three years from FY2015 through FY2017. Here, we report on our achievements and issues going forward.

Achievements

- Reached our numerical targets
- Increased sales and unit sales of WHOLEGARMENT® machines under our differentiation strategy
- Stabilized finances through such means as improved operating cash flows

Future Issues

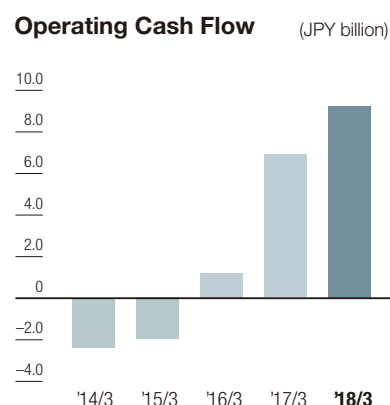
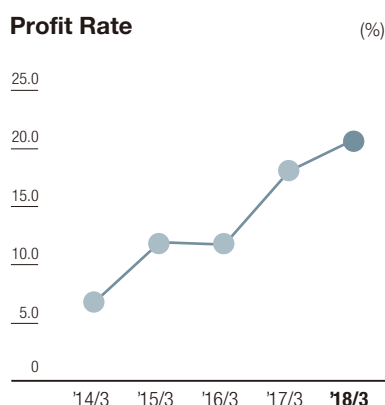
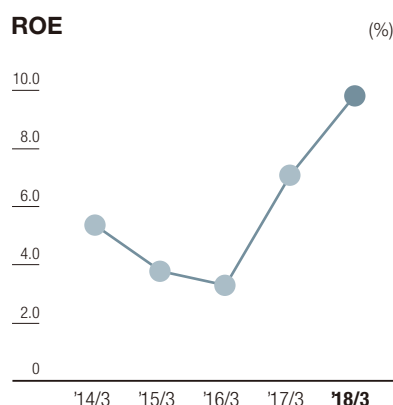
- Rectification of overdependence of operating results on the Flat Knitting Machine Segment
- Further strengthening of production and development capabilities
- Reduction in accounts receivable

Overview of Performance under the Previous Medium-Term Management Plan

(Unit: Yen in billions)

	FY2014 Results	FY2017 Results	Growth Rate FY2014 → FY2017 Results	Targets of Medium-Term Plan I	Growth Rate Target → FY2017 Results
Net Sales	48.3	71.8	+48.6%	70.0	+2.7%
Operating Income	5.7	14.9	+159.4%	15.0	-0.6%
Ordinary Income	8.4	15.5	+83.3%	15.0	+3.5%
Net Income	3.6	11.2	+209.4%	10.0	+12.8%
ROE	3.8 %	9.9 %	+6.1 %	8.5 %	+1.4p

- Net sales and profits both increased significantly, and net income reached a new historic high.
- We met our ROE target and improved capital efficiency.
- The operating margin has improved steadily.
- Increases in operating cash flows have become regular.



The External Environment and Issues Related to Formulation of the New Medium-Term Management Plan

When formulating the new medium-term management plan, we distilled down the issues in Shima Seiki's external environment, separating and analyzing them in terms of quantitative expansion and qualitative changes.

Quantitative Expansion of the Market and Issues Facing the Company

Environment Surrounding the Company

Consumers

- A growing global population and rising GDP in emerging markets

Retailers

- Implementation of various strategies to increase sales
- Applications in new categories other than existing flat-knitted products

Suppliers

- Rising personnel costs and labor shortages
- Large-scale manufacturers' growth strategies

Competitors

- Stronger pricing strategies
- Rising functionality and quality

Increasing Opportunities

- Stable expansion of the existing apparel market
- Emergence of new markets for flat knitting
- Growing demand for automated equipment

Issues Facing the Company

- Stepping up production capabilities in response to demand
- Promoting a differentiation strategy using our proprietary technologies, led by WHOLEGARMENT®
- Expanding our product lineup, including pre- and post-processes

Qualitative Changes in the Market and Issues Facing the Company

Environment Surrounding the Company

Consumers

- Spread of smartphones and the sharing economy
- Purchasing behavior that is conscious of the ESG/SDGs, etc.

Retailers

- Growth in sales over the internet
- Increase in on-demand sales of customized products

Suppliers

- Visualization and increasing efficiency of production
- Development of new materials

Competitors

- Focus on approaches other than existing apparel

Increasing Opportunities

- Emergence of a new flat knitting machine market due to social changes and the development of new materials
- Increasing investment in efficiency, emphasizing sustainability

Issues Facing the Company

- Increases in product development speed and agility in response to customer needs
- Strengthening the proposal of solutions linked with eliminating waste in supply chain

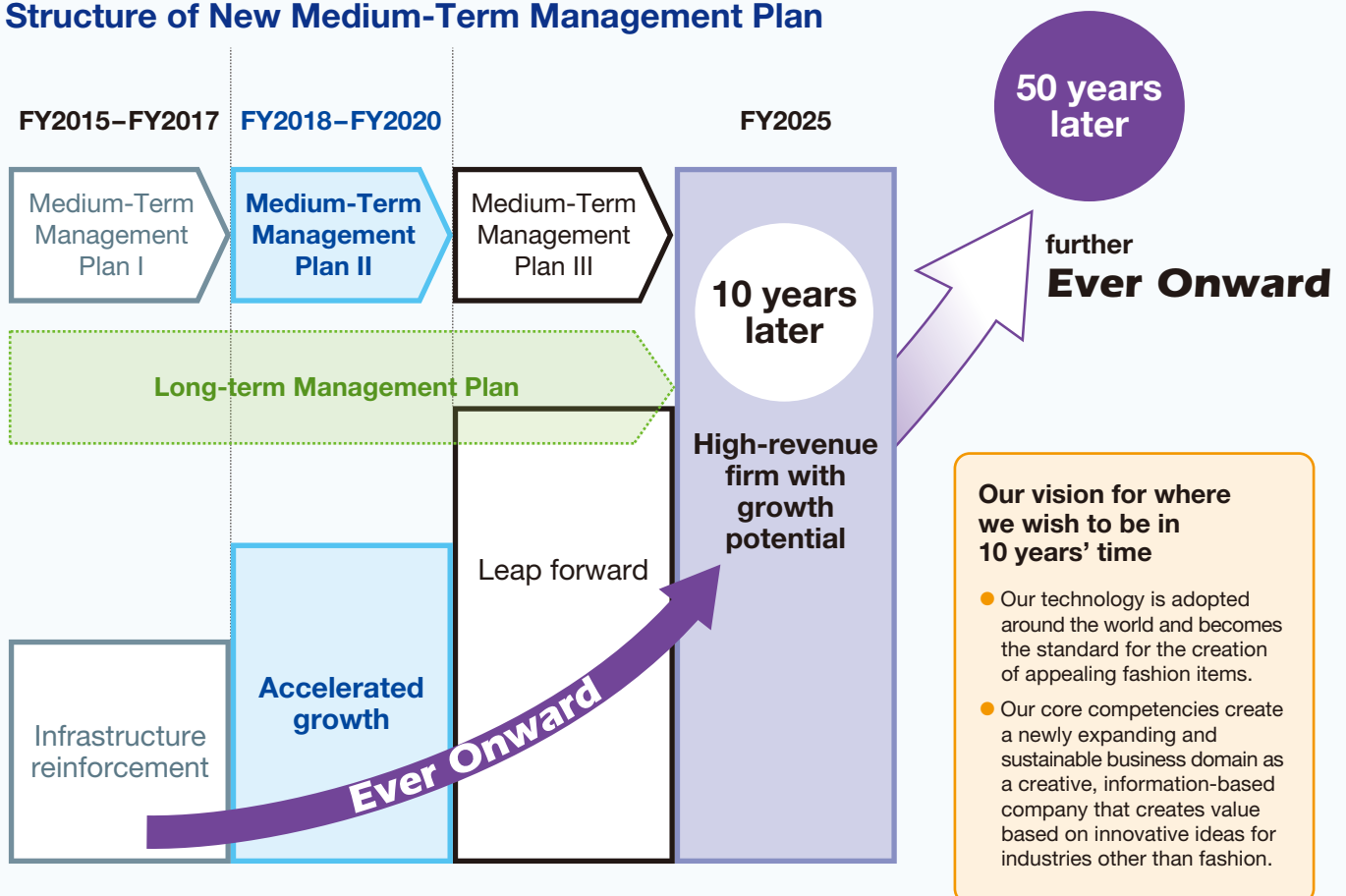
New Medium-Term Management Plan, “Ever Onward 2020” (FY2018–FY2020)

Shima Seiki has formulated a new medium-term management plan, “Ever Onward 2020,” for the three years from FY2018 through FY2020. Going forward, we will continue to respond to a dramatically changing management environment by providing products that are unmatched in the world.

Conceptual Diagram of the New Medium-Term Management Plan



Structure of New Medium-Term Management Plan



Overview of “Ever Onward 2020”

Main Thrusts of the New Medium-Term Management Plan

1 Promote a differentiation strategy and expand our business domains

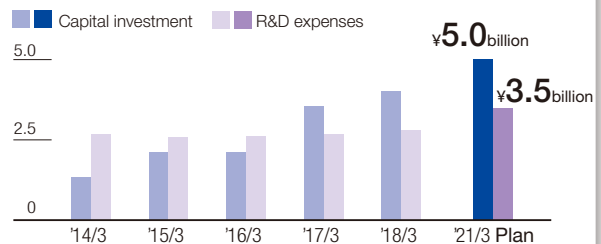
2 Step up proactive investment toward future growth

Priority Measures

- (1) Strengthening the flat knitting machine business
- (2) Advancing unique business segments
- (3) Improving the profit structure
- (4) Reinforcing the management structure

Investment Plans

- Invest strategically to implement our growth strategy
- Invest efficiently to reinforce the management infrastructure



Management Targets

We will invest proactively to meet customer needs and aim to further enhance operating performance and financial soundness.

(Unit: Yen in billions)	FY2017 Results	FY2020 Targets	Growth Rate	
			FY2017 Results	FY2020 Targets
Net Sales	71.8	100.0		+39%
Operating Income	14.9	25.0		+68%
Ordinary Income	15.5	25.0		+61%
Net Income	11.2	18.0		+60%
ROE	9.9%	12%		+2.1p

Shareholder Returns

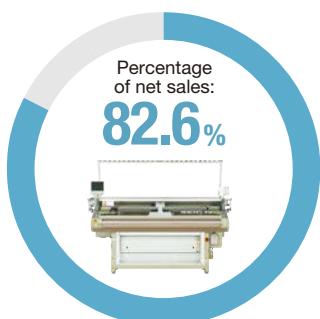
(1) Policy on Profit Return

Shima Seiki considers the return of profits to shareholders one of its highest management priorities. Our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion. On this basis, we strive to allocate profit in a balanced manner, while maintaining the internal reserves for investment in growth from a long-term perspective and future business expansion.

(2) Guidance on Shareholder Returns (Three Years from FY2018)

Consolidated payout ratio: We target a ratio of 25%
 To create a stronger link to profit growth than in the past, we target a consolidated payout ratio of 25% for shareholder returns. At the same time, we will take into overall consideration such factors as our share price level, cash situation and the market environment, purchasing treasury stock in a timely and expeditious manner and striving to increase capital efficiency in other ways.

Overview and Outlook



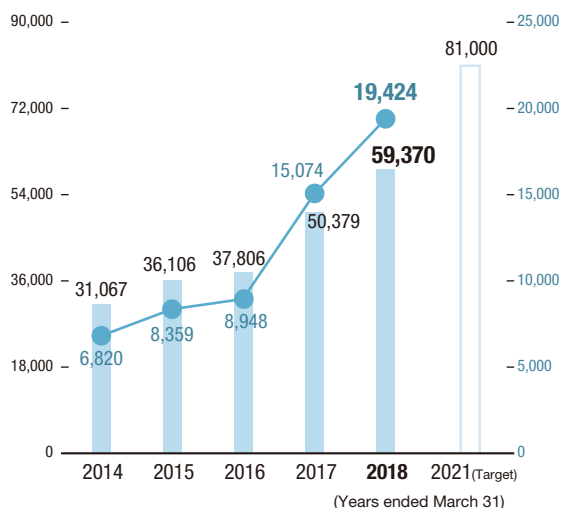
Flat Knitting Machine Segment

Shima Seiki's core business is the manufacture and sale of computerized flat knitting machines, for which the Company boasts industry-leading technological prowess. This segment provides an extensive range of products developed using proprietary technologies, such as WHOLEGARMENT® flat knitting machines, which produce complete pieces three dimensionally; the SRY®, which enables the production of a new knitted fabric with less elasticity; the SSR®, which offers superior cost performance; and the SVR®, which facilitates high-speed knitting.

Net Sales/Operating Income

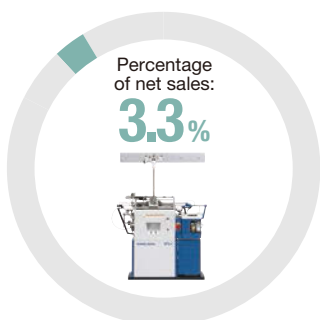
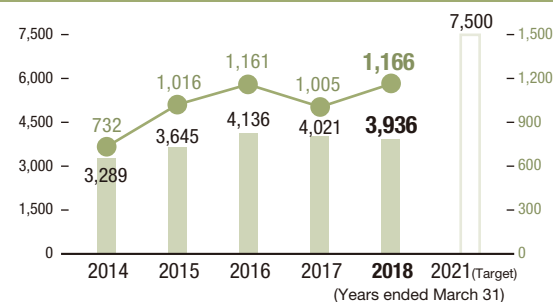
(¥ Million)

■ Net sales
● Operating income



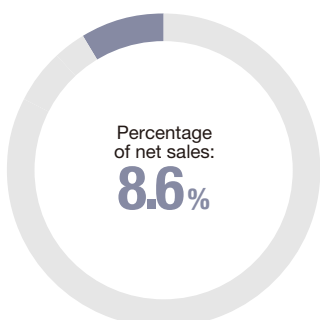
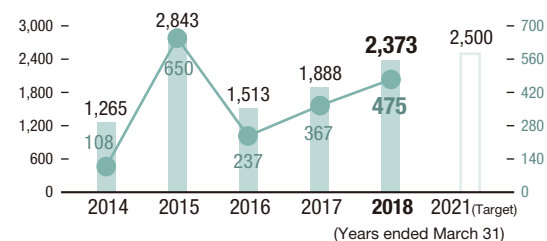
Design System Segment

This segment provides design systems to support production in apparel and a variety of other industries. Our design systems employ high-definition virtual samples and 3D simulations that enable diverse designs while realizing shorter lead times and cost reductions. We are striving proactively to make inroads into other fields, through such products as automatic fabric cutting machines.



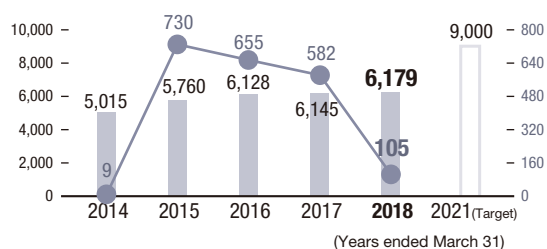
Glove and Sock Knitting Machine Segment

In this segment, we manufacture and sell machines for knitting gloves and socks, the origin of our technological development. By advancing finer-gauge products, we are enhancing our offerings in such high-value-added fields as healthcare.



Other Business Segment

This segment maintains, repairs and sells maintenance parts for the Company's knitting machines and systems and participates in such businesses as spinning high-end cashmere yarn and manufacturing and selling knitwear.



Overview of the Year under Review

In Asia, sales expanded steadily, centered on the SSR® and the SVR® in Bangladesh—a major apparel production center for Europe and the United States—and the ASEAN countries. In China, the introduction of MACH2®XS WHOLEGARMENT® flat knitting machines accelerated among companies transitioning to business models based on planning and making proposals and shifting to high-value-added production, in line with expanding consumption of domestic apparel. Sales of flat knitting machines also rose for new applications, such as shoes. Sales of WHOLEGARMENT® flat knitting machines were also strong in South Korea.

In Europe, sales of high-end models grew, centered on WHOLEGARMENT® flat knitting machines in Italy, a global fashion hub. In the Middle East, capital investment had fallen off in Turkey due to political uncertainty, but this investment rapidly recovered after summer, when the political situation improved. Sales accordingly increased, centered on the SVR®.

As a result, sales in the Flat Knitting Machine Segment rose 17.8%, to ¥59,370 million.

The SDS®-ONE APEX3 design system is being introduced in industries outside knitwear production, but sales were up only slightly during the year due to lackluster apparel markets in Japan. We worked to expand sales routes, mainly in the Japanese market, for P-CAM® automatic fabric cutting machines in such industries as automotive, furniture and industrial materials, but sales were down slightly year on year.

As a result of these factors, sales in the Design System Segment decreased 2.1% year on year, to ¥3,936 million.

Capital investment by large-scale customers continued to flourish, and sales expanded, centering on fine-gauge glove knitting machines.

As a result, sales in the Glove and Sock Knitting Machine Segment rose 25.7%, to ¥2,373 million.

Sales in this segment rose 0.6%, to ¥6,179 million, mainly due to sales of maintenance parts and knit products.

Outlook for the Next Fiscal Year

In Bangladesh and ASEAN countries, in the upcoming fiscal year we anticipate continued expansion, due to large production volumes using computerized flat knitting machines, centered on the SSR® and the SVR®. We will respond to this strong demand with an enhanced manufacturing structure.

In China, capital investment rebounded substantially during the year under review. We will further step up our proposals for high-performance models, including WHOLEGARMENT® flat knitting machines, centering on client companies that are transitioning to business models focused on high-value-added products in line with China's increasingly vigorous domestic fashion market. We will also actively propose sales targeting the production of sports shoes.

In Europe, the United States, Japan and other advanced countries, we will continue to position MACH2®XS WHOLEGARMENT® flat knitting machines as a strategic model, strengthening our proposals linked with design systems as local production for local markets.

As a result of these initiatives, in the upcoming fiscal year we anticipate sales from the Flat Knitting Machine Segment of ¥62.0 billion, up 4.4% from the year under review.

With SDS®-ONE APEX3 continuing to form the core of the TOTAL FASHION SYSTEM®, we will engage proactively in proposal-making activities in Japan and overseas in a wide range of fields extending outside the knitwear and apparel industries. Also for P-CAM®, where our business focus to date has been mostly in Japan, we will begin full-fledged efforts to develop business overseas, including through the expansion of overseas service locations.

Through these efforts, we expect sales to grow 33.4%, to ¥5,250 million.

In the upcoming fiscal year, we will continue making proposals carefully tailored to customers in Japan and overseas, particularly for high-value-added products, as we work to spark demand and expand sales further. Through these initiatives, we anticipate a 5.3% increase in sales, to ¥2.5 billion.

We will continue with the same initiatives as in the fiscal year under review. In the upcoming fiscal year, we expect sales to grow 1.1%, to ¥6,250 million.

Topics 2018 (April 1, 2017 to March 31, 2018)

Certification

WHOLEGARMENT® Knitwear Products in NUONE + HADACARE Series Certified as Recommended Products by the Japan Atopic Dermatitis Patients Association



NUONE + HADACARE Series

SHIMA CO., LTD., a subsidiary that plans and sells WHOLEGARMENT® products, has developed the HADACARE series under the NUONE brand. This series has been certified as recommended products by the Japan Atopic Dermatitis Patients Association, and seven items in the series have been launched throughout Japan. The HADACARE series employs CRABYON®, a hypoallergenic functional material with antibacterial effects. Used in conjunction with WHOLEGARMENT® materials, CRABYON® is used in clothing that offers comfort and peace of mind to people with sensitive skin.



* CRABYON is a registered trademark of Omikenshi Co., Ltd.

Award

WHOLEGARMENT® Receives Good Design Award 2017 Best 100 and Special Award

Shima Seiki's seam-free knitwear manufacturing system, WHOLEGARMENT®, was selected to receive the Good Design Award 2017 Best 100, sponsored by the Japan Institute of Design Promotion. WHOLEGARMENT® also received the Good Design Special Award [Design for the Future] (Ministry of Economy, Trade and Industry Vice-Minister for Commerce and Services Award). The Good Design Award, Japan's only comprehensive design evaluation and endorsement effort, has morphed into an international design award, with participation from numerous companies and organizations outside Japan, as well.

Shima Seiki's TOTAL FASHION SYSTEM® combines WHOLEGARMENT® flat knitting machines with SDS®-ONE APEX3 to achieve innovation in processes across the textile industry, from planning to design, production, distribution, marketing and sales. This system received the award for enabling production of three-dimensional items not possible through sewing, as well as for facilitating a shift toward local production for local consumption. The system was also heralded for being an advanced manufacturing-industry example of environmental consideration without inventory risk.



Capital Investment

Construction of a New Factory Aimed at Creating a Flexible Manufacturing System



To meet growing demand for WHOLEGARMENT® flat knitting machines and other products, in October 2017 the Company built a new factory on its headquarters site. Demand for computerized flat knitting machines continues to grow, particularly in Bangladesh, ASEAN countries and China. In addition to responding to rising demand for WHOLEGARMENT® flat knitting machines, the factory was constructed to address the urgent need to build an expanded production structure. The new factory will handle machine processing and production of key components for flat knitting machines, as well as the processing of parts for computerized cutting machines.

Going forward, in the aim of further growth the Company will continue to invest proactively in the automation of production facilities, the introduction of new machine tools and product development.

Event

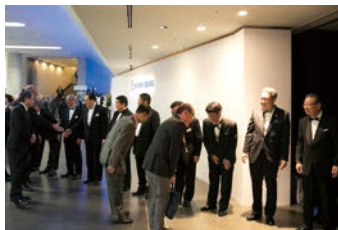
Company Invites Numerous Customers from Japan and Overseas to 55th Anniversary Commemorative Events Shima Seiki Makes Future-Oriented Proposals

Over two days, November 16 and 17, 2017, Shima Seiki held 55th anniversary commemorative events at Wakayama Big Whale, a multipurpose hall. More than 1,000 customers from Japan and overseas attended the large-scale events.

WHOLEGARMENT® flat knitting machines and other leading-edge machines were on display in the exhibition space, where the Company also introduced some 500 knitwear samples. In addition to a fashion show highlighting a model that combines the real and the virtual, the Company introduced a host of plans highlighting “the future as Shima Seiki sees it.”



Knitwear products on display across a host of genres



More than 1,000 guests over a two-day period



A dazzling fashion show with the most up-to-date collections

Commendation

Shima Seiki Commended for Contributions across Numerous Fields

Shima Seiki's Fully Automated Glove Knitting Machines (Square Type) Receive “Mechanical Engineering Heritage” Certification by the Japan Society of Mechanical Engineers

Shima Seiki's fully automated glove knitting machines (square type) received “Mechanical Engineering Heritage” certification for 2017 by the Japan Society of Mechanical Engineers.

In 1964, the Company's current chairman, Masahiro Shima, developed a fully automated glove knitting machine, which led to Shima Seiki's founding. Able to fully automate the process of integrating the connections of fingertips to fingers and to the palms and wrists, this revolutionary machine substantially boosted the production efficiency of glove manufacturers.



MACH2®XS Series of WHOLEGARMENT® Flat Knitting Machines Receives Energy-Efficient Machinery Award

In February 2018, the MACH2®XS series of WHOLEGARMENT® flat knitting machines received the Japan Machinery Federation President's Award at the 38th Energy-Efficient Machinery Awards. The series received high marks for helping conserve on materials, energy and other resources, as well as to reducing CO2 emissions, as it eliminates the cutting and sewing processes that the conventional knitwear production process required.

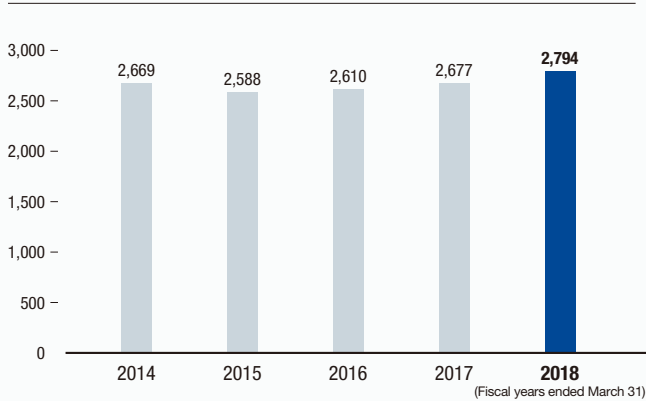


MACH2XS
Seam-free three-dimensional flat knitting machine with movable sinkers

The Foundation That Supports Growth

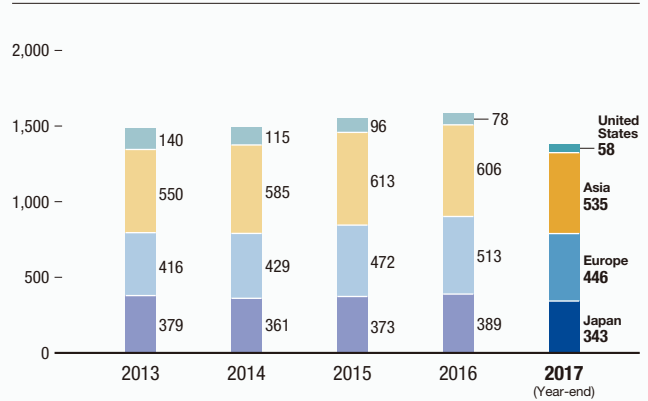
ESG Highlights

R&D Expenses (Millions of yen)



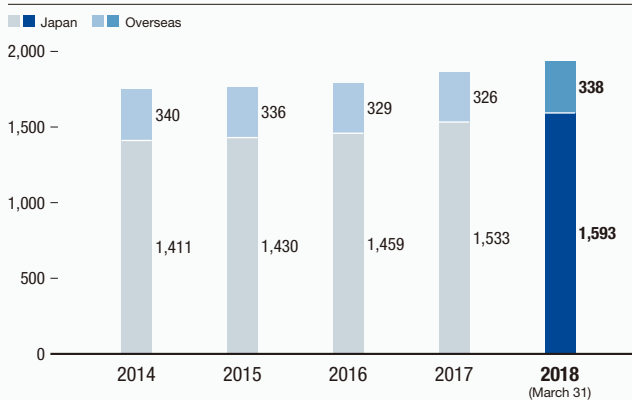
We focus on R&D as a resource to ensure sustainable growth into the future.

Patents (Number)



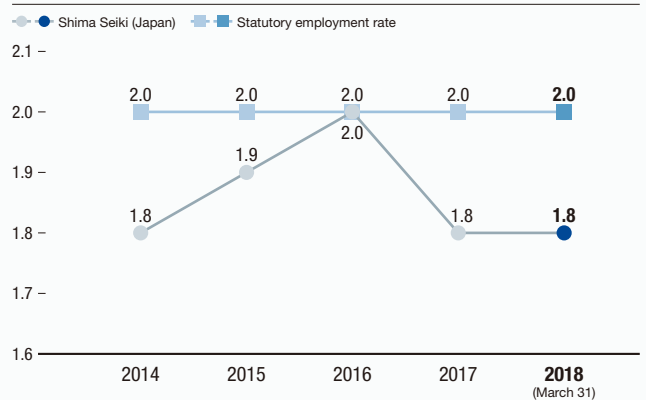
The Company considers the protection of R&D successes with intellectual property rights an important management strategy.

Employees on a Consolidated Basis (People)



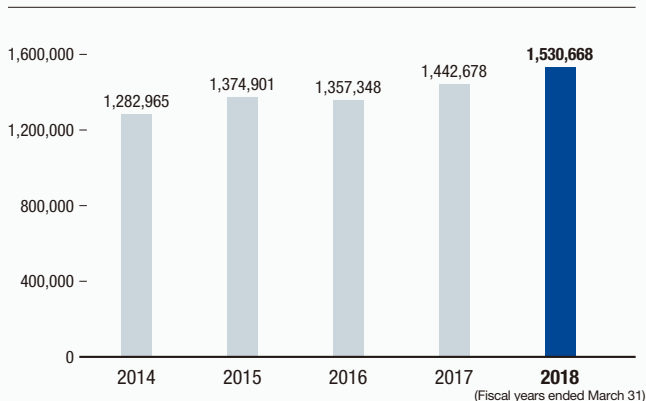
The number of employees is increasing as our business expands.

Employment Rate of People with Disabilities (Japan) (%)



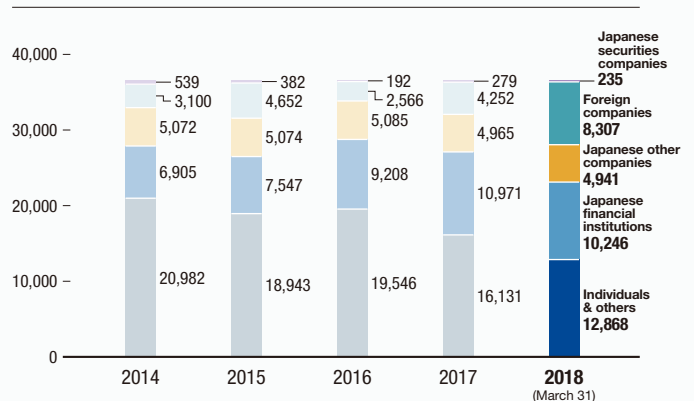
Meeting the statutory employment rate is a management issue to be addressed.

Power Generated by Solar Panels (kWh)



To reduce environmental impact, we use clean energy to offset some of the energy required for factory operations. (Figures are for Shima Seiki headquarters only.)

Shareholder Breakdown by Type (Thousands of shares)



The number of individual investors has decreased, but the percentage of overseas investors has grown.

For the Development and Continuity of Business

Research and Development Activities

Since our establishment, in line with our corporate motto “Ever Onward—Limitless Progress” and under our goal to conduct unique technological development based on creativity, we have worked to internally develop hardware and software.

During the fiscal year under review, research and development activities involved bolstering model variations of flat knitting machines and sharing parts. We also increased the number of mainstay machine variations in WHOLEGARMENT® flat knitting machines. Progressing further on the dual-layer ejection unit we unveiled in 2015 on the MACH2®XS, we worked to improve production efficiency and achieve manufacturing requiring less material.

The SDS®-ONE APEX3 design system continues to make advances as a total design system by moving forward with the software. In the P-CAM® series of computerized cutting machines, we increased the number of equipment variations and worked to establish the “Total Cutting Solution.” Going beyond the development of a cutting machine, we are stepping up developments to improve productivity and save labor in the pre- and post-cutting processes, such as spreading, labeling and picking up.



The “Total Cutting Solution,” which combines a computerized cutting machine and a computerized spreading machine

Intellectual Property Activities

We have created the Intellectual Property Department within our Development Headquarters to protect and leverage the intellectual property that results from our R&D successes and is the source of our growth potential.

Currently, Shima Seiki has 1,382 patents worldwide (as of December 31, 2017). One characteristic of our intellectual property strategy is that we cover a broad range of technologies—patenting not only technical patents on flat knitting machines, but also knitting and design technologies. We believe that another important intellectual property strategy lies in protecting and distinguishing items made by the manufacturers who make use of our products and expertise with our intellectual property rights.

In addition to our recent development successes, the technologies and know-how we have accumulated to

date are stored in a database, allowing them to be shared throughout the Company. To further reinforce our intellectual property activities, we plan to also file patents covering related technologies.

Occupational Safety Activities

Shima Seiki’s Health and Safety Committee meets monthly, and the fiscal year under review corresponds to our 47th year of efforts to ensure employee safety compliance, health promotion and accident prevention. One example is our “no-injury record board.” Located on a wall in the employee cafeteria, this board shows the number of employees (people employed directly by Shima Seiki and its three Group manufacturing companies) times the number of days with zero accidents (zero accidents that result in lost work time). Each time we reach a new level—updated at 150,000 days, 300,000 days and 450,000 days—we conduct activities to raise employee safety awareness toward reaching that level.

Committee members regularly conduct internal inspections, continually reviewing the white traffic lines inside factories and working to foster a safe and efficient working environment.



Quality and Environmental Activities

In 2002, we received ISO 9001 certification for Design and Manufacturing of Apparel Design Systems, and in 2015 the head office obtained ISO 14001 certification. Accordingly, we make a thorough effort to ensure that our manufacturing processes and quality control are in line with ISO regulations and quality and environmental standards.



Business Continuity Plan (BCP) Activities

Shima Seiki is establishing a system that, in the event of a large-scale natural disaster or accident, enables it to meet its responsibility of supplying products to customers with minimal interruptions to business activities while ensuring the safety of employees, their families and Shima Seiki’s stakeholders.

We have put in place seismic countermeasures at factory buildings in anticipation of an earthquake in the Tonankai/Nankai area, as well as a system for confirming employee safety. We also identify potential emergency scenarios to prepare for the rapid resumption of business. In the event a real disaster were to occur, we will establish Crisis Management Headquarters to respond swiftly based on our business continuity plan.

The Foundation That Supports Growth

For the Development and Continuity of Business

Interaction with Employees

● Communication between Top Management and Employees

Each month, the president gives a talk at a companywide morning meeting to communicate his messages to employees.

Along with his explanation of management conditions that month, he speaks on particular monthly topics and shares views with employees.



● Training Programs

We are working to enhance our various training programs, including training for new employees. New employees being assigned to factory sites undergo up to six months of practical training so that they have skills that can be put to use immediately upon assignment.

We also conduct language training, as well as training for newly appointed officers and next-generation leaders, to help employees enhance their skills.

● Award System

In the aim of making manufacturing attractive, Shima Seiki offers an award for proposing improvements. This award is part of a system to encourage employees to continue going about their work with originality and ingenuity, and working to enhance quality, lower costs, prevent workplace accidents, increase customer satisfaction, gain skills and focus on ecology. The president presents awards to winning employees at a monthly companywide morning meeting.

We have in place an award system that encourages employees to gain certifications, with the objective of boosting operational levels. In FY2018, we also introduced an internal system of certifying specialists, such as the WHOLEGARMENT® 1 Specialist Certification.

Being an innovative company, our Invention Committee meets regularly to encourage technological inventions. Every year, we have an award ceremony to recognize excellent inventors.

● Work Style Reforms

In April 2017, we opened Shima Kids' Land, an in-house nursery school, and as of March 31, 2018, the number of

children making regular use of the center surpassed 40% of capacity, suggesting that awareness is growing steadily. We believe the center is also making it easier for employees to return to work after childbirth.

We also strive to rehire skilled staff post-retirement, asking them to take charge of passing on technology.

● Measures to Enhance Employee Motivation

We have a pool and tennis courts on premises that we open to employees' families on holidays. We strive to promote employee health and raise motivation in other ways, as well, such as by encouraging use of green spaces during lunch breaks and offering discounts on hotels operated by Group companies that employees can use as resort facilities.

Interaction with Business Partners

When procuring parts and materials, we make a thorough effort to ensure that suppliers have appropriate standards and production backgrounds. We also prohibit transactions with suppliers who procure through routes that involve antisocial elements or who have materials or processes that do not comply with environmental laws and regulations.

For distributors, in addition to providing guidance on equipment operation we work to build trust-based partner relationships. To this end, we are enhancing training and support and working to reflect issues they raise into the product development process.

Interaction with Local Communities

We strive to contribute to local communities, particularly in Wakayama, our headquarters location.

● Special Sponsor of RoboCup Junior Japan Open 2018 Wakayama

We aim to foster an interest in science and technology among the next generation of children.

● Sponsorship of the Shima Seiki Cup

Each year we sponsor a sailing competition in Wakayama Bay to cultivate marine sports from Wakayama.

● Sponsor of La Festa Primavera, a Festival of Classic Sports Cars

To cultivate a corporate culture that pursues design sensitivity, we make our corporate grounds available as the Wakayama city checkpoint of this festival of classic sports cars that passes through the Tokai and Kinki regions.

● Support for Volunteer Activities That Help Create a City of Fine Views

We concentrate on the environment surrounding our headquarters, promoting efforts to bury utility poles along roads surrounding our headquarters and providing some areas as walkways. We also contribute to the community through cleanups of the area around Wakayama Castle.

Dialogue with Shareholders and Investors

General Meeting of Shareholders

As Shima Seiki's highest decision-making body, the General Meeting of Shareholders determines important matters and receives reports of annual business results and consolidated financial statements. Regarding the exercising of voting rights, execution is possible over the Internet using personal computers or smartphones.

Each year, numerous shareholders participate in a factory tour held after the conclusion of the general meeting to give them an opportunity to experience Shima Seiki's advanced technological capabilities firsthand.



Headquarters factory tour after the General Meeting of Shareholders

Results Briefings

Results briefings for securities analysts and institutional investors are held in Tokyo twice each year to announce results.

The president and the director in charge of accounting and finance attend the briefings to explain results of operations, performance outlooks, and our medium- to long-term management vision based on medium-term management plans. In addition, the briefings provide an opportunity for Shima Seiki to receive opinions and suggestions regarding the Company's management policies through question-and-answer exchanges with institutional investors.



Results briefing (Tokyo)

Information Exchanges with Japanese and Overseas Investors

The Shima Seiki Group is working to increase opportunities for dialogue with Japanese and overseas institutional investors. Specifically, we hold regular meetings with Japanese institutional investors and attend conferences hosted by securities companies. We also engage actively with overseas investors. We visited institutional investors in Singapore and Hong Kong in December 2017, and in Europe in May and June 2018. Shima Seiki places importance on overseas IR activities. Going forward, we plan to continue reflecting highly astute feedback from institutional investors in our management.



Explaining flat knitting machines to institutional investors by showing them samples made on the machines

Utilization of IR Tools

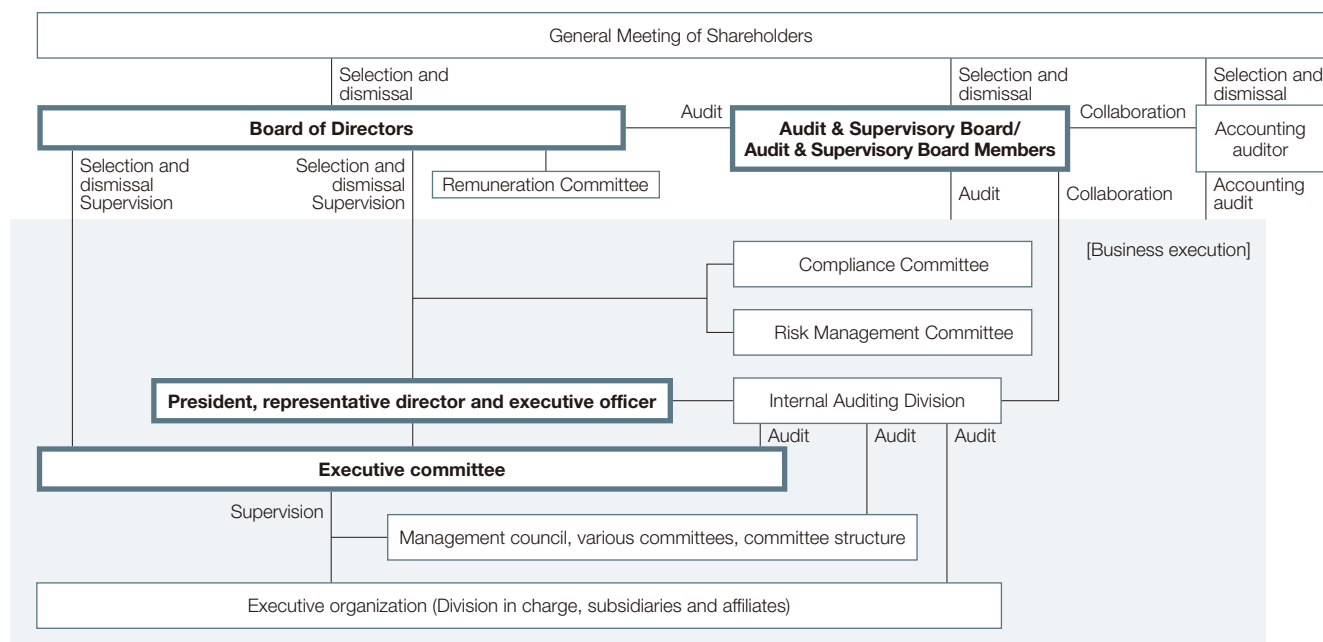
We publish regular shareholder newsletters and annual reports as tools to facilitate better shareholder and investor understanding of our business, management strategies and recent topics. We also post extensive IR information on our website. We invite our readers to have a look.



Shareholder newsletter, "To Our Shareholders"

Corporate Governance (As of June 27, 2018)

Corporate Governance Organization



Basic Policies and Systems

The Company believes in the importance of enhancing corporate governance by increasing management efficiency, soundness and transparency, as well as conducting management in a manner that focuses on the interests of stakeholders, including shareholders, clients, business partners and employees. By enabling the Board of Directors system and corporate auditors system to thoroughly demonstrate their functionality, we will aim to construct systems that allow for the implementation of suitable and effective corporate governance.

Governance Structure

Directors, Board of Directors

The Board of Directors, comprising nine directors (12 directors in FY2017), meets at least once each month to supervise the execution of business.

This includes two outside directors in an attempt to strengthen the management structure through an external perspective. During the year ended March 31, 2018, the Board of Directors met 13 times.

Audit & Supervisory Board Members, Audit & Supervisory Board

The Audit & Supervisory Board comprises four members, including two outside members, and they monitor the execution of duties by directors and audit the appropriateness of management.

The advice that outside Audit & Supervisory Board

members provide from their specialist backgrounds—one is an attorney and another is a certified public accountant and tax attorney—acts as an audit on directors’ activities. During the year, the Audit & Supervisory Board met 12 times.

Internal Auditing System

The Company has established an Internal Auditing Division to perform internal audits throughout the Company’s business operations, as well as to conduct internal control audits to determine the status of compliance, risk management and financial reporting, based on an annual audit plan.

Accounting Audits

The Company has appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits and internal control audits of the Company by the auditing firm enhance the effectiveness of the audit system.

Internal Control System

Recognizing the importance of creating and operating an internal control system to realizing our corporate philosophy and targets, we have formulated and are pursuing basic policies related to improvement of the Internal Control System.

Additionally, we have established a Compliance Committee, a Risk Management Committee and an Information Security Committee in an effort to enhance internal controls. With regard to internal control over financial reporting, as well, we have systems in place to promote fair and impartial disclosure, thereby ensuring the reliability of financial reporting.

Efforts toward Compliance

The General Rules of the Shima Seiki Group Code of Conduct pledge the Company's resolution to comply with laws and regulations and corporate ethical standards, and we strive to comply with related statutes and respect social norms. To achieve these objectives, we have formed a Compliance Committee, which conducts regular checks on compliance status and entrenches systematic compliance through induction courses.

We also have put in place and operate internal and external Corporate Ethics Helplines to communicate information concerning legal or human rights violations or other serious misconduct.

Policies Concerning Constructive Interaction with Shareholders

The Company promotes constructive interaction with shareholders and investors to support improving medium to longer term corporate value and sustainable growth.

1. In accordance with our disclosure policy, our president, accounting director, information disclosure officer (director of general affairs and personnel) and IR representative will serve as spokespeople for IR related matters.
2. The General Affairs and Personnel Division, the department in charge of IR, will promote IR activities and support the management team's interaction with shareholders and investors through appropriate cooperation with the Accounting and Finance Division and collaboration with other relevant divisions.
3. Except during quiet periods, the Company will conduct individual meetings with shareholders and investors, teleconferences, briefings for analysts and investors (at term ends and after second quarter earning announcements) and company information sessions for individual investors. We will also disseminate information in a way that is easy to understand through channels such as our homepage and disclosure documents. Through these IR activities, we will aim to promote interaction with shareholders

and investors.

4. We will promote information sharing by providing feedback concerning opinions and demands discovered through interaction to the management team and related divisions as needed.
5. The Company will appropriately manage insider information according to regulations to prevent insider trading.

Company Goals (Including Corporate Philosophy), Management Strategy and Management Plan

The Company has formulated its medium-term management plan, "Ever Onward 2020," and disclosed information regarding its corporate philosophy and management plans inside. For more details, please see the Company's homepage. <http://www.shimaseiki.com/ire/plan/pdf/plan2018.pdf>

Strategic Shareholdings

Shima Seiki engages in strategic shareholdings when they are determined to contribute to the Company's sustainable growth and enhance corporate value over the medium to long term through importance to the business or trade relation maintenance, enhancement or cooperation. Furthermore, the Board of Directors verifies the necessity of shareholdings with respect to important strategic shareholdings.

With regard to the execution of voting rights involved with strategic shareholdings, proposals are carefully examined and executed appropriately after determining whether or not they contribute to an increase in shareholder value.

Securing Effectiveness in the Board of Directors and Audit and Supervisory Board

To facilitate an effective and efficient Board of Directors function, the board comprises an appropriate amount of directors numbering 15 people or less in consideration of ensuring diversity and a balance of knowledge, experience, skills and specialization throughout the entire Board of Directors.

Furthermore, outside directors meet the criteria set forth

Regarding the Adoption of an Executive Officer System

The Company adopted an executive officer system on June 27, 2018.

By separating management decision-making and the supervisory function from the business execution function, we aim to clarify responsibility for business execution, enhance the supervisory function over the Board of Directors, and heighten management efficiency by accelerating decision-making.

Appointments and dismissals of executive officers, as well as their duties and responsibilities, will be determined by the Board of Directors. Executive officer terms will be two years in length but this will have no influence on reappointment.

In addition to the goals listed above, adopting an executive officer system brings other advantages. Communication between our management team and general employees will increase and the sharing of management policies will become easier. Moreover, real opinions from employees will become more likely to be reflected in corporate management. Furthermore, we expect that executive officers near worksites will be able to conduct employee aptitude and capability assessments more simply, leading to the discovery of human resources appropriate for future management positions.

Corporate Governance

by the Company relating to independence and are appointed based on a variety of perspectives, including those who possess a wide range of knowledge and abundant experience pertaining to corporate management, legal affairs, finance, accounting and other accomplishments in their former and current positions.

1. Evaluation method

A questionnaire was distributed to directors and members of the Audit and Supervisory Board who used a graded evaluation and comments to evaluate the effectiveness of the Board of Directors. The results were analyzed and assessed by the Board of Directors.

2. Overview of evaluation results

Evaluation results determined that the Company's Board of Directors generally functions suitably overall and provides appropriate supervision through deliberation and discussion. Therefore, the Board of Directors was deemed effective as a whole.

On the other hand, as initiatives aimed at further raising effectiveness in the Board of Directors, we are maintaining awareness regarding the following issues:

- Composition of the Board of Directors (number and diversity of directors)
- Enhancement of discussions concerning our medium to long term management strategies
- The appropriateness of our director compensation system
- Enhancement of discussions concerning risk management

3. Future response

Based on these evaluation results, the Company's Board of Directors will conduct further review aimed at enhancing and stimulating discussion within the Board of Directors and will work to further increase its effectiveness. In response to the issues listed above, we are promoting various measures such as reducing our number of directors by adopting an executive

officer system and establishing a remuneration committee.

Director and Auditor Training

The Board of Directors is encouraged to make an effort to study and acquire the knowledge necessary for directors and auditors to appropriately fulfill the roles and responsibilities expected of them and to update such knowledge appropriately. To this end, training opportunities are provided and arranged, and all required expenses are provided by the Company. In addition, outside directors and outside auditors are provided with opportunities including business briefings to facilitate an even deeper understanding of Shima Seiki's operations.

Policies and Procedures for Determining Director Remuneration

Director remuneration comprises fixed remuneration and a director bonus linked to performance in the applicable fiscal year. Stock options are also incorporated into remuneration to function as incentive remuneration. Moreover, outside director remuneration is fixed remuneration only, based on consideration for the director's role and independence.

Director remuneration is approved by the General Meeting of Shareholders and passed by resolution by the Board of Directors. When the Board of Directors passes a resolution pertaining to remuneration, a Remuneration Committee is established and chaired by an outside director to increase objectivity. This committee conducts deliberations regarding the resolution.

Transactions Between Related Parties

In the event of transactions conducted with Shima Seiki directors, legal entities materially controlled by Shima Seiki directors or major shareholders, the matter is referred to the Board of Directors in advance to obtain approval.

Outside Director and Outside Auditor Main Activities and Reason for Appointment

Category Name	Board of Directors (Met 13 times)	The Audit & Supervisory Board (Met 12 times)	Reason for appointment
Outside Director Yoshio Ichiryu	Attended 13 times	—	Appointed as an outside director for his abundant experience in the areas of economics and industrial policy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Director Rieko Zamma	Attended 13 times	—	Appointed as an outside director for her abundant experience as a producer involved in event planning and public relations strategy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Auditor Daisuke Shinkawa	Attended 11 times	Attended 11 times	Appointed as an outside auditor for his abundant experience as a certified public accountant and tax attorney who is expected to contribute to maintaining the health of Company management through auditing, mainly from the perspective of accounting and tax affairs.
Outside Auditor Sachiko Nomura	Attended 13 times	Attended 12 times	Appointed as an outside auditor for her abundant experience as an attorney who is expected to contribute to maintaining the health of Company management through auditing, mainly from the perspective of legal affairs.

Directors, Audit & Supervisory Board Members and Executive Officers

(As of June 27, 2018)

Directors

**Chairman,
Representative Director**
Masahiro Shima



**President,
Representative Director**
Mitsuhiro Shima



In charge of Corporate Planning
Division

Senior Executive Director
Ikuto Umeda



Director of Sales Headquarters
in charge of Total Design Center

Executive Director
Reiji Arikita



General Manager of Material
Purchasing Division, in charge
of Production Headquarters

Director
Takashi Nanki



General Manager of Accounting
and Finance Division, in charge
of General Affairs and Personnel
Division, Administration Division,
and Physical Distribution Division

Director
Hirokazu Nishitani



Director of Development
Headquarters

Director
Kiyokata Nishikawa



General Manager of Joint Sales
Division

Outside Director
Yoshio Ichiryu



President & CEO,
Ichiryu Associates, Inc.

Outside Director
Rieko Zamma



CEO, CANDID PRODUCE, Inc.

Audit & Supervisory Board Members

**Standing Audit &
Supervisory Board Member**
Mitsunori Ueda



**Standing Audit &
Supervisory Board Member**
Hisahito Totsui



**Outside Audit &
Supervisory Board Member**
Daisuke Shinkawa



Representative Partner,
HOKUTO tax accountant office

**Outside Audit &
Supervisory Board Member**
Sachiko Nomura



Partner Attorney,
DOJIMA LAW OFFICE

Introduction to Hisahito Totsui, Newly Appointed Audit & Supervisory Board Member

Mr. Hisahito Totsui has belonged to the accounting and finance division for a long period of time and has substantial experience and knowledge in this field. Making use of his experience and performance in the accounting and finance division, he has been put in charge of the internal auditing division, through which he understands all businesses of the Company.

Accordingly, the Company judges that through his audits he will contribute to ensuring the soundness and transparency of the Company's management.

Executive Officers

Name	Post and Occupation
Mitsuhiro Shima	Representative Director and Executive Officer, in charge of Corporate Planning Division
Ikuto Umeda	Executive Officer, Director of Sales Headquarters in charge of Total Design Center
Reiji Arikita	Executive Officer, General Manager of Material Purchasing Division, in charge of Production Headquarters
Takashi Nanki	Executive Officer, General Manager of Accounting and Finance Division, in charge of General Affairs and Personnel Division, Administration Division, and Physical Distribution Division
Hirokazu Nishitani	Executive Officer, Director of Development Headquarters
Kiyokata Nishikawa	Executive Officer, General Manager of Joint Sales Division
Hirofumi Imai	Executive Officer, General Manager of General Affairs and Personnel Division
Akihiro Ohtani	Executive Officer, General Manager of Production Headquarters
Shosaku Kitagawa	Executive Officer, General Manager of Corporate Planning Division



Financial Section

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Five-Year Financial Summary

Five-Year Financial Summary

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31

	2018	2017	2016	2015	2014	2018	
For the Year:						Thousands of U.S. dollars	
		Millions of yen					
Net sales	¥71,858	¥62,433	¥49,583	¥48,354	¥40,636	\$676,374	
Cost of sales	38,420	33,385	26,238	26,488	23,367	361,634	
Gross profit	33,438	29,048	23,345	21,866	17,269	314,740	
Selling, general and administrative expenses	18,532	17,786	17,563	16,121	14,537	174,435	
Operating income	14,906	11,262	5,782	5,745	2,732	140,305	
Income before income taxes and minority interests	15,443	9,979	4,803	7,006	7,230	145,360	
Net income attributable to owners of the parent	11,279	7,199	3,271	3,646	4,863	106,165	
Net cash provided by (used in) operating activities	9,398	6,989	1,257	(1,957)	(2,401)	88,460	
Net cash provided by (used in) investing activities	(4,844)	(1,242)	(2,350)	2,288	(367)	(45,595)	
Net cash provided by (used in) financing activities	1,731	2,470	(1,776)	(1,966)	(1,597)	16,293	
Capital investment	4,000	3,559	2,128	2,108	1,360	37,651	
Depreciation and amortization	2,105	1,833	1,590	1,614	1,594	19,814	
Research and development expenses	2,795	2,677	2,610	2,588	2,669	26,308	
At Year-End:						Thousands of U.S. dollars	
		Millions of yen					
Total assets	¥154,344	¥141,931	¥126,416	¥126,987	¥119,727	\$1,452,786	
Net assets	123,492	104,880	98,293	98,179	93,222	1,162,387	
Per Share Data:						U.S. dollars	
		Yen					
Net income per share	¥316.82	¥209.97	¥95.61	¥106.54	¥142.13	\$2.98	
Cash dividends per share applicable to the year	60.00	45.00	37.50	32.50	32.50	0.56	
Net assets per share	3,381.85	3,039.66	2,867.00	2,863.49	2,718.57	31.83	
Ratios:						%	
Ratio of operating income to net sales	20.7%	18.0%	11.7%	11.9%	6.7%		
ROA = Return on assets	7.6	5.4	2.6	3.0	4.2		
ROE = Return on equity	9.9	7.1	3.3	3.8	5.4		
Equity ratio	80.0	73.8	77.6	77.2	77.7		

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥106.24=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2018.

Management's Discussion and Analysis (MD&A) of Financial Conditions and Results of Operations

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31

Overview

During the fiscal year under review, the US economy continued to expand, as personal consumption increased on the back of improvements in the employment environment, and the European economy recovered steadily. Economic performance was generally robust in China and other emerging markets. Recovery also continued in Japan, supported by rising exports and expanding capital investment.

Under these circumstances, the Shima Seiki Group marked the final year of Ever Onward 2017, the three-year medium-term management plan it launched in the fiscal year ended March 31, 2016. This plan marked the phase of reinforcing our management infrastructure, setting in place the foundations for sustainable growth through four priority measures: strengthening the flat knitting business, advancing unique business segments, improving the profit structure and reinforcing the management infrastructure. In addition to initiatives in line with these measures, the plan targeted record levels of net sales and net income.

During the fiscal year under review, sales in the Flat Knitting Machine Segment expanded significantly, due to increased sales of computerized flat knitting machines in major markets around the world. In the Design System Segment, sales were flat, but sales rose in the Glove and Sock Knitting Machine Segment and were favorable in the Other Business Segment.

As a result, the Company posted record-high consolidated net sales of ¥71,858 million for the fiscal year ended March 31, 2018, up 15.1% from the preceding fiscal year.

Yen appreciation through the end of the fiscal year affected the Company on the profit front, but the effect of higher net sales caused operating income to rise 32.4%, to ¥14,906 million and ordinary income to surge 54.6%, to ¥15,526 million. Net income attributable to owners of the parent grew

56.7%, to ¥11,279 million, reaching a new record.

Shima Seiki considers the return of profits to shareholders one of its highest management priorities. Our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion. On this basis, we strive to allocate profit in a balanced manner, while maintaining the internal reserves for investment in growth from a long-term perspective and future business expansion.

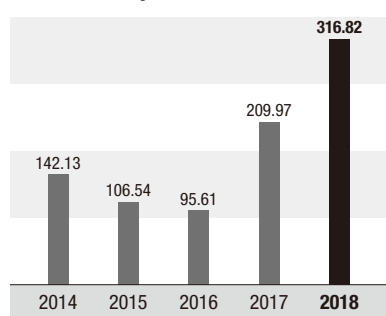
During the fiscal year under review, consolidated earnings per share climbed significantly, from ¥209.97 to ¥316.82. Favorable sales performance in the Flat Knitting Machine Segment and other factors lifted profits above forecast levels. Accordingly, we raised the year-end dividend by ¥10.00 per share from initially forecast levels, from ¥25.00 to ¥35.00. This figure, combined with an interim dividend of ¥25.00, pushed up dividends for the year to ¥60.00 per share.

Net Sales

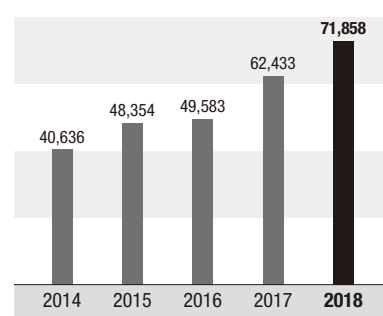
Consolidated net sales rose 15.1%, to ¥71,858 million.

In the Company's core Flat Knitting Machine Segment, sales in the Asian market grew steadily, mainly through sales of the SSR® and SVR® in Bangladesh and ASEAN countries. Sales rose in China, too, in line with growing domestic apparel consumption, a shift toward proposal-based, high-value-added production, the accelerated introduction of MACH2®XS WHOLEGARMENT® flat knitting machines and increased sales for the production of sports shoes. In Italy, sales of high-end models increased, centered on WHOLEGARMENT® flat knitting machines. In the Middle East, an improved political situation in Turkey led to a sharp rebound in capital investment from summer, and sales grew, centered on the SVR®. In Japan, on the other hand, sales of computerized flat knitting machines were down year on year. As a result, sales in the Flat Knitting Machine Segment improved 17.8%, to ¥59,370 million.

Net Income per Share (¥)



Net Sales (¥ Million)



In the Design System Segment, sales of the SDS®-ONE APEX3 design system rose slightly year on year, as introduction spread into sectors other than knitwear production, but performance was affected by a sluggish apparel business in Japan. Sales of P-CAM® automatic fabric cutting machines were down somewhat, although we expanded sales routes, mainly in Japan, to target the automotive, furniture and industrial materials sectors. Consequently, sales in the Design System Segment dipped 2.1%, to ¥3,936 million.

In the Glove and Sock Knitting Machine Segment, the Company benefited from robust ongoing capital investment by large-scale customers, particularly in the sales of fine-gauged glove knitting machines. As a result, segment sales expanded 25.7%, to ¥2,373 million.

In the Other Business Segment, demand for service parts and knitted products caused sales to edge up 0.6%, to ¥6,179 million.

Overall, overseas net sales rose 18.2%, to ¥64,646 million, accounting for 90.0% of net sales, a 2.4-percentage-point increase. By geographical region, 67.5% of net sales were generated in Asia (compared with 67.1% during the previous year), 12.6% in Europe (11.6%), 6.1% in the Middle East (5.0%) and 3.8% (3.8%) in other areas, with Asia, Europe and the Middle East constituting a rising percentage of sales.

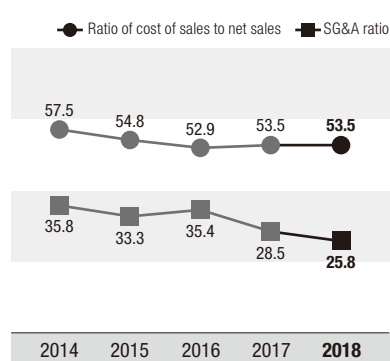
In the Japanese market, sales fell 6.9%, to ¥7,212 million, with the Flat Knitting Machine Segment and the Design System Segment being particularly affected by a lackluster domestic market for apparel.

Cost of Sales and SG&A Expenses

A rise in the number of flat knitting machines produced caused cost of sales to expand year on year, to ¥38,420 million. However, higher net sales pushed up gross profit 15.1%, to ¥33,438 million, and the gross profit ratio was 46.5%, unchanged year on year.

Selling, general and administrative (SG&A) expenses increased 4.2%, to ¥18,532 million, despite a decrease in the provision for doubtful accounts, owing to higher labor costs and

**Ratio of Cost of Sales to Net Sales/
SG&A Ratio (%)**



sales commissions stemming from an increase in product shipments. Due to the rise in net sales, the SG&A expense ratio fell 2.7 percentage points, to 25.8%.

Operating Income

Despite the rise in SG&A expenses and other negative factors, operating income grew 32.4%, to ¥14,906 million, as cost of sales fell due to the effects of higher sales and increased production. By business segment, operating income in the Flat Knitting Machine Segment came to ¥19,424 million, up 28.9% year on year; ¥1,166 million in the Design System Segment, up 16.0%; ¥475 million in the Glove and Sock Knitting Machine Segment, up 29.4%; and ¥105 million in the Other Business Segment, down 81.9%.

Other Income and Expenses

Other income was higher than other expenses, leading to net other income of ¥537 million, compared with net other losses of ¥1,283 million in the previous year. This was due to a significant decrease in the foreign exchange loss, stemming from such factors as a loss on valuation of receivables denominated in foreign currencies as a result of yen appreciation.

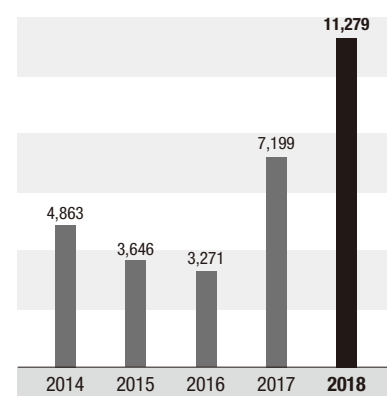
Net Income Attributable to Owners of the Parent

Income before income taxes was ¥15,443 million, up 54.7% from the previous year.

Corporate income, residential and enterprise taxes totaled ¥4,214 million, representing an increase of ¥2,130 million from a year earlier. Corporate income tax adjustments for the period under review were a negative ¥53 million, compared with positive ¥696 million in the previous year. As a result, the Company's tax burden after the application of tax effect accounting increased ¥1,381 million, to ¥4,161 million.

Owing to the above factors, net income attributable to owners of the parent was ¥11,279 million, up 56.7% compared to the preceding fiscal term.

Net Income Attributable to Owners of the Parent (¥ Million)



Liquidity and Capital Resources

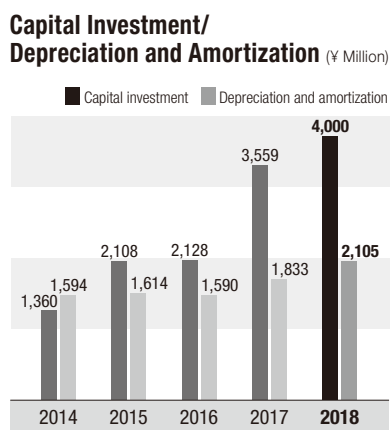
Cash and cash equivalents were ¥24,223 million as of March 31, 2018, up sharply from one year earlier. Net cash provided by operating activities was ¥9,398 million. Although an increase in trade receivables and a decrease in trade payables used cash, income before income tax provided a substantial ¥15,443 million, and depreciation and amortization provided cash.

Net cash used in investing activities amounted to ¥4,844 million. Sources of cash included proceeds from the withdrawal of time deposits and proceeds from the disposal of investments in securities. Principal uses of cash were for purchases of property, plant and equipment and purchases of investments in securities.

Net cash provided by financing activities was ¥1,731 million. Uses of cash included the repayment of short- and long-term debt and cash dividends paid, while sources of cash included the retirement of treasury stock due to the exercise of stock acquisition rights.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities and loans from financial institutions, in an effort to secure low-cost, stable capital in response to uses of funds required to pursue the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 80.0% and 436.4%, respectively, implying an extremely good financial position.

The Shima Seiki Group will continue to ensure its solid position as a global leading company into the future, firmly believing that it can procure adequate capital by leveraging its sound financial position and vigorous sales efforts and by maintaining growth to secure the working funds and funds for capital investment required for stable growth.



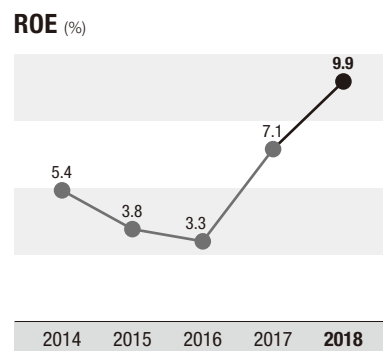
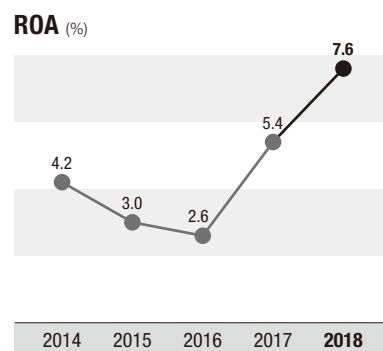
Assets, Liabilities and Net Assets

Consolidated total assets as of March 31, 2018, were ¥154,344 million, up ¥12,413 million from a year earlier. In terms of short-term assets and liabilities, current assets rose ¥7,798 million, or 7.4%, to ¥113,534 million. Major reasons for the increase were a ¥5,414 million rise in cash and cash equivalents and a ¥2,749 million expansion in trade notes and accounts receivable. Current liabilities, meanwhile, fell ¥6,432 million, or 19.8%, to ¥26,019 million. This was primarily due to decreases in the current portion of long-term debt and short-term loans.

With regard to long-term assets and liabilities, long-term assets rose ¥4,615 million, or 12.8%, to ¥40,810 million, and long-term liabilities expanded ¥233 million, or 5.1%, to ¥4,833 million.

Net assets increased ¥18,612 million, or 17.7%, to ¥123,492 million, owing principally to higher retained earnings. As a result, the shareholders' equity ratio rose 6.2 percentage points from the preceding year-end, to 80.0%.

Return on assets grew from 5.4% to 7.6%, and return on equity increased from 7.1% to 9.9%.



Business Risks and Uncertainties

Business Risks and Uncertainties

The Group recognizes the following major items as possible risk factors in its operations, which may affect the management performance and financial position of the Group.

The Group strives to prevent manifestation of those risks and employ proper countermeasures. Forward-looking statements are decisions made by the Group as of the end of the current fiscal year.

(1) Risks of dependency on particular overseas markets

Overseas sales account for around 90% of the Group's total sales, with sales to the Asian markets, including Bangladesh, China and ASEAN countries, exceeding two-thirds of the total. There is a concern over economic and political changes in these markets, including competition with other flat knitting machine manufacturers, changes in monetary policies and tax systems, and trade friction with other regions, which could lead to a decline in orders, and thus affect the performance and financial position of the Group.

(2) Risks associated with fluctuations in currency exchange rates

As the Group sells products worldwide, some transactions are conducted in currencies other than yen. Although the Group employs forward exchange contracts and other hedges to minimize foreign exchange risks, appreciation of the yen could cause declining price competitiveness and loss on valuation of receivables denominated in foreign currencies. In such situations, sales activities may not be conducted as planned. Therefore, sharp fluctuations in exchange rates as such could affect the performance and financial position of the Group.

(3) Risks associated with credit and accounts receivable recovery

In line with its global sales strategy, the Group handles credit management of customers in two of its main markets of China and Europe on its own. This enables the Group to implement comprehensive global sales and marketing strategies by maintaining a balance between potential receivables recovery risks and sales. Proper credit management is gaining even greater significance for the Group's consolidated business operations. Changes in performance or credit standing of each customer, or manifestation of country risks could affect the performance and financial position of the Group.

(4) Risks associated with the protection of intellectual property rights

In some countries and regions, it is virtually impossible, or possible only to a limited extent, to protect the Group's proprietary technologies and know-how in terms of its intellectual property rights due to a lack of awareness

concerning legal compliance. Consequently, the Group may not be able to effectively prevent a third party from illegally using the Group's intellectual property rights and producing counterfeit products. Accompanying deterioration in sales and price competition could affect the performance and financial position of the Group.

(5) Risks associated with overconcentration of production on a particular production site

The Group promotes efficiency by concentrating its product production in Wakayama Prefecture, where the headquarters is located, to allow all operations, from development to manufacturing, to be integrated into one process. Therefore, natural disasters, such as a large earthquake in or around Wakayama Prefecture, could cause the extended suspension of production. Similarly, should the steady supply of electricity be disrupted, the Group's ability to meet its production plans would be hampered and the Group's performance and financial position could be affected.

(6) Risks associated with social and institutional changes in business areas

The Group operates its business not only in Japan but worldwide. It sees the following inherent risks in some countries and regions and they could affect the performance and financial position of the Group.

1. Stagnant demand resulting from deteriorating economic conditions
2. Unforeseen changes in laws and regulations
3. Social turmoil due to terrorism, war, political upheaval, deteriorating civil order, and other causes
4. Natural disasters including earthquakes

(7) Risks associated with changes in consumer apparel spending and unseasonable weather

The Group's products are sold primarily to apparel and knitwear manufacturers in Japan and overseas. Product sales of those manufacturers at department and discount stores tend to be influenced by individual apparel preferences and fashion trends. Moreover, unseasonable weather events, such as heat waves and warm winters, coupled with damage caused by strong winds and flooding, constitute another major factor that could influence market trends in the apparel industry, and thus they could affect the performance and financial position of the Group.

(8) Information system risk

Information systems are one of the important factors for the Company group. Human errors, failures in devices and defective services provided by third parties such as telecom carriers, as well as external cyber-attacks, unauthorized access and computer virus infections could cause malfunctions and defects in telecommunication systems. This could lead to problems such as errors and delays in the processing of transactions and information leakage, and have an impact on the business results and financial position of the Company group.

Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
ASSETS			
Current assets:			
Cash and time deposits (Note 3,4)	¥24,575	¥19,161	\$231,316
Trade notes and accounts receivable (Note 4)	70,017	67,268	659,046
Inventories (Note 6)	17,846	17,578	167,978
Deferred tax assets (Note 12)	1,640	1,537	15,437
Prepaid expenses and other current assets	1,446	2,036	13,610
Less: allowance for doubtful accounts	(1,990)	(1,844)	(18,731)
Total current assets	113,534	105,736	1,068,656
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 4)	602	589	5,666
Investments in securities (Note 4,5)	10,083	7,492	94,908
Net defined benefit assets (Note 9)	1,057	779	9,949
Deferred tax assets (Note 12)	—	43	—
Goodwill	3,247	3,874	30,563
Other	3,846	3,181	36,201
Less: allowance for doubtful accounts	(1,539)	(1,584)	(14,486)
Total investments and other assets	17,296	14,374	162,801
Property, plant and equipment:			
Land (Note 7)	11,392	10,962	107,229
Buildings and structures	25,727	24,680	242,159
Machinery and equipment	6,342	6,081	59,695
Tools, furniture and fixtures	7,639	7,449	71,903
Leased assets	6,073	4,893	57,163
Construction in progress	42	58	396
	57,215	54,123	538,545
Less: accumulated depreciation	(33,701)	(32,302)	(317,216)
Property, plant and equipment, net	23,514	21,821	221,329
Total assets	¥154,344	¥141,931	\$1,452,786

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 4,8)	¥8,499	¥9,975	\$79,998
Current portion of long-term debt (Note 4,8)	—	5,000	—
Lease obligation	671	562	6,316
Trade notes and accounts payable (Note 4)	4,467	5,221	42,047
Electronically recorded obligations-operating (Note 4)	1,326	2,458	12,481
Accrued expenses	1,622	1,373	15,267
Accrued income taxes	3,322	2,120	31,269
Other current liabilities	6,112	5,742	57,530
Total current liabilities	26,019	32,451	244,908
Long-term liabilities:			
Long-term accounts payable	1,051	1,051	9,893
Lease obligation	2,405	1,891	22,637
Deferred tax liabilities for land revaluation (Note 7)	23	23	217
Net defined benefit liability (Note 9)	824	922	7,756
Other long-term liabilities	530	713	4,988
Total long-term liabilities	4,833	4,600	45,491
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2018 — 36,600,000 shares			
2017 — 36,600,000 shares	14,860	14,860	139,872
Capital surplus	25,868	21,724	243,486
Retained earnings	89,979	80,480	846,941
Treasury stock, at cost			
2018 — 87,983 shares			
2017 — 2,117,503 shares	(258)	(6,140)	(2,428)
Total shareholders' equity	130,449	110,924	1,227,871
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	942	919	8,867
Land revaluation difference (Note 7)	(7,004)	(7,004)	(65,926)
Foreign currency translation adjustments	(1,335)	(250)	(12,566)
Remeasurements of defined benefit plans	427	226	4,019
Total accumulated other comprehensive income	(6,970)	(6,109)	(65,606)
Subscription rights to share (Note 14)	—	56	—
Non-controlling interests in consolidated subsidiaries	13	9	122
Total net assets	123,492	104,880	1,162,387
Total liabilities and net assets	¥154,344	¥141,931	\$1,452,786

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net sales	¥71,858	¥62,433	\$676,374
Cost of sales	38,420	33,385	361,634
Gross profit	33,438	29,048	314,740
Selling, general and administrative expenses (Note 13)	18,532	17,786	174,435
Operating income	14,906	11,262	140,305
Other income (expenses):			
Interest and dividend income	693	518	6,524
Interest expense	(181)	(84)	(1,704)
Foreign exchange loss	(368)	(1,930)	(3,464)
Provision of allowance for doubtful accounts	(50)	(103)	(471)
Other, net	443	316	4,170
Income before income taxes	15,443	9,979	145,360
Income taxes (Note 12):			
Current	4,214	2,084	39,665
Deferred	(53)	696	(499)
	4,161	2,780	39,166
Net income	11,282	7,199	106,194
Net income (loss) attributable to non-controlling interests	3	(0)	29
Net income attributable to owners of the parent	¥11,279	¥7,199	\$106,165
		Yen	U.S. dollars
Net income Per share:			
Basic	¥316.82	¥209.97	\$2.98
Diluted	—	209.68	—
Cash dividends applicable to the year	60.00	45.00	0.56

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income	¥11,282	¥7,199	\$106,194
Other comprehensive income (Note 15):			
Net unrealized holding gain on securities	23	795	217
Foreign currency translation adjustments	(1,085)	(221)	(10,213)
Remeasurements of defined benefit plans	201	26	1,892
Total other comprehensive income	(861)	600	(8,104)
Comprehensive income	¥10,421	¥7,799	\$98,090
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥10,418	¥7,799	\$98,061
Comprehensive income (loss) attributable to non-controlling interests	3	(0)	29

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

 SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
 Years ended March 31, 2018 and 2017

	Thousands	Millions of yen										
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2016	36,600	¥14,860	¥21,724	¥75,135	¥(6,908)	¥125	¥(7,004)	¥(29)	¥200	¥180	¥10	¥98,293
Net income attributable to owners of the parent	—	—	—	7,199	—	—	—	—	—	—	—	7,199
Cash dividends	—	—	—	(1,454)	—	—	—	—	—	—	—	(1,454)
Purchases of treasury stock	—	—	—	—	(2)	—	—	—	—	—	—	(2)
Retirement of treasury stock	—	—	—	(51)	770	—	—	—	—	—	—	719
Change of scope of consolidation	—	—	—	(349)	—	—	—	—	—	—	—	(349)
Other changes, net	—	—	—	—	—	794	—	(221)	26	(124)	(1)	474
Balance at March 31, 2017	36,600	¥14,860	¥21,724	¥80,480	¥(6,140)	¥919	¥(7,004)	¥(250)	¥226	¥56	¥9	¥104,880
Net income attributable to owners of the parent	—	—	—	11,279	—	—	—	—	—	—	—	11,279
Cash dividends	—	—	—	(1,775)	—	—	—	—	—	—	—	(1,775)
Purchases of treasury stock	—	—	—	—	(9)	—	—	—	—	—	—	(9)
Retirement of treasury stock	—	—	4,144	(5)	5,891	—	—	—	—	—	—	10,030
Change of scope of consolidation	—	—	—	—	—	—	—	—	—	—	—	—
Other changes, net	—	—	—	—	—	23	—	(1,085)	201	(56)	4	(913)
Balance at March 31, 2018	36,600	¥14,860	¥25,868	¥89,979	¥(258)	¥942	¥(7,004)	¥(1,335)	¥427	—	¥13	¥123,492

	Thousands of U.S. dollars										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2017	\$139,872	\$204,480	\$757,530	\$(57,793)	\$8,650	\$(65,926)	\$(2,353)	\$2,127	\$527	\$85	\$987,199
Net income attributable to owners of the parent	—	—	106,165	—	—	—	—	—	—	—	106,165
Cash dividends	—	—	(16,707)	—	—	—	—	—	—	—	(16,707)
Purchases of treasury stock	—	—	—	(85)	—	—	—	—	—	—	(85)
Retirement of treasury stock	—	39,006	(47)	55,450	—	—	—	—	—	—	94,409
Change of scope of consolidation	—	—	—	—	—	—	—	—	—	—	—
Other changes, net	—	—	—	—	217	—	(10,213)	1,892	(527)	37	(8,594)
Balance at March 31, 2018	\$139,872	\$243,486	\$846,941	\$(2,428)	\$8,867	\$(65,926)	\$(12,566)	\$4,019	—	\$122	\$1,162,387

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥15,443	¥9,979	\$145,360
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,104	1,833	19,804
Amortization of goodwill	404	399	3,803
Increase in allowance for doubtful accounts	144	804	1,355
Decrease in net defined benefit liability	(80)	(86)	(753)
Interest and dividend income	(693)	(519)	(6,523)
Interest expense	181	84	1,704
Foreign exchange loss (gain)	(128)	200	(1,205)
Loss on sales and disposal of property, plant and equipment, net	11	43	104
Gain on sale of investment in securities	(0)	(19)	(0)
Loss on revaluation of shares of subsidiaries and affiliates	—	43	—
Impairment loss	31	92	292
Gain on reversal of subscription rights to shares	(41)	—	(386)
Gain on valuation of derivatives	(43)	(86)	(405)
Increase in trade receivables	(4,141)	(8,961)	(38,978)
Decrease (increase) in inventories	(184)	788	(1,732)
Increase (decrease) in trade payables	(2,194)	1,382	(20,651)
Other	1,198	1,654	11,276
Subtotal	12,012	7,630	113,065
Interest and dividend income received	691	557	6,504
Interest expense paid	(203)	(69)	(1,911)
Income taxes paid	(3,102)	(1,129)	(29,198)
Net cash provided by operating activities	9,398	6,989	88,460
Cash flows from investing activities:			
Increase in time deposits, net	518	793	4,876
Purchases of property, plant and equipment	(2,568)	(1,913)	(24,172)
Proceeds from sales of property, plant and equipment	76	119	715
Purchases of investments in securities	(2,741)	(558)	(25,800)
Proceeds from sales and redemption of investments in securities	153	762	1,440
Payment for acquisition of subsidiaries and affiliated companies	—	(329)	—
Other	(282)	(116)	(2,654)
Net cash used in investing activities	(4,844)	(1,242)	(45,595)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings, net	(942)	3,714	(8,867)
Repayments of Long-Term debt	(5,000)	—	(47,063)
Repayment of finance lease obligations	(558)	(384)	(5,252)
Purchases of treasury stock	(8)	(2)	(75)
Proceeds from exercise of subscription rights to shares	69	595	649
Proceeds from the disposal of treasury stock due to the exercise of subscription rights	9,916	—	93,336
Proceeds from issuance of subscription rights	28	—	264
Cash dividends paid	(1,774)	(1,453)	(16,699)
Net cash provided by financing activities	1,731	2,470	16,293
Effect of exchange rate changes on cash and cash equivalents	(348)	172	(3,276)
Net increase in cash and cash equivalents	5,937	8,389	55,882
Cash and cash equivalents at beginning of year	18,286	9,752	172,120
Increase in cash and cash equivalents from newly consolidated subsidiary	—	145	—
Cash and cash equivalents at end of year (Note 3)	¥24,223	¥18,286	\$228,002

See the accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

SHIMA SEIKI MFG., LTD. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the exchange rate prevailing at March 31, 2018, which was ¥106.24 to US\$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies") over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Goodwill is amortized over 20 years by the straight-line method.

(b) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates. Resulting translation

gains or losses are charged to income in the year in which they are incurred, except for those arising from forward foreign exchange contracts pertaining to monetary assets, which are deferred and amortized over the periods of the respective contracts. Revenues and expenses are translated at the rates of exchange prevailing when transactions are recorded.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. The components of net assets are translated at historical rates. Revenue and expense accounts of foreign subsidiaries are translated at the average exchange rate during the year.

Translation adjustments resulting from translation of foreign currency financial statements are reported as "Foreign currency translation adjustments" in a separate component of net assets.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hands, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities within three months.

(d) Short-term investments and investments in securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of net assets and is reflected as "Net unrealized holding gain on securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the average method.

(e) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the moving-average method (with book values written down on the balance sheet based on decreased profitability of assets).

Supplies are stated at cost determined by the first-in first-out method (with book values written down on the balance sheet based on decreased profitability of assets).

Purchased goods held by foreign consolidated subsidiaries are stated at cost determined by the specific method (with book values written down on the balance sheet based on decreased profitability of assets).

(f) Property, plant and equipment and depreciation (except for leased assets)

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic consolidated subsidiaries is computed principally by the declining-balance method based on the estimated useful lives of assets, except that the straight-line method is applied to buildings, but not to fixtures attached to the buildings, acquired on or after April 1, 1998 and fixtures attached to the buildings and structures acquired on or after April 1, 2016. Depreciation of foreign consolidated subsidiaries is computed by the straight-line method on the estimated useful lives of assets.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 60 years
Machinery and equipment	2 to 12 years
Tools, furniture and fixtures	2 to 20 years

(g) Leased assets

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees are accounted for in a similar way to purchases and depreciation for leased assets is computed under the straight-line method with zero residual value over the lease term.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. The allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are calculated based on their past credit loss experience plus an estimate of the individual uncollectible amounts. The allowance for doubtful accounts of foreign consolidated subsidiaries is calculated based on an estimate of the individual uncollectible amounts.

(i) Retirement benefits

1. Periodic allocation methodology for the estimated retirement benefit amount

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a straight-line basis.

2. Amortization of past service cost and actuarial gains/losses

Past service cost is primarily amortized on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

Net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on difference of between financial reporting and the tax basis of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Derivatives and hedging activities

The Company and its consolidated subsidiaries have entered into derivatives transactions in order to manage the risk arising from adverse fluctuations in foreign currency exchange rates and interest rates.

Derivatives are stated at fair value and changes in fair value are recognized as gains or losses, except they meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as assets or liabilities. Forward foreign exchange contracts that meet certain hedging criteria are accounted for under the allocation method.

Also, if interest rate swap contracts are used for hedging and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(m) Per share information

Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding in each period.

Diluted net income per share is not presented for the year ended March 31, 2018 since there are no residual securities.

3. Cash and deposits

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets as of March 31, 2018 and 2017 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥24,575	¥19,161	\$231,316
Time deposits with an original maturity in excess of three months included in cash and deposits	(352)	(875)	(3,314)
Cash and cash equivalents at end of year	¥24,223	¥18,286	\$228,002

4. Financial Instruments

(a) Policy for financial instruments

The Companies procure funds using bank borrowings and other debts for the business. The Company makes use of various derivative financial instruments in order to reduce the risk of fluctuations of foreign exchange rate in receivables and the risk of fluctuations of interest rate in payables. The Companies are not engaged in speculative transactions and use highly secure financial instruments. The Companies carry out financial instruments pursuant to internal regulations and the rules of Board of Directors.

(b) Nature of financial instruments and the risks and risk management

Trade receivables consist of notes and accounts receivable are exposed to customer credit risk. Trade receivables in foreign currency due to the global operation are exposed to risks of fluctuations of foreign currency exchange.

Notes and accounts payable are due within one year and a part of them in foreign currency associated with import of parts and accessories are exposed in risks of fluctuations of foreign currency exchange.

The Companies use borrowings and interest-bearing debt to procure funds for operating transactions due for a maximum of 1.5 months. The Companies hedges risk for long-term borrowings by using derivatives (interest rate swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

The Companies use foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies. Certain overseas subsidiaries have capital-safe deposits including derivative instruments.

(c) Risk management of financial instruments

1. Credit risk management

The Companies conduct mitigation of collection risk in accordance with credit management in sales. Certain organization unit independent from sales division assesses the balances outstanding for customers and credit status of customers and manages collection dates.

In terms of loan receivable, the Companies assess financial conditions of debtors and review the loan terms periodically.

The Companies have derivative transactions only with counterparties rated highly.

2. Market risk management

The Companies hedge risks for exchange rate fluctuations monitored monthly by each currency and use interest swap contracts for borrowings.

Regarding securities, the Companies monitor the market price and financial condition of the issuer of securities, taking into account its relationship with the counterparties.

3. Liquidity risk in procurement of funds

The Companies manage to reduce liquidity risk by preparing cash flow projection in basis of financial reporting from each division and affiliates.

(d) Supplemental information on fair value of financial instruments

The Companies assess fair value of financial instruments based on market prices or on reasonable estimates when market prices are not available. These estimates including variable factors are subject to fluctuation due to change in underlying assumptions.

The contract amounts of the derivative transactions referred in Note 11. Derivative financial instruments below are not indicators of market risk associated with derivative transactions.

(e) Fair value of financial instruments

Fair value and variance with carrying value presented in balance sheets are as follows. Fair values that are not determinable are not included in the following table.

	Millions of yen		
	2018		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥24,575	¥24,575	—
<2> Trade notes and accounts receivable ..	70,017	—	—
Less: allowance for doubtful accounts *1 ...	(1,987)	—	—
	68,030	68,030	—
<3> Short-term investments in securities, investments in securities	7,401	7,401	—
<4> Trade notes and accounts payable ..	4,467	4,467	—
<5> Electronically recorded obligations-operating	1,326	1,326	—
<6> Short-term borrowings	8,499	8,499	—

	Millions of yen		
	2017		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥19,161	¥19,161	—
<2> Trade notes and accounts receivable ..	67,268	—	—
Less: allowance for doubtful accounts *1 ...	(1,839)	—	—
	65,429	65,429	—
<3> Short-term investments in securities, investments in securities	5,310	5,310	—
<4> Trade notes and accounts payable ..	5,221	5,221	—
<5> Electronically recorded obligations-operating	2,458	2,458	—
<6> Short-term borrowings	9,975	9,975	—
<7> Long-term debt including long-term borrowings due within one year	5,000	5,000	—
<8> Derivative instruments *2	(44)	(44)	—

	Thousands of U.S. dollars		
	2018		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	\$231,316	\$231,316	—
<2> Trade notes and accounts receivable ..	659,046	—	—
Less: allowance for doubtful accounts *1 ...	(18,703)	—	—
	640,343	640,343	—
<3> Short-term investments in securities, investments in securities	69,663	69,663	—
<4> Trade notes and accounts payable ..	42,046	42,046	—
<5> Electronically recorded obligations-operating	12,481	12,481	—
<6> Short-term borrowings	79,998	79,998	—

*1: The net amount of allowance for doubtful accounts is related on trade notes and accounts receivable.

*2: The net amount of the assets and liabilities is shown. If the net amount is a liability, it is written in parentheses.

(Note1) Calculation method for the fair value of financial instruments, securities and derivative transactions

- <1> Cash and time deposits; Carrying amount approximates fair value due to the short maturities.
- <2> Trade notes and accounts receivable; The fair value is based on the discounted by the free rate to be applied to the periods of collection, assuming allowance for doubtful accounts as credit risks since it is difficult to value credit risks individually.
- <3> Short-term investments in securities, investments in securities; Fair value of equity securities are based on the prices quoted by financial institutions.
- <4> Trade notes and accounts payable; Carrying amount approximates fair value due to the short maturities.
- <5> Electronically recorded obligations-operating; Carrying amount approximates fair value due to the short maturities.
- <6> Short-term borrowings; Carrying amount approximates fair value due to the short maturities.

(Note2) Fair values that are difficult to determine as of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities	¥2,682	¥2,182	\$25,245
Shares of subsidiaries and affiliates ..	564	566	5,309

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2018 and 2017

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2018)				
Cash and time deposits	¥24,575	—	—	—
Trade notes and accounts receivable	41,520	¥28,487	¥10	—
Investment securities				
Available-for-sale securities with maturity				
– Bonds	989	—	—	—
– Other investments	—	36	298	—
Total	¥67,084	¥28,523	¥308	—

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2017)				
Cash and time deposits	¥19,161	—	—	—
Trade notes and accounts receivable	34,563	¥32,618	¥87	—
Investment securities				
Available-for-sale securities with maturity				
– Bonds	—	994	—	—
– Other investments	36	—	—	—
Total	¥53,760	¥33,612	¥87	—
	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2018)				
Cash and time deposits	\$231,316	—	—	—
Trade notes and accounts receivable	390,813	\$268,138	\$94	—
Investment securities				
Available-for-sale securities with maturity				
– Bonds	9,309	—	—	—
– Other investments	—	339	2,805	—
Total	\$631,438	\$268,477	\$2,899	—

5. Short-term investments and investments in securities

Other securities with quoted market prices at March 31, 2018 and 2017 were as follows:

	Millions of yen		
	Acquisition cost	Amount recorded in the balance sheet	Difference
	2018		
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥2,656	¥3,955	¥1,299
Other	360	362	2
Subtotal	¥3,016	¥4,317	¥1,301
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥519	¥368	¥(151)
Bonds	1,000	989	(11)
Other	1,767	1,727	(40)
Subtotal	¥3,286	¥3,084	¥(202)
Total	¥6,302	¥7,401	¥1,099

	Millions of yen		
	Acquisition cost	Amount recorded in the balance sheet	Difference
	2017		
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥2,570	¥3,783	¥1,213
Subtotal	¥2,570	¥3,783	¥1,213
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥596	¥496	¥(100)
Bonds	1,000	994	(6)
Other	47	37	(10)
Subtotal	¥1,643	¥1,527	¥(116)
Total	¥4,213	¥5,310	¥1,097

	Thousands of U.S. dollars		
	Acquisition cost	Amount recorded in the balance sheet	Difference
	2018		
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	\$25,000	\$37,227	\$12,227
Other	3,388	3,407	19
Subtotal	\$28,388	\$40,634	\$12,246
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	\$4,885	\$3,464	\$(1,421)
Bonds	9,413	9,309	(104)
Other	16,632	16,256	(376)
Subtotal	\$30,930	\$29,029	\$(1,901)
Total	\$59,318	\$69,663	\$10,345

Other securities without quoted market prices at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other securities	¥2,682	¥2,182	\$25,245
	¥2,682	¥2,182	\$25,245

6. Inventories

Inventories at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Finished goods	¥10,839	¥10,495	\$102,024
Work in process	5,535	5,454	52,099
Raw materials	1,142	1,322	10,749
Supplies and others	330	307	3,106
	¥17,846	¥17,578	\$167,978

7. Land revaluation

On March 31, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the income tax effect on revaluation gain or loss, has been stated as a component of net assets, "Land revaluation difference." The income tax effect has been stated as a component of long-term liabilities, "Deferred tax liabilities for land revaluation." The fair value of the revalued land was less than its carrying value by ¥5,002 million (\$47,082 thousand) and ¥4,708 million at March 31, 2018 and 2017, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Average rate of 1.57%			
unsecured loans from banks	¥8,499	¥9,975	\$79,998

Long-term debt at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Average rate of 0.55%			
unsecured loans from banks	—	¥5,000	—
Less current portion	—	(5,000)	—
	—	—	—

9. Retirement benefits

Retirement benefits at March 31, 2018 and 2017 consisted of the following:

The Company and certain domestic consolidated subsidiaries have defined benefit corporate pension plan and unfunded retirement benefit plans for payments of employees' retirement.

The Group pays a pension or lump sum based on length of service and salary in the defined benefit corporate pension plan.

In unfunded retirement benefit plans, the Group pays a lump sum based on length of service and salary as a retirement benefit.

Some consolidated subsidiaries adopt the simplified method for the calculation of net defined benefit liability and retirement benefit expenses.

Defined benefit plans, including a plan applying a simplified method

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Balance, beginning of year	¥6,240	¥6,039	\$58,735
Service cost	330	310	3,106
Interest cost	62	60	584
Actuarial loss (gain)	(203)	22	(1,911)
Benefit paid	(245)	(191)	(2,306)
Balance, end of year	¥6,184	¥6,240	\$58,208

(2) Movement in plan assets

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Balance, beginning of year	¥6,096	¥5,757	\$57,380
Expected return on plan assets	70	66	659
Actuarial gain	95	78	894
Contributions paid by the employer	331	320	3,115
Benefit paid	(175)	(125)	(1,647)
Balance, end of year	¥6,417	¥6,096	\$60,401

(3) Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Funded retirement benefit obligations	¥5,360	¥5,318	\$50,452
Plan assets	(6,417)	(6,096)	(60,401)
	(1,057)	(778)	(9,949)
Unfunded retirement benefit obligations	824	922	7,756
Total net liability for retirement benefits end of year	(233)	144	(2,193)
Net defined benefit liability	824	922	7,756
Net defined benefit assets	(1,057)	(778)	(9,949)
Total net liability for retirement benefits end of year	¥(233)	¥144	\$(2,193)

(4) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥330	¥310	\$3,106
Interest cost	62	59	584
Expected return on plan assets	(70)	(66)	(659)
Net actuarial loss amortization	(8)	(18)	(75)
Past service costs amortization	1	1	9
Total retirement benefits cost	¥315	¥286	\$2,965

(5) Remeasurements of defined benefit plans (before tax effect deduction)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service cost	¥1	¥1	\$9
Actuarial gain and loss	289	37	2,721
Total balance end of year	¥290	¥38	\$2,730

(6) Remeasurements of defined benefit plans (before tax effect deduction)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service costs that are yet to be recognized	¥(1)	¥(2)	\$(9)
Actuarial gain and loss that are yet to be recognized	618	328	5,817
Total balance end of year	¥617	¥326	\$5,808

(7) Plan assets

<1> Plan assets at March 31, 2018 comprise:

Equity securities	12%
Bonds	16%
Insurance assets (General account)	69%
Other	3%
Total	100%

The above total includes 8% of the retirement benefit trusts of corporate pension plan.

<2> Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered to determine long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumption at March 31, 2018 (expressed as weighted averages) are as follows:

Discount rate	1.00%
Long-term expected rate of return	1.15%
Rate of increase in future compensation	3.05%

10. Contingent liabilities

Contingent liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Guarantees of customers' loans and lease obligations	¥1,242	¥2,765	\$11,691

11. Derivative financial instruments

The Company and its consolidated subsidiaries are exposed to market risk arising from changes in foreign currency exchange and interest rates over the international operations. The Company and certain consolidated subsidiaries have entered into various derivative transactions to reduce these risks by executing forward exchange contracts and currency option contracts based on cash flow management in foreign currencies. And also have entered into interest rate swap agreements for the purpose of managing the risk due to changes in the fair value of cash flow and debts resulting from a rise in interest rate.

Certain overseas subsidiaries have capital-safe deposits including derivative instruments.

However, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2018 are as follows:

(a) Derivatives that do not meet the criteria for hedge accounting

Not applicable

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2018			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	¥14,064	¥—		
EUR	13,613	5,640		
KWR	1,668	156		

	Thousands of U.S. dollars			
	2018			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	\$132,380	\$—		
EUR	128,134	53,087		
KWR	15,700	1,468		

Note 1: Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed at Note 4.
 2: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2017 are as follows:

(a) Derivatives that do not meet the criteria for hedge accounting

	Millions of yen			
	2017			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Capital-safe deposit including derivative instrument	¥280	—	¥(44)	¥(44)
Total	¥280	—	¥(44)	¥(44)

Note 1: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.
 2: Estimated fair value of derivative – embedded deposits is computed based on the value of the embedded derivatives included in compound financial instruments.

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2017			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Normal accounting method				
Foreign exchange contracts:				
Put US\$	¥224		¥(203)	
EUR	30		(12)	
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	14,771	¥2,088		
EUR	12,242	4,761		
KWR	2,488	960		
Interest rate swap contracts:				
To receive variable/to pay fixed..	¥1,500	—		

Note 1: Fair value of the foreign currency forward contract assigned for receivables is included in the fair value of receivables disclosed at Note 4.
 2: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.
 3: Since certain long-term debt for which the special treatment for interest swaps is used to hedge the variable risk of interest rates, the fair value of derivative financial instruments is included in the fair value of the long-term debt.

12. Income taxes

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.69% and 30.69% for the year ended March 31, 2018 and 2017.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Tax loss carryforwards	¥2,102	¥2,528	\$19,785
Allowance for doubtful accounts	1,178	945	11,088
Intercompany profit	702	692	6,608
Long - term liabilities	321	321	3,022
Loss on valuation of investments in securities	274	274	2,579
Accrued bonuses to employees	269	257	2,532
Impairment loss on fixed assets	175	197	1,647
Accrued enterprise tax	168	152	1,581
Allowance for losses on guarantees	116	147	1,092
Other	729	516	6,862
Total gross deferred tax assets	6,034	6,029	56,796
Less valuation allowance	(4,064)	(4,187)	(38,253)
Net deferred tax assets	1,970	1,842	18,543
Deferred tax liabilities:			
Unrealized holding gain on securities	(176)	(179)	(1,657)
Reserve for special depreciation	(29)	(38)	(273)
Asset retirement obligation	(6)	(6)	(56)
Other	(124)	(38)	(1,167)
Total gross deferred tax liabilities	(335)	(261)	(3,153)
Net deferred tax assets	¥1,635	¥1,581	\$15,390

13. Research and development costs

Research and development costs charged to income were ¥2,795 million (\$26,308 thousand) and ¥2,677 million for the years ended March 31, 2018 and 2017, respectively.

14. Stock option plan

(1) As of March 31, 2018 and 2017, the Company has the following stock option programs.

Date of resolution	July 20, 2010
Type and number of eligible persons	[The Company] Director: 8 Employees: 62 [The Company's subsidiaries] Director and employees: 10
Class and number of shares to be granted	Common stock: 400,000 shares
Grant date	August 4, 2010
Vesting requirement	—
Vesting period	From August 4, 2010 to July 20, 2012
Exercise period	From July 21, 2012 to July 20, 2017

(a) Number and price information
(As of March 31, 2018)

Date of resolution	July 20, 2010
Unvested stock options	
Outstanding as of March 31, 2017	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2018	—
Vested stock options	
Outstanding as of March 31, 2017	118,600
Vested	—
Exercised	30,900
Expired	87,700
Outstanding as of March 31, 2018	—

	Yen
Date of resolution	July 20, 2010
Exercise price	¥2,241
Average stock price at exercise	¥5,212
Fair value at grant date	¥469.83

(b) Estimate of number of vested stock options

Number of options to expire in the future cannot be reasonably estimated. Accordingly, only the actual number of expired options is reflected.

(2) As of March 31, 2018 and 2017, the Company has the following stock option programs.

Date of resolution	August 25, 2017
Type and number of eligible persons	Nomura Securities Co., Ltd.
Class and number of shares to be granted	Common stock: 2,000,000 shares
Grant date	September 12, 2017
Vesting requirement	allocation to third party relating to subscription rights
Vesting period	—
Exercise period	From September 13, 2017 to September 11, 2020

(a) Number and price information
(As of March 31, 2018)

Date of resolution	August 25, 2017
Unvested stock options	
Outstanding as of March 31, 2017	—
Granted	2,000,000
Expired	—
Vested	2,000,000
Outstanding as of March 31, 2018	—
Vested stock options	
Outstanding as of March 31, 2017	—
Vested	2,000,000
Exercised	2,000,000
Expired	—
Outstanding as of March 31, 2018	—

	Yen
Date of resolution	August 25, 2017
Exercise price	¥5,170
Average stock price at exercise	¥4,958
Fair value at grant date	¥14.17

(b) The estimate method on unit price of subscription rights
Estimate method: Monte Carlo Simulation

	Yen
Stock price upon calculation	¥5,170
Volatility	34.7%
Estimated dividend	¥45 per share
Non risk interest rate	(0.1%)

(c) Estimate of number of vested stock options

Number of options to expire in the future cannot be reasonably estimated. Accordingly, only the actual number of expired options is reflected.

15. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	¥21	¥899	\$198
Amount of recycling	0	(19)	0
Before income tax effect adjustments	21	918	198
Amount of income tax effect	(2)	123	(19)
Net unrealized holdings gain on securities	23	795	217
Foreign currency translation adjustments:			
Amount recognized in the period under review	(1,085)	(221)	(10,213)
Amount of recycling	—	—	—
Before income tax effect adjustments	(1,085)	(221)	(10,213)
Amount of income tax effect	—	—	—
Foreign currency translation adjustments	(1,085)	(221)	(10,213)
Remeasurements of defined benefit plans			
Amount recognized in the period under review	298	55	2,805
Amount of recycling	7	17	66
Before income tax effect adjustments	291	38	2,739
Amount of income tax effect	90	12	847
Remeasurements of defined benefit plans	201	26	1,892
Total other comprehensive income	¥(861)	¥600	\$(8,104)

16. Segment information

(a) Outline of reportable segments

The Company's reportable segments are components for which separated financial information is available and subject to periodical reviews in order for the Company's Board of Directors to determine the distribution of management resources and evaluate performance.

The Company establishes Sales Headquarters, and it formulates comprehensive domestic and overseas strategies of its products and services and deploys its business activities.

Thus, the Company consists of segments by products and services, based on business units, and the "Flat Knitting Machines", "Design Systems" and "Glove and Sock Knitting Machines" are determined to be the reportable segments.

Our core products in the Flat Knitting Machine segment are manufacturing and sales of computerized flat knitting machines. The Design System segment includes computerized design systems and automatic fabric cutting machines. The Glove and Sock Knitting Machine segment consists of computerized glove and sock knitting machines.

(b) Basis of calculation for amounts of sales, profit (loss), assets and other items by reportable segments

The accounting method for the reported operating segments is basically the same as those in Note “2.

Summary of significant accounting policies”.

Segment profit (loss) is based on operating income.

(c) Information on amounts of sales, profit (loss), assets and other items by reportable segments

Information related to the reportable segments of the Company and its consolidated subsidiaries for the years ended March 31, 2018 and 2017 were as follows:

Millions of yen						
2018						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥59,370	¥3,936	¥2,373	¥65,679	¥6,179	¥71,858
Inter-segment sales	—	—	—	—	—	—
Total sales	59,370	3,936	2,373	65,679	6,179	71,858
Operating expenses	39,946	2,770	1,898	44,614	6,074	50,688
Segment profit	¥19,424	¥1,166	¥475	¥21,065	¥105	¥21,170
Segment Assets:	¥114,654	¥4,658	¥2,618	¥121,930	¥8,622	¥130,552
Others:						
Capital expenditure	¥2,493	¥81	¥68	¥2,642	¥158	¥2,800
Depreciation	1,450	42	50	1,542	157	1,699
Amortization of goodwill	385	3	0	388	16	404

Millions of yen						
2017						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥50,379	¥4,021	¥1,888	¥56,288	¥6,145	¥62,433
Inter-segment sales	—	—	—	—	—	—
Total sales	50,379	4,021	1,888	56,288	6,145	62,433
Operating expenses	35,305	3,016	1,521	39,842	5,563	45,405
Segment profit	¥15,074	¥1,005	¥367	¥16,446	¥582	¥17,028
Segment Assets:	¥106,056	¥4,762	¥1,649	¥112,467	¥8,952	¥121,419
Others:						
Capital expenditure	¥2,175	¥139	¥74	¥2,388	¥260	¥2,648
Depreciation	1,230	45	45	1,320	189	1,509
Amortization of goodwill	380	3	0	383	16	399

Thousands of U.S. dollars						
2018						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	\$558,829	\$37,048	\$22,336	\$618,213	\$58,161	\$676,374
Inter-segment sales	—	—	—	—	—	—
Total sales	558,829	37,048	22,336	618,213	58,161	676,374
Operating expenses	375,998	26,073	17,865	419,936	57,172	477,108
Segment profit	\$182,831	\$10,975	\$4,471	\$198,277	\$989	\$199,266
Segment Assets:	\$1,079,198	\$43,844	\$24,642	\$1,147,684	\$81,156	\$1,228,840
Others:						
Capital expenditure	\$23,466	\$762	\$640	\$24,868	\$1,487	\$26,355
Depreciation	13,648	395	471	14,514	1,478	15,992
Amortization of goodwill	3,624	28	0	3,652	151	3,803

Note: The classification “Other” is the operating segment which is not included in the reportable segments. It mainly consists of parts for knitting machines and design systems, machines repair and maintenance.

(d) Differences between total amounts for reportable segments and amounts in the consolidated financial statements

Sales to customers

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reportable segments total	¥65,679	¥56,288	\$618,213
Other sales	6,179	6,145	58,161
Net sales in the consolidated statements of income	¥71,858	¥62,433	\$676,374

Segment profit

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reportable segments total	¥21,065	¥16,446	\$198,277
Other income	105	582	989
Corporate expenses	(6,264)	(5,766)	(58,961)
Operating income in the consolidated statements of income	¥14,906	¥11,262	\$140,305

Note: Corporate expenses are mainly general and administrative expenses and research and development expenses which are not attributable to the reportable segments.

Segment assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reportable segments total	¥121,930	¥112,467	\$1,147,684
Other assets	8,622	8,952	81,156
Company-wide assets	23,792	20,512	223,946
Total assets in the consolidated balance sheets	¥154,344	¥141,931	\$1,452,786

Note: Company-wide assets mainly consist of managing cash surplus, long-term investment and assets associated with administrative divisions that are not allocated to reportable segments.

Others

	Millions of yen						The amount in the consolidated financial statements	
	Reportable segments total		Other		Adjustment		2018	2017
	2018	2017	2018	2017	2018	2017		
Capital expenditure	¥2,642	¥2,388	¥158	¥260	¥1,200	¥911	¥4,000	¥3,559
Depreciation	1,542	1,320	157	189	406	324	2,105	1,833
Amortization of goodwill	388	383	16	16	—	—	404	399

	Thousands of U.S. dollars			The amount in the consolidated financial statements
	Reportable segments total	Other	Adjustment	
Capital expenditure	\$24,868	\$1,487	\$11,296	\$37,651
Depreciation	14,514	1,478	3,822	19,814
Amortization of goodwill	3,652	151	—	3,803

Note: The major portion of adjustment to depreciation and increase in property, plant, equipment and intangible assets mainly come from equipment related to administrative divisions that do not belong to the reportable segments.

(Related information)**Information about geographical region**

Information about geographical region of the Company and its consolidated subsidiaries for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥7,212	¥9,052	¥4,357	¥48,516	¥2,721	¥71,858

	Millions of yen					
	2017					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥7,744	¥7,266	¥3,137	¥41,890	¥2,396	¥62,433

	Thousands of U.S. dollars					
	2018					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	\$67,884	\$85,203	\$41,011	\$456,664	\$25,612	\$676,374

17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 27, 2018.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,278	\$12,029

Report of Independent Auditors

To the Board of Directors of
SHIMA SEIKI MFG., LTD.

We have audited the accompanying consolidated balance sheet of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Osaka, Japan
June 27, 2018

Ohtemae Audit Co.

Ohtemae Audit Corporation

Corporate Data (As of March 31, 2018)

Corporate Information

Company Name SHIMA SEIKI MFG., LTD.

Headquarters 85 Sakata, Wakayama City, Wakayama 641-8511, Japan
Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267

Date of Establishment February 4, 1962

Capital ¥14,859,800,000

Total Number of Employees Consolidated 1,931
Non-consolidated 1,324

URL Corporate Information <http://www.shimaseiki.com>
IR Information <http://www.shimaseiki.com/ire/ire.html>

Consolidated Subsidiaries

SHIMA FINE PRESS CO., LTD.	SHIMA SEIKI EUROPE LTD.	SHIMA SEIKI WIN WIN SHANGHAI LTD.
TSM Industrial CO., LTD.	SHIMA SEIKI U.S.A. INC.	SHIMA SEIKI SPAIN, S.A.U.
KAINAN SEIMITSU CO., LTD.	SHIMA SEIKI (HONG KONG) LTD.	SHIMA SEIKI WIN WIN DONGGUAN LTD.
TOYOBOSHI KOGYO CO., LTD.	SHIMA SEIKI ITALIA S.p.A.	SHIMA SEIKI (THAILAND) CO., LTD.
SHIMA CO., LTD.		SHIMA SEIKI KOREA INC.



Investor Information

Accounting Year-End March 31

Month of General Shareholders' Meeting June

Authorized Common Shares 142,000,000

Issued Common Shares 36,600,000

Number of Shareholders 11,396

Stock Exchange Listing The First Section of the Tokyo Stock Exchange

Auditing Corporation Ohtemae Audit Corporation

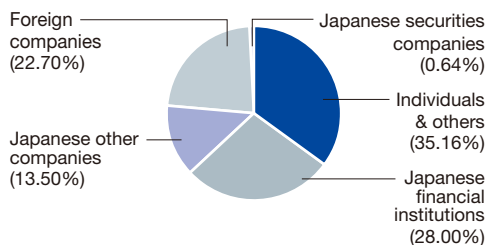
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	4,020	11.01
Japan Trustee Services Bank, Ltd. (Trust Account)	2,241	6.14
The Kiyo Bank, Ltd.	1,472	4.03
MSCO CUSTOMER SECURITIES	1,449	3.97
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,432	3.92
Masahiro Shima	1,070	2.93
Mitsuhiro Shima	1,061	2.91
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.41
Wako LLC	780	2.14
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	715	1.96

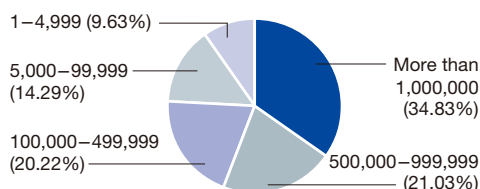
Notes: 1. Treasury stock (87 thousand shares) is excluded from the calculation of percentage of shares held.
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd., changed its name to MUFG Bank, Ltd., on April 1, 2018.

Stock Ownership

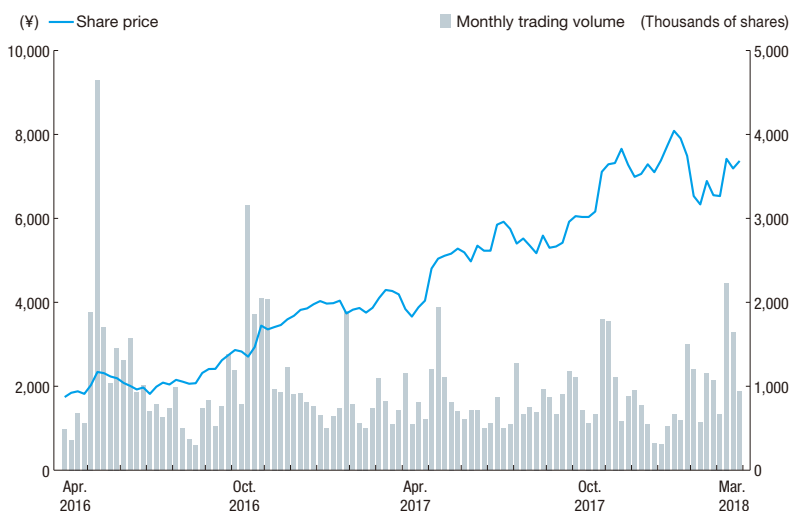
Shareholder breakdown by type



Shareholder breakdown by number of shares held



Share Price and Trading Volume



IR Website

Shima Seiki posts IR information on its website. In addition to updates on operating performance, the site includes a FAQ, glossary and a host of other content. Please feel free to have a look.



<http://www.shimaseiki.com/ire/ire.html>

Smartphone Access

If you have a smartphone that reads QR codes (two-dimensional bar codes), scan the image on the right for easy access to the site.



Sustainability Initiatives in This Publication

Environmental

- Paper produced from sustainable forest resources
- No waste liquid generated during production, and a printing process that does not use aluminum plates
- A highly durable, long-life binding method
- Glue that makes separation easy when recycling paper

Social

- Provision of printed documents to people who cannot easily access digital media
- A binding method that makes the document easy to open by people with manual disabilities

Forming the future with fibers



SHIMA SEIKI MFG., LTD.

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