

Ever Onward

Annual Report 2019

Year Ended March 31, 2019



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.



Shima Seiki's Unique Features

1 Domestic Integrated Production System Provides "Shima Seiki 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.



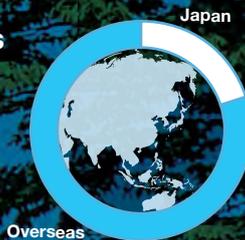
2 Ongoing Technological Innovation for Half a Century

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.



3 Over 80% 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.



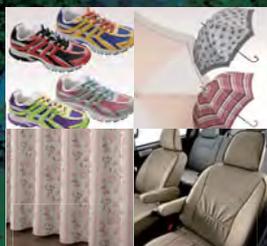
4 WHOLEGARMENT®, the Forefront of Flat Knitting Machines

WHOLEGARMENT® flat knitting machines, which produce complete, fully interplaited 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 APEX series and P-CAM® automatic fabric cutting machines. We provide various industries with high-performance and high-quality manufacturing equipment.



Contents

About Shima Seiki

- 1 Shima Seiki Firsts
- 3 Unparalleled "Shima Seiki Quality"
- 5 The Shima Seiki Value Creation Model
- 7 Financial Highlights

Management Strategy

- 9 Message from Top Management
- 15 Shima Seiki and SDGs
- 17 ITMA 2019

Results of Business Activities

- 19 Segment Information
- 21 Topics

The Foundation That Supports Growth

- 23 ESG Highlights
- 24 For the Development and Continuity of Business
- 26 Dialogue with Shareholders and Investors
- 27 Corporate Governance
- 30 Directors, Audit & Supervisory Board Members and Executive Officers

Financial Section and Corporate Data

- 32 Five-Year Financial Summary
- 33 MD&A
- 36 Business Risks and Uncertainties
- 37 Consolidated Balance Sheets
- 39 Consolidated Statements of Income
- 39 Consolidated Statements of Comprehensive Income
- 40 Consolidated Statements of Changes in Net Assets
- 41 Consolidated Statements of Cash Flows
- 42 Notes to the Consolidated Financial Statements
- 55 Independent Auditor's Report
- 56 Corporate Data

Unparalleled “Shima Seiki Quality”

From Japan to the world

Unparalleled “Shima Seiki Quality” achieved through integrated domestic production

All Shima Seiki products are manufactured at its 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.



In-house manufacturing that even includes systems

Based on our philosophy of creating something totally new, we internally manufacture and assemble everything from ultraprecise components to computer system circuit boards.



Thorough pursuit of stronger in-house manufacturing

The Shima Seiki Group manufactures most of its parts, right down to the screws, at its own factory. By thoroughly pursuing the advantages of in-house production, we have enabled high-quality manufacturing that cannot be imitated by other companies.

Wakayama



Domestic production

100%



From Wakayama to the world

Since its founding, Shima Seiki has maintained its headquarters and factory in Wakayama while continuously expanding its global business. Each day, we create products demanded across the globe in a good environment that inspires high levels of creativity through its rich natural surroundings.

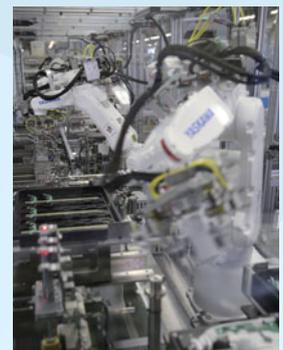


Craftsmanship that supports the highest levels of quality

Shima Seiki's craftsmanship makes manufacturing that is highly difficult through machine processing possible. We are able to achieve the world's highest level of quality precisely because we have consolidated all processes into one factory.

Promoting production streamlining using robots

As the declining labor force in Japan becomes an increasingly serious issue, we are working to further streamline production sites by automating factory logistics through the installation of automated guided vehicles and conducting assembly work using robots. We will aim to secure higher quality and establish a more efficient production system by promoting an optimal division of labor between robots and humans.



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 **80%** or more

Social Issues

Health damage due to overwork

Consumption of resources/ disposal of apparel inventories

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 Marketing 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

1,974 employees
Cultivation of expertise through long-term employment and a corporate culture that fosters originality

Intellectual Property Capabilities (Non-Consolidated)

1,359 patents
317 registered trademarks

Financial Capabilities

An equity ratio of **83.5%**
ROE of **3.1%**

Outputs



Flat kitting machines



Design systems



Automatic fabric cutting machines



Glove and sock knitting machines

Marketing and Support



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

Drop in excessive work

3 GOOD HEALTH AND WELL-BEING



Decrease in discarded apparel
Reduction of cutting losses

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Shift toward higher added value in the apparel industry

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



10-year vision and medium-term management plan

Governance

Customers

Business partners

Employees

Financial Highlights

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

Years ended March 31

	2010	2011	2012	2013	2014	2015
For the Year:	Millions of yen					
Net sales	¥36,874	¥42,781	¥37,327	¥34,970	¥40,636	¥48,354
Gross profit	14,139	19,194	14,432	12,212	17,269	21,866
Operating income (loss)	651	5,908	883	(509)	2,732	5,745
Income (loss) before income taxes and minority interests	(1,042)	1,092	(537)	3,363	7,230	7,006
Net income (loss) attributable to owners of the parent	(1,885)	770	(642)	1,754	4,863	3,646

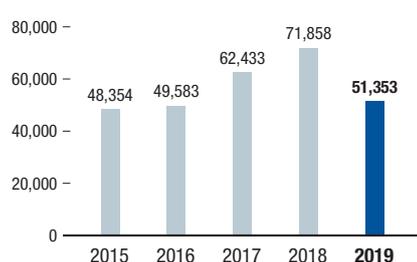
	Millions of yen					
At Year-End:						
Total assets	¥110,063	¥113,951	¥106,863	¥112,089	¥119,727	¥126,987
Net assets	87,473	86,591	84,167	87,382	93,222	98,179

	Yen					
Per Share Data:						
Net income (loss)	¥(54.52)	¥22.26	¥(18.60)	¥51.26	¥142.13	¥106.54
Cash dividends applicable to the year	30.00	35.00	40.00	25.00	32.50	32.50
Net assets	2,529.67	2,502.27	2,454.07	2,547.88	2,718.57	2,863.49

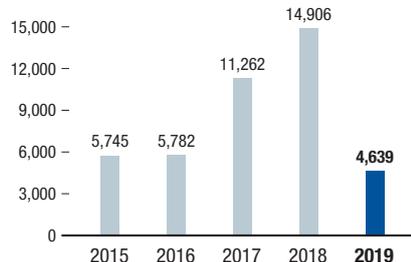
	%					
Ratios:						
ROA	(1.6)%	0.7%	(0.6)%	1.6%	4.2%	3.0%
ROE	(2.0)	0.8	(0.8)	2.0	5.4	3.8
Equity ratio	79.5	75.9	78.6	77.8	77.7	77.2
Overseas sales ratio	91.6	91.1	87.6	84.7	83.6	84.1

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥110.99=US\$1 and ¥124.56=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2019.

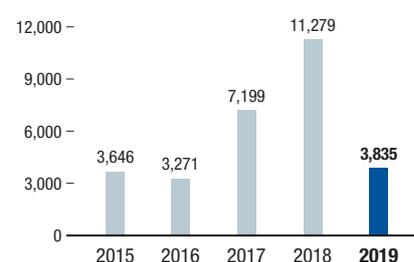
Net Sales (¥ Million)



Operating Income (¥ Million)

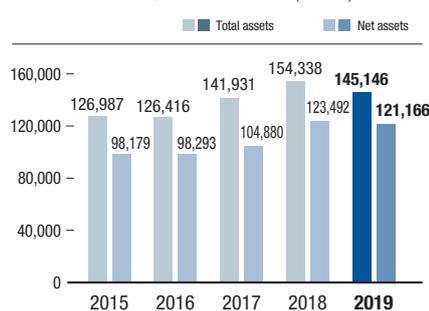


Net Income Attributable to Owners of the Parent (¥ Million)



2016	2017	2018	2019	2018 ▶ 2019	2019	2019
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥49,583	¥62,433	¥71,858	¥51,353	-28.5%	\$462,681	€412,275
23,345	29,048	33,438	23,156	-30.8	208,631	185,902
5,782	11,262	14,906	4,639	-68.9	41,797	37,243
4,803	9,979	15,443	5,100	-67.0	45,950	40,944
3,271	7,199	11,279	3,835	-66.0	34,553	30,788
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥126,416	¥141,931	¥154,338	¥145,146	-6.0%	\$1,307,739	€1,165,270
98,293	104,880	123,492	121,166	-1.9	1,091,684	972,752
				Percent change	U.S. dollars	Euros
¥95.61	¥209.97	¥316.82	¥105.62	-66.7%	\$0.95	€0.85
37.50	45.00	60.00	55.00	-8.3	0.50	0.44
2,867.00	3,039.66	3,381.85	3,411.08	0.9	30.73	27.39
2.6%	5.4%	7.6%	2.6%			
3.3	7.1	9.9	3.1			
77.6	73.8	80.0	83.5			
83.5	87.6	90.0	83.2			

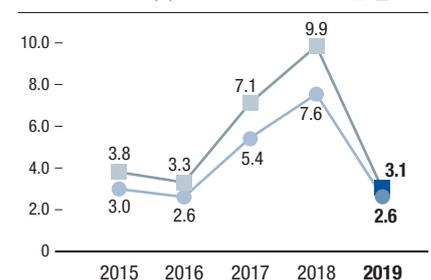
Total Assets / Net Assets (¥ Million)



Cash Dividends per Share Applicable to the Year (¥)



ROA / ROE (%)



Although sales and income declined due to the sluggish market for conventional computerized flat knitting machines, we will strive to improve business performance in anticipation of future market needs while focusing on our high-performing **WHOLEGARMENT®** flat knitting machines.



Mitsuhiro Shima

President

Profile

- 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
- 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)

Ever Onward — Limitless Progress

The Company was established in 1962 by Masahiro Shima, its current chairman, with the goal of 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 your primary initiatives and your results for the fiscal year ended March 31, 2019.



Sales decreased due to sluggish sales of conventional flat knitting machine models, which canceled out growth in our WHOLEGARMENT® flat knitting machines.

During the fiscal year under review (ended March 31, 2019), which was the first year of our second medium-term management plan, “Ever Onward 2020,” we made various progress in terms of quality, conducting organizational reforms and improving staff consciousness. However, the business environment was harsher than we expected when formulating the plan, and consolidated net sales fell 28.5%, to ¥51,353 million. Income decline was substantial, as operating income finished at ¥4,639 million (down 68.9%), ordinary income was ¥4,991 million (down 67.8%) and net income attributable to owners of the parent was ¥3,835 million (down 66.0%).

A major factor in the decline in sales was the sluggish sales of conventional computerized flat knitting machines, including SSR® and SVR®, primarily in Asia. Domestic political instability in Bangladesh caused a drastic decline in our clients' willingness to invest, which had been strong in Bangladesh in recent years. This had a particularly large impact on overall results. Also contributing to the decline in sales were weak sales of flat knitting machines used in shoe production, which had been growing in recent years; a weak currency that caused difficulties in raising funds from users in Turkey, an OEM production base for European apparel; and sluggish capital investment. Income also decreased significantly due to the decline in sales, deterioration in gross profit margin caused by second-half production adjustments and an increase in allowance for doubtful accounts that conducted in response to payment delays from a portion of customers.



Première Vision Paris
France



Pitti Filati 84
Italy

Message from Top Management



ISPO MUNICH 2019
Germany



FEBRATEx 2018
Brazil



Please describe conditions by business segment.



Performance in the Design System Segment was weak in connection with poor sales in the Flat Knitting Machine Segment.

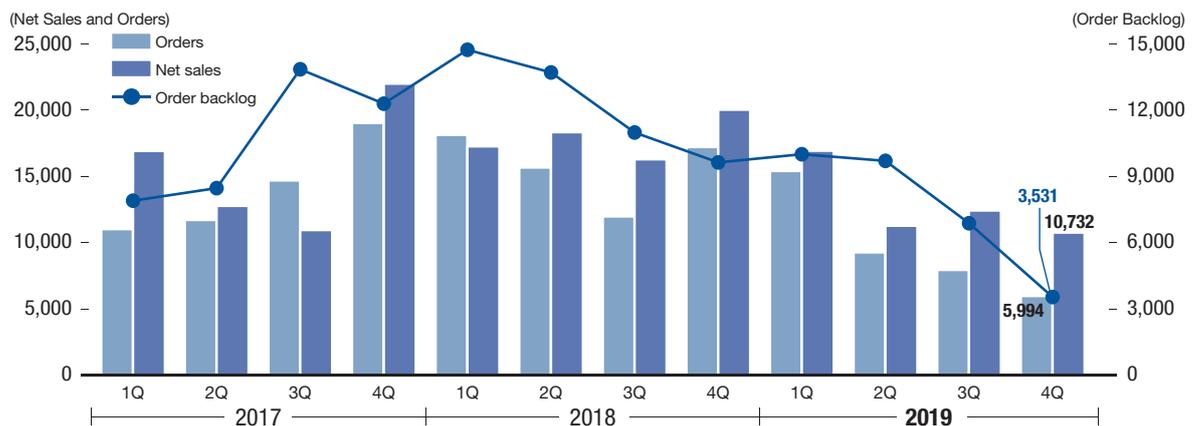
In the Flat Knitting Machine Segment, capital investment was sluggish in Bangladesh, where sales primarily centered on SSR® had been strong until the fiscal year ended March 31, 2018. We were also unable to expand sales of flat knitting machines for shoe production, which had been increasing rapidly in recent years, due primarily to the completion of capital investment from top brands and the rise of competing manufacturers in our volume zone. As a result, overall sales fell in the Flat Knitting Machine Segment.

However, sales of WHOLEGARMENT® flat knitting machines expanded worldwide, especially in the Chinese market. In China, the demand for domestic apparel is growing, causing a shift from import-focused OEM business to business targeting domestic consumption. Accordingly, we expect that demand in China will continue to expand for WHOLEGARMENT® flat knitting machines, which can speedily produce environmentally friendly knitwear with high added value. In addition, sales of WHOLEGARMENT® flat knitting machines were steady in Japan, South Korea, Italy and other countries, due to the establishment of systems centered on local production for local markets.

In the Design System Segment, sales of SDS®-ONE APEX3 fell along with the number of flat knitting machines sold.

On the other hand, sales of P-CAM® automatic fabric cutting machines increased steadily both in Japan and overseas. We have strengthened proposals touting these machines as cutting solutions that cover both pre- and post-cutting processes, resulting in its installation at overseas garment factories. Its implementation in other industries, including the automotive, industrial material and furniture industries, also continues to expand.

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



(Consolidated fiscal years ended March 31)



Please explain your primary initiatives and outlook for the fiscal year ending March 31, 2020.



We will propose a business model that links WHOLEGARMENT® with design systems.

During the fiscal year ending March 31, 2020 we will continue to push forward worldwide proposals that respond to the market needs of each region. In particular, we will focus on expanding sales of WHOLEGARMENT® flat knitting machines, which we consider to be pillars of future growth. To meet growing demand around the world, we will work to strengthen our production system and supply chain while redoubling our efforts to propose our on-demand production system, which combines WHOLEGARMENT® flat knitting machines and design systems.

In June 2019, ITMA 2019 was held in Barcelona, Spain. ITMA is the world's largest international textile machinery trade fair and is held once every four years. During the 2019 ITMA exhibition, which set "sustainability" as its unified theme, we made new proposals concerning the MACH2®VS, our latest model of WHOLEGARMENT® flat knitting machines; yarnbank, which utilizes virtual samples from our design systems; and MADE2FIT, a made-to-order mass customization system that takes advantage of the merits of WHOLEGARMENT® (see pp.17–18). Moving forward, we will stimulate demand through these new proposals.

In the fiscal year ending March 31, 2020, we predict net sales of ¥52,300 million, operating income of ¥4,000 million, ordinary income of ¥4,400 million and net income attributable to owners of the parent of ¥3,300 million.

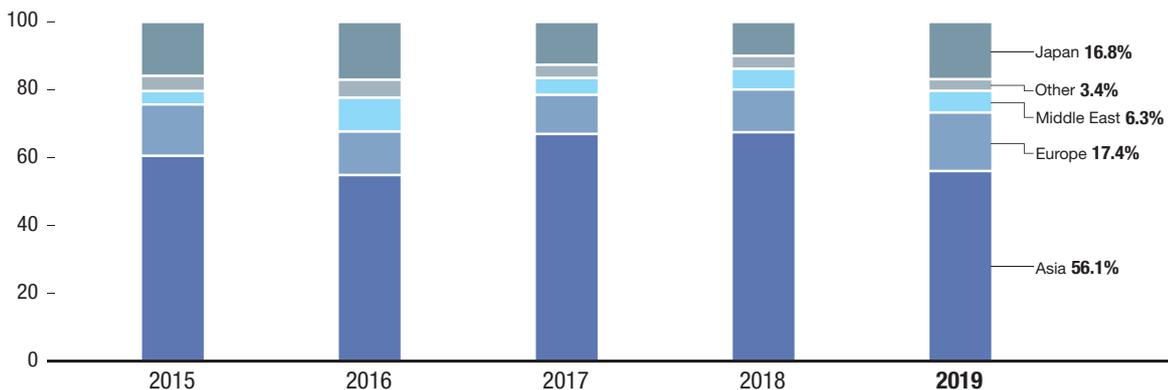


Expotextil Peru 2018
Peru



KNIT WORLD 2019
India

■ Composition of Sales by Region (%)



(Consolidated fiscal years ended March 31)

Message from Top Management



ITMA Asia+CITME 2018
China



Preview in SEOUL 2018
South Korea



Please tell us about the progress of the medium-term management plan and the medium- to long-term business outlook.



We will work to expand uses for knitting technology while anticipating changes within the apparel industry.

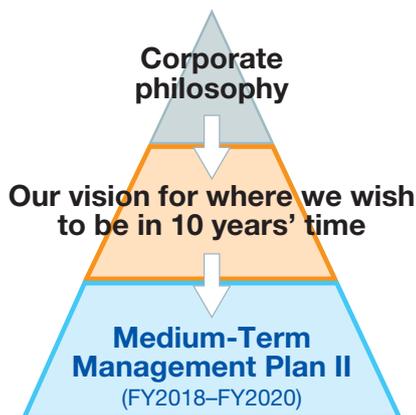
The demand for WHOLEGARMENT® flat knitting machines has been steadily expanding and is expected to continue to grow over the medium to long term. However, circular knitting machines and inexpensive flat knitting machines manufactured in China are making the competitive environment for conventional computerized flat knitting machines tough. Furthermore, client companies are showing noticeably less will to invest as concerns regarding the economic slowdown rise in the global apparel and fashion industries. In light of this situation, we revised targets in our medium-term management plan, “Ever Onward 2020,” in May 2019.

Meanwhile, mass disposal of unsold apparel inventories is currently being seen as a global problem, and business models within the apparel and fashion industries are approaching major turning points. The shift from business that produces large product volumes in regions with low labor costs and ships them to consumption areas to “sustainable manufacturing,” which produces only the required volume of products needed to meet the needs of consumption areas, and only when necessary, is expected to rapidly pick up speed. Taking these global trends into account, we will continue to expand proposals for new business models, as symbolized by proposals we made at the ITMA exhibition regarding MADE2FIT.

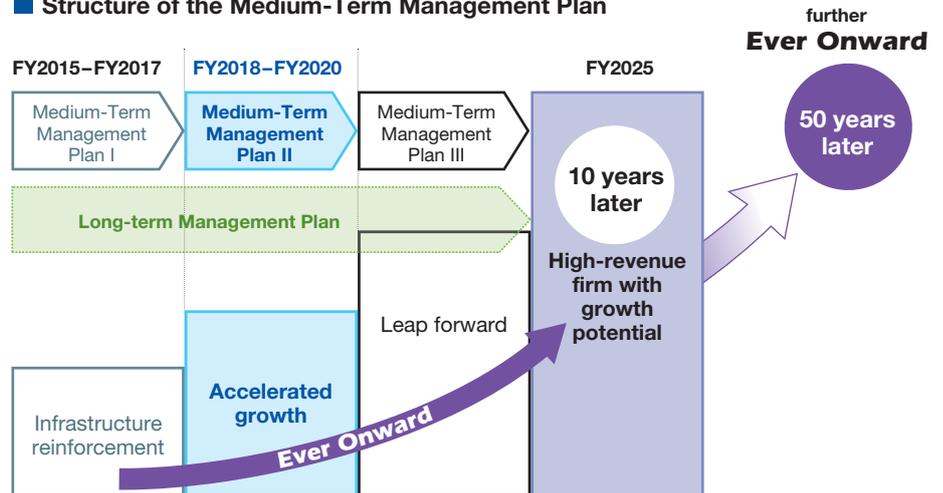
At the 2019 exhibition, we launched a new slogan, “KNITify the World.”

Under this slogan, we aim to expand the possibilities of knitting technology to include a wide range of fields other than apparel and fashion, including the automotive, interior design, furniture and industrial material industries. We consider our WHOLEGARMENT® flat knitting machines, which produce complete pieces from yarn three dimensionally, to be of particular benefit to a diverse range of industries, in terms of cutting back on raw materials,

■ Conceptual Diagram of the Medium-Term Management Plan



■ Structure of the Medium-Term Management Plan



streamlining production processes and improving product functionality. Moving forward, we will focus on proposals concerning their use in a variety of industries.



Please share a message for your shareholders and investors.



We will contribute to a “sustainable future” and aim for further growth.

Our basic dividend policy is to emphasize the stable provision of dividends to our shareholders while maintaining a dividend payout ratio of 30% or more. Based on this philosophy, we issued a total of ¥55.00 per share in dividends for the fiscal year ended March 31, 2019, comprising an interim dividend of ¥30.00 per share and a year-end dividend of ¥25.00 per share, despite decreases in both sales and income. To enhance shareholder return, we conducted stock buybacks total of one million shares between November 2018 and March 2019. Moving forward, we will conduct flexible stock buybacks in a timely manner, enhance shareholder return and improve capital efficiency.

Based on our corporate motto, “Ever Onward—Limitless Progress,” we will continue to strive for sustainable growth while contributing to the sustainable futures of various industries, including the apparel and fashion industries.

We ask our shareholders and investors for their continued warm understanding and support moving forward.



5th WEARABLE EXPO
Tokyo



Mitsuhiro Shima,
President

■ Revision of Targets in the Medium-Term Management Plan, “Ever Onward 2020”

(Unit: Yen in billions)	FY2020 (Initial plan)		FY2020 (Revised plan)
Net Sales	100.0		65.0
Operating Income	25.0		10.0
Ordinary Income	25.0	→	10.0
Net income attributable to owners of the parent	18.0		7.0
ROE	12%		5.3%
Dividend payout ratio	25%		30% or more

Shima Seiki is contributing to the achievement of through sustainability initiatives.

The apparel industry is currently entering a period of major revolution.

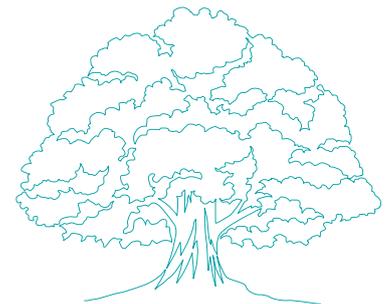
The past few years have seen the establishment of supply chains that quickly provide trending products at low prices in accordance with consumer demand.

However, the success of these supply chains rests upon the precondition that products are mass-produced in regions where personnel costs are low. These mass-production processes have resulted in excess supply that has led to the disposal of unsold products, a social issue that is currently receiving a great deal of attention.

Shima Seiki will revolutionize distribution, engage in multiple-variety, small-lot production, establish sustainable manufacturing and contribute to the achievement of SDGs by spreading innovative solutions to a variety of issues, focusing primarily on WHOLEGARMENT® flat knitting machines and design systems.

We are conducting SDG initiatives using our products.

We will respond to issues in the apparel industry by using the synergy between our WHOLEGARMENT® flat knitting machines and design systems to implement innovations in production processes that eliminate various forms of waste.



Sustainable Development Goals (SDGs)

1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS	SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) were adopted at the UN Sustainable Development Summit held in 2015 and will remain in place until 2030. They comprise 17 goals and 169 targets internationally aimed at the achievement of a sustainable world and call for the participation of both developing and advanced countries.

Improving Labor Environments

A typical flat knitting machine knits individual pieces of a garment, including the hem, sleeves and front and back body panels, separately. These pieces are then sewn together on machines and their individual seams are then aligned through the linking process. This painstaking process, which involves passing a needle through each stitch of the seams one by one, is very time consuming and hard on the eyes.

Our WHOLEGARMENT® flat knitting machines produce completely seam-free pieces, thereby eliminating the arduous linking process and contributing to improvements in labor environments.



People-friendly

Decreasing Cutting Losses and Reducing Discarded Apparel

Our original WHOLEGARMENT® flat knitting machines, which we developed in-house, create complete pieces of seam-free knitwear, eliminating the need for post-processes such as cutting, sewing and linking. These machines also eradicate the loss of fabric required for seam allowances, enabling an approximately 30% reduction in cutting loss compared to prior manufacturing methods, which cuts back on energy consumption and CO₂ emissions due to disposal. This machine reduces shipment lead times, allowing manufacturers to produce more products, cut out waste by manufacturing just the amount of fabric that they need and minimize their volume of discarded unsold products.



Earth-friendly

Maximizing Added Value in the Apparel Industry

Creating products that are suited to regional needs, instead of merely producing the same products in large quantities, leads to the advancement of local industry. Shima Seiki is supporting product development in the apparel industry that aims to maximize added value by coming up with creative products that fit the needs of individuals. We provide this support through our products and services, which include our WHOLEGARMENT® flat knitting machines, our design systems and staf® (an internet-based service that provides information concerning trends, etc.).



For the future

The Largest Exhibition of Textile Machinery, Held Once Every Four years

We advocated our vision for the future of apparel at ITMA 2019.

In June 2019, "ITMA 2019" was held for seven days in Barcelona, Spain. ITMA is the world's largest international trade fair for textile machinery. Under the slogan "KNITify the World," we shared fresh and original proposals, presenting our vision for the future of the apparel industry.



ITMA 2019

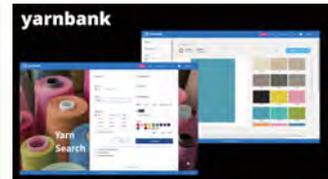
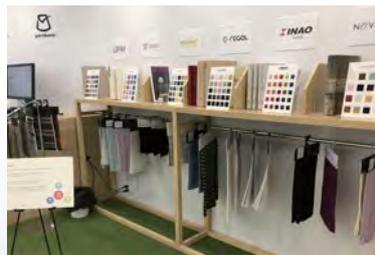
June 20–26, 2019
 Exhibition space: 114,500 m²
 Exhibiting companies: 1,700 companies or more from 45 nations and regions
 Attendees: More than 105,000 people



Announced our "yarnbank" concept of connecting supply chains using digital data

Yarnbank is a website that is jointly established with spinning manufacturers and offers yarn-related data. Each participating manufacturer registers digital data of their yarn, allowing users to easily search for and download data concerning yarn that matches their desired images. Users can then use this data as virtual samples. With this website, apparel companies can save time and effort digitizing a wide variety of yarn data, and spinning manufacturers can use it as a new method for promoting yarn products.

At the event's venue, we received comments from yarn manufacturers around the world, indicating their willingness to participate in this project.





Introducing MADE2FIT, a mass customization system

MADE 2 FIT™

MADE2FIT is a “make-to-order” mass customization system that utilizes the features of our WHOLEGARMENT® series, as well as newly developed automatic programming software. Using data measured with smartphone camera applications and other methods of image capture, this system allows users to conduct integrated management of knitting data construction; the transfer of data to the programming servers

of production factories; knitting and post processing conducted using our WHOLEGARMENT® flat knitting machines; and shipment.

MADE2FIT attracted a great deal of attention from attendees as a system that achieves lean manufacturing, as it allows for the timely production of knitwear tailored to individual consumer needs at appropriate volumes.



Introducing our new models



MACH2®VS

The WHOLEGARMENT® flat knitting machine, the next evolution of the MACH2®S; achieves higher speed and improved productivity, supporting a wide range of production styles.



New SVR®123SP

Expresses Jacquard-like patterns through plain knitting, halving the amount of yarn used. This enables the efficient use of resources.



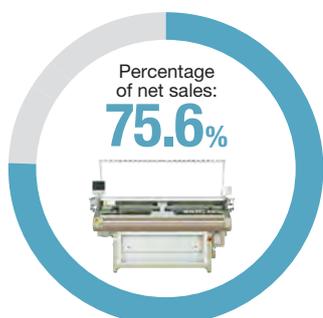
SDS®-ONE APEX4

Programming and simulating are significantly faster than APEX3. Also equipped with innovative new functions.

About *KNITify™ the World*

Our slogan, “KNITify the World,” involves proposing new, non-fashion-related uses for our expertise regarding knitting technology, which we have cultivated over many years. Under this slogan, we will propose more efficient and sustainable solutions that entail creating products that nobody thought could be knit, using knitting technology.

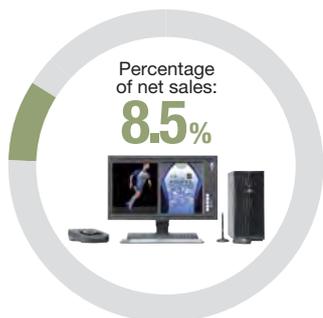
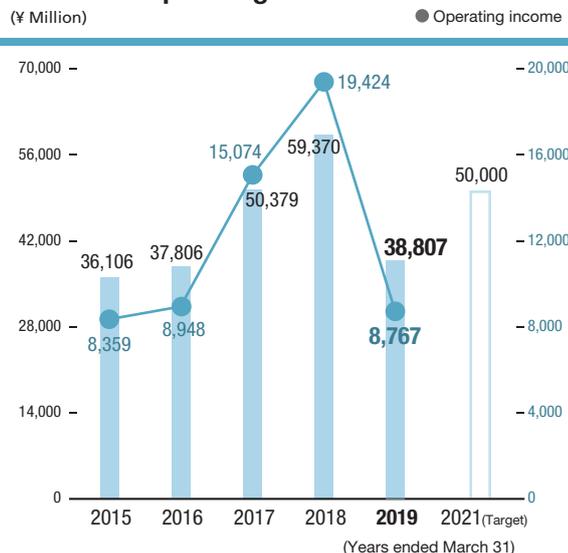
Overview and Outlook



Flat Knitting Machine Segment

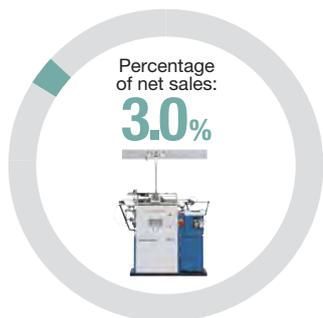
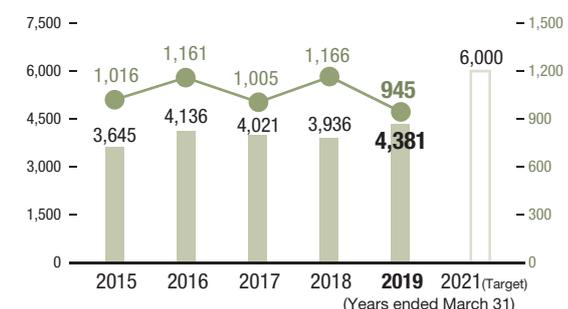
Shima Seiki's core business is the manufacture and sale of computerized flat knitting machines, for which the Company boasts industry-leading technological prowess. This segment provides an extensive range of products developed using proprietary technologies, such as WHOLEGARMENT® flat knitting machines, 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



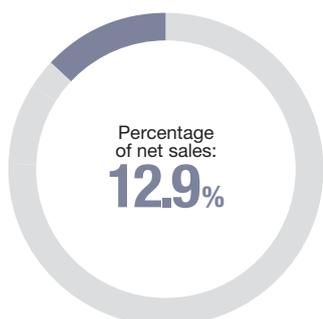
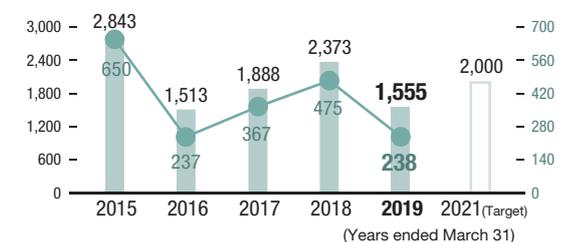
Design System Segment

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.



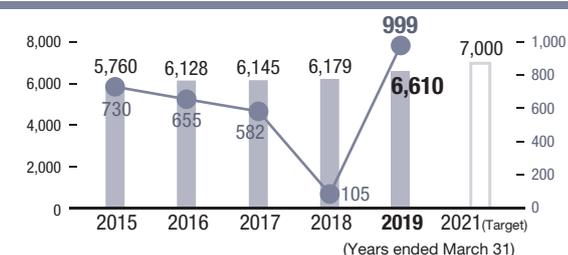
Glove and Sock Knitting Machine Segment

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

With the expansion of domestic apparel consumption in the Chinese market, further progress was made in the shift from conventional export-focused OEM production to business targeting domestic consumption. As a result, installation of WHOLEGARMENT® flat knitting machines grew. On the other hand, internal political unrest in Bangladesh, a mass production base for apparel sold in developed countries, caused stagnation in capital investment. In addition, capital investment in ASEAN countries from major knitwear manufacturers in Hong Kong declined due to slowdown in the global economy. Sales of flat knitting machines used for shoe production, which have been expanding rapidly in recent years, were sluggish due to intensifying competition. In the Middle Eastern nation of Turkey, currency depreciation that has been progressing since July 2018 has caused difficulty raising funds from users, and capital investment has been weak since the second quarter. In the Japanese market, sales of computerized flat knitting machines expanded, primarily for WHOLEGARMENT® flat knitting machines.

As a result, sales were ¥38,807 million (down 34.6%).

We proactively promoted the sale of the SDS®-ONE APEX3 design system by advocating for innovation in production and distribution through the application of 3D virtual simulation. However, sales fell due to sluggish performance in computerized flat knitting machines. On the other hand, sales of P-CAM® automatic fabric cutting machines increased steadily, not only in the Japanese market, but also in overseas markets, expanding sales channels beyond the apparel industry to include a diverse array of other industries, including interior automobile parts and industrial materials.

As a result, sales were ¥4,381 million (up 11.3%).

Due to a decrease in capital investment from major users, sales in the fiscal year ended March 31, 2019 were ¥1,555 million (down 34.5%).

Sales were ¥6,610 million (up 7.0%) due primarily to sales of maintenance parts, woolen yarn and knitwear.

Outlook for the Next Fiscal Year

Capital investment in Bangladesh and ASEAN countries stagnated during the fiscal year ended March 31, 2019. However, we expect it to recover, as these areas are expected to remain important production bases for knitwear. As the domestic fashion market in China revitalizes, we expect demand for high-end models, including our WHOLEGARMENT® flat knitting machines, to expand further. Accordingly, we will step up proposals to client companies that are shifting to the production of products with high added value for the domestic market. We expect the market for flat knitting machines used for shoe production, which slowed down during the fiscal year under review, to recover in time for the Tokyo Olympics in 2020. In markets in the United States, Europe and Japan, we will continue to make proposals related to local production for local markets, with a focus on WHOLEGARMENT® flat knitting machines.

Through these measures, we expect to achieve sales of ¥39,300 million (up 1.3%) in the fiscal year ending March 31, 2020.

We will continue to make proposals concerning the implementation of our SDS®-ONE APEX design system series in a wide variety of domestic and international industries as the core of our Total Fashion System®. We will also step up proposals concerning the implementation of our P-CAM® automatic fabric cutting machines as a cutting solution for apparel that covers both pre- and post-cutting processes. Additionally, we will further focus on P-CAM® proposals targeting other fields, as well.

Through these measures, we expect to achieve sales of ¥4,800 million (up 9.6%) in the fiscal year ending March 31, 2020.

In the fiscal year ending March 31, 2020, we will make proposals closely related to the needs of our domestic and international clients, with a focus on proposals concerning products with high added value. We project sales of ¥1,700 million (up 9.3%).

We will conduct the same activities during the fiscal year ending March 31, 2020 and project sales of ¥6,500 million (down 1.7%).

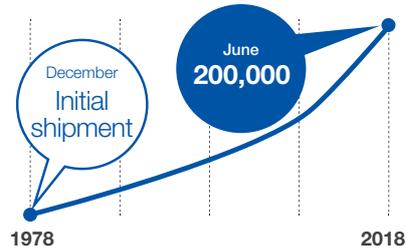
Topics 2019 (April 1, 2018 – March 31, 2019)

Achievement

Shipment Volume of Computerized Flat Knitting Machines Reaches 200,000 Units

In June 2018, our shipment volume of computerized flat knitting machines reached 200,000 units. Our first computerized flat knitting machine, SNC, was shipped in December 1978. Afterward, our products have continued to evolve thanks to extensive technological development, and we announced SES®, our best-selling second-generation series of computerized flat knitting machines, in 1988. Furthermore, we first launched our SWG® WHOLEGARMENT® flat knitting machines in 1995.

Our shipment volume of computerized flat knitting machines exceeded 100,000 units in 2008, 30 years after we initially began shipping these machines. During the following ten years, we have succeeded in reaching 200,000 units thanks to our employees, who are united under the Shima Seiki spirit of “Developing the most advanced technology and keeping it most affordable.” Moving forward, we will fulfill the needs of customers around the world by providing products that offer even higher performance.



Reorganization

Absorb Subsidiaries and Effectively Utilize Human Resources, Locations and Facilities

In October 2018, we conducted an absorption-type merger with consolidated subsidiary TSM Industrial Co., Ltd. TSM Industrial has handled a wide variety of production related to the Shima Seiki Group, focusing primarily on the sheet metal processing that characterizes our flat knitting machines, and, in recent years, has performed machine work on flat knitting machine parts.

The goal of this merger is to consolidate indirect operations at our headquarters and ensure effective utilization of our human resources, locations and facilities. In particular, we are focusing on effectively utilizing our human resources and believe that expanding the scope of employee work and providing them with opportunities to improve their individual skills by engaging in a variety of operations will lead to higher business performance as they demonstrate their refined abilities. Furthermore, we will aim to improve management efficiency within the Group and target continuous and stable growth by optimizing production.



Award

Chairman, Masahiro Shima Wins the Nikkei xTECH (Crosstech) Award

In February 2019, the 17th Japan Innovator Award ceremony was held at the Grand Prince Hotel Takanawa in Tokyo. During the ceremony, our chairman and representative director, Masahiro Shima, received the Nikkei xTECH (Crosstech) Award.

The Japan Innovator Award was established by Nikkei Business Publications in 2002 with the goal of energizing Japan by placing the spotlight on creative human resources who are active within Japan’s industries. This year, Chairman Shima received the award for two primary reasons: The first was our development of the WHOLEGARMENT® seam-free knitwear manufacturing system, which produces complete pieces three dimensionally. The second was this system’s simplification of mass customization, which has recently enabled expansion in the range of brands it is used with and the creation products tailored to user body shapes and preferences, after an initial focus on luxury apparel at the time of its launch.



Capital Investment

Construct a New Factory at a Group Company as an Investment Aimed at Future Growth

We are working to improve operational efficiency and increase production capacity to reach targets in the medium-term management plan.

Implement Proactive Investment based on the Main Scenarios of our Medium-Term Management Plan

We have set stepping up proactive investment toward future growth as one of the main scenarios of our medium-term management plan.

Accordingly, we are working to streamline and improve operational efficiency on a Groupwide level and raise our production capacity in preparation for the future. Furthermore, during the fiscal year under review, we conducted capital investment in Kainan Seimitsu Co., Ltd., a consolidated subsidiary.

Relocate Assembly Processes to Improve the Flow of Production

In December 2018, we built a new factory adjacent to Kainan Seimitsu. The first floor of this factory handles parts processing, and the second floor handles solenoid assembly processes that were newly transferred from the Shima Seiki headquarters factory (see image on right).

Kainan Seimitsu manufactures important precision parts, including screws that have a large impact on the quality of our flat knitting machines. It will also contribute to improved efficiency by additionally taking responsibility for assembly processes related to solenoids, a core component of our flat knitting machines.

Aim to Achieve Targets in the Medium-Term Management Plan as a Unified Group

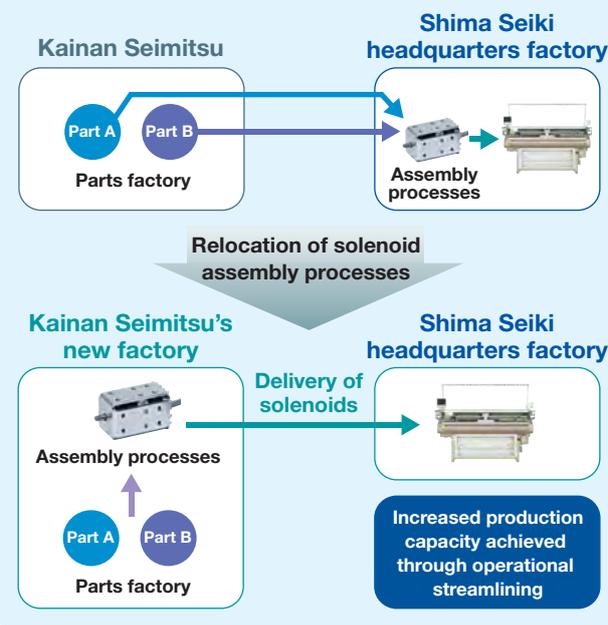
The average age of employees at Kainan Seimitsu is low, so we believe we can expect further improvement in quality as they acquire more technical ability moving forward.

The Shima Seiki Group will unite to improve trust in its products and brand value and become a highly profitable company with growth potential by flexibly producing high-quality products.



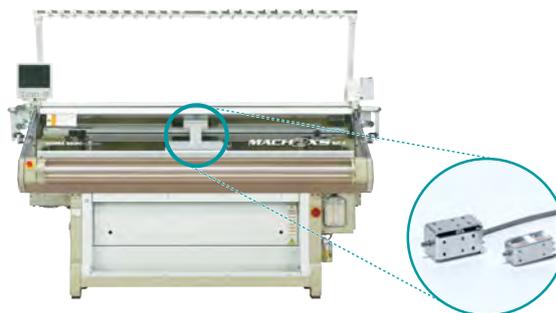
The new factory

Conceptual Diagram of Work Process Streamlining



What are solenoids?

Solenoids are parts that convert electricity into motion and are used in the carriages of our flat knitting machines, which move back and forth at high rates of speed. About 40 of these important solenoids are used in each flat knitting machine.



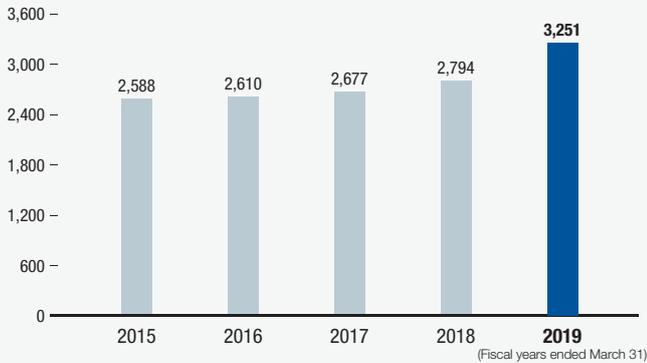
KAINAN SEIMITSU CO., LTD.

Kainan Seimitsu was founded in 1947 in Kainan, Wakayama. It became a consolidated subsidiary of the Shima Seiki Group in 2010.

Kainan Seimitsu is responsible for processing precision parts such as special screws, cams and shafts. It also conducts external sales in addition to supplying Shima Seiki with necessary parts.

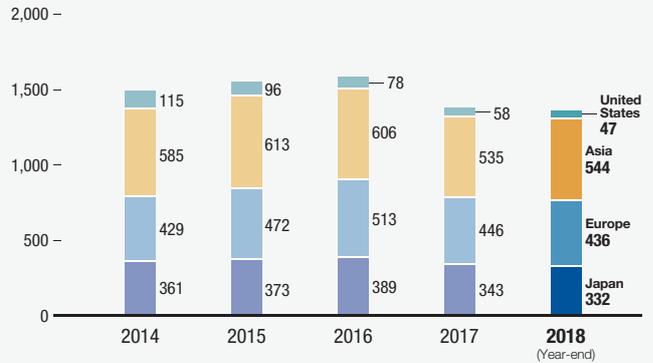
ESG Highlights

R&D Expenses (Millions of yen)



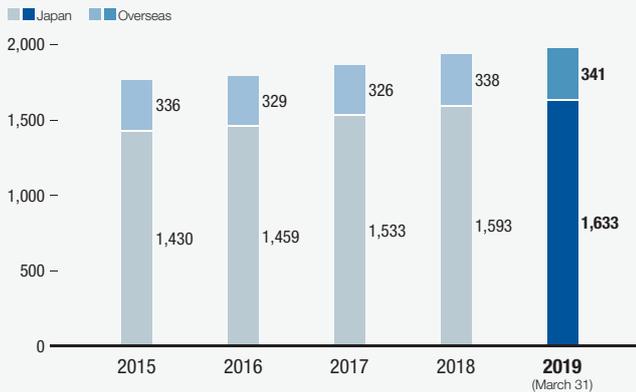
We focus on R&D as a resource to ensure sustainable growth into the future.

Patents (Number)



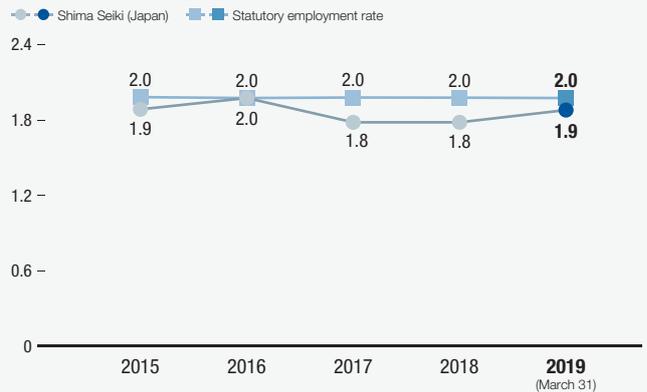
The Company considers the protection of R&D successes with intellectual property rights an important management strategy.

Employees on a Consolidated Basis (People)



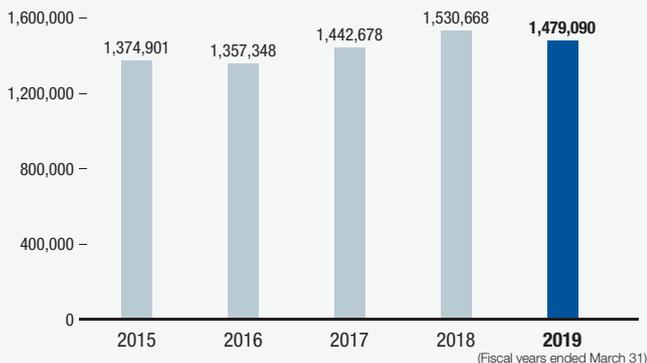
The number of employees is increasing as our business expands.

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



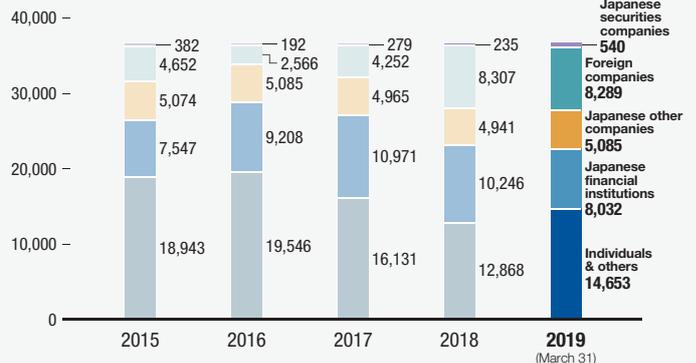
Meeting the statutory employment rate is a management issue to be addressed.

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 overseas investors has decreased, but the percentage of individual 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.

In the field of flat knitting machines, we are prepared for ITMA 2019 by developing new models and functions that achieve improved production efficiency and conserve electrical power. We also developed MACH2®VS, a new entry model of our WHOLEGARTMENT® flat knitting machines. In terms of molded fabric knitting machines, we improved the carriage systems in some of our major models, including SSR® and SVR®, and developed new models, each equipped with higher production efficiency.

In design systems, we worked on developing SDS®-ONE APEX4, a new product designed to further accelerate 3D virtual simulation and improve operability. Using the system will lead to the creation of more realistic samples, providing comprehensive manufacturing support for everything from planning and design to production.

With our P-CAM® series of automatic fabric cutting machines, we are aiming to establish a “total cutting solution.” However, we are not only developing our cutting machines; we are also stepping up development aimed at improving productivity and saving labor in the pre- and post-cutting processes, such as spreading, labeling and picking up.



New product, SDS®-ONE APEX4

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 1,359 patents worldwide (as of December 31, 2018). One characteristic of our intellectual property strategy is that we cover a broad range of technologies, including various mechanisms and controls for flat knitting machines and other devices, as well as 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.

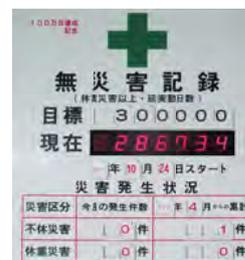
In addition to our recent development successes, the technologies and know-how we have accumulated to date are stored in a database, allowing them to be shared throughout the Company. To further reinforce our intellectual property activities, we plan to also file patents covering related technologies.

We place a strong emphasis on the protection of intellectual property rights and conduct business activities with respect for both our own intellectual property rights, and those of other companies. Moving forward, we will take appropriate measures, including potential legal action, against manufacturers that infringe upon our intellectual property rights.

Occupational Safety Activities

Shima Seiki's Health and Safety Committee meets monthly, and the fiscal year under review corresponds to our 48th 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 two 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 activities 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 minimize interruptions to its business activities while ensuring the safety of employees, their families and its stakeholders.

For the Development and Continuity of Business

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 a Crisis Management Headquarters to respond swiftly based on our business continuity plan.

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, enabling them to acquire 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. Additionally, we 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. Furthermore, we also commend expert employees with awards at our foundation commemoration ceremonies, which are held once every five years.

● Work Style Reforms

In April 2017, we opened Shima Kids' Land, an in-house nursery school, and as of March 31, 2019, the number of children making regular use of the center reached 60% 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.

● 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 allowing employees to use hotels operated by Group companies as recreation facilities.

Interaction with Suppliers

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 2019 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.

● 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)

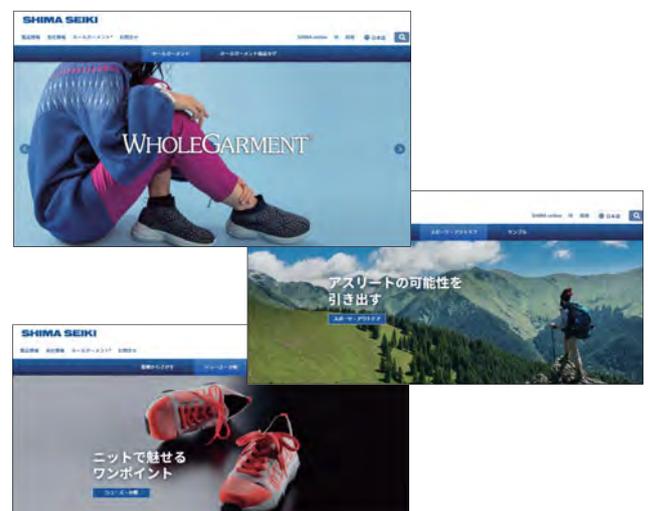
Information Exchanges with Japanese and Overseas Investors

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 Europe in May and June 2018 and in Singapore and Hong Kong in February 2019. Shima Seiki places importance on overseas IR activities. Going forward, we plan to continue reflecting highly astute feedback from institutional investors in our management.

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.

Furthermore, we updated our website in June 2019 to include new pages that focus especially on each of our businesses. We primarily include information of interest to customers, including what products can be made using our flat knitting machines. Moreover, we have enhanced our corporate motto and CSR pages, in addition to other content.



Our updated homepage

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 Division) 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 earnings 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, disclosing information regarding its corporate

philosophy and management plans inside. For more details, please see the Company's homepage.

https://www.shimaseiki.com/ire/plan/pdf/plan2018_2.pdf

Strategic Shareholdings

Shima Seiki retains shares 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.

We also aim to reduce retained shares that are not deemed to be sufficiently significant.

Each year, the Board of Directors comprehensively considers individual strategic shareholdings to determine the risks involved with retaining them and the benefit that can be obtained by collaborating or maintaining or strengthening business relationships with their associated companies. It then examines the rationality of holding these strategic shareholdings from a medium- to long-term perspective and makes final decisions regarding whether they should be retained or reduced.

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 number of directors numbering 15 people or fewer in consideration of ensuring diversity and a balance of knowledge, experience, skills and specialization throughout the entire Board of Directors.

We ensure that an appropriate number of at least two independent outside directors who meet independence standards for outside officers and are capable of fulfilling their required roles and responsibilities are serving in the Board of Directors to contribute to the sustainable growth of the Company and the enhancement of corporate value over the medium to long term. Additionally, we ensure that candidates for outside director include individuals with management experience.

Currently, the Board of Directors has nine members, two of whom are independent outside directors and corporate managers in different business fields. The Audit & Supervisory Board has four members, two of whom are independent outside Audit & Supervisory Board members. Each of them has expertise in finance, accounting and legal fields.

With regard to diversity, we currently have one female serving as a director and another serving as a member of the Audit & Supervisory Board, and, in terms of internationality, we have appointed directors with abundant international experience.

Corporate Governance

(Analysis and evaluation concerning the effectiveness of the Board of Directors)

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.

In response to issues encountered during the fiscal year ended March 31, 2019, we aimed to reduce the number of directors by implementing an executive officer system. With regard to our director compensation system, we established the Nominating and Remuneration Committee while also conducting other initiatives.

On the other hand, we are also aware of the importance of tasks such as improving materials submitted to the Board of Directors so that it can perform more effectively; enhancing discussions regarding medium- to long-term management strategies and major risks; and strengthening initiatives involving the oversight of successor development processes.

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.

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, such as business briefings and forums for exchanging views, to facilitate an even deeper understanding of Shima Seiki's operations.

Policies and Procedures for Determining Director Remuneration

We ensure that director remuneration is commensurate with the roles and responsibilities of each director and have established a compensation system that enhances incentives for directors to achieve sustainable growth and increase corporate value over the medium to long term. Accordingly, director remuneration comprises basic remuneration and bonuses linked to performance in the corresponding fiscal year that are offered as short-term incentives. Furthermore, we have incorporated stock options that are intended to serve as medium- to long-term incentives. Moreover, we have limited outside director compensation to basic remuneration out of consideration for their roles and independence.

When making decisions regarding director remuneration, the Nominating and Remuneration Committee, which is chaired by an outside director, conducts discussions and submits a report to the Board of Directors, which then makes final judgements. This process is designed to raise the transparency and objectivity of decision concerning director remuneration.

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. We report all cases in which these transactions are approved.

Outside Director and Outside Auditor Main Activities and Reason for Appointment

Category Name	Board of Directors (Met 13 times)	The Audit & Supervisory Board (Met 13 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 12 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 13 times	Attended 13 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 13 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, 2019)

Directors

Masahiro Shima



**Chairman,
Representative Director**

Mitsuhiro Shima



**President,
Representative Director**

Executive Officers
In charge of Corporate Planning
Division

Ikuto Umeda



**Senior Executive
Director**

Executive Officers
Director of Sales Headquarters
in charge of Total Design Center

Reiji Arikita



Executive Director

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

Takashi Nanki



Director

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

Hirokazu Nishitani



Director

Executive Officers
Director of Development
Headquarters

Kiyokata Nishikawa



Director

Executive Officers
General Manager of Joint Sales
Division

Yoshio Ichiryu



Outside Director

President & CEO, Ichiryu
Associates, Inc.

Rieko Zamma



Outside Director

CEO, CANDID PRODUCE, Inc.

Audit & Supervisory Board Members

Mitsunori Ueda



**Standing Audit &
Supervisory Board Member**

Hisahito Totsui



**Standing Audit &
Supervisory Board Member**

Daisuke Shinkawa



**Outside Audit &
Supervisory Board Member**

Representative Partner,
HOKUTO tax accountant office

Sachiko Nomura



**Outside Audit &
Supervisory Board Member**

Partner Attorney,
DOJIMA LAW OFFICE

Executive Officers

(Excluding those
concurrently serving
as directors)

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

Outside Auditor Nomura's comments concerning her reappointment

It has now been five years since I became an outside auditor for Shima Seiki. The Company implemented an executive officer system when it changed presidents two years ago, and I feel a positive motivation to pursue management that focuses primarily on the younger generation.

As an Audit & Supervisory Board member, I take advantage of my expertise as a lawyer, paying particular attention to the appropriateness of business decision processes, risk

management and the Company's governance system. Shima Seiki is steadily establishing a system that incorporates "outside eyes" into governance through methods such as increasing the number of outside directors and establishing a Nomination and Remuneration Committee. Still, I believe that strengthening governance throughout the Group, including at overseas subsidiaries, will become even more important moving forward. We will continue to do our very best to ensure that we continue to be a trusted company both in Japan and overseas.



Financial Section

32	Five-Year Financial Summary
33	MD&A
36	Business Risks and Uncertainties
37	Consolidated Financial Statements
37	Consolidated Balance Sheets
39	Consolidated Statements of Income
39	Consolidated Statements of Comprehensive Income
40	Consolidated Statements of Changes in Net Assets
41	Consolidated Statements of Cash Flows
42	Notes to the Consolidated Financial Statements
55	Independent Auditor's Report

Five-Year Financial Summary

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

	2019	2018	2017	2016	2015	2019	
For the Year:		Millions of yen					Thousands of U.S. dollars
Net sales	¥51,353	¥71,858	¥62,433	¥49,583	¥48,354	\$462,681	
Cost of sales	28,197	38,420	33,385	26,238	26,488	254,050	
Gross profit	23,156	33,438	29,048	23,345	21,866	208,631	
Selling, general and administrative expenses	18,517	18,532	17,786	17,563	16,121	166,834	
Operating income	4,639	14,906	11,262	5,782	5,745	41,797	
Income before income taxes and minority interests	5,100	15,443	9,979	4,803	7,006	45,950	
Net income attributable to owners of the parent	3,835	11,279	7,199	3,271	3,646	34,553	
Net cash provided by (used in) operating activities	9,936	9,398	6,989	1,257	(1,957)	89,522	
Net cash provided by (used in) investing activities	(873)	(4,844)	(1,242)	(2,350)	2,288	(7,866)	
Net cash provided by (used in) financing activities	(6,540)	1,731	2,470	(1,776)	(1,966)	(58,924)	
Capital investment	4,483	4,000	3,559	2,128	2,108	40,391	
Depreciation and amortization	2,195	2,105	1,833	1,590	1,614	19,777	
Research and development expenses	3,251	2,795	2,677	2,610	2,588	29,291	
At Year-End:		Millions of yen					Thousands of U.S. dollars
Total assets	¥145,146	¥154,338	¥141,931	¥126,416	¥126,987	\$1,307,739	
Net assets	121,166	123,492	104,880	98,293	98,179	1,091,684	
Per Share Data:		Yen					U.S. dollars
Net income per share	¥105.62	¥316.82	¥209.97	¥95.61	¥106.54	\$0.95	
Cash dividends per share applicable to the year	55.00	60.00	45.00	37.50	32.50	0.50	
Net assets per share	3,411.08	3,381.85	3,039.66	2,867.00	2,863.49	30.73	
Ratios:		%					
Ratio of operating income to net sales	9.0%	20.7%	18.0%	11.7%	11.9%		
ROA = Return on assets	2.6	7.6	5.4	2.6	3.0		
ROE = Return on equity	3.1	9.9	7.1	3.3	3.8		
Equity ratio	83.5	80.0	73.8	77.6	77.2		

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥110.99=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2019.

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 maintained its firm expansion, although the outlook was marked by concerns related to growing trade friction and unstable share price fluctuations. Europe was also characterized by deceleration, including worsening business confidence in the corporate sector, as exports declined. Furthermore, the rate of economic growth in China leveled off, affected by trade friction with the United States. Although the Japanese economy sustained a modest recovery, the outlook is growing increasingly opaque due to the uncertain impact of global economic factors.

In this economic environment, we proactively rolled out proposal-based marketing efforts targeting customers around the world based on "Ever Onward 2020," the second medium-term management plan for the Shima Seiki Group.

However, during the fiscal year under review net sales were affected significantly by a sharp decline in sales of computerized flat knitting machines. This situation was fueled by political circumstances in production regions and increasingly stringent competition in our mainstay Flat Knitting Machine Segment. In the Design System Segment, sales of apparel design systems declined in tandem with lower sales in the Flat Knitting Machine Segment. Sales were also down in the Glove and Sock Knitting Machine Segment. In the Other Business Segment, performance was firm.

As a result, the Company posted consolidated net sales of ¥51,353 million for the fiscal year ended March 31, 2019, down 28.5% from the preceding fiscal year.

Profits were affected by the sharp decline in net sales, and production adjustments caused the gross profit ratio to worsen. Furthermore, payment delays by some customers prompted us to increase the provision for doubtful accounts. Consequently, operating income fell 68.9%, to ¥4,639 million; ordinary income

decreased 67.8%, to ¥4,991 million, and net income attributable to owners of the parent declined 66.0%, to ¥3,835 million.

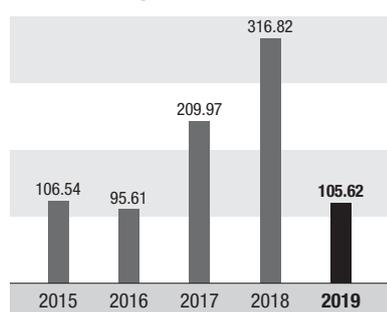
Shima Seiki considers the return of profits to shareholders one of its highest management priorities. Our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion. On this basis, we strive to allocate profit in a balanced manner, while 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 dropped from ¥316.82 to ¥105.62. The Company set the year-end dividend at ¥25.00 per share. This figure, combined with an interim dividend of ¥30.00, led to dividends for the year of ¥55.00.

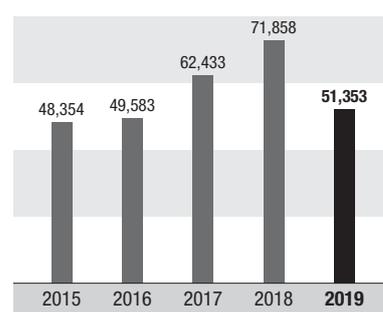
Net Sales

In the Company's core Flat Knitting Machine Segment, within Asian markets apparel demand in the Chinese market is expanding, prompting a shift from conventional OEM-style production to a model of developing production systems with proposal-based, high-value-added products for the domestic market. This situation led to an increase in the introduction of WHOLEGARMENT® flat knitting machines. Meanwhile, in Bangladesh—a major apparel production center for advanced countries—capital investment stalled, affected by the country's political situation. A sense of global economic deceleration made apparel production trends increasingly uncertain, and leading Hong Kong knitwear manufacturers adopted a cautious attitude toward capital investment in ASEAN countries, causing our sales to stagnate. In recent years, sales of computerized flat knitting machines have grown sharply for use in the production of sports shoes, but these machines are facing increasingly stringent competition from circular knitting machines and low-priced

Net Income per Share (¥)



Net Sales (¥ Million)



Chinese-made flat knitting machines, leading to sluggish sales growth. In the Middle East, customers in Turkey have found fundraising increasingly difficult since the Turkish lira began depreciating in July 2018, leading to lower levels of capital investment from the second quarter onward.

Markets in advanced countries were characterized by flat sales in Europe and North America, but sales of computerized flat knitting machines for domestic markets—notably WHOLEGARMENT® flat knitting machines—were up significantly year on year. As a result of these factors, sales in the Flat Knitting Machine Segment amounted to ¥38,807 million, down 34.6% year on year.

In the Design System Segment, we engaged in active marketing activities highlighting the groundbreaking production and distribution business model made possible using 3D virtual simulations from our SDS®-ONE APEX3 apparel design system. Even so, segment sales fell in line with lower sales of computerized flat knitting machines.

Meanwhile, we saw a steady increase in sales of P-CAM® automatic fabric cutting machines, both in Japan and overseas, for use in textiles, automotive interiors and other industrial materials. As a result, sales in the Design System Segment grew 11.3% year on year, to ¥4,381 million.

In the Glove and Sock Knitting Machine Segment, falling capital investments by large-scale customers caused segment sales to drop 34.5% year on year, to ¥1,555 million.

Sales in the Other Business Segment rose 7.0% year on year, to ¥6,610 million, due to sales of maintenance parts, woolen yarn and knitwear.

Overall, overseas net sales fell 33.9%, to ¥42,750 million, accounting for 83.2% of net sales, a 6.8 percentage-point decrease. By geographical region, 56.1% of net sales were generated in Asia (compared with 67.5% during the previous year), 17.4% in Europe (12.6%), 6.3% in the Middle East (6.1%) and 3.4% in other areas (3.8%), with Asia constituting a falling percentage of sales.

In the Japanese market, sales rose 19.3%, to ¥8,603 million, with the Flat Knitting Machine Segment and the Design System Segment posting favorable results.

Cost of Sales and SG&A Expenses

Lackluster sales of computerized flat knitting machines caused cost of sales to fall year on year, to ¥28,197 million. In addition to sharply lower net sales, production adjustments affected gross profit, which fell 30.8%, to

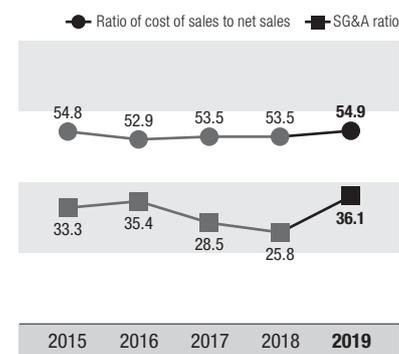
¥23,156 million, leading to a gross profit ratio of 45.1%.

Selling, general and administrative (SG&A) expenses decreased as a result of falling product shipments, and sales commissions and freight and packing costs declined. However,

the provision for doubtful accounts rose. As a result, SG&A expenses were down 0.1%, to ¥18,517 million.

Due to substantially lower net sales, the SG&A expense ratio rose 10.3 percentage points, to 36.1%.

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



Operating Income

Operating income fell 68.9%, to ¥4,639 million as a result of sharply lower net sales, deterioration in the gross profit ratio stemming from production adjustments, and a higher provision for doubtful accounts owing to payment delays by some customers. By business segment, operating income fell 54.9%, to ¥8,767 million in the Flat Knitting Machine Segment; decreased 19.0%, to ¥945 million in the Design System Segment; decreased 50.0%, to ¥238 million in the Glove and Sock Knitting Machine Segment; but surged 849.8%, to ¥999 million, in the Other Business Segment.

Other Income and Expenses

Other income was higher than other expenses, leading to net other income of ¥461 million, compared with net other income of ¥537 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

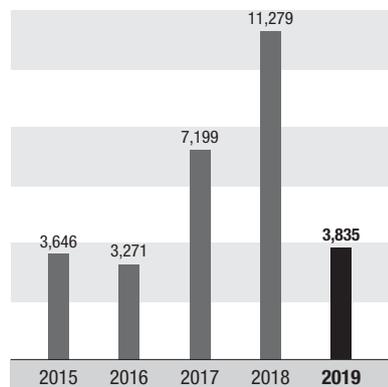
Income before income taxes dropped 67.0%, to ¥5,100 million.

Corporate income, residential and enterprise taxes totaled ¥996 million, down ¥3,218 million. Corporate income tax adjustments came to a positive ¥268 million, compared with negative ¥53 million in the previous fiscal year. As a result, the Company's tax burden after the

application of tax effect accounting decreased ¥2,897 million, to ¥1,264 million.

Owing to the above factors, net income attributable to owners of the parent was ¥3,835 million, down 66.0%.

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



Liquidity and Capital Resources

Cash and cash equivalents were ¥26,849 million as of March 31, 2019, up from one year earlier. Net cash provided by operating activities was ¥9,936 million. Although an increase in inventories and a decrease in trade payables used cash, cash was provided by a decrease in trade receivables, as well as depreciation and amortization.

Net cash used in investing activities amounted to ¥873 million. Sources of cash included 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.

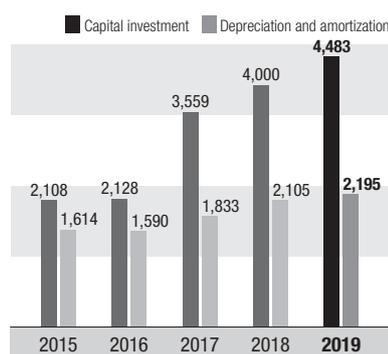
Net cash used in financing activities was ¥6,540 million, with principal uses of cash being for purchases of treasury stock and cash dividends paid.

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 83.5% and 542.4%,

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

Capital Investment/Depreciation and Amortization (¥ Million)



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

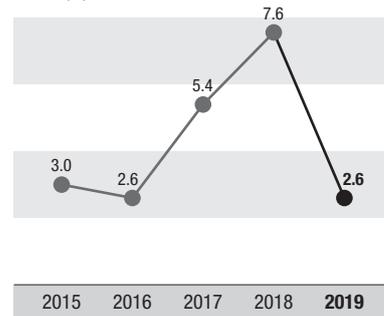
Consolidated total assets as of March 31, 2019, were ¥145,146 million, down ¥9,192 million from a year earlier. In terms of short-term assets and liabilities, current assets fell ¥9,039 million, or 8.1%, to ¥102,854 million. One key factor was a ¥13,232 million decline in trade notes and accounts receivable. Current liabilities fell ¥7,056 million, or 27.1%, to ¥18,963 million. This was primarily due to a ¥1,982 million decrease in trade notes and accounts payable and a ¥3,154 million decline in accrued income taxes.

With regard to long-term assets and liabilities, long-term assets rose ¥153 million, or 0.4%, to ¥42,292 million. Long-term liabilities expanded ¥190 million, or 3.9%, to ¥5,017 million.

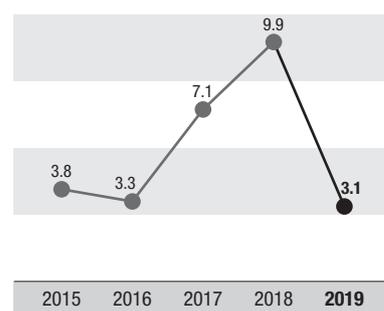
Net assets decreased ¥2,326 million, or 1.9%, to ¥121,166 million, owing principally to higher retained earnings. As a result, the shareholders' equity ratio rose 3.5 percentage point from the preceding year-end, to 83.5%.

Return on assets fell from 7.6% to 2.6%, and return on equity decreased from 9.9% to 3.1%.

ROA (%)



ROE (%)



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 above 80% of the Group's total sales, with sales to the Asian markets, including China, Bangladesh and ASEAN countries, exceeding 50% 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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
ASSETS			
Current assets:			
Cash and time deposits (Note 3,4)	¥26,921	¥24,575	\$242,553
Trade notes and accounts receivable (Note4)	56,785	70,017	511,623
Inventories (Note 6)	19,288	17,846	173,782
Prepaid expenses and other current assets	1,854	1,445	16,704
Less: allowance for doubtful accounts	(1,994)	(1,990)	(17,966)
Total current assets	102,854	111,893	926,696
Investments and other assets:			
Investments in unconsolidated subsidiaries (Note 4)	601	602	5,415
Investments in securities (Note 4,5)	7,270	10,083	65,501
Net defined benefit assets (Note 9)	1,156	1,057	10,415
Deferred tax assets (Note 12)	1,596	1,635	14,380
Goodwill	2,987	3,247	26,912
Other	5,650	3,846	50,906
Less: allowance for doubtful accounts	(2,547)	(1,539)	(22,948)
Total investments and other assets	16,713	18,931	150,581
Property, plant and equipment:			
Land (Note 7)	11,665	11,392	105,100
Buildings and structures	26,936	25,727	242,688
Machinery and equipment	6,818	6,342	61,429
Tools, furniture and fixtures	7,762	7,639	69,934
Leased assets	7,340	6,073	66,132
Construction in progress	213	42	1,919
	60,734	57,215	547,202
Less: accumulated depreciation	(35,155)	(33,701)	(316,740)
Property, plant and equipment, net	25,579	23,514	230,462
Total assets	¥145,146	¥154,338	\$1,307,739

See the accompanying notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Note 4,8)	¥8,879	¥8,499	\$79,998
Lease obligation	819	671	7,379
Trade notes and accounts payable (Note 4)	2,485	4,467	22,389
Electronically recorded obligations-operating (Note 4)	520	1,326	4,685
Accrued expenses	1,857	1,622	16,731
Accrued income taxes	168	3,322	1,514
Other current liabilities	4,235	6,112	38,157
Total current liabilities	18,963	26,019	170,853
Long-term liabilities:			
Long-term accounts payable	993	1,051	8,947
Lease obligation	2,862	2,405	25,786
Deferred tax liabilities for land revaluation (Note 7)	23	23	207
Net defined benefit liability (Note 9)	726	824	6,541
Other long-term liabilities	413	524	3,721
Total long-term liabilities	5,017	4,827	45,202
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2019 — 36,600,000 shares			
2018 — 36,600,000 shares	14,860	14,860	133,886
Capital surplus	25,868	25,868	233,066
Retained earnings	91,441	89,979	823,867
Treasury stock, at cost			
2019 — 1,088,459 shares			
2018 — 87,983 shares	(3,743)	(258)	(33,724)
Total shareholders' equity	128,426	130,449	1,157,095
Accumulated other comprehensive income:			
Net unrealized holding gain on securities	64	942	577
Land revaluation difference (Note 7)	(7,004)	(7,004)	(63,105)
Foreign currency translation adjustments	(771)	(1,335)	(6,947)
Remeasurements of defined benefit plans	418	427	3,766
Total accumulated other comprehensive income	(7,293)	(6,970)	(65,709)
Subscription rights to share (Note 14)	19	—	172
Non-controlling interests in consolidated subsidiaries	14	13	126
Total net assets	121,166	123,492	1,091,684
Total liabilities and net assets	¥145,146	¥154,338	\$1,307,739

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net sales	¥51,353	¥71,858	\$462,681
Cost of sales	28,197	38,420	254,050
Gross profit	23,156	33,438	208,631
Selling, general and administrative expenses (Note 13)	18,517	18,532	166,834
Operating income	4,639	14,906	41,797
Other income (expenses):			
Interest and dividend income	494	693	4,450
Interest expense	(456)	(181)	(4,108)
Foreign exchange loss	(238)	(368)	(2,144)
Provision of allowance for doubtful accounts	(50)	(50)	(450)
Other, net	711	443	6,405
Income before income taxes	5,100	15,443	45,950
Income taxes (Note 12):			
Current	996	4,214	8,973
Deferred	268	(53)	2,415
	1,264	4,161	11,388
Net income	3,836	11,282	34,562
Net income attributable to non-controlling interests	1	3	9
Net income attributable to owners of the parent	¥3,835	¥11,279	\$34,553
		Yen	U.S. dollars
Net income Per share:			
Basic	¥105.62	¥316.82	\$0.95
Diluted	105.54	—	0.95
Cash dividends applicable to the year	55.00	60.00	0.50

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income	¥3,836	¥11,282	\$34,562
Other comprehensive income (Note 15):			
Net unrealized holding gain (loss) on securities	(878)	23	(7,911)
Foreign currency translation adjustments	564	(1,085)	5,082
Remeasurements of defined benefit plans	(9)	201	(81)
Total other comprehensive income	(323)	(861)	(2,910)
Comprehensive income	¥3,513	¥10,421	\$31,652
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥3,512	¥10,418	\$31,643
Comprehensive income attributable to non-controlling interests	1	3	9

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, 2019 and 2018

	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, 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
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
Net income attributable to owners of the parent ·····	—	—	—	3,835	—	—	—	—	—	—	—	3,835
Cash dividends ·····	—	—	—	(2,373)	—	—	—	—	—	—	—	(2,373)
Purchases of treasury stock··	—	—	—	—	(3,485)	—	—	—	—	—	—	(3,485)
Other changes, net ·····	—	—	—	—	—	(878)	—	564	(9)	¥19	1	(303)
Balance at March 31, 2019 ··	36,600	¥14,860	¥25,868	¥91,441	¥(3,743)	¥64	¥(7,004)	¥(771)	¥418	¥19	¥14	¥121,166

	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, 2018 ···	\$133,886	\$233,066	\$810,695	\$(2,325)	\$8,488	\$(63,105)	\$(12,028)	\$3,847	—	\$117	\$1,112,641	
Net income attributable to owners of the parent ·····	—	—	34,553	—	—	—	—	—	—	—	34,553	
Cash dividends ·····	—	—	(21,381)	—	—	—	—	—	—	—	(21,381)	
Purchases of treasury stock ···	—	—	—	(31,399)	—	—	—	—	—	—	(31,399)	
Other changes, net ·····	—	—	—	—	(7,911)	—	5,081	(81)	\$172	9	(2,730)	
Balance at March 31, 2019 ···	\$133,886	\$233,066	\$823,867	\$(33,724)	\$577	\$(63,105)	\$(6,947)	\$3,766	\$172	\$126	\$1,091,684	

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥5,100	¥15,443	\$45,950
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,195	2,104	19,777
Amortization of goodwill	403	404	3,631
Increase in allowance for doubtful accounts	1,075	144	9,686
Decrease in net defined benefit liability	(194)	(80)	(1,748)
Interest and dividend income	(494)	(693)	(4,450)
Interest expense	456	181	4,108
Foreign exchange gain and loss	94	(128)	847
Loss on sales and disposal of property, plant and equipment, net	4	11	36
Gain on sale of investment in securities	(119)	(0)	(1,072)
Impairment loss	—	31	—
Gain on reversal of subscription rights to shares	—	(41)	—
Gain on valuation of derivatives	—	(43)	—
Decrease (Increase) in trade receivables	11,864	(4,141)	106,892
Increase in inventories	(1,893)	(184)	(17,056)
Decrease in trade payables	(2,279)	(2,194)	(20,534)
Other	(2,235)	1,198	(20,137)
Subtotal	13,977	12,012	125,930
Interest and dividend income received	493	691	4,442
Interest expense paid	(375)	(203)	(3,378)
Income taxes paid	(4,159)	(3,102)	(37,472)
Net cash provided by operating activities	9,936	9,398	89,522
Cash flows from investing activities:			
Increase in time deposits, net	279	518	2,514
Purchases of property, plant and equipment	(2,658)	(2,568)	(23,948)
Proceeds from sales of property, plant and equipment	19	76	171
Purchases of investments in securities	(507)	(2,741)	(4,568)
Proceeds from sales and redemption of investments in securities	2,250	153	20,272
Other	(256)	(282)	(2,307)
Net cash used in investing activities	(873)	(4,844)	(7,866)
Cash flows from financing activities:			
Decrease in short-term borrowings, net	—	(942)	—
Repayments of Long-Term Borrowings	—	(5,000)	—
Repayment of finance lease obligations	(658)	(558)	(5,928)
Purchases of treasury stock	(3,512)	(8)	(31,643)
Proceeds from exercise of subscription rights to shares	—	69	—
Proceeds from the disposal of treasury stock due to the exercise of stock subscription rights	—	9,916	—
Proceeds from issuance of subscription rights	—	28	—
Cash dividends paid	(2,370)	(1,774)	(21,353)
Net cash provided by (used in) financing activities	(6,540)	1,731	(58,924)
Effect of exchange rate changes on cash and cash equivalents	103	(348)	928
Net increase in cash and cash equivalents	2,626	5,937	23,660
Cash and cash equivalents at beginning of year	24,223	18,286	218,245
Cash and cash equivalents at end of year (Note 3)	¥26,849	¥24,223	\$241,905

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, 2019, which was ¥110.99 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.

(Changes in accounting policies)

Effective beginning the fiscal year ended March 31, 2019, the Company and its consolidated subsidiaries have adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. (ASBJ Guidance No. 28 of February 16, 2018)." As a result of adoption, deferred tax assets have been classified in the section of investments and other assets, and deferred tax liabilities have been classified in the section of non-current liabilities.

Deferred tax assets in the section of investments and other assets was ¥1,635 million (\$15,390thousand), which includes ¥1,640 million (\$15,437thousand) from deferred tax assets in the section of current assets and ¥5 million (\$47thousand) from deferred tax liabilities in the section of non-current liabilities for the fiscal year ended March 31, 2018.

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, 2019 and 2018 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥26,921	¥24,575	\$242,553
Time deposits with an original maturity in excess of three months included in cash and deposits.....	(72)	(352)	(648)
Cash and cash equivalents at end of year	¥26,849	¥24,223	\$241,905

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 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		
	2019		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	¥26,921	¥26,921	—
<2> Trade notes and accounts receivable	56,785	—	—
Less: allowance for doubtful accounts *1	(1,993)	—	—
	54,792	54,792	—
<3> Investments in securities	5,587	5,587	—
<4> Trade notes and accounts payable	2,485	2,485	—
<5> Electronically recorded obligations-operating	520	520	—
<6> Short-term borrowings	8,879	8,879	—

	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> 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	—

	Thousands of U.S. dollars		
	2019		
	Carrying value	Fair value	Variance
<1> Cash and time deposits	\$242,553	\$242,553	—
<2> Trade notes and accounts receivable	511,623	—	—
Less: allowance for doubtful accounts *1	(17,957)	—	—
	493,666	493,666	—
<3> Investments in securities	50,338	50,338	—
<4> Trade notes and accounts payable	22,389	22,389	—
<5> Electronically recorded obligations-operating	4,685	4,685	—
<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.

(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> 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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted equity securities	¥1,682	¥2,682	\$15,155
Shares of subsidiaries and affiliates	565	564	5,091

(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2019 and 2018

	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, 2019)				
Cash and time deposits	¥26,921	—	—	—
Trade notes and accounts receivable	31,880	¥24,777	¥128	—
Investment securities				
Available-for-sale securities with maturity				
– Other investments	—	36	735	—
Total	¥58,801	¥24,813	¥863	—

	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	—
	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, 2019)				
Cash and time deposits	\$242,553	—	—	—
Trade notes and accounts receivable	287,233	\$223,237	\$1,153	—
Investment securities				
Available-for-sale securities with maturity				
– Other investments	—	324	6,622	—
Total	\$529,786	\$223,561	\$7,775	—

5. Investments in securities

Other securities with quoted market prices at March 31, 2019 and 2018 were as follows:

	Millions of yen		
	Acquisition cost	Amount recorded in the balance sheet	Difference
	2019		
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	¥1,848	¥2,456	¥608
Other	997	1,013	16
Subtotal	¥2,845	¥3,469	¥624
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	¥1,614	¥1,033	¥(581)
Other	1,126	1,086	(40)
Subtotal	¥2,740	¥2,119	¥(621)
Total	¥5,585	¥5,588	¥3

	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
	Thousands of U.S. dollars		
	2019		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities	\$16,650	\$22,128	\$5,478
Other	8,983	9,127	144
Subtotal	\$25,633	\$31,255	\$5,622
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities	\$14,542	\$9,307	\$(5,235)
Other	10,145	9,785	(360)
Subtotal	\$24,687	\$19,092	\$(5,595)
Total	\$50,320	\$50,347	\$27

Other securities without quoted market prices at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	Amount recorded in the balance sheet
Other securities	¥1,682	¥2,682	\$15,155
	¥1,682	¥2,682	\$15,155

6. Inventories

Inventories at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Finished goods	¥11,821	¥10,839	\$106,505
Work in process	6,315	5,535	56,897
Raw materials	794	1,142	7,154
Supplies and others	358	330	3,226
	¥19,288	¥17,846	\$173,782

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 ¥5,067 million (\$45,653 thousand) and ¥5,002 million at March 31, 2019 and 2018, respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Average rate of 2.36%			
unsecured loans from banks	¥8,879	¥8,499	\$79,998

9. Retirement benefits

Retirement benefits at March 31, 2019 and 2018 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
	2019	2018	U.S. dollars
Balance, beginning of year	¥6,184	¥6,240	\$55,717
Service cost	340	330	3,063
Interest cost	61	62	550
Actuarial loss	(54)	(203)	(487)
Benefit paid	(386)	(245)	(3,478)
Balance, end of year	¥6,145	¥6,184	\$55,365

(2) Movement in plan assets

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Balance, beginning of year	¥6,417	¥6,096	\$57,816
Expected return on plan assets	73	70	658
Actuarial gain	18	95	162
Contributions paid by the employer	340	331	3,064
Benefit paid	(273)	(175)	(2,460)
Balance, end of year	¥6,575	¥6,417	\$59,240

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligations	¥5,419	¥5,360	\$48,824
Plan assets	(6,575)	(6,417)	(59,239)
	(1,156)	(1,057)	(10,415)
Unfunded retirement benefit obligations	726	824	6,541
Total net liability for retirement benefits end of year	(430)	(233)	(3,874)
Net defined benefit liability	726	824	6,541
Net defined benefit assets	(1,156)	(1,057)	(10,415)
Total net liability for retirement benefits end of year	¥(430)	¥(233)	\$(3,874)

(4) Retirement benefit cost

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥340	¥330	\$3,063
Interest cost	61	62	550
Expected return on plan assets	(74)	(70)	(667)
Net actuarial loss amortization	(86)	(8)	(775)
Past service costs amortization	1	1	9
Total retirement benefits cost	¥242	¥315	\$2,180

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service cost	¥1	¥1	\$9
Actuarial gain and loss	(14)	289	(126)
Total balance end of year	¥(13)	¥290	\$(117)

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service costs that are yet to be recognized	¥(1)	¥(1)	\$(9)
Actuarial gain and loss that are yet to be recognized	605	618	5,451
Total balance end of year	¥604	¥617	\$5,442

(7) Plan assets

<1> Plan assets at March 31, 2019 comprise:

Equity securities	12%
Bonds	15%
Insurance assets (General account)	70%
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, 2019 (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	2.15%

10. Contingent liabilities

Contingent liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Guarantees of customers' loans and lease obligations	¥783	¥1,242	\$7,055

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, 2019 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			
	2019			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	¥8,215			¥1,177
EUR	11,552			4,420
KWR	1,342			51

	Millions of yen			
	2018			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
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			
	2019			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Allocation method for foreign exchange contracts				
Foreign exchange contracts:				
Put US\$	\$74,016			\$10,605
EUR	104,081			39,823
KWR	12,091			460

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.

Note 2: The fair values of derivative financial instruments above are estimated by obtaining quotes provided by financial institutions.

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 30.46% and 30.69% for the year ended March 31, 2019 and 2018.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Tax loss carryforwards	¥1,425	¥1,323	\$12,839
Allowance for doubtful accounts	924	1,178	8,325
Intercompany profit	608	702	5,478
Accrued bonuses to employees	350	269	3,153
Long - term liabilities	303	321	2,730
Loss on valuation of investments in securities	270	274	2,433
Impairment loss on fixed assets	146	175	1,315
Accrued enterprise tax	—	168	—
Allowance for losses on guarantees	104	116	937
Other	573	728	5,163
Total gross deferred tax assets	4,703	5,254	42,373
Less valuation allowance	(2,897)	(3,284)	(26,101)
Net deferred tax assets	1,806	1,970	16,272
Deferred tax liabilities:			
Unrealized holding gain on securities	—	(176)	—
Reserve for special depreciation	(19)	(29)	(171)
Asset retirement obligation	(5)	(6)	(45)
Other	(186)	(124)	(1,676)
Total gross deferred tax liabilities	(210)	(335)	(1,892)
Net deferred tax assets	¥1,596	¥1,635	\$14,380

13. Research and development costs

Research and development costs charged to income were ¥3,251 million (\$29,291 thousand) and ¥2,795 million for the years ended March 31, 2019 and 2018, respectively.

14. Stock option plan

As of March 31, 2019 and 2018, the Company has the following stock option programs.

Date of resolution	July 25, 2018
Type and number of eligible persons	[The Company] Director: 5 Executive officer: 3
Class and number of shares to be granted	Common stock: 4,500 shares
Grant date	August 17, 2018
Vesting requirement	—
Vesting period	—
Exercise period	From August 18, 2018 to August 17, 2048

(a) Number and price information (As of March 31, 2019)

Date of resolution	July 25, 2018
Unvested stock options	
Outstanding as of March 31, 2018	—
Granted	4,500
Expired	—
Vested	4,500
Outstanding as of March 31, 2019	—
Vested stock options	
Outstanding as of March 31, 2018	—
Vested	4,500
Exercised	—
Expired	—
Outstanding as of March 31, 2019	4,500
	Yen
Date of resolution	July 25, 2018
Exercise price	¥1
Average stock price at exercise	—
Fair value at grant date	¥4,369

(b) The estimate method on unit price of subscription rights Estimate method: Black Scholes Model

	Yen
Volatility	37.00%
Expected remaining period	15 years
Estimated dividend	¥51.25 per share
Non risk interest rate	0.36%

(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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Net unrealized holdings gain on securities:			
Amount recognized in the period under review	¥(990)	¥21	\$(8,920)
Amount of recycling	119	0	1,072
Before income tax effect adjustments...	(1,109)	21	(9,992)
Amount of income tax effect	(231)	(2)	(2,081)
Net unrealized holdings gain on securities.....	(878)	23	(7,911)
Foreign currency translation adjustments:			
Amount recognized in the period under review	564	(1,085)	5,082
Amount of recycling	—	—	—
Before income tax effect adjustments...	564	(1,085)	5,082
Amount of income tax effect.....	—	—	—
Foreign currency translation adjustments.....	564	(1,085)	5,082
Remeasurements of defined benefit plans			
Amount recognized in the period under review	72	298	649
Amount of recycling	85	7	766
Before income tax effect adjustments...	(13)	291	(117)
Amount of income tax effect.....	(4)	90	(36)
Remeasurements of defined benefit plans	(9)	201	(81)
Total other comprehensive income	¥(323)	¥(861)	\$(2,910)

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, 2019 and 2018 were as follows:

Millions of yen						
2019						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	¥38,807	¥4,381	¥1,555	¥44,743	¥6,610	¥51,353
Inter-segment sales	—	—	—	—	—	—
Total sales	38,807	4,381	1,555	44,743	6,610	51,353
Operating expenses	30,040	3,436	1,317	34,793	5,611	40,404
Segment profit	¥8,767	¥945	¥238	¥9,950	¥999	¥10,949
Segment Assets:	¥102,846	¥5,693	¥2,136	¥110,675	¥9,953	¥120,628
Others:						
Capital expenditure	¥2,724	¥136	¥133	¥2,993	¥349	¥3,342
Depreciation	1,399	65	58	1,522	186	1,708
Amortization of goodwill	384	3	0	387	16	403

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

Thousands of U.S. dollars						
2019						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
Sales and operating income:						
Sales to customers	\$349,644	\$39,472	\$14,010	\$403,126	\$59,555	\$462,681
Inter-segment sales	—	—	—	—	—	—
Total sales	349,644	39,472	14,010	403,126	59,555	462,681
Operating expenses	270,655	30,958	11,865	313,478	50,554	364,032
Segment profit	\$78,989	\$8,514	\$2,145	\$89,648	\$9,001	\$98,649
Segment Assets:	\$926,624	\$51,293	\$19,245	\$997,162	\$89,675	\$1,086,837
Others:						
Capital expenditure	\$24,543	\$1,225	\$1,198	\$26,966	\$3,145	\$30,111
Depreciation	12,605	586	522	13,713	1,676	15,389
Amortization of goodwill	3,460	27	0	3,487	144	3,631

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
	2019	2018	2019
Reportable segments total	¥44,743	¥65,679	\$403,126
Other sales	6,610	6,179	59,555
Net sales in the consolidated statements of income	¥51,353	¥71,858	\$462,681

Segment profit

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Reportable segments total	¥9,950	¥21,065	\$89,648
Other income	999	105	9,001
Corporate expenses	(6,310)	(6,264)	(56,852)
Operating income in the consolidated statements of income	¥4,639	¥14,906	\$41,797

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
	2019	2018	2019
Reportable segments total	¥110,675	¥121,930	\$997,162
Other assets	9,953	8,622	89,675
Company-wide assets	24,518	23,786	220,902
Total assets in the consolidated balance sheets	¥145,146	¥154,338	\$1,307,739

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		2019	2018
	2019	2018	2019	2018	2019	2018		
Capital expenditure	¥2,993	¥2,642	¥349	¥158	¥1,141	¥1,200	¥4,483	¥4,000
Depreciation	1,522	1,542	186	157	487	406	2,195	2,105
Amortization of goodwill	387	388	16	16	—	—	403	404

	Thousands of U.S. dollars			The amount in the consolidated financial statements
	Reportable segments total	Other	Adjustment	
Capital expenditure	\$26,966	\$3,145	\$10,280	\$40,391
Depreciation	13,713	1,676	4,388	19,777
Amortization of goodwill	3,487	144	—	3,631

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, 2019 and 2018 were as follows:

	Millions of yen					
	2019					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	¥8,603	¥8,960	¥3,228	¥28,810	¥1,752	¥51,353

	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

	Thousands of U.S. dollars					
	2019					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers	\$77,511	\$80,728	\$29,084	\$259,573	\$15,785	\$462,681

17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 27, 2019.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥888	\$8,001

Independent Auditor's Report

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, 2019, 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 accordance 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 misstatement, 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 accordance 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, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance 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, 2019

Ohtemae Audit Co.,

Ohtemae Audit Corporation

Corporate Data (As of March 31, 2019)

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 1,974
Non-consolidated 1,433

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

Consolidated Subsidiaries

SHIMA FINE PRESS CO., LTD.	SHIMA SEIKI EUROPE LTD.	SHIMA SEIKI WIN WIN SHANGHAI LTD.
KAINAN SEIMITSU CO., LTD.	SHIMA SEIKI U.S.A. INC.	SHIMA SEIKI SPAIN, S.A.U.
TOYOBOSHI KOGYO CO., LTD.	SHIMA SEIKI (HONG KONG) LTD.	SHIMA SEIKI WIN WIN DONGGUAN LTD.
	SHIMA SEIKI ITALIA S.p.A.	SHIMA SEIKI (THAILAND) 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 14,958

Stock Exchange Listing The First Section of the Tokyo Stock Exchange

Auditing Corporation Ohtemae Audit Corporation

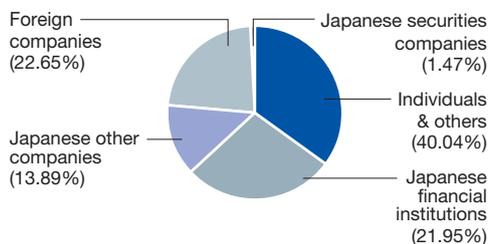
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	4,020	11.32
The Kiyo Bank, Ltd.	1,472	4.15
Masahiro Shima	1,070	3.01
Mitsuhiro Shima	1,061	2.99
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,046	2.95
The Bank of Mitsubishi UFJ, Ltd.	880	2.48
Japan Trustee Services Bank, Ltd. (Trust Account)	876	2.47
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	827	2.33
STATE STREET BANK AND TRUST COMPANY 505019	787	2.22
Wako LLC	780	2.20

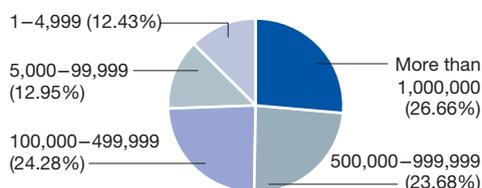
Note: Treasury stock (1,088 thousand shares) is excluded from the calculation of percentage of shares held.

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.



<https://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



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