

Integrated Report 2021

Year Ended March 31, 2021



Ever Onward
SHIMA SEIKI

Why Not Put an End to the Age

Shima Seiki Continues to Make Challenges Toward a Future

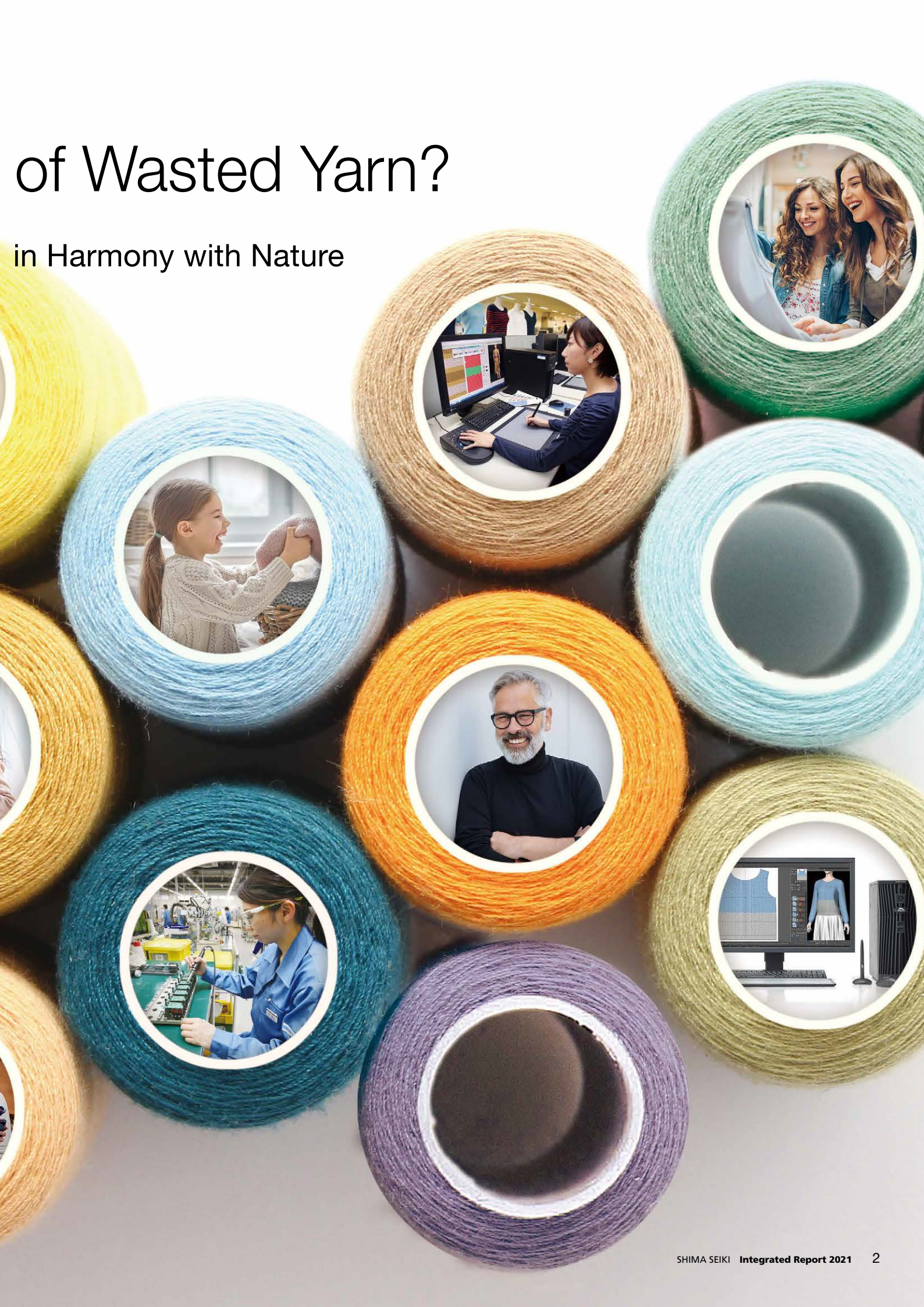
As a result of the cycle of mass production, mass consumption, and mass waste in the apparel and fashion industry, about half of the clothing produced worldwide is thrown away without having been worn even once.

Through the building of a supply chain that does not waste yarn, we at Shima Seiki, as a company that thinks about solutions to the issues facing the apparel and fashion industry, will continue to contribute to innovation so that people in the future can lead affluent daily lives in harmony with nature.



of Wasted Yarn?

in Harmony with Nature



SHIMA SEIKI MFG., LTD.

Integrated Report 2021

Year Ended March 31, 2021



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Philosophy Inherited Since Founding

Philosophy

Ever Onward — Limitless Progress

We strive to become an indispensable company to society through sustainable business development. We do this under the motto of "Ever Onward" with "Love," "Creativity," and "Passion" as our mantra.

Love

We contribute to society through our creative craftsmanship, which is friendly to both people and the environment. We strive to contribute to society through love for our work, people, country, community and the earth.

Creativity

We aim to create world's firsts through our finely honed sensitivity and sense of creativity.

Passion

We tackle new challenges with passion and chart our own future course by putting our all into our products and services.

The Founder Masahiro Shima's Sentiments:

To Create Previously Nonexistent Products Ourselves and Build People- and Environment-Friendly Craftsmanship



Returning to the starting point for ideas

When I was a lad, I remember observing a spider's web at the window. The spider took up a position in the center of the web. When some insect got caught in the web, it dashed out to capture it and then returned to the center again. This central position gave the spider a 360-degree view and meant that, whenever it moved, it always had only the shortest distance to cover.

Whenever difficult obstacles have stood in the way, or I have reached an impasse, I have discovered a way forward by returning to the starting point and reconsidering the situation.

Always standing in the customer's shoes

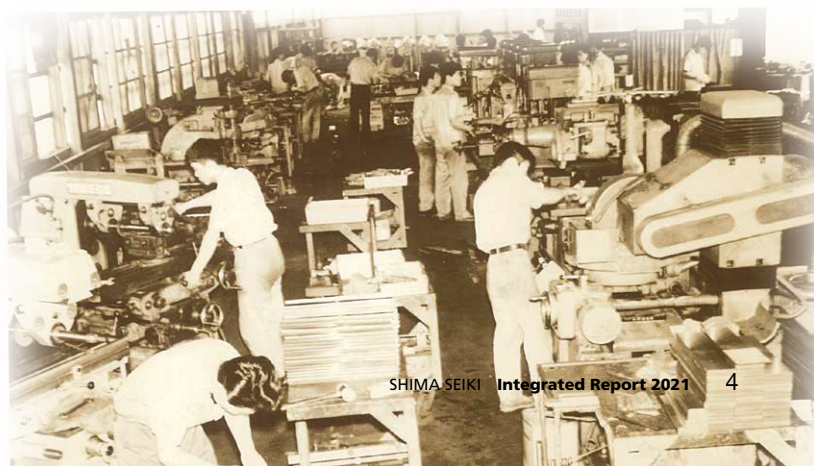
Pour about 10 cm of water into a tub and place your hands in the center. If you then pull your hands toward you, the water will ride over your hands or slip through your fingers. Conversely, if you push your hands away, the water will come toward you.

First, generate benefits for the customer and then get the customer to place repeat orders. That is a manufacturer's baseline. Always stand in the customer's shoes.

Aiming to be an essential company

Accidents were frequently occurring in which workers in dyeing plants and other factories lost their lives when their gloves got caught in gears. By knitting rubber thread on the wrist parts of the gloves, we produced gloves that workers could quickly remove even if they did get caught in gears, thereby eliminating such accidents.

Inventing problem-solving technologies is also the foundation of our goal of becoming a company that is essential to society.

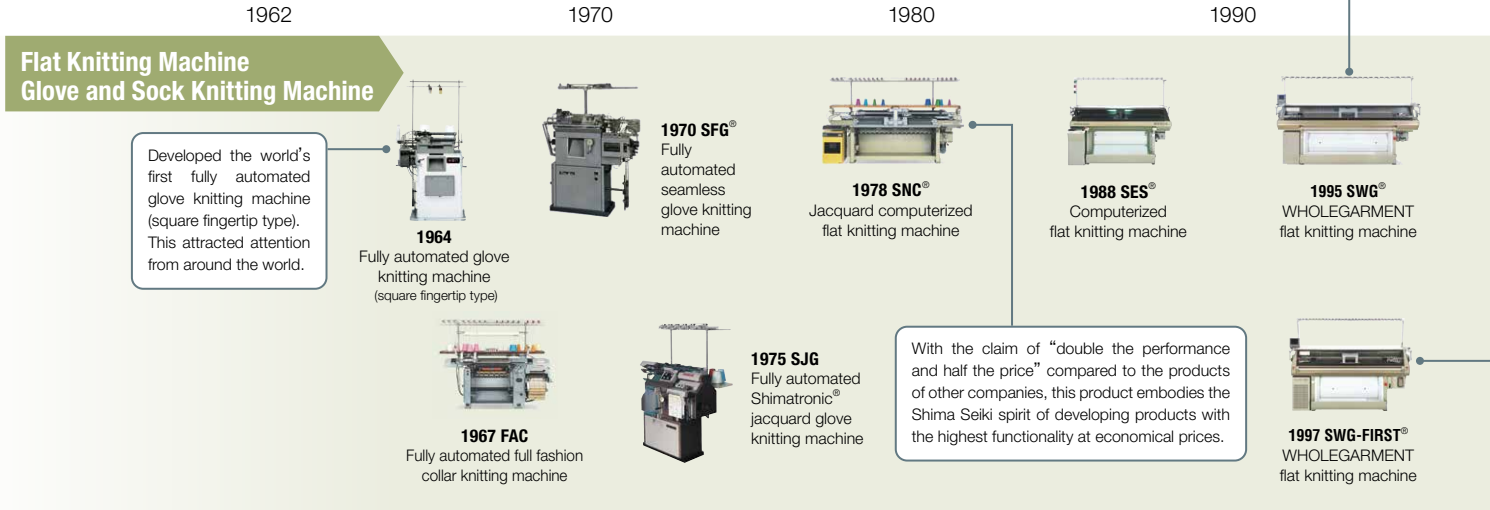


Continuing to Grasp the Needs of the Time and

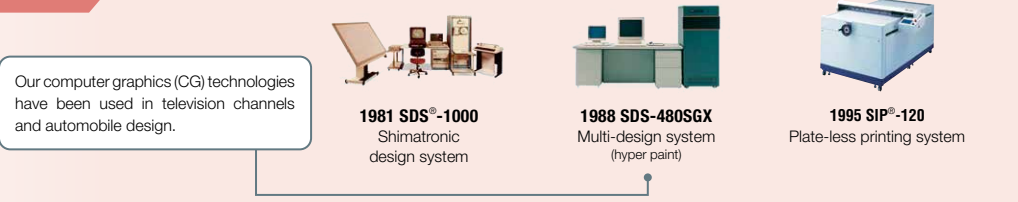
Since its foundation, Shima Seiki has created many world's first products and services. During that time, we have been confronting changes in the social environment and responding to the needs of the times.

Here, we introduce the history of the company including episodes of overcoming difficulties and environmental changes in the past.

The WHOLEGARMENT flat knitting machine was invented. This technique of seamless knitting without sewing was dubbed "the magic of the Orient."



Design Systems



CAD/CAM Systems



Episodes

1964 Development of the fully automated glove knitting machine

On December 25, the company was unable to pay its bills and on the verge of bankruptcy. However, Masahiro Shima received a loan from the manager of a business in Osaka, which inspired him to conduct development continuously for a week. On December 30, he completed a fully automated glove knitting machine, and the company was able to overcome its difficulties.

1973 Oil Crisis

Although financial institutions proposed downsizing due to the oil crisis, instead of reducing personnel, Shima Seiki introduced the latest NC machine tools to improve processing accuracy. The company also hired electrical engineers, which later led to the development of computer-controlled flat knitting machines.

1987 Black Monday

In response to the global plunge in stock prices, the company decided to stop mass production of new models that had been announced at exhibitions. To pursue development that anticipates the needs of the times, Shima Seiki turned to development of flat knitting machines in anticipation of the era of widely varied, small-lot production.

Create New Value

WHOLEGARMENT® was created from the idea of reversing the top and bottom of the glove so that the wrist is the collar, the index, middle and ring fingers are the body, and the thumb and little finger is the sleeves.



2000

2010

2020



2003 SWG021/041
WHOLEGARMENT
flat knitting machine



2005 LAPIS®
Warp insertion hybrid
computerized
flat knitting machine



2010 SSR®
Computerized
flat knitting machine



2015 MACH2XS
WHOLEGARMENT
flat knitting machine

Equipped with a moveable sinker to create a three-dimensional silhouette. A state-of-the-art machine with exceptional practicality.

The newly-developed SlideNeedle replaces the latch needle, which had been used for 150 years, enabling new knitting methods and improved production efficiency.



2007 MACH2X®
WHOLEGARMENT
flat knitting machine



2013 SVR®
Computerized
flat knitting machine



2018 SFG20-21G
Glove and
Sock Knitting Machine



2000 SDS-ONE
Apparel design system



2007 SDS-ONE APEX
3D apparel design system



2011 SDS-ONE APEX3
3D apparel design system



2019 SDE-ONE APEX4
3D apparel design system



2020 yarnbank
Yarn data search
web service



2020 APEXFiz
Subscription service

Based on the concept of all-in-one, it is now possible to propose new business models using IT in addition to high-performance knit designs.

Highly adaptable to various production systems including made-to-order and additional production.



2012 P-CAM120C
Automated
cutting machine
(fixed cutting surface type)



2014 P-CAM181
Multi-ply automated
cutting machine

The world's first yarn searching service that digitally integrates process from raw material yarn to planning, manufacturing, and sales.

A software service suited to the times that enables users to use APEX regardless of the place or time.

1995 Hollowing out of industry

In response to the crisis in the knitwear industry caused by the high value of the yen, the hollowing out of industry due to the relocation of production bases overseas, and the rapid increase in imports in the apparel industry, Shima Seiki developed WHOLEGARMENT® flat knitting machines suitable for production in consumption areas ahead of schedule.

2011 Expansion into other industries

The P-CAM automatic fabric cutting machine, which had been sold to the apparel industry, was deployed to cut industrial materials as well. By expanding the customer base, Shima Seiki was able to stabilize its business and establish a basis to expand into other industries such as flat knitting machines.

2019 Structural changes in the apparel industry

As mass production and mass disposal came to be seen as a problem in the apparel industry, Shima Seiki started conducting sales activities with a focus on sustainability based on its experiences of being the first to propose solutions for timely and optimal production.

Identifying Priority Issues for the Future

In order to become an indispensable company to the society, we investigated and analyzed the 17 Sustainable Development Goals (SDGs) and ESG investing (investing prioritizing environmental, social, and governance factors), as well as other prominent social issues and management challenges facing this company.

We then specified the four categories of technology, environment, human resources, and governance, which have high degrees of importance for both stakeholders and our business, as Shima Seiki's materiality and set themes in each category.

Our Materiality Themes

- Technology** Challenging technological innovation
- Environment** Realizing a sustainable society
- Human Resources** Human resource strategy
- Governance** Building sturdy corporate governance

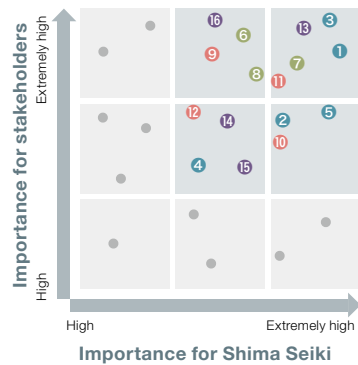
Materiality Specification Process

Reference indexes at the time of materiality specification

- 17 goals and 169 targets of the SDGs; ESG perspective
- Social issues; company issues



Assessment of Importance



External Environment and Social Issues by Materiality

<p>Technology</p> <ol style="list-style-type: none"> 1 Decline of distribution volumes due to a production structure review in the apparel industry 2 Decline of working population due to low birthrate and aging in Japan 3 Wasteful consumption of goods, resources, and labor in the apparel industry; more efficiency 4 Appearance of new technologies, such as artificial intelligence (AI); higher speed and upgrading of communication technology 5 Development of similarly designed clothing from multiple brands 	<p>Human Resources</p> <ol style="list-style-type: none"> 9 Advance of low birthrate and aging in Japan Health problems; medical care and nursing care problems; longer healthy lives Worldwide proliferation and spread of infectious diseases, etc. 10 Accelerated social advance of women and elderly Increase of world population Increase of poverty and inequalities in developing countries 11 Expansion of problem-solving-type industries and services Problem of work substitution due to appearance of AI technology 12 Diversification of workstyles
<p>Environment</p> <ol style="list-style-type: none"> 6 Emergence of environmental problems, such as global warming, abnormal weather conditions, energy consumption, and water resource pollution 7 Worldwide emissions of 2.1 billion tons a year by the apparel industry 8 Increase of made-to-order production and customized sales; increasing interest in ethical consumption 	<p>Governance</p> <ol style="list-style-type: none"> 13 Moves to strengthen governance setup; review of market division 14 Business risk disclosure; risk of natural disasters, etc. Risk of leakage of personal information, customer information, know-how, etc. 15 Frequent occurrence of corporate scandals 16 Increased importance of communication with stakeholders





In-house Hearings

The specified materiality was shared in the company, and hearings were held in related departments and divisions to check appropriateness and activity content. As a result, the content was further polished.

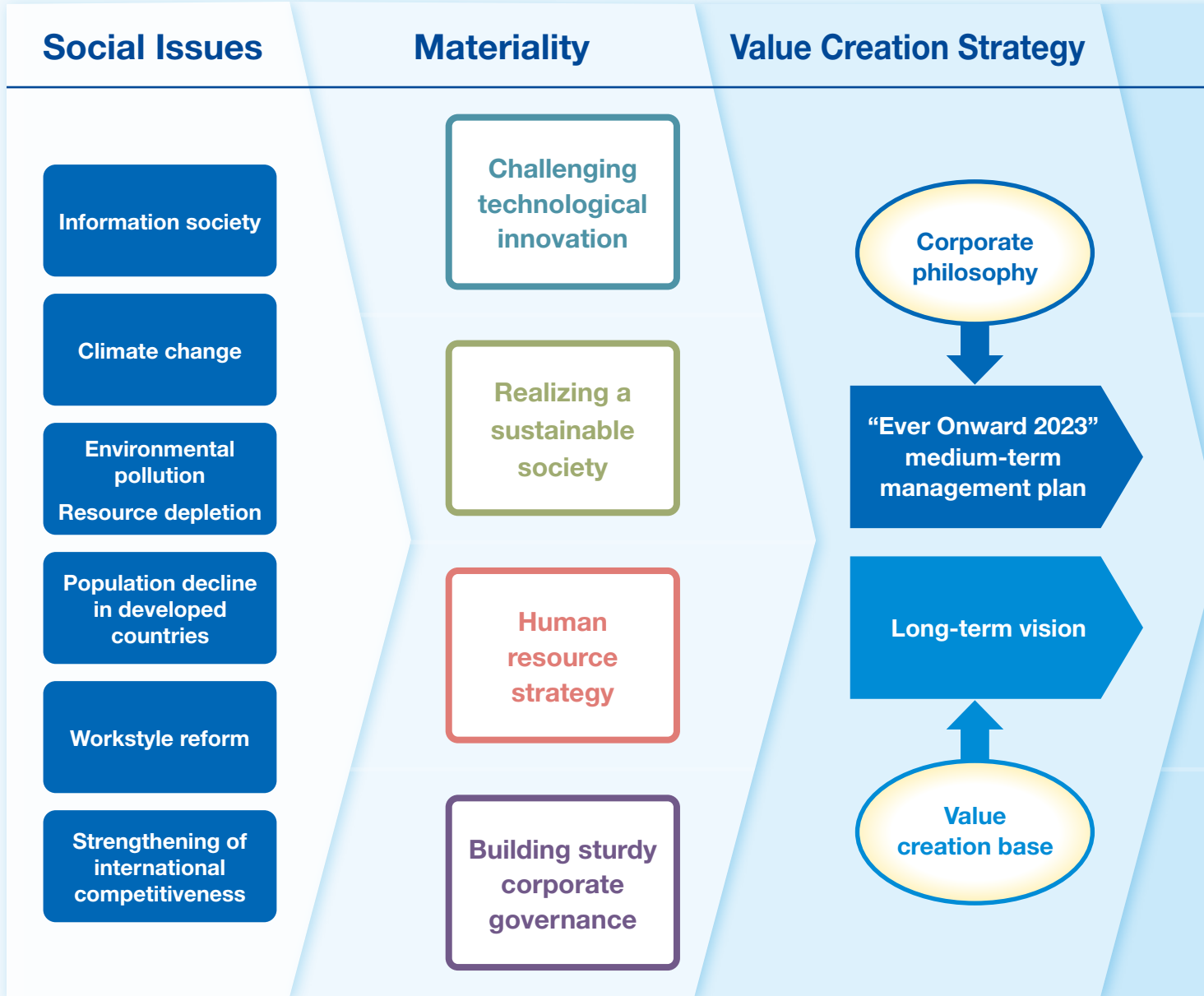
Approval by Management

The Executive Committee heard an explanation of the content and confirmed the materiality that Shima Seiki should address.

Initiatives to Address Materiality

Materiality theme	Issues in Shima Seiki's initiatives	Activity content	Relation to medium-term management plan	Relevant SDGs
<p>Technology</p> <p>Challenging technological innovation</p>	<ul style="list-style-type: none"> ① Development of original technology Development of unknown fields Entry into other industries ② Productivity improvement through better efficiency ③ Strengthening of coordination among planning, production, and sales through digitization Building of new forms of manufacturing ④ Response to cutting-edge technologies ⑤ Creation of added-value clothing Ensuring of originality 	<ul style="list-style-type: none"> ① Strategy for the discrimination of WHOLEGARMENT® flat knitting machines, etc. Development of new products and services Deployment of CAD/CAM systems in other industries ② Automation and labor saving through the utilization of digital tools ③ Proposal of solutions combining Shima Seiki products and services On-demand production and shortening of lead times ④ Development of products conforming to AI, 5G, and IoT Renewal of in-house systems and IT application ⑤ Development of new yarn material Development of knitting methods and protection of intellectual property rights 	<p>Strengthening WHOLEGARMENT business</p> <p>Conversion to solution-based business</p> <p>Advancing diversification with distinction</p>	
<p>Environment</p> <p>Realizing a sustainable society</p>	<ul style="list-style-type: none"> ⑥ Environmental preservation Elimination of air pollution, water pollution, and resource depletion ⑦ Supply of products and services with little environmental load End to mass production, mass consumption, and mass disposal ⑧ Shift to timely and optimal production 	<ul style="list-style-type: none"> ⑥ Strengthening of ISO 14001 efforts Promotion of factory greening; installation of solar power generation; Kigyō no Mori (Company Forest) initiative ⑦ Proposal of solutions centered on total fashion system® ⑧ Expanded sales of WHOLEGARMENT flat knitting machines Proposal of sustainable manufacturing 	<p>Strengthening WHOLEGARMENT business</p> <p>Conversion to solution-based business</p>	
<p>Human Resources</p> <p>Human resource strategy</p>	<ul style="list-style-type: none"> ⑨ Workplace environment suited to elderly employees Promotion of employees' health Countermeasures to prevent infectious diseases, etc. ⑩ Promotion of diversity ⑪ Development of innovative human resources Development of human resources for solution sales Development of human resources with knowledge of information technology ⑫ Promotion of employee workstyle reform 	<ul style="list-style-type: none"> ⑨ Raising of mandatory retirement age Reemployment system responding to diverse workstyles ⑩ Appointment of female managers Establishment of in-house childcare facilities; childcare leave system Expansion of opportunities for global human resources Expansion of workstyle options Satisfaction of statutory standards for employment ratio of disabled persons ⑪ New business support Introduction of flexible employment system Enhancement of in-house education ⑫ Expansion of remote work; promotion of work-life balance reform 	<p>Strengthening WHOLEGARMENT business</p> <p>Conversion to solution-based business</p> <p>Advancing diversification with distinction</p> <p>Restructuring management infrastructure in response to social change</p>	
<p>Governance</p> <p>Building sturdy corporate governance</p>	<ul style="list-style-type: none"> ⑬ Strengthening of efficiency of Board of Directors ⑭ Strengthening of risk management setup ⑮ Promotion of compliance ⑯ Strengthening of investor relations and publicity setup 	<ul style="list-style-type: none"> ⑬ Division of roles of company management and business execution ⑭ Management of business risk countermeasures in the Risk Management Committee Operation of practicable business continuity plan Strengthening of information security countermeasures ⑮ Strengthening of awareness-raising activities in the Compliance Committee ⑯ Online meetings and briefings with institutional investors Local community contribution activities 	<p>Restructuring management infrastructure in response to social change</p>	

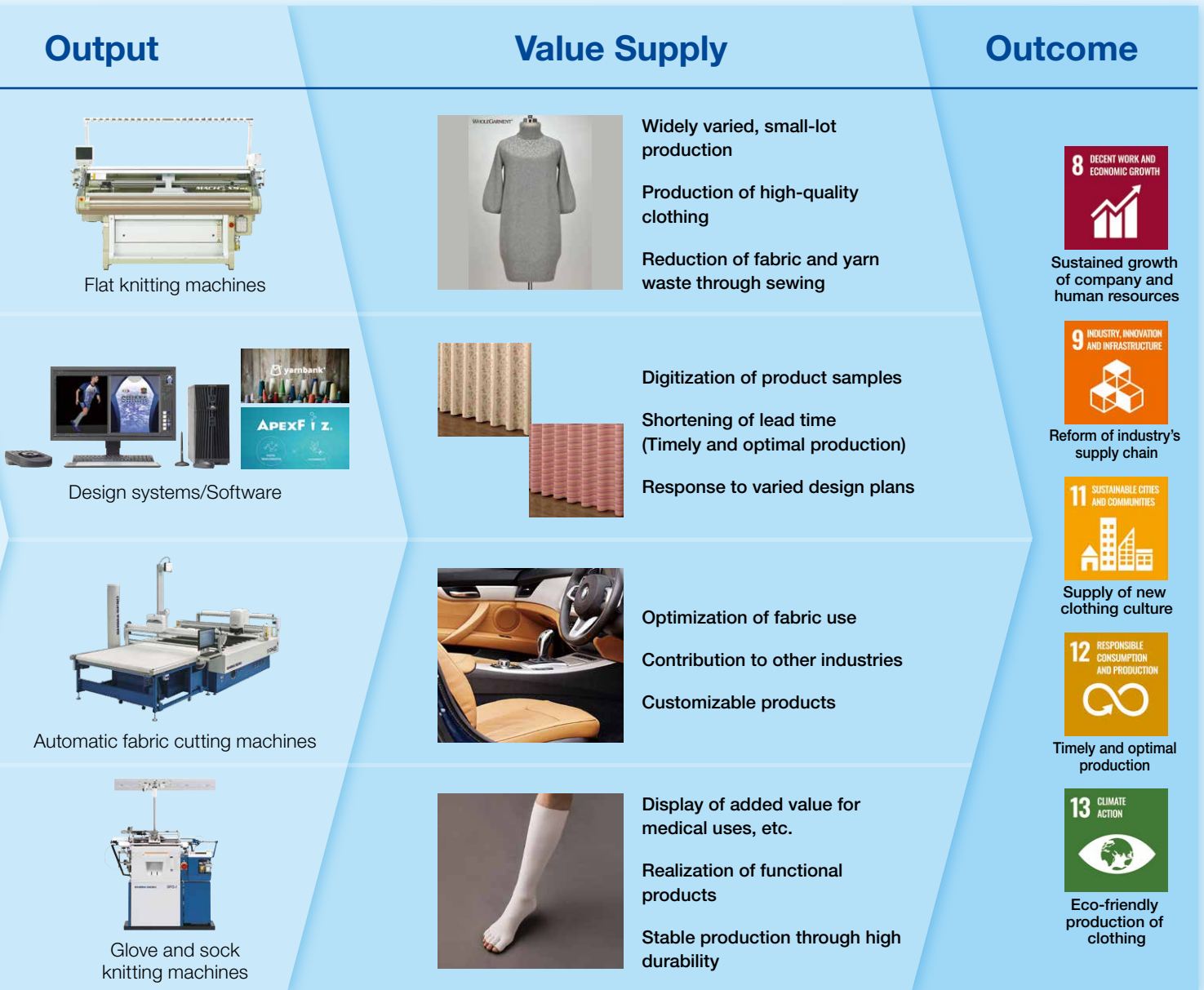
Ever Onward — Continuing to challenge unknown territory



Principal Capital (Inputs)



toward the solution of social issues based on limitless progress



Human Resource Capabilities

1,919 employees
Cultivating diverse human resources to maintain a corporate culture that fosters originality

Intellectual Property Capabilities

1,179 patents
339 registered trademarks

Financial Capabilities

An equity ratio of **81.7%**
Total assets of **110.1** billion yen

Toward the Realization of Sustainable Manufacturing

Shima Seiki always pursues the highest levels of functionality and provides discerning products while integrating hardware and software to provide solutions according to customer needs.

In order to be an indispensable company to society, we are supporting sustainable manufacturing and contributing to solutions to social issues.



Providing products with the highest levels of functionality at reasonable prices

The Shima Seiki spirit

WHOLEGARMENT® Flat Knitting Machines



MACH2®XS



Linking Work That Overuses the Eyes Is Eliminated

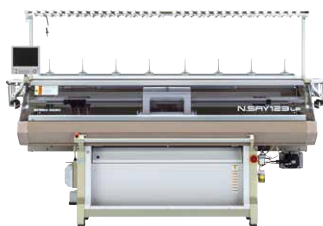
With conventional knitting machines, each part is knitted separately and they are sewn together, requiring linking work to join the stitches. Linking work requires stitches to be individually sewn with a needle and thin thread, and is extremely difficult on the eyes.

With WHOLEGARMENT® flat knitting machines, there is no stitching and the entire garment is knitted as a whole unit, freeing workers from difficult linking work.

The entire garment is knitted as a single unit and no additional sewing process is required. Only the necessary yarn is used, and fabric for seam allowances (approximately 3-10%) is reduced compared to conventional machines.

These machines also support on-demand production and can produce the products needed in the quantities needed, achieving sustainable production.

Computerized Flat Knitting Machines



N.SRY®123LP/183LP

These flat knitting machines use computer control to enable selection of needle movement and yarn and can employ completely new knitting methods. Compared to cut-and-sew sweaters, cutting losses are reduced by about 30%, a diverse range of designs is supported, and high added value products can be efficiently produced.

CAD/CAM



P-CAM®181

Automated cutting machines (CAM) and the computer-aided design (CAD) system developed by Shima Seiki for their control can make cuts in the optimal locations, thereby saving raw materials. This contributes to resource-saving manufacturing. The systems can be adapted to a variety of needs other than apparel such as interior design, automotive, and industrial material products.

Total Fashion System®

PLANNING



Investigate and Share Various Designs

Color variations and so on can be changed instantly, making it possible to investigate various designs. Designs can be instantly shared with remote locations, and the 3D virtual samples eliminate the need for sample production.

Shima Seiki's 3D design system and software, combined with WHOLEGARMENT flat knitting machines, achieve what could not be realized with conventional knit production.



Design System



SDS-ONE APEX series



APEXFiZ

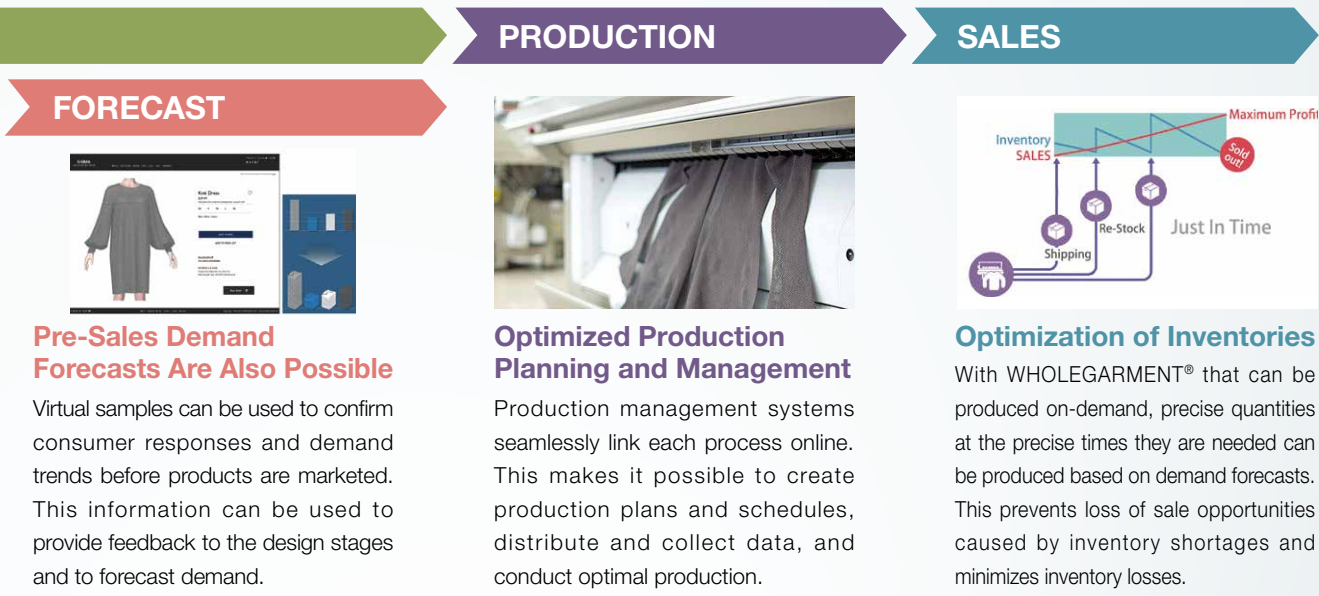
The Shima Seiki design system provides total support from planning and design to production and sales promotion by enabling investigation of color arrangements, real-time simulation, and 3D virtual sampling of products.

The system contributes to reducing waste in the fashion supply chain and contributes to sustainable manufacturing.

Virtual Samples Save Materials, Cost, and Time

High-quality simulations by the design system can be used as product prototypes. By reducing prototypes of the actual product, material, costs, and time can be saved. The 3D virtual samples can also be used for three-dimensional images on EC sites. The system facilitates timely production of suitable quantities and protect sales opportunities while reducing disposal losses.

— We support optimization of all stages from apparel planning to sale.



We are making Group-wide efforts to achieve “reform” and “revival” with the aim of solving problems in the apparel and fashion industry.



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, Deput 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
- June 2020 President, Representative Director, Executive Officer, General Manager of Sales Division, in charge of Total Design Center and Corporate Planning Division
- June 2021 President, Representative Director, Executive Officer, General Manager of Sales Division, in charge of Total Design Center (current)

Q₁

What is your basic thinking regarding corporate management?

A₁

We are aiming for growth by contributing to the sustainable development of society.

The realization of a sustainable society for future generations is a common global theme, and I recognize it to be an important challenge in corporate management too. The apparel and fashion industry is attracting harsh criticism for various reasons, including its burden on the global environment, waste of resources, and severe working conditions. In these circumstance, our Group hopes to contribute to the solution of social issues through the supply of products and services that support sustainable manufacturing, including first and foremost our WHOLEGARMENT® flat knitting machines and design systems.

In addition, to enhance our corporate value as a sustainable entity ourselves and to continue growth, we are putting much effort into the strengthening of our management foundations in terms of environmental, social, and corporate governance (ESG) factors.

Furthermore, with reference to the 17 Sustainable Development Goals adopted by the United Nations and other guidelines, we have stipulated our Group's materiality (priority issues) in the four areas of technology, environment, human resources, and governance and have clarified what we should do to become a company that is indispensable to society.

Q₂

Can you tell us about Shima Seiki's specific initiatives relating to ESG?

A₂

We are endeavoring to strengthen our management base by implementing a variety of measures.

In the environmental field, our Group is making efforts to reduce our environmental load. For example, we have formulated the Group's Environmental Action Guidelines, and we regularly convene our EMS (Environmental Management System) Committee to share information on energy saving and waste reduction. We are also making positive efforts to introduce renewable energy, such as the installation of a large solar power generation system at our plant, which provides the equivalent of about 10% of the electricity used at the plant.

In the social field, we place special importance on human resources as our biggest asset. Of course, we support the safety and health of employees. In addition, as well as promoting the building of worker-friendly workplaces, we support individual growth through the implementation of rank-specific



Products contributing to sustainability



Quality and Environmental Management Conference

Message from Top Management



Online exhibition: SAMPE Japan 2020
Online advanced materials and engineering exhibition



Automated pickup by connecting a
P-CAM® and robot arm
(exhibited at SAMPE Japan 2020)

training, the encouragement of self-development, and the promotion of women's activities. Furthermore, by launching new business projects and providing opportunities for employees to make challenges without fear of failure, we foster a spirit of challenge, creativity, and management awareness among them.

In the field of corporate governance, we have put together a framework to prevent the violation of laws and regulations and other illegal and unfair behavior, including the formulation of the SHIMA SEIKI Group Code of Conduct and establishment of a whistleblower service. In addition, in order to practice management that emphasizes stakeholder benefits, we make efforts to build a sound and transparent corporate governance setup aimed at separating auditing and executive functions. These initiatives have included establishment of the Nominating and Remuneration Committee and the Audit and Supervisory Committee, strengthening of the role of outside directors, and introduction of an executive officer system.



Can you tell us about Shima Seiki's business results in the fiscal year ended March 31, 2021?



We posted a deficit for the second consecutive year due to customers' sluggish capital investment.

In the fiscal year under review (ended March 31, 2021), the world economy was hit by the COVID-19 pandemic. As a result of urban lockdowns, restrictions on going out, and other measures in various countries, many industries virtually came to a standstill and plunged into a serious business recession.

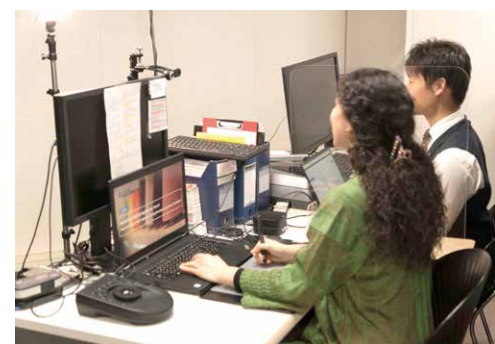
In the apparel and fashion industry as well, to which our Group supplies products, sales of clothing fell sharply as many stores unavoidably had to close temporarily or shut down altogether and consumers refrained from shopping.

In response to heightened environmental consciousness around the world, efforts in the apparel and fashion industry to restrain overproduction and excessive inventory had become apparent in the previous fiscal year (ended March 31, 2020). In the fiscal year under review, the COVID-19 pandemic overlapped with this trend, and capital investment stalled in plants worldwide due to uncertainty about the future. Consequently, our core flat knitting machine business slumped significantly in major markets in China, the member countries of the Association of Southeast Asian Nations (ASEAN), and Europe. Linked with this fall in the sale of flat knitting machines, our design system business suffered a drop in sales as well.

As a result, our consolidated sales in the fiscal year under review declined substantially to 24,489 million yen, a 26.3% decline from the previous fiscal year. Regarding revenue, as a result of a worsened gross profit margin due to the large decrease in the number of units sold, drop in sales prices, and fall in plant operating ratio following production adjustment, we

posted an operating loss of 9,143 million yen (5,602 million yen in the previous fiscal year) and an ordinary loss of 7,273 million yen (5,583 million yen in the previous fiscal year). In both cases, we registered a loss for the second consecutive fiscal year.

Furthermore, in view of the severe management conditions, since we also recorded a special impairment loss on fixed assets of about 10,000 million yen and a special loss on the valuation of the stocks of related companies of about 200 million yen, our net income attributable to the owners of the parent amounted to a substantial deficit of 17,866 million yen (8,427 million yen in the previous fiscal year).



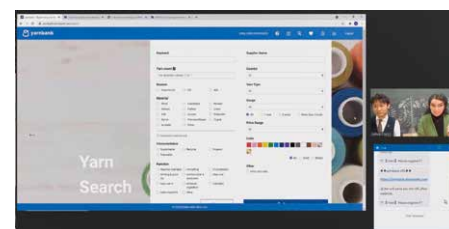
Scene of webinar management



What's your take on the significant decline in business performance in the fiscal year under review?



We are reflecting on our failure to respond to rapidly changing needs prior to COVID-19.



Webinar screen

All the management team, including myself, deeply regret the substantial decline in sales and the deficit for a second consecutive year. These are grim results. Most of all, we must reflect on the fact that the Shima Seiki Group has not fully capitalized on our potential to address the issues faced by the apparel and fashion industry.

As I mentioned earlier, capital investment in the apparel and fashion industry was continuing to stagnate even before the COVID-19 pandemic. I think it was a sign that the industry was searching for a new direction. Many companies were keen to break away from the conventional business model premised on mass production and mass consumption, but they were unable to face up to the subdivided supply chain and take the first steps of reform.

In those circumstances, our Group conducted activities around the world to propose products, services, and solutions that could be a powerful weapon for the business model reform of production plants and apparel companies, including the WHOLEGARMENT flat knitting machines, which greatly expand the potential of knitted products, and design systems, which can spectacularly increase the efficiency of the product planning process by means of virtual samples. New services put on sale in the fiscal year ended March 31, 2020 include the yarnbank site, which together digitally connect the whole process from materials to planning, manufacture, and sale, and the APEXFiz online design software subscription service.

At the end of the day, however, we were unable to make the effective approach necessary for customers to take those first steps. In other words, our Group lacked the will power required to change the industry, including not only our capacity to make proposals on the marketing side but also our supply of convincing data and the performance of products themselves. We need to strengthen and improve our approach even more.

Message from Top Management



Four priority policies of the new medium-term management plan



What is the thinking behind the new medium-term management plan?



We plan to restore profitability and support customers' business reforms through four priority measures.

Reflecting on our performance in the fiscal year under review, we have launched “Ever Onward 2023,” a new three-year medium-term management plan starting in the fiscal year ending March 31, 2022.

Under the new medium-term management plan, while creating a current of reform in the industry over the next three years, first of all we will promote four priority measures as an urgent challenge to restore profitability to our business. [For details, see pp. 19–22.]

Regarding the “strengthening of our WHOLEGARMENT business,” we will invest management resources efficiently and intensively and aim for a shift from the conventional business structure centered on molded knitting machines to one centered on WHOLEGARMENT flat knitting machines. As well as promoting development to evolve product functions, marketing, and cost reduction, we will promote sales by strengthening our service setup.

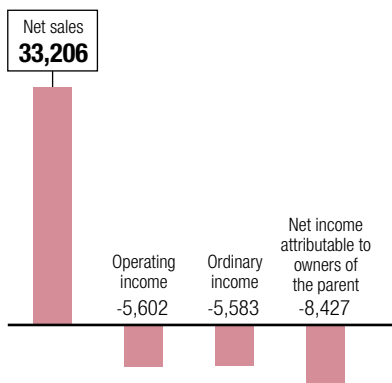
Regarding the “conversion to solution-based business,” we will endeavor to achieve the further market penetration of our yarnbank and APEXFiz services, concentrate on the development of new solutions capable of contributing to the increased added value, labor saving, and rationalization of customers' businesses, and propose supply-chain reforms for the apparel and fashion industry as a whole.

Financial Condition

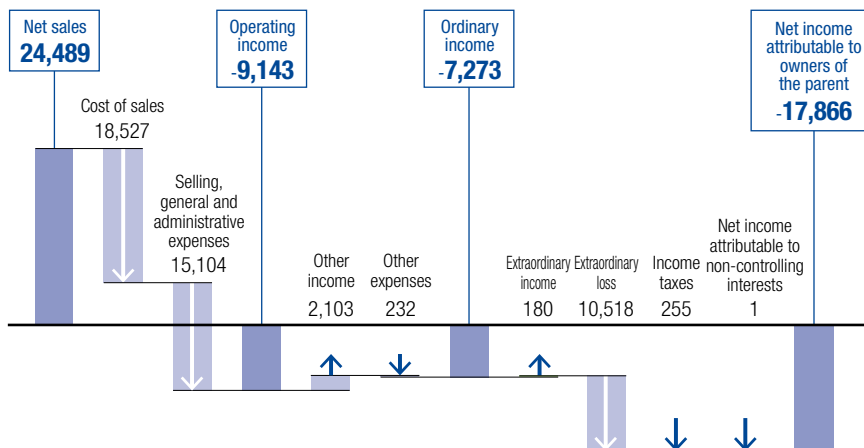
Statements of Income

(¥ Million)

Previous fiscal year
(April 1, 2019–March 31, 2020)



Fiscal year under review
(April 1, 2020–March 31, 2021)





Do you have a message for stakeholders?



We are making Group-wide efforts to address challenges based on the keywords of “reform” and “revival.”



Although the world economy remains uncertain due to the impact of COVID-19, signs of recovery can be seen in some countries, such as China and the United States. In the apparel and fashion industry too, production activities are resuming among Chinese makers of clothing, especially those geared toward domestic demand, and Italian users of luxury brands.

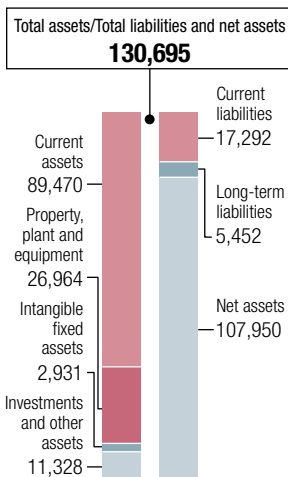
Going forward, together with economic recovery, one can expect reformist moves toward new business models aimed at breaking away from the status quo and emphasizing sustainability to gradually emerge around the world. We must not miss this golden opportunity. By conducting strong proposal activities to customers worldwide in accordance with the strategies of our medium-term management plan, I am sure that new chances for growth will definitely come our way.

The keywords of the new medium-term management plan are “reform” and “revival.” Each and every one of our employees will continue to make challenges with passion and spirit to build a new Shima Seiki Group from scratch. I look forward to the continued warm understanding and support of our stakeholders in this endeavor.

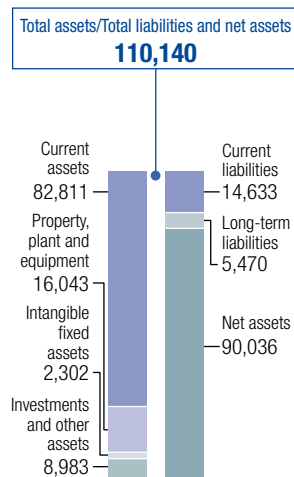
Balance Sheets

(¥ Million)

As of March 31, 2020



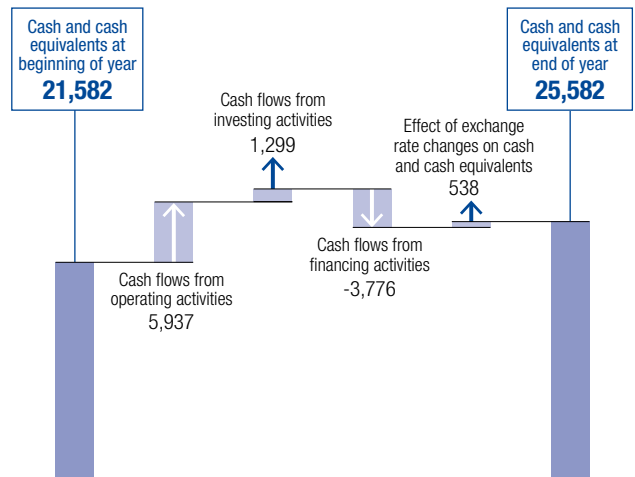
As of March 31, 2021



Statements of Cash Flows

(¥ Million)

Fiscal year under review



Medium-Term Management Plan

Review of the **Ever Onward 2020** (FY2018–2020) Medium-Term Management Plan

The business environment underwent drastic changes during the term of the Ever Onward 2020 Medium-Term Management Plan, which ended this fiscal year (FY2020), and results were significantly below targets.

Medium-Term Management Plan Results (FY 2020 Results)

As a result of slumping sales, net sales were down substantially, and operating losses were reported in two consecutive years (FY2019–2020).

(billion JPY)	FY2017 Result	FY2020 Result	Percent change 2017 to 2020 result	Original target of prev MMP	Percent change Target to 2020 result
Net sales	71.8	24.4	-66%	100.0	-76%
Operating income	14.9	-9.1	–	25.0	–
Ordinary income	15.5	-7.2	–	25.0	–
Net income	11.2	-17.8	–	18.0	–
ROE	9.9%	-18.1%	–	12%	–

During the period from FY2018 to FY2020, the term of the Ever Onward 2020 Medium-Term Management Plan, against a backdrop of disruption in the global economy, precipitated by trade friction between the U.S. and China, and heightened environmental awareness in the apparel and fashion industries, signs of controls on excessive production of goods and inventory quantities began to appear and other rapid changes in the external environment and industry needs occurred. Under these circumstances, the Shima Seiki Group was greatly affected including a major decline in sales of computerized knitting machines, which are its core business.

Furthermore, in the final year, the unprecedented spread of COVID-19 in the final year of the plan led to losses for the second consecutive fiscal year, following a loss in FY2019, and results were extremely adverse.

In addition to drastic changes in the external environment, we believe that a major factor was the inability of the Group to fully utilize its potential and address the issues facing the apparel and fashion industries. The recently-formulated Ever Onward 2023 Medium-Term Management Plan includes measures addressing these issues.

Solutions Announced during the Term of the Ever Onward 2020 Plan

yarnbank



Using the world's first yarn searching service that digitally integrates process from raw materials to planning, manufacturing, and sales, we propose structural reforms for the entire supply chain.

APEXFiz

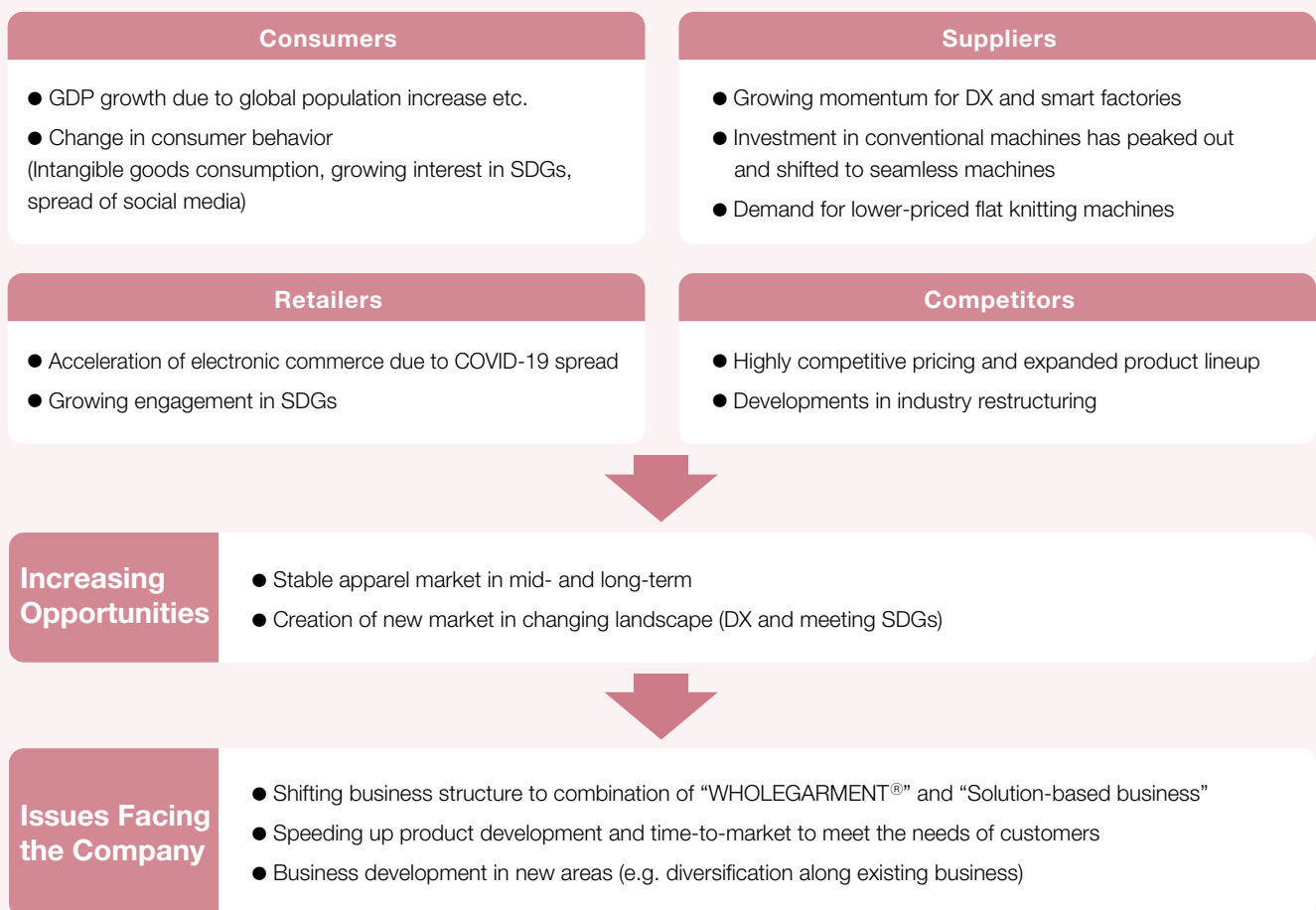


A design system subscription service, support for telecommuting and working from home. Options that meet customer needs are available from a varied lineup.

Environment Surrounding the Company and Issues Facing the Company

An explanation of the environment surrounding the Company assumed in the new Medium-Term Management Plan, opportunities that will be extracted from that environment, and the issues that we need to address in order to take advantage of those opportunities.

Environment Surrounding the Company



Responses to the COVID-19 Pandemic

Starting in 2020, COVID-19 spread throughout the world, and the Company too was greatly impacted.

In order to mitigate risk at the headquarters and factories, we put limits on visitors, stopped holding meetings, encouraged employees to work from home or use staggered commuting times, performed temperature checks when employees reported to work and required them to use sanitizer, strictly enforced a mask wearing rule, installed acrylic panels in employee cafeterias, and implemented a variety of other measures to prevent infection.

Moreover, we provided COVID-19 vaccines in the workplace for employees and their family members, including those of affiliated companies, from June to August 2021. We are making every effort to ensure the health of all stakeholders and provide reassurance to customers.



Ever Onward 2023

New Medium-Term Management Plan (FY2021–2023)

We formulated Ever Onward 2023, our new Medium-Term Management Plan, in order to address issues that the company is facing during the three-year period from FY2021 to FY2023. With “Reform” and “Revival” as its keywords, the plan seeks to create a flow of change throughout the industry over the coming three years and restore the company to profitability.

Corporate philosophy / Mission

Ever Onward — limitless progress

We strive to become an **indispensable company to the society** through sustainable business development.

We do this under the motto of “**Ever Onward**” with “**Love**”, “**Creativity**”, and “**Passion**” as our mantra.

Keywords

Reform and Revival

Corporate renaissance by transforming the mindset and speed of each and every employee

Our vision for where we stand in 10 years’ time

- Shima Seiki has evolved into a “**problem solving company**” that contributes to the growth of the fashion industry through our widely-adopted creative technology.
- Shima Seiki has evolved into a “**sensitivity- and information-based company**” that contributes to the growth of other industries by leveraging its strengths developed in the fashion industry.

Management Targets

	FY2017 Result	FY2020 Result	FY2023 Target	Percent change 2020 to 2023
Net sales	71.8	24.4	54.0	+121%
Operating income	14.9	-9.1	2.0	—
Ordinary income	15.5	-7.2	2.5	—
Net income	11.2	-17.8	2.0	—

Initiatives for the Realization of a Sustainable Society

Advancing our initiatives on mainly 9 issues Initiatives for 2030 target

Products Level	Company Level			
<p>9 INDUSTRY INNOVATION AND INFRASTRUCTURE Digitalization of fashion industry</p> <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION Reducing inventory loss of knitted products</p>	<p>5 GENDER EQUALITY Increasing the number of female managers</p> <p>8 DECENT WORK AND ECONOMIC GROWTH Increasing utilization rate of paid-leave</p>	<p>6 CLEAN WATER AND SANITATION Appropriate waste water treatment from factories</p> <p>11 SUSTAINABLE CITIES AND COMMUNITIES Reducing discharge amount of chemical waste</p>	<p>13 CLIMATE ACTION Reducing CO₂ emissions</p> <p>7 AFFORDABLE AND CLEAN ENERGY Increasing the usage rate of renewable energy</p>	<p>15 LIFE ON LAND Increasing the green space area ratio</p>

Investment Plan

Continuation of aggressive investment from mid- to long-term perspective

- ▶ Continuation of high-level R&D investment
- ▶ Advancement of automation for increased production capabilities
- ▶ Personnel training from company-wide perspective, investment in human resources from mid- to long-term perspective
- ▶ Setting investment credit limit of 2 billion JPY for reinforcing existing business and creation of new business
- ▶ Reinforcing environmental investment

Investment Results and Plan

(million JPY)

FY	2015	2016	2017	2018	2019	2020	2023 Plan
R&D	2,609	2,676	2,794	3,250	3,675	3,310	3,700
Equipment	2,093	3,435	3,843	4,347	3,693	1,264	4,500

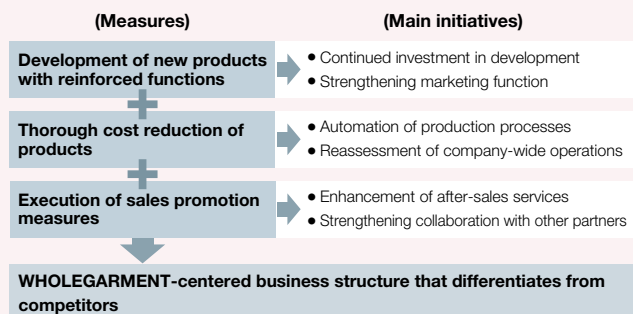
Market Trend and Priority Measures of Medium-Term Management Plan

Market Trend	Needs for new value-added creativity in fashion	Accelerated DX in the industry with environmental consideration in mind	Industry instability due to spread of COVID-19
Our Strength	Track record of WHOLEGARMENT business that enables us to differentiate from competitors	Broad product lineup and know-how that connects the industry supply chain	Financial strength that enables new business creation
Measures	Shifting core business from conventional machine to WHOLEGARMENT	Focusing on shifting to solution-based business	Executing aggressive investments for business diversification
Outcome	Establishment of absolute positioning in flat knitting industry	Expansion of business fields into entire fashion industry	Improvement of financial stability by business diversification

Priority Measures for Achieving the Four Targets

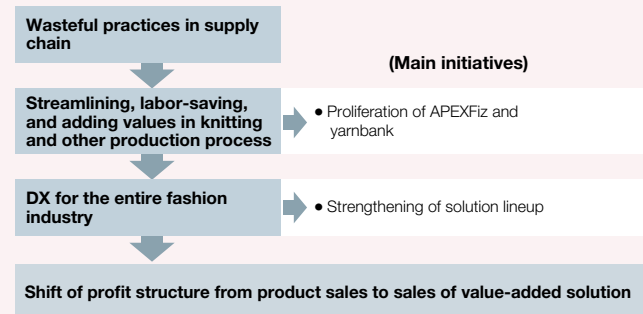
1 Strengthening WHOLEGARMENT business

Shift of core business structure from conventional machine to WHOLEGARMENT



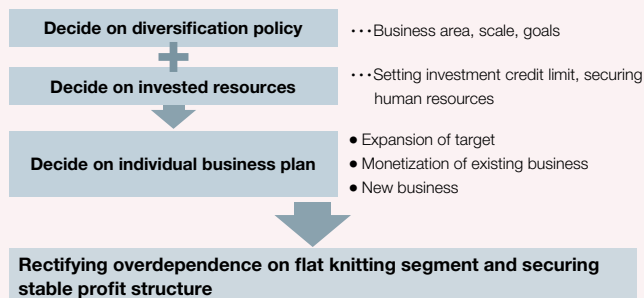
2 Conversion to solution-based business

Restructuring the supply chain for the entire fashion industry



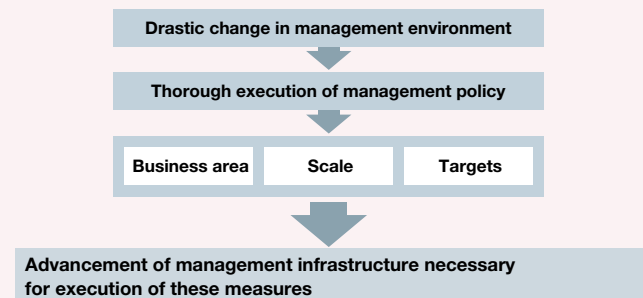
3 Advancing diversification with distinction

Speedy launch of new businesses that contribute to management stabilization



4 Restructuring management infrastructure in response to social change

Management structure that meets the requirements of post COVID-19



Shareholder returns

(1) Policy on profit return

Shima Seiki considers profit return to shareholders as 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.

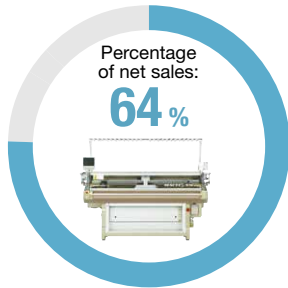
On this basis, we strive to allocate profits in a balanced manner, while maintaining the internal reserves for long-term investment in growth and future business expansion.

(2) Guidance on shareholder returns (three years from FY2021)

Consolidated payout target ratio of 30%

We strive to achieve surplus and execute consolidated payout target ratio of 30% for shareholder returns. We will also strive to increase capital efficiency through measures such as purchasing treasury stock in a timely and expeditious manner by taking into consideration such factors as our share price level, cash position, and market environment.

Overview and Outlook



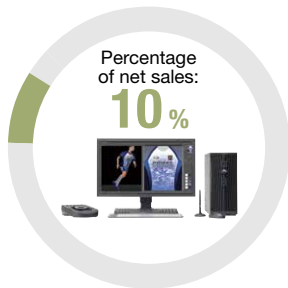
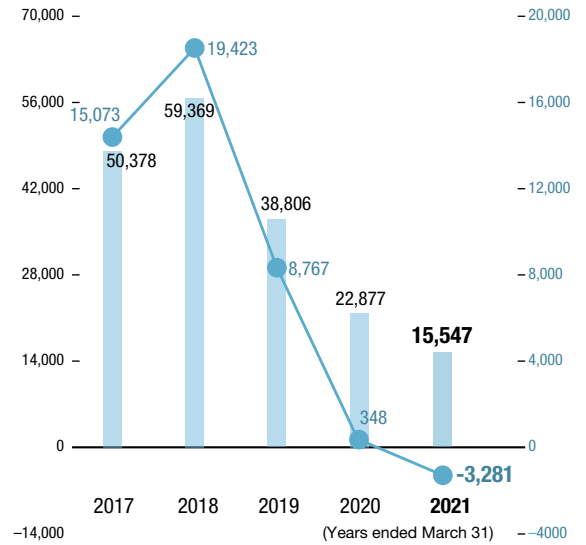
Flat Knitting Machine Segment

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 N.SRY®, which enables the production of a new knitted fabric with less elasticity; the N.SSR®, which offers superior cost performance; and the N.SVR®, which facilitates unprecedented patterns and designs including inlay knitting and shoe applications.

Net Sales/Operating Income

(¥ Million)

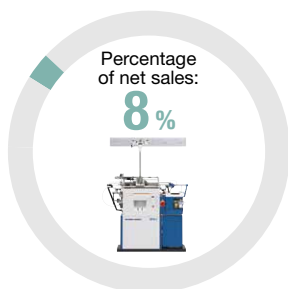
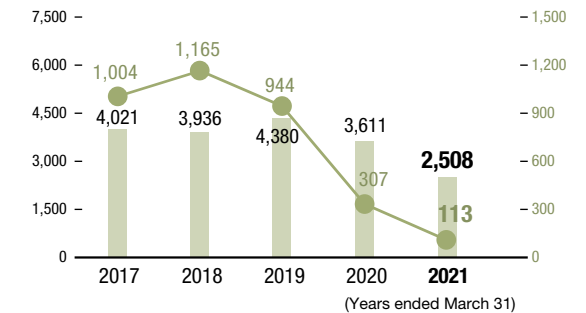
■ Net sales
● Operating income



Design System Segment

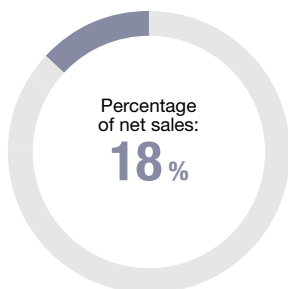
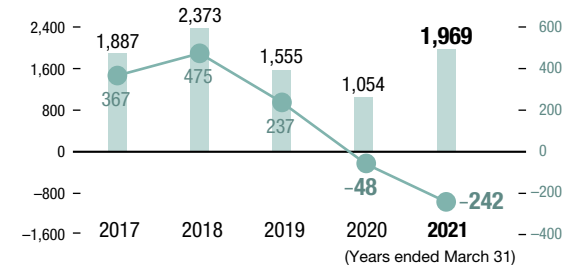
This segment provides design systems to support production in apparel and a variety of other industries.

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



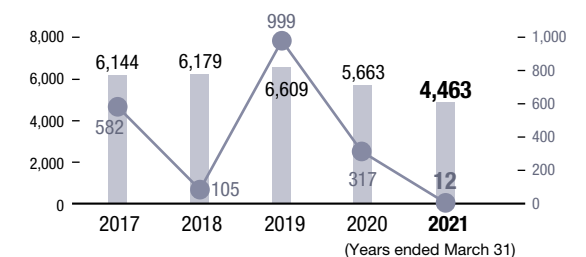
Glove and Sock Knitting Machine Segment

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



Other Business Segment

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



Overview of the Year under Review

In the fiscal year ended March 31, 2021, demand for clothing was sluggish in each country due to the impact of the global spread of COVID-19 (corona crisis). Sales activities were significantly restricted and new capital investments in markets around the world became significantly sluggish, leading to significant decrease in sales for both molded knitting machines and WHOLEGARMENT flat knitting machines.

In Asia, in recent years, OEM production of European and American apparel in Vietnam and Bangladesh, which were the main markets, has declined sharply and new capital investments have slowed down. In the second half of the fiscal year, demand in Bangladesh picked up a little, but price competition intensified. On the other hand, as compared to other regions, domestic consumption gradually recovered in the Chinese market as it quickly recovered from the effects of the corona crisis. Along with this, a certain number of orders for WHOLEGARMENT® flat knitting machines could be secured, mainly from specialty store retailer of private label apparel (SPA), which deal with high-value added products for domestic demand, but major manufacturers were generally cautious about capital investment, and could not cover the overall decline.

Consequently, net sales in the flat knitting machine segment were ¥15,547 million (down 32.0% year-on-year).

Regarding the APEX4 design system, shift in the production and distribution business model was proposed for each market utilizing 3D virtual sampling, but sales were sluggish in conjunction with the slump in sales of computerized flat knitting machines. There was also a significant decline in orders received for the P-CAM® automatic fabric cutting machines due to major restrictions on sales activities, among other things, in overseas markets that had shown increased sales in recent years.

Meanwhile, the APEXFiz subscription service for design systems, provided via the web was released in the second half of the fiscal year ended March 31, 2021.

Sales were sluggish in conjunction with the flat knitting machine segment, and net sales in the fiscal year under review were ¥2,508 million (down 30.5% year-on-year).

Both the number of units and the amount of capital increased significantly due to steady progress in capital investment from major users. Another positive factor was the increase in demand for gloves for gardening and outdoor use due to "nesting demand" triggered by the corona crisis. For these reasons, net sales in the fiscal year under review were ¥1,969 million (up 86.8% year-on-year).

In the second half of the fiscal year ended March 31, 2021, the company announced the yambank which can digitally link everything from raw materials to manufacturing and sales. However, due to a decline in factory utilization caused by the corona crisis, sales of maintenance parts became sluggish, and sales of woolen yarn also struggled due to the sluggish apparel industry as a whole. This resulted in net sales in the fiscal year under review being ¥4,463 million (down 21.2% year-on-year).

Outlook for the Next Fiscal Year

In the fiscal year ending March 31, 2022 as well, the corona crisis will continue its impact globally, but it is expected that the demand for apparel products will gradually recover with increase in vaccinations. Accordingly, capital investment is expected to recover to a certain extent in China as well as in major markets in Europe and Turkey in the fourth quarter when production activities for the 2022 fall and winter clothing start.

In the outlook for the next fiscal year for the flat knitting machine segment, we plan to develop proposal activities with greater focus on the WHOLEGARMENT flat knitting machines. The focus of these activities is demand that is oriented towards domestic demand in China. In June 2021, ITMA ASIA Exhibition (Asia's largest textile machinery exhibition) was held in Shanghai, and taking this as an opportunity, we aim to further stimulate demand and expand sales of WHOLEGARMENT® flat knitting machines for the domestic demand market in China. In addition, demand for WHOLEGARMENT flat knitting machines can be expected to expand in Italy, the fashion capital, as well, with focus on luxury goods. We aim to increase the percentage occupied by WHOLEGARMENT flat knitting machines in the business as a whole, by developing active proposal activities in accordance with markets in each country.

As business model shifts for the apparel and fashion industry are expected to evolve in the wake of the corona crisis, we aim to continue strengthening our proposals for products, services, and solutions that will greatly contribute to the realization of timely and optimal production in the fiscal year ending March 31, 2022.

With a steady increase in the number of contract users since the launch of APEXFiz, as well as an increase in trials at major apparel companies, we can expect expansion in the current fiscal year. By expanding our base through new services, we aim to achieve expansion in sales of the entire design system segment.

In the glove and sock knitting machine market, the impact of the corona crisis is relatively minor, and a stable demand can be expected in the next fiscal year as well, mainly from major users. We are committed to continued efforts in product improvement that accurately captures user needs, and aim to steadily secure demand.

Although market conditions continue to be severe, the yambank is steadily expanding along with the number of participating manufacturers and users. In addition, we are committed to continued efforts to expand earnings in the domain of after-sales service, post product sales, including providing customer-focused technical services.

WHOLEGARMENT® Flat Knitting Machines + Recycled Yarn = Eco-Friendly Clothing

As a general maker of outdoor clothing and equipment, Snow Peak Inc. places importance on harmony between people and nature. The company employs Shima Seiki's WHOLEGARMENT flat knitting machines in its Snow Peak Recycle Project to make clothing using recycled yarn from memory-filled tents and apparel.



Challenge of Restoring Humanity and Enhancing Life Value

Under the slogan of “embrace your nature,” Snow Peak has been attempting to restore the humanity of people’s lives that is being lost as a result of the accelerated evolution and growing complexity of society.

The initiative to address issues in the apparel domain was begun by Snow Peak President Lisa Yamai, who aims to create a presence that connects nature with people, and people with people, and to enhance the life value of everyone living on this planet while tackling the solution of social problems in all aspects of life (clothing, eating, housing, work, and play).

Sustainability Through Lifetime Guarantee

For more than three decades now Snow Peak has been giving a “lifetime guarantee” to all its products. The company believes that users should have an affection for their products, repair them if they break, and, when their roles are over, be able to transfer them to others who need them. True sustainability, it believes, lies in the resulting elimination of waste. Snow Peak hopes that by observing this stance toward the environment, customers will see the problem as their own and be inspired to take action themselves.

Snow Peak Recycle Project

This project started from the realization that something needed to be done to address the present situation in which, as a result of mass production and mass consumption, about one million tons of clothing is being thrown away in Japan every year.

Snow Peak retrieves used clothing and tents that are no longer required, restores them as a resource, and once again knits items from this recycled material using WHOLEGARMENT flat knitting machines. The project visualizes the entire process and deploys organic recycling that connects people’s feelings.

At present the HQ WHOLEGARMENT series knitted from recycled yarn consists of three items—long T-shirts, hoodies, and caps. The 100% polyester material is easy to dry and characterized by a cotton-like texture. Going forward,

Snow Peak is planning to further increase the number of WHOLEGARMENT items available.

After seeing the recycled products and learning about the production method, the reaction of customers in stores



Retrieval of used clothing, tents, etc.



Manufacture of recycled polyester using technology of JEPLAN, INC.



Snow Peak, Inc.

Founded: 1958 **Location:** Sanjo City, Niigata Prefecture, Japan

Business: Development, manufacture, and sale of outdoor equipment and apparel products



Greenery-embraced HQ

WHOLEGARMENT Machines Seen by More Than 10,000 People

As an open factory, the headquarters of Snow Peak enables members of the public to view clothing being knitted by WHOLEGARMENT flat knitting machines.

So far more than 10,000 people have visited the factory to participate in this valuable experience. Amazed visitors have made such comments as “A finished item of clothing appears just like that!” and “It’s like a 3D printer!”



has changed. Now that the previously concealed process has become clear, more people are showing an interest in recycling, and the retrieval of used clothing in stores is increasing too.



Recycled from resin to fiber as converted yarn



WHOLEGARMENT flat knitting machines produce products with no material waste.

Interview with Project Manager

Q: What was the motive for Snow Peak to introduce WHOLEGARMENT flat knitting machines?

A: The huge amount of clothing being thrown away is a problem of the whole apparel industry. In response to this issue, Snow Peak, together with JEPLAN, INC., is engaged in a retrieval service for used clothes, tents, sleeping bags, and so on.

In addition, in the area of camping equipment sold by Snow Peak, we produce our own campfire pits “Takibi Fire & Grill.” So, we were searching for a way in which we could do our own production in the apparel field as well to promote a project involving the extraction of polyester fiber from retrieved clothing, its conversion into a material, and then its remarketing as a product. Eventually we decided that the WHOLEGARMENT flat knitting machines were ideal for the purpose.

Q: Regarding clothing using recycled resources, other than the environmental aspect, can you tell us about the merits in terms of functionality and so on? And what measures do you take to ensure a balance with quality?

A: By exploiting the characteristics of polyester fiber, these products, while simple in composition, employ stitching to enable comfort in terms of physicality, breathability, and so on. And depending on use or parts, the fabric can be changed to realize comfort suited to movement. Regarding quality balance, while keeping a reasonable price range in mind, we constantly consult with our cooperative plant about structure and organization for wearability as both everyday and outdoor clothing and test samples beforehand for verification prior to commercialization.

Q: The sustainable manufacture of clothing has become a requirement around the world. Can you tell us how Snow Peak is tackling this issue?

A: Snow Peak has been aggressive from an early stage in converting product materials to recycled and biomass resources. Already we are using such resources in over half of our synthetic fiber products, and we plan to increase that ratio going forward. Also, since the main issue is not to create waste, we repeatedly check production volumes with each section and make efforts to produce the forecastable minimum necessary.

Continuing Development of Products that Lead to Innovation

Executive Officer and General Manager of Development Headquarters Yoshinori Shimasaki discusses research and development, which has created considerable value.



Executive Officer and General Manager of Development Headquarters

Yoshinori Shimasaki

What is the company's development policy?

We continuously tackle the challenges of developing new technologies and have adopted as our slogan "Strive to become an indispensable company to the society." We hope to enhance creativity and develop products and services that lead to major innovation in the fashion industry.

What is the relationship between R&D and the priority measures under the new medium-term management plan?

The Development Headquarters is working with "strengthening WHOLEGARMENT® business" and "conversion to solution-based business" as priority topics.

What specific actions are you taking, and what actions should be taken, to "strengthen WHOLEGARMENT business"?

In order to transform business from a focus on shaping machines to a focus on WHOLEGARMENT knitting machines, we are responding to diversifying needs and will achieve an order of magnitude improvement in production efficiency by eliminating knitting machine constraints, thereby differentiating ourselves from competitors.

Transforming the business model into a solutions business in order to reform supply chains throughout the fashion industry is a challenge. Can you tell us about the deployment of new solutions including APEXFiz and yarnbank?

We will start by using APEXFiz and yarnbank to thoroughly reduce excessive wasteful practices in the supply chain and seek to develop systems that can achieve digital transformation throughout the fashion industry. Developing solutions relating to products and services will lead to reform of the entire industry. We hope to build systems that can integrate the proposal, development, and sale of solutions in order to achieve this.

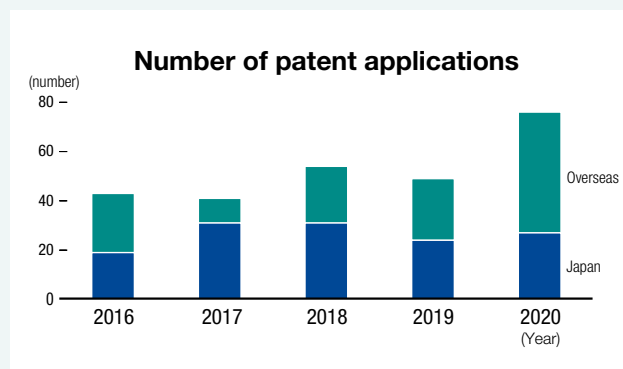
What is the policy on protecting intellectual property rights?

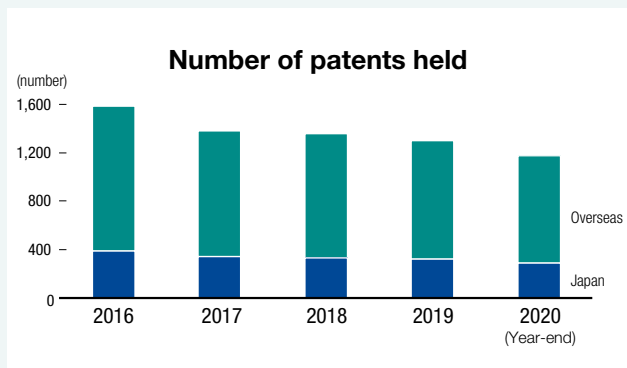
Under our intellectual property strategy, we hold numerous patents relating to a wide range of technologies including knitting technologies, mechanisms and control of flat knitting machines, and design systems.

In addition, we hold patents as well as copyrights to the knitting programs that we provide to customers through design systems and at user sites.

These intellectual property rights enable customers to use our products with confidence, and it is necessary that we respond appropriately to infringement of these rights by protecting them, for our benefit and the benefit of customers.

Intellectual property rights strategies including the protection of knitting programs will become even more important in the future, and we are focusing efforts on the development of systems to protect those rights.





Please explain about fostering human resources for development.

When new employees are first assigned, they spend approximately one year learning extensively about the use of the company's products starting with the fundamentals. We created training programs to enable employees to become proficient in the use of our products.

This training enables employees to experience first-hand the strengths and weaknesses of our products, and it is extremely valuable even after assignment to the Development Headquarters for understanding roles within each department as well as for career development. We also provide training opportunities to young development engineers and have a program that enables them to reconfirm the use of products.

Employees outside of the Development Headquarters undergo training on the Python programming language, and this creates an environment that makes it easier to tackle the challenges of development.

What is the cooperative structure between production departments and development departments?

I believe that the majority of problems that occur between production departments and development departments are due to a lack of communication and information between the two sides. The Development Headquarters conducts numerous new model briefings for production departments and repeated design reviews for each model until the production departments are satisfied. We have improved systems so that we can "visualize" suggestions and requests from both production and development sides and pass them to the production department.

What are the strengths of the development departments?

I believe that at Shima Seiki, our greatest strength is

the speed with which we can consistently carry out everything from planning and development to production, manufacturing, sales, and after-sales service.

What do you keep in mind concerning ESG and the SDGs when conducting development?

The Development Headquarters considers environmental problems and decarbonization starting in the development stage.

The APEX-centered WHOLEGARMENT flat knitting machine achieves the "five right things": right time, right product, right quantity, right place, and right price. We believe that this will reduce the amount of unsold and discarded clothing, which in turn will lead to a reduction in environmental impact and to decarbonization. Moreover, we plan to undertake ESG and SDGs initiatives using APEXFiz, yarnbank, and future solutions.

In addition, we have been able to reduce the time required for prototyping by about one-third through repeated design reviews in the process of developing products. What previously required many iterations of prototyping can now be handled with a minimum of prototyping, and waste in prototyping can be thoroughly eliminated.

Please tell us about new workstyles in development departments.

Based on our experience responding to COVID-19, we felt that it was necessary to consider expanding staggered working hours and ideal means of working from home. Also, innovations are needed to make working from home more efficient.

There is a tendency for outstanding programmers to concentrate in the Tokyo Metropolitan Region, and we see telecommuting as an opportunity for companies in rural areas that want to recruit outstanding human resources. The Development Headquarters hopes to reinforce its efforts in this regard in the future.



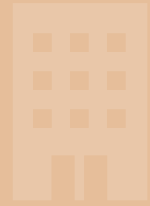
ENVIRONMENT



SOCIAL



GOVERNANCE



Thoughts about ESG

Shima Seiki's Thoughts about ESG

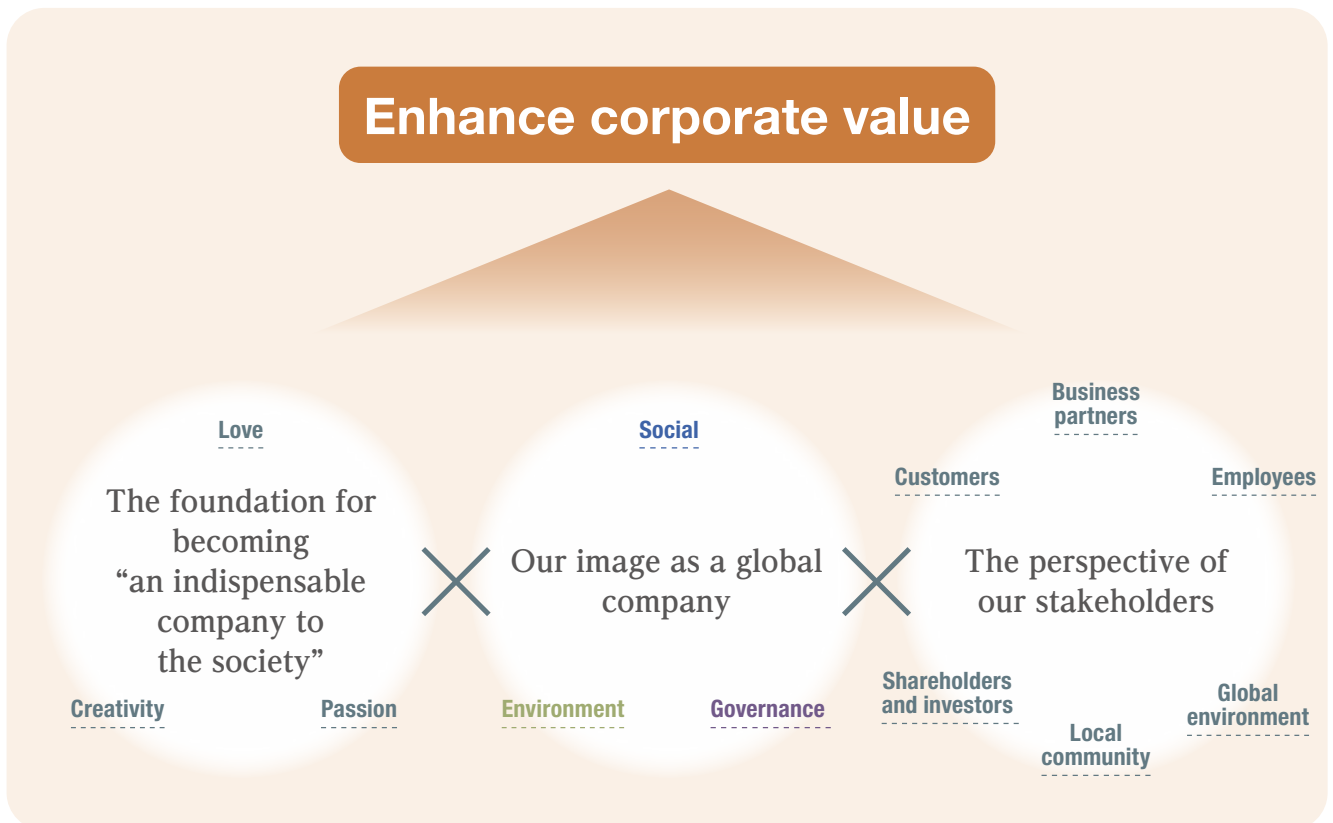
In issuing this Integrated Report, we explain Shima Seiki's approach to ESG.



We believe that the motto of “Love,” “Creativity,” and “Passion” is important for the sustainable development of our business, and constitutes the cornerstone for becoming “an indispensable company to the society.”

This expresses our aim of “contributing to society through our creative craftsmanship which is friendly to both people and the environment, and through love for our work, people, country, community and the earth.” It expresses our approach of creating world’s firsts through our “Passion” for achieving things since our foundation.

Based on this motto, we aim to fulfill our corporate responsibilities, from the perspective of our stakeholders, including building our image as a global company (Governance), contributing to a sustainable society (Social), and considering the global environment (Environment), and strive to enhance our corporate value.

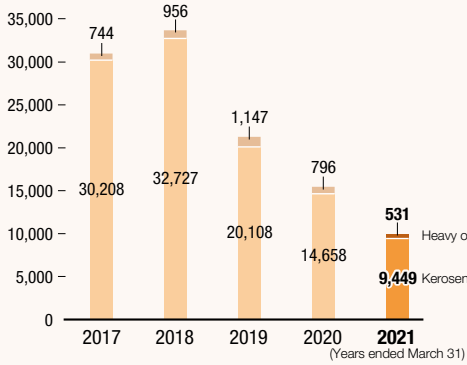


Aiming for a Sustainable Society

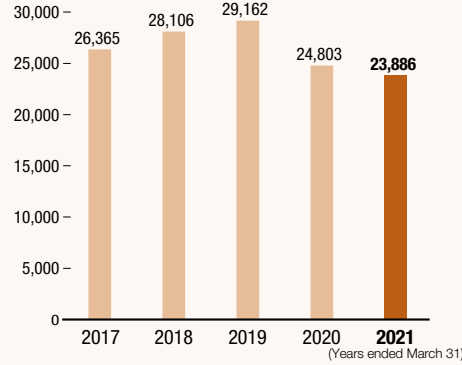
Environment

(Non-consolidated unless otherwise stated.)

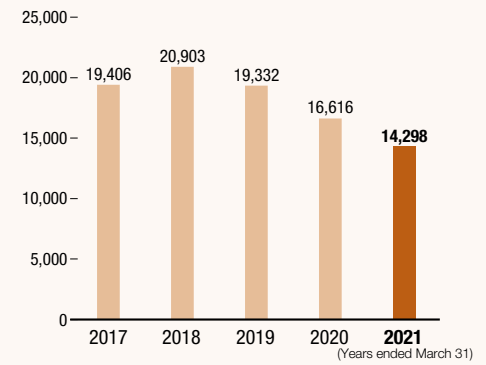
Fuel Consumption (L)



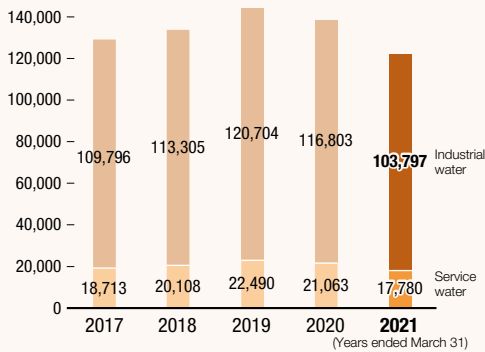
Gas Consumption (LP Gas) (kg)



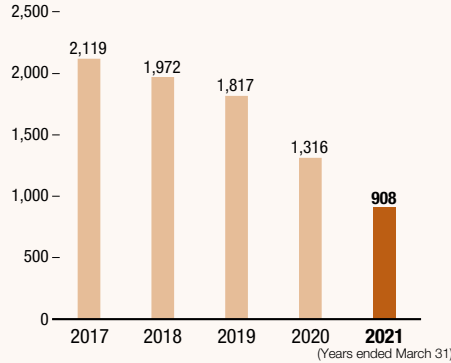
Electricity Consumption (kwh)



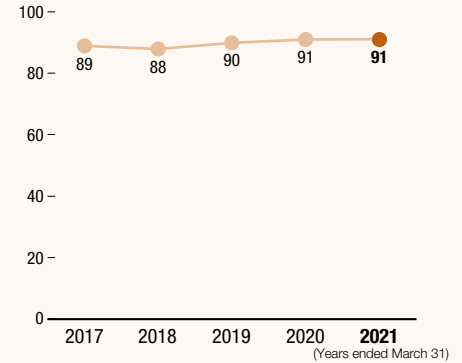
Water Consumption (Service Water, Industrial Water) (m³)



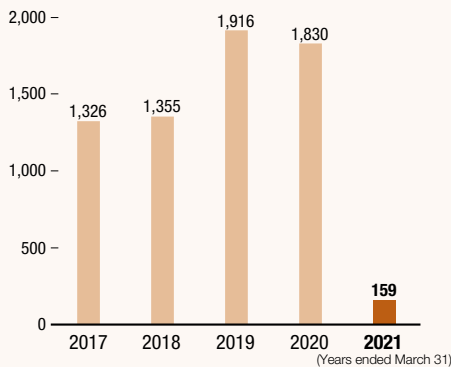
Waste Emission Volume (t)



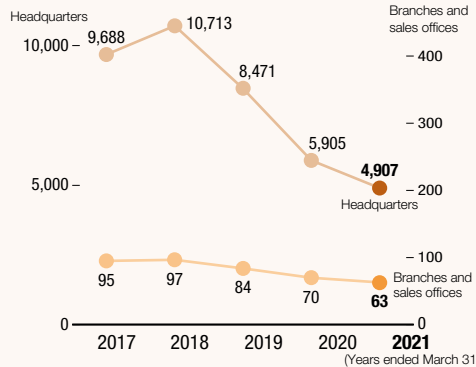
Waste Recycling Rate (%)



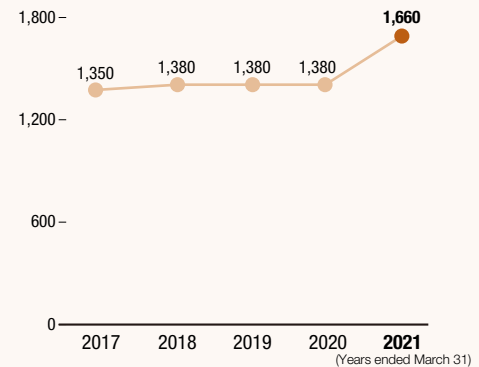
Waste Emission Volume Covered by the PRTR (Pollutant Release and Transfer Register) Act (kg)



Greenhouse Gas Emission Volume (t)



Photovoltaic Power Generation Capacity (kw)

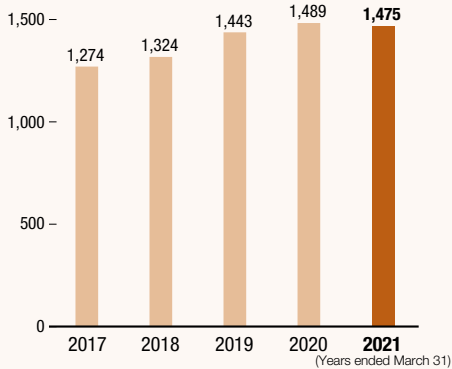


*Because there were no emissions of targeted substances in the fiscal year ended March 31, 2021, the amount declined significantly.

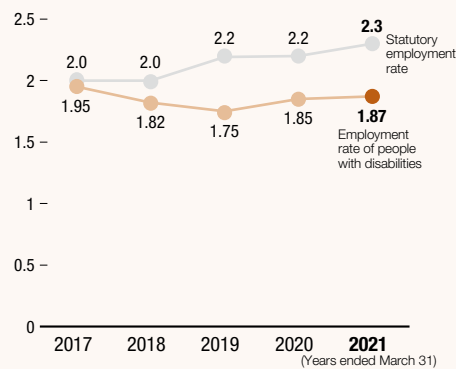
Social and Governance

(Non-consolidated unless otherwise stated.)

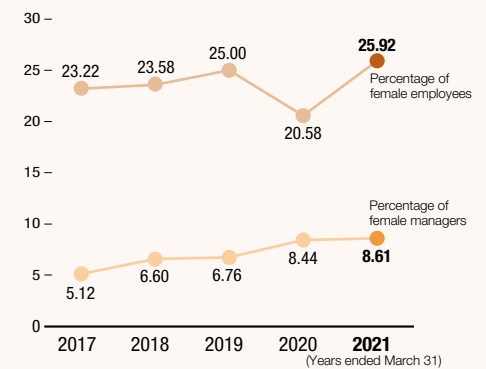
Employees (Number of People)



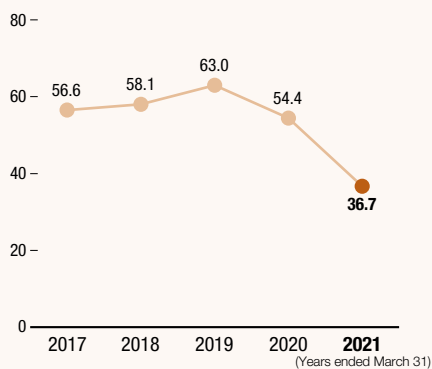
Employment Rate of People with Disabilities (Domestic Group) (%)



Percentage of Female Employees and Female Managers (%)

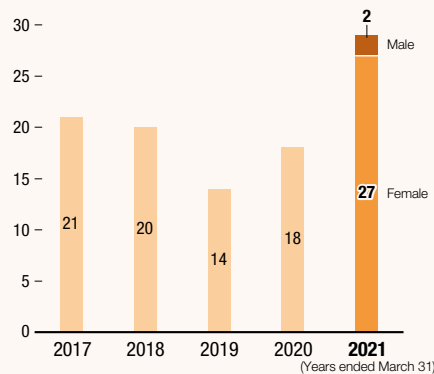


Rate of Paid Leave Acquisition (%)

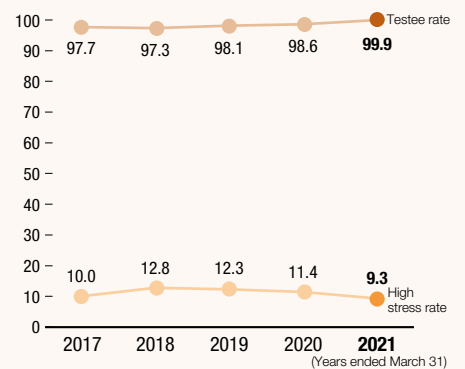


*Due to the impact of the Covid-19 pandemic, the number of operating days declined in the fiscal year ended March 31, 2021, and the paid leave acquisition rate dropped significantly.

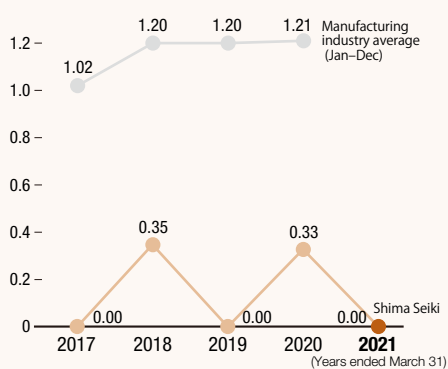
Number of Employees Taking Childcare Leave (by Gender) (Number of People)



Stress Check Testee Rate and High Stress Rate (%)

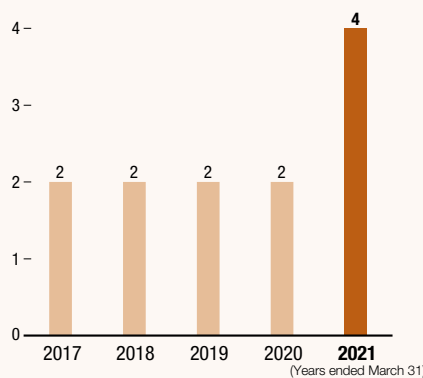


Frequency Rate of Accidents Resulting in Lost Work Time (One Day or More)

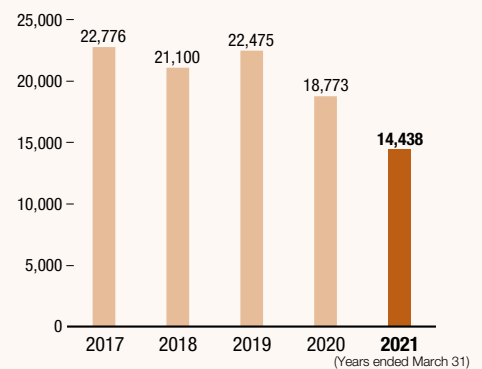


*The manufacturing industry average for the fiscal year ended March 31, 2021 has not been announced yet.

Outside Directors (Number of People)



Knit Museum Visitors (Number of People)



*The number of visitors declined in the fiscal year ended March 31, 2021 due to the impact of restrictions on going out amid the Covid-19 pandemic.

Environmental Initiatives

— Good Products from a Good Environment

When founder Masahiro Shima made his first overseas trip and went to Switzerland in 1968, he encountered a factory in the midst of a forest. He was fascinated by this wonderful environment, and from this, the concept of “good products come from a good environment” was created.

Fundamental Quality and Environment Policies

In accordance with its corporate motto, Ever Onward—Limitless Progress, Shima Seiki demonstrates its creative abilities by focusing on the development and provision of appealing products and services that anticipate user needs. The company endeavors to enhance product quality and raise customer satisfaction based on the Shima Seiki spirit: delivering products with the highest functionality at economical prices.

In line with this, Shima Seiki contributes to preservation of the environment and fulfills its social responsibilities as a global enterprise by promoting people-friendly and earth-friendly manufacturing and developing and providing environmentally-conscious products.

To this end, the president and all other personnel keep in mind the 10 Product Development Concepts at all times and actively strive to systematically and efficiently operate quality and environmental management systems and continuously improve their effectiveness.

Environmental Conduct Guidelines

- ▶ Promote green factories and take action to manufacture products that take into consideration the local environment and community
- ▶ Contribute to environmental preservation in user industries through the development and provision of environmentally-conscious products
- ▶ Effectively use resources, and promote reduction and reuse of waste and the use of renewable energy
- ▶ Strive to understand information on chemical substances in raw materials and make efforts to reduce environmental impact and prevent pollution from chemical substances in products
- ▶ Comply with the legal requirements of national and local governments and respond to the demands of customers, local communities, and other stakeholders
- ▶ Provide information internally so that all employees understand and follow the Fundamental Environmental Policy and Environmental Conduct Guidelines
- ▶ Set environmental targets for each department and perform target management so that the Fundamental Environmental Policy and Environmental Conduct Guidelines are complied with
- ▶ When performing evaluations of environmental management systems, confirm the appropriateness and need for revision of the Fundamental Environmental Policy and Environmental Conduct Guidelines and determine the details of the policy and guidelines so that the direction of our business is in accordance with them

- ▶ Publicly announce the Fundamental Environmental Policy and Environmental Conduct Guidelines

Environmental Management

We acquired certification under ISO 14001, an environmental management system, for all corporate operations across all products we design, manufacture, and sell.

Management indicators include reductions of various environmental impacts, factory greening efforts, and the promotion of renewable energy usage as well as the provision of WHOLEGARMENT® flat knitting machines and other environmentally-conscious products. We will contribute to global environmental conservation through our business activities.

Shift to Renewable Energy

Decarbonization efforts are underway in countries around the world. Shima Seiki also plans to make a full-scale effort to achieve carbon neutrality (effectively zero emissions of greenhouse gases) by 2050.

We were among the first to use renewable energy and installed large-scale photovoltaic power generating systems at each plant starting in 2002. Today, the Group operates photovoltaic power generating systems with a output of approximately 1,660 kW at the headquarters factory, and we plan to expand the ratio of renewable energy even further in the future and take additional action for the creation of a sustainable society.

In FY2020, we increased photovoltaic power generating facilities by approximately 20% and generated approximately 1,361,000 kWh of electric power (equivalent to the power consumption of 314 general households) over the course of the year.



Electric Power

We are working to reduce electric power usage at the headquarters factory by eliminating wasteful power consumption, converting lighting to LEDs, and systematically updating outdated equipment including air conditioning equipment. In FY2020, electric power

consumption was down 13.9% compared to the previous year.

Water Resources and Wastewater Treatment

As increasing attention is focused on issues of abnormal weather, we are taking measures to reduce use of water resources, and in FY2020, we cut water use by 11.8% compared to the previous year.

The headquarters factory is in a region subject to application of the Law concerning Special Measures for Conservation of the Environment of the Seto Inland Sea, and in 2019, we updated wastewater treatment facilities in order to maintain strict wastewater standards under the Water Pollution Control Law. These facilities began full-scale operation in FY2020 and with the increase in processing capacity compared to the earlier facilities, we have been able to maintain wastewater from the headquarters site even more clear.



Reduction and Recycling of Waste from Factory

We are taking measures to reduce and recycle waste generated in production activities at the headquarters factory.

In FY2020, waste volume decreased 27.6% year-on-year, in part due to a decline in production volume. Of the waste produced at the headquarters factory, 91% is recycled.

Appropriate Disposal of End-Of-Life Products

When we sell products, if we collect as trade-ins our own products that were previously used, we sort the metals, APEX monitors, plastics, and other components of the machinery for each part and deliver them to partner companies. The bulk of these materials are used as recycled resources, and those items that are disposed of in landfills are properly processed.

Reduction of Packaging Materials

Through collaboration and cooperation with partner companies, we are simplifying packaging by reducing the amount of packaging materials used in shipping and making them more compact and lightweight while maintaining product safety. We

have also made the steel skids for compact, lightweight flat knitting machines smaller and lighter, improving container loading efficiency.

Decreasing Paper Use and Promoting a Shift to Electronics

We are making a companywide effort to shift toward the electronic sharing of information. We are transitioning from paper to electronic document storage and reducing the amount of paper we distribute by using monitors and other electronic equipment, making meetings more efficient. In addition, we are moving to data-based process management in our production divisions and taking other measures to reduce the amount of paper we use internally.

When we do use paper, we are adopting methods that reduce environmental impact, such as employing innovative printing methods and using recycled paper.

Eliminating Plastic from Paper Bags

In response to growing concerns regarding the impact of waste plastic on Marine ecosystems, we eliminated plastic from the paper bags provided to customers starting in August 2019.

Factory Greening

Our belief that “good products come from a good environment” is expressed through our measures to make the areas around the factory more green. We have been involved in making areas green since we relocated.

We have made approximately 30% of the site a green area, planting approximately 12,000 trees, exceeding the standards of the Factory Location Act and contributing to CO₂ reduction. We have also provided a portion of the plant site as walkways to create an environment where local residents can enjoy the trees.

In recognition of these comprehensive factory greening efforts and our contribution to the community, we received the 2016 Prime Minister’s Award for Contributions to Greening Efforts.



Social Initiatives

— To Become an Indispensable Company to Society

Since the company's foundation, Shima Seiki has moved forward with many stakeholders. We have always believed that conducting manufacturing from the standpoint of the other party will lead to us fulfilling our social responsibility.

Interaction with Employees

[Health & Safety and Disaster Prevention Initiatives]

We support the creation of safe and efficient working environments through monthly meetings of the Health and Safety Committee and the Disaster Prevention Committee and implementing employee safety compliance, health promotion, regular internal inspections by each committee, formulation and review of business continuity plans (BCP), and other measures.

[Employee Work Style Reforms]

We encourage employees to take childcare leave, and in FY2020 the number of employees taking leave including male employees increased substantially, from 18 in the previous year to 29.

We have also made it mandatory for employees to take five days of annual paid leave and introduced a program for paid leave to be taken in hourly units to make it even easier for employees to take leave. We are implementing work style reforms including encouraging employees to work from home.

[In-House Nursery School Established]

We established Shima Kids' Land, an in-house nursery school at the Head Office, in 2017. This creates an environment where employees with children can focus on their work with reassurance and supports skill development and career enhancement through long-term employment. As of March 2021, a cumulative total of 124 children of employees has made use of this program.

Interaction with Shareholders and Investors

[General Meeting of Shareholders]

Despite the spread of COVID-19, we held the General Meeting of Shareholders while taking comprehensive measures to prevent infection. As a result of the use of electronic voting, shareholders were able to exercise their voting rights without impediment.

[Results Briefings]

Due to the spread of COVID-19, we held results briefings for institutional investors online. The briefings were attended by the president and the director in charge of accounting and finance and included explanations of results forecasts and our medium- to long-term management vision. The briefings also serve as forms for us to listen to the opinions of institutional investors through question-and-answer sessions.

[Information Exchanges with Japanese and Overseas Investors]

In response to the spread of COVID-19, we have been engaging in dialogue with Japanese and overseas investors by participating in online conferences held by securities companies.

Interaction with Customers

[Quality Management]

In 2002, we received ISO 9001 certification for Design and Manufacturing of Apparel Design Systems, and we strive to provide products with ever better quality to customers.

[Protection of Intellectual Property Rights]

In addition to acquiring patent rights relating to our products, we have acquired patent relating to the knitting methods of knitting machines for the purpose of protecting products manufactured by customers and protect our intellectual property rights in the apparel and fashion industry.

[Formulation of Business Continuity Plans (BCP)]

We have implemented seismic countermeasures at factory buildings in anticipation of an earthquake in the Tonankai/Nankai area and established a system to confirm employee safety. In the event a real disaster were to occur, we would establish a Crisis Management Headquarters based on BCP to swiftly resume business.

Interaction with Suppliers

When procuring parts and materials, we make a thorough effort to ensure that suppliers have appropriate standards. 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.

[Fundamental Procurement Policies]

When procuring raw materials and components from suppliers, we do so in accordance with the following fundamental policies.

- ▶ Compliance with laws and regulations
- ▶ Fair and equitable transactions
- ▶ Establishment of win-win relationships with suppliers
- ▶ Collaboration with suppliers on cost and technology

[Responses to Laws and Regulations]

In order to comply with laws and regulations relating to chemical substances including the RoHS Directive and obtain national and regional certifications, we implement strict measures to stabilize the quality of procured parts and obtain information on chemical substances in products.

[Multi-Party Procurement]

Following the Great East Japan Earthquake, we conducted a review of our parts and material suppliers and have been practicing multi-party procurement whereby each material is procured from two or more suppliers. By doing so, we have established a system that will enable us to stably secure parts and materials even in the event of an emergency.

Interaction with Local Communities

[Participation in *Kigyo no Mori* Program]

In 2019, Shima Seiki signed agreements with Wakayama Prefecture and local governments to participate in the prefecture's *Kigyo no Mori* (corporate forest) program. In accordance with those agreements, we conducted "Shima Seiki Amano no Satoyama" in Katsuragi Town, Wakayama Prefecture. In the winter of 2020, we planted trees, and we plan to engage in additional activities in the future.



[Participation in Wakayama City's SDGs Promotion Network]

Wakayama City, where the headquarters is located, was selected as an SDGs Future City in 2019. As a part of this effort, the city launched a platform to promote efforts to achieve the SDGs in the region with the aim of encouraging the activities of companies and organizations working on the SDGs.

[Helping to Create a City of Fine Views and Supporting Volunteer Activities (Cleanup Programs, etc.)]

We concentrate on the developing the environment surrounding our headquarters, promoting efforts to bury utility lines along roads surrounding our headquarters and providing some areas as walkways. In addition, employees participate in volunteer cleanup programs in the vicinity of Wakayama Castle and work to keep local historic sites clean with the aim of raising awareness regarding environmental preservation.

ET Software Design Participation in Robot Contest

We have positioned fostering software development human resources as an issue to be addressed and are accelerating the solution business and computerizing internal operations. As a part of these efforts, young employees participate in the Embedded Technology Software Design Robot Contest (ET Robot Contest). We interviewed Chief Advisor Maeda of the System Manufacturing Technology Division, who serves as an advisor for the contest.

▶To begin, please explain about the ET Robot Contest.

It is a robot contest that involves competition concerning design technology for embedded programs. Each year, approximately 2,000 university students and company employees on about 300 teams participate. An embedded program is a program that integrates a computer system with various machines to control the movement of the machines.

▶How did participation in the robot contest start?

I learned about the contest while looking into education for young employees, and I thought that participating would lead to employee growth.

In the ET Robot Contest, the robots are not operated by remote control and the like, embedded programs enable the robots to start moving simply by pressing a start button, so we determined that the contest is in line with the era's emphasis on software.

▶What is gained from participating in the ET Robot Contest?

In the contest, participants learn about the positioning of motors and the fundamentals of control technologies including sensor signal processing and create the programs that operate the robot in the C programming language. Participating in the contest helps employees develop the ability to think logically and grasp the essence of things and helps them grow into people who can give accurate reports and instructions, which is the basis of all work. In addition, the use of software will increase with the spread of the Internet of Things (IoT) in the future, and experience in programming will be useful for improving work efficiency and systemization.

▶Please let us know what the participants have done since then.

Quite a few of the participants had no experience with software, and the contest was their first contact with programming, but after participating, there were some employees who became involved in developing business software. I hope that participants in the ET Robot Contest will be able to use the experience in their work in the future.

Corporate Governance Interview

We asked Director Takashi Nanki about corporate governance, an issue in which shareholders and investors are showing increasing interest.

The first question relates to the internal control system, which is the foundation of corporate governance. What problems concern you here?

In addition to the risk of product defects, we are concerned about such issues as risks relating to compliance, the occurrence of harassment and scandals, and insider trading. In particular, we think that the internal control system relating to financial reporting is important, so we operate in coordination with accounting auditors.

How does the internal whistleblower helpline service operate?

The helpline enables people to be connected not only to our internal service but directly to external lawyers as well.

What about links with Group companies?

The Internal Auditing Division conducts the auditing of Group companies and submits auditing reports to the representative director. In addition, we indirectly manage sites by having the Board of Directors appoint directors of Group companies. Representatives of Group companies and our headquarters directors constantly share information on marketing strategies and technologies, so cohesive Group management is carried out. Group companies comprise various business types, however, so there are still many issues that need to be solved.

The next question concerns the supervision of management. Last year Shima Seiki switched to being a company with an Audit and Supervisory Committee. Do you feel that the committee has been effective?

As directors who are members of the Audit and Supervisory Committee, by exercising their right to vote in the Board of Directors, their statements have become weightier than before. The supervisory function has been strengthened.

There are four outside directors, including members of the Audit and Supervisory Committee. What are their roles?

They actively make comments in meetings of the Board of Directors, such as “In-depth discussions are needed on management strategy and human resource strategy based on the experiences and achievements of individuals,” and amendments are often made to agenda items accordingly. There are actual cases of ideas from outside directors going on to implementation and internal regulations being revised on the basis of their remarks.



Director, **Takashi Nanki**

What is the composition of the Nominating and Remuneration Committee?

There are four members: Yoshio Ichiryu and Rieko Zamma, who are independent outside directors; President Mitsuhiro Shima, who is the representative director; and Shosaku Kitagawa, who is the director in charge of the General Affairs and Personnel Division. Ichiryu serves as the chair.

Is the General Meeting of Shareholders lively?

Every year shareholders ask penetrating questions and state their opinions, and the directors in charge of the matter give sincere replies. The General Meeting of Shareholders has a tense atmosphere.

The Corporate Governance Code has been revised. What do you think are the issues here?

I think the issues to be addressed here are diversity, including the promotion of women’s participation and the setting of targets for the appointment of women and foreigners to managerial posts, and sustainability, such as the disclosure of information on climate change, including efforts in the supply chain.

Finally, what do you think is important for corporate governance?

There are rumors about company scandals almost every day. I think it is important for us directors, of course, to raise our awareness of governance and also for employees to go about their daily work with a heightened consciousness of their position as members of a team.

Governance Initiatives — Responding Flexibly to Social Changes

Shima Seiki aims to increase the trust of shareholders and other stakeholders, achieve sustained growth, and enhance medium-to long-term corporate value. For this purpose, we position the soundness, transparency, and efficiency of management as most important managerial priorities and endeavor to improve our corporate governance.

Governance Structure

Board of Directors

The Board of Directors consists of 11 people, including 4 outside directors, and, as a general rule, meets at least once each month, flexibly as needed, to deliberate on matters stipulated by law and important management matters, determine management policies, and supervise the execution of business.

Audit and Supervisory Committee

The Audit and Supervisory Committee consists of three members, including two outside directors who have specialized knowledge in legal affairs, finance, and accounting. It coordinates with the Internal Auditing Division as necessary.

Internal Auditing Division

The Internal Auditing Division conducts internal audits as well as internal control audits that cover the status of compliance and risk management and financial reporting.

Accounting Audits

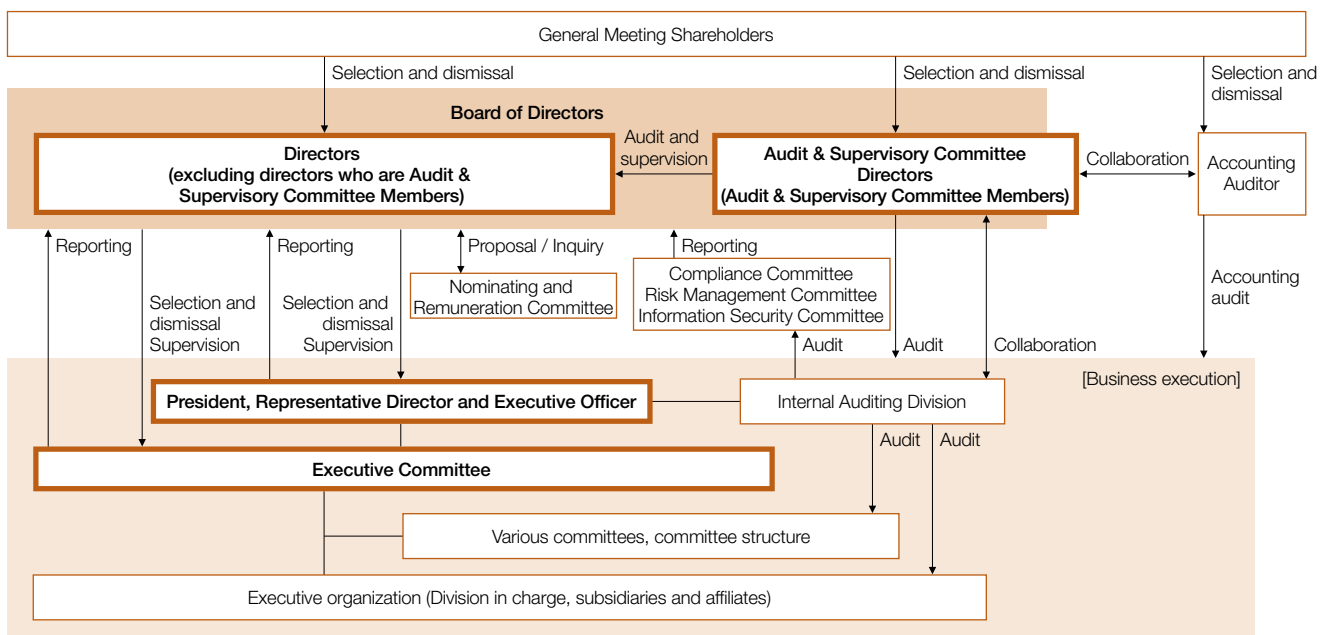
The Company has appointed Ohtemae Audit Corporation as its accounting auditor. Regular accounting audits and internal

control audits of the Company by the auditing firm enhance the effectiveness of the audit system.

Governance Reforms

- 2004: Formulation of the Disclosure Policy
- 2006: Formulation of the Basic Policies Related to Improvement of the Internal Control System
 - Formulation of the Shima Seiki Group Code of Conduct
 - Formulation of the Internal Reporting Regulations
- 2008: Formulation of the Basic Policies on the Internal Control over Financial Reporting
- 2014: Appointment of an outside director
- 2015: Formulation of the “Ever Onward 2017” medium-term management plan
- 2018: Formulation of the “Ever Onward 2020” medium-term management plan
 - Introduction of an executive officer system
 - Establishment of the Nominating and Remuneration Committee
- 2020: Transition to a company with an Audit and Supervisory Committee
- 2021: Formulation of the Corporate Governance Basic Policy
 - Formulation of the “Ever Onward 2023” medium-term management plan

Corporate Governance Organization



Governance

Strategic Shareholdings

Shima Seiki retains shares of business partners, etc. 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.

Internal Control System

Shima Seiki is promoting initiatives on the basis of our recognition that the building of an internal control system is an essential condition for not simply compliance with laws and regulations but also, through revision of our current operations as a whole and the building of a sturdy corporate structure, the realization of our corporate philosophy and targets. We have formulated the Basic Policies Related to Improvement of the Internal Control System and conduct pertinent reviews of the content in consideration of such factors as legal revisions, the progress of initiatives, and changes in institutional design.

Furthermore, as part of our efforts to ensure that internal control functions effectively, we have established the Compliance Committee, Risk Management Committee, and Information Security Committee, all of which are active. Regarding internal control over financial reporting, from the perspective of protecting investors, we have constructed a setup to rationally ensure the reliability of financial reporting and to promote fair and impartial disclosure.

Risk Management

Shima Seiki has identified risks that occur, or may occur in the future, relating to our operations as a whole. Regarding the prevention and management of these identified risks, we have stipulated risk management regulations as a basic setup and framework to make an appropriate response. With these regulations as our supreme model, we strive to conduct corporate operations properly and smoothly.

The Risk Management Committee specifies risks that should be subject to Group-wide management and, after analysis, considers countermeasures and builds a setup to continuously manage the risks. In addition, in the event of an unforeseen situation occurring, the committee has established a risk management setup to make a swift and appropriate

response, prevent the damage from expanding, and minimize it.

▶Response to an imagined disaster

Considering the impact of a large-scale earthquake to be an important risk, Shima Seiki has formulated a business continuity plan (BCP).

Our basic policy is to fulfill the company's social responsibility and ensure social trust in the company. Accordingly, we prioritize the safety of employees and stakeholders, and if a problem were to occur that should be disclosed to customers, we would do so and make an appropriate response.

▶Disaster Prevention Setup

Shima Seiki has established the Disaster Prevention Committee to make advance preparations and conduct educational activities. The committee strives to strengthen the disaster prevention setup so that, in the event of an emergency, there would be a swift transition from initial response to the resumption of production.

Headed by the president, the Crisis Management Headquarters gathers information and conducts Group-wide decision making accordingly.

▶Disaster Prevention Drills

Shima Seiki strengthens its readiness by implementing disaster prevention drills every year with the aim of confirming initial response, evacuation, and relief. These annual drills assume that a large-scale earthquake has struck and a tsunami warning issued. As a result, in the event of an emergency, employees would be able to take appropriate action themselves without waiting for instructions.

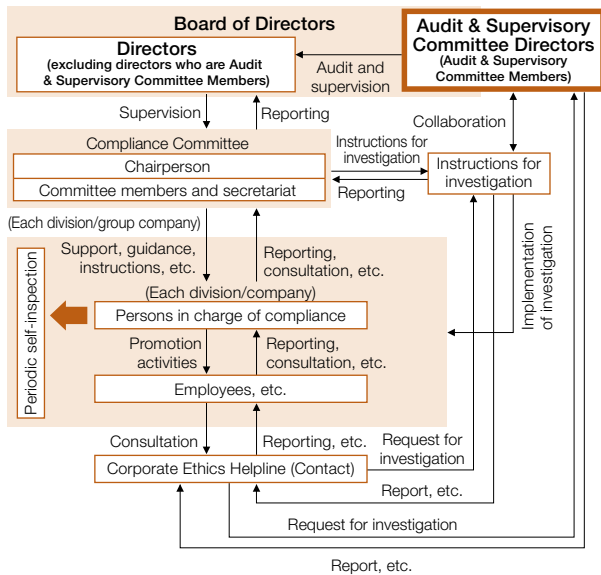
Furthermore, we have made arrangements to swiftly confirm the safety of employees and their families and conduct safety confirmation drills once every three months.

Compliance Structure

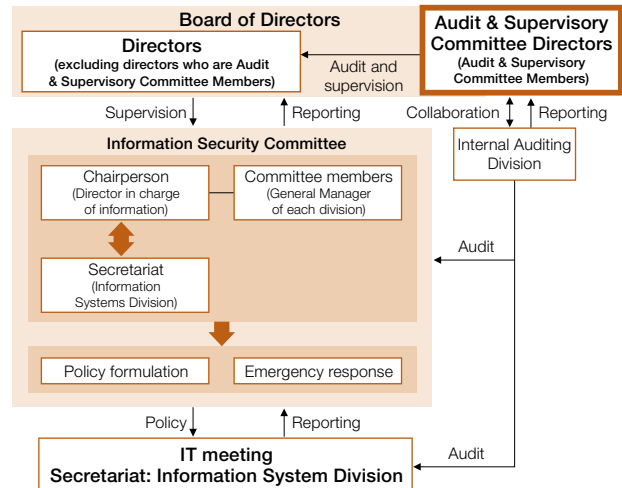
The Shima Seiki Group formulated the Shima Seiki Group Code of Conduct in October 2006. The General Rules pledge the Company's resolution to comply with laws and regulations and corporate ethical standards, and we strive to comply with related statutes and respect social norms.

Based on the Compliance Committee, which undertakes initiatives relating to the promotion of compliance, we have formulated the Compliance Program, conducted regular checks on compliance status, and entrenched compliance systematically through induction courses, distribution of case studies, and other initiatives. In addition, Shima Seiki has introduced internal and external Corporate Ethics Helplines to communicate information about employees found to have violated laws or to have been involved in other serious misconduct, or to report cases of human rights violations, harassment, and other improprieties.

Compliance Organization



Information Security Organization



Structure to Ensure the Propriety of Operations in the Shima Seiki Group

Group companies share the Shima Seiki Group Code of Conduct, which seeks to promote compliance and foster an awareness of compliance.

To build an efficient internal control system in the Group, divisions supervising Group companies strive to provide guidance and support to Group companies and share information with them relating to business operation, risk management, and so on, as well as to strengthen auditing functions and management control relating to the management of Group companies. Regarding the execution of business in Group companies, their compliance with laws and internal regulations, their risk management, and so on, the Internal Auditing Division conducts the auditing of Group companies and endeavors to ensure appropriate operations.

Information Security

Recognizing that customers' personal information, corporate information, confidential marketing information, technological development information, and so on are important information assets that should be protected, Shima Seiki stipulates a basic policy on information security and endeavors to ensure information security by adopting information security countermeasures.

Basic Policy on Information Security

(1) Legal compliance

In handling information, Shima Seiki complies with laws, regulations, etc. relating to information security and takes account of standards and guidelines stipulated by administrative bodies and others.

(2) Information security management

To maintain information assets at a high security level, Shima Seiki repeatedly implements the information security management cycle of formulation → operation → evaluation → revision.

Board of Directors

Composition

To facilitate an effective and efficient Board of Directors function, the board comprises an appropriate number of 10 or fewer directors (excluding directors who are also members of the Audit and Supervisory Committee) and five or fewer directors who are also members of the Audit and Supervisory Committee. We carefully consider director selections, ensuring that the board is diverse and has an optimal balance of knowledge, experience, ability, and expertise.

We appropriately ensure that at least one third of directors serving on the board are independent outside directors who meet independence standards for outside officers and are capable of fulfilling their required roles and responsibilities. This allows the outside directors to contribute to the sustainable growth of the Company and the medium- to long-term enhancement of corporate value. Additionally, we ensure that outside director candidates include individuals with management experience. Currently the Board of Directors has eight directors (excluding directors who are also members of the Audit and Supervisory Committee), two of whom are independent outside directors and corporate managers in different business fields. Three other directors on the board, two of whom are independent outside directors and has expertise in finance/accounting and legal fields respectively, are also members of the Audit and Supervisory Committee. With regard to diversity, we currently have two women serving as directors, and, in terms of internationality, we

Governance

have appointed directors with abundant international experience.

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

(1) Evaluation method

A questionnaire was distributed to directors 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

Our Board of Directors was functioning properly in general, and appropriate supervision was taking place through deliberations and discussions. Overall, therefore, it was judged that the effectiveness of the Board of Directors was being ensured.

Through this evaluation, the Board of Directors has become aware of the need to strengthen initiatives aimed at improving discussions on such topics as the board's composition and medium- to long-term management strategies, as well as enhancing oversight of human resource strategy to augment the Board of Directors' effectiveness.

(3) Future response

Based on these evaluation results, the Company's Board of Directors will conduct further reviews aimed at enhancing and stimulating discussion within the Board of Directors and will work to further increase its effectiveness.

Training

The Board of Directors is encouraged to make an effort to study and acquire the knowledge necessary for directors 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 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 Applied when the Board of Directors Determines Remuneration for Executives and Directors (excluding those who are also members of the Audit and Supervisory Committee)

We ensure that remuneration for directors (excluding directors who are also members of the Audit and Supervisory Committee) 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 of the Company and increase corporate value over the medium to long term. Accordingly, remuneration for these directors comprises basic remuneration and bonuses linked to performance in the corresponding fiscal year that are offered as short-term incentives. Furthermore, we have incorporated into

the compensation structure 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 judgments. This process is designed to raise the transparency and objectivity of decisions concerning director remuneration.

Policies and Procedures Applied When the Board of Directors Appoints and Dismisses Leading Managers and Nominates Director Candidates

We nominate candidates for the position of director (not including directors who are also members of the Audit and Supervisory Committee) based on judgments regarding the overall balance of knowledge, experience, capability, and expertise required for directors to fulfill their duties and responsibilities effectively and the ideal balance between the diversity and size of the Board of Directors.

Regarding independent outside director candidates, we ensure that they meet standards relating to the independence of outside directors and include individuals with management experience.

Regarding candidate directors who would also serve as members of the Audit and Supervisory Committee, we select candidates who would contribute to the diversity of the committee and include individuals with appropriate knowledge of finance and accounting.

To ensure that we select director candidates, representative directors, and executive directors with the highest possible levels of transparency and objectivity, the Nominating and Remuneration Committee, which is chaired by an outside director, holds discussions regarding all relevant matters and reports to the Board of Directors, which then makes a final decision. Additionally, the Company obtains prior approval from the Audit and Supervisory Committee before selecting candidates for directors who also serve on the committee.

When directors, representative directors, or executive directors violate laws and ordinances or the Company's Articles of Incorporation, or the Company otherwise discovers disqualifying factors associated with individuals serving in these positions that could damage its corporate value, the Nominating and Remuneration Committee holds discussions regarding potential dismissal.

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.

Regarding transactions between related parties, we disclose them appropriately in accordance with the law, regulations, etc.

Directors and Executive Officers (As of June 25, 2021)

Chairman
Masahiro Shima



President, Representative Director and Executive Officer
Mitsuhiro Shima



Director of Sales Headquarters in charge of Total Design Center

Director, Executive Officer
Ikuto Umeda



CEO of SHIMA SEIKI (HONG KONG) LTD.

Director, Executive Officer
Takashi Nanki



General Manager of Accounting and Finance Division in charge of the Administrative Division and the Physical Distribution Division

Director, Executive Officer
Akihiro Ohtani

Newly Appointed



General Manager of the Production Headquarters in charge of the Development Headquarters

Director, Executive Officer
Shosaku Kitagawa

Newly Appointed



General Manager of the Corporate Planning Division in charge of General Affairs and the Personnel Division and the Information System Division

Outside Director

Yoshio Ichiryu

Independent Officer



President & CEO, Ichiryu Associates, Inc.

Outside Director

Rieko Zamma

Independent Officer



CEO, CANDID PRODUCE, Inc.

Director (Standing Audit and Supervisory Committee Member)
Hisahito Totsui



Outside Director (Audit and Supervisory Committee Member)

Daisuke Shinkawa

Independent Officer



Representative Partner, HOKUTO tax accountant office

Outside Director (Audit and Supervisory Committee Member)

Sachiko Nomura

Independent Officer



Partner Attorney, DOJIMA LAW OFFICE

Executive Officers

(Excluding those concurrently serving as directors)

Yoshinori Shimasaki
General Manager of Development Headquarters

Takayuki Nakanishi
General Manager of General Affairs and Personnel Division

Number of Attendance in FY2020

* Directors who have retired are omitted.

Committee	Number of meetings held	Shima (Masahiro)	Shima (Mitsuhiro)	Umeda	Nanki	Ichiryu	Zamma	Totsui	Shinkawa	Nomura
Board of Directors	12	11	12	12	12	12	12	12	11	12
Nominating and Remuneration Committee	2		2		2	2	2			
Audit & Supervisory Committee	10							10	9	10
Audit & Supervisory Board (before transition)	2							2	2	2

Changes at Shima Seiki in Recent Years and Future

President Mitsuhiro Shima chatted with Outside Directors Yoshio Ichiryu and Rieko Zamma about the state of the Board of Directors and the future image of Shima Seiki.

Atmosphere of the Board of Directors

I(Ichiryu): At the time when I was appointed as an outside director, the Board of Directors used to hear many reports. I recall that everyone trusted Chairman Masahiro Shima, who was then president and was the founder of the company, so much that there was little discussion. Since you [Mitsuhiro Shima] took over as president, discussions on strategy and other topics have become livelier, and the Board of Directors is more animated. At present there are two women directors, who add constructive opinions from their respective standpoints. I have tried to offer advice and a monitoring function from a broad perspective. In that sense, it has become easier to fulfill my role as an outside director, and gradually our views have come to be reflected in management strategy. The visualization and sharing of information have progressed as well. The Nominating and Remuneration Committee has been holding interviews with directors to check the overall picture.

Z(Zamma): Before my appointment as an outside director in 2016, I saw Shima Seiki at the ITMA Exhibition (International Textile Machinery Exhibition) in Milan, and I sensed the company's enormous presence in the world. After that, I came here to Wakayama and saw that the Board of Directors had a family-like and kind of pastoral atmosphere. Chairman Shima had led the company ever since its founding, and it was like directors not so much had difficulty speaking out as had nothing much to say. It was a little different from the present requirement of the Board of Directors to ensure accountability to shareholders from an impartial standpoint. Previously, when I came to Wakayama from Tokyo, I sensed a gap in crisis awareness. But recently attitudes in Wakayama have approached those of people in Tokyo. Membership of the Board of Directors has changed as well, and I feel there are signs of further change in the future. The formation of the Nominating and Remuneration Committee has moved the company sharply in the direction of greater efficiency.

S(Shima): When I first started attending meetings of the Board of Directors in 2002, sometimes they went on for a long time. The

chairman used to talk endlessly about the merits of some new model, and often it was like, if it did not sell, the problem lay in the sales method. That atmosphere still existed around the time of Mr. Ichiryu's appointment as a director, so I imagine it was hard for you getting accustomed to a Board of Directors that did not discuss things. Outside directors have played an important role in vitalizing the Board of Directors. It is difficult for ordinary people to understand the machines handled by our company, and maybe the attitude toward outside directors at first was one of "Study our products more if you want to understand them." But you made us aware that essentially, in the Board of Directors, it must be explained that such-and-such a new model has been completed, and this is how it will be sold. That was very significant.

Internal Control System

I: Shima Seiki has a kind of family-like atmosphere, but awareness of the problem of stagnating business performance does not seem to have penetrated every nook and cranny of the company. A declaration of the direction that the company will take must be disseminated by utilizing the in-house newsletter and other means.

Z: When I talk with young employees, undeniably their attitude is that, in the end, the company will surely come up with something. We need to build a mechanism quickly to disseminate this problem. At a time when the world is requiring new solutions, we need human resources who can confront and overcome various issues. Rather than employees who simply have an affection for the company and are content with the pastoral atmosphere, we must adopt measures to make them eager to take the initiative themselves and push forward.

S: I think our employees have a more positive attitude now than in the period before the appointment of outside directors. They realize that they need to do more thinking themselves. Still not 100% of them, but around 65%, I suppose. We must continue to change our corporate culture.

Shima Seiki and Sustainability, ESG, SDGs

I: COVID-19 has changed the world's landscape. Instead of an extension of the past, we are now in an age in which we must find answers ourselves. Since WHOLEGARMENT® products are an effective tool for saving resources, sustainability, and so on, I think Shima Seiki is heading in the right direction. Essentially, workstyle reform should mean increased job-satisfaction reform. In that sense, human resource development is the key. Outside observers believe that if human resources can be developed, Shima Seiki has a chance.

Z: Even before all this talk about corporate social responsibility and so on became common, Shima Seiki saw such issues as consideration for the environment, such as through photovoltaic power generation, and the health of employees as only natural and took the initiative in tackling them. In particular, Chairman



Yoshio Ichiryu,
Outside Director

Yoshio Ichiryu has served as an outside director of Shima Seiki for seven years; he concurrently serves as an outside director of one other company as well. He has abundant experience in such fields as economic and industrial policy, as well as plenty of experience of management in general as president and CEO of Ichiryu Associates, Inc.

Image

Shima understood that such efforts would lead to greater profitability. However, it is also true that being among the frontrunners has led to a sense of complacency. We must self-reform and grow in this respect.

S: In the past, to a great extent, Shima Seiki enjoyed making new products so much that we used to forget about time completely. It is important also to have a zeal for work with a spirit of changing the industry as a whole.

What Is Needed at Shima Seiki

I: We have many good features, but a lot of people need to be involved to realize them. To realize the medium-term management plan, we must develop human resources with a strong sense of pride.

Z: To vitalize on the inside, stimulus from the outside must be taken in. There must be a willingness to accept a fresh breeze. We need to expend energy on the discovery and development of human resources.

S: As the Japanese proverb goes, “The frog in the well knows nothing of the great ocean.” Our employees have been living in a cozy well for a long time and are not very good when it comes to competing with others. Rather than letting pride turn into arrogance, we must take in the perspectives of others and build a company that, 20 or 30 years down the road, is brimming with essential talent.

Global Strategy and Business Domains

I: Shima Seiki is a global company with a high overseas sales ratio, but the attitudes and abilities of our employees are not global. Moreover, since we have much intellectual property and a high insourcing ratio, overseas production is difficult. But while maintaining the production of core products in Japan, it would be fine for us to set standards and shift products that have less confidentiality to overseas production. Regarding business domains, we have many technologies that can be applied in fields other than apparel. If we cannot go it alone, I think we should expand our business domains by forming top-level alliances and engaging in joint development.

Z: We are in an age in which similar but different products soon appear on the market, but we do not have the ability to explain differences immediately to others. At a time when information technology has advanced and globalization has become the norm, we cannot go on sipping tasty wine just by ourselves. In

Rieko Zamma, Outside Director

Rieko Zamma has served as an outside director of Shima Seiki for five years; she concurrently serves as an outside director of three other companies. She has abundant experience in public relations and PR strategy, as well as plenty of experience of management in general as the CEO of Candid Produce, Inc.



addition, in the present day and age, the distinction between hardware and software is disappearing. The two are coming together and fusing. We need the ability to see not only what is right in front of us but also what is lined up on the shelves and what is attracting attention.

S: Machines really should be produced in the countries that use them. There is a strength in integrated development and manufacturing, but as a result, various model versions exist, which pushes up costs. I hope to bring costs down more in the future. In addition, non-apparel fields, such as the automobile industry, are in the midst of change. Sustainable materials and so on are required, and the shift will probably accelerate toward metal-replacing lightweight materials. I think our technologies will be able to contribute to such fields.

Shima Seiki's Challenges

I: There is not much change in the mindsets of employees. In Wakayama, opportunities are needed for employees to encounter information and change on a daily basis. This is an important point, and it must be tackled urgently.

Z: Business takes place about half a step below the cutting edge, the apex of the times. I would like employees to constantly extend their antennae linking the cutting edge and themselves and understand both what can be transmitted from Wakayama and what values underpin the world. It is important for them not only to pursue what is new but also to create their own values.

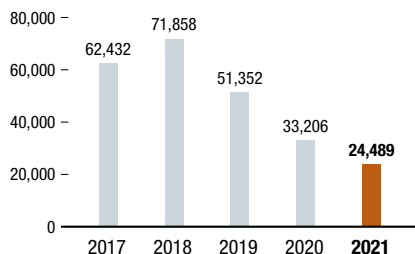
S: They need to have a stance of thinking bigger. Shima Seiki must be a place where employees can challenge new things and experiment. We must become a novel and unique company where employees can challenge things in a lively manner without fear of failure. I want us to be an indispensable company to the society.



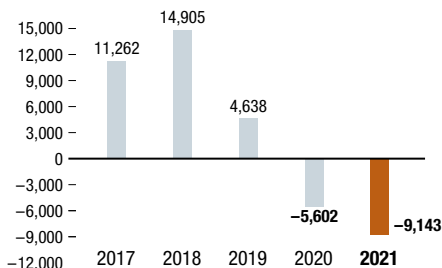
Financial Highlights

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

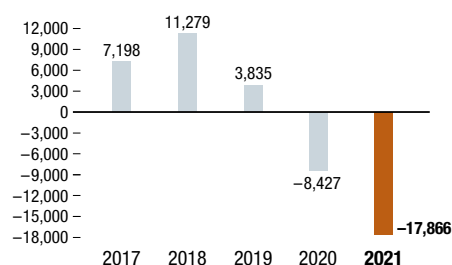
Net Sales (¥ Million)



Operating Income (Loss) (¥ Million)



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



	2012	2013	2014	2015	2016	2017
For the Year:	Millions of yen					
Net sales	¥37,327	¥34,970	¥40,636	¥48,354	¥49,582	¥62,432
Gross profit	14,432	12,212	17,269	21,865	23,345	29,048
Operating income (loss)	883	(508)	2,731	5,745	5,781	11,262
Income (loss) before income taxes and minority interests	(537)	3,362	7,230	7,006	4,803	9,979
Net income (loss) attributable to owners of the parent	(642)	1,754	4,863	3,645	3,271	7,198

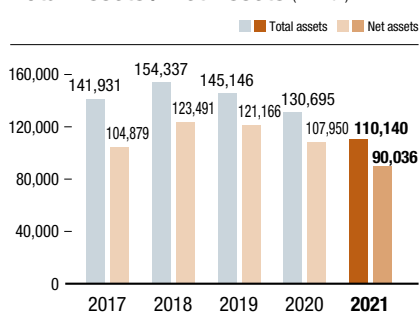
	2012	2013	2014	2015	2016	2017
At Year-End:	Millions of yen					
Total assets	¥106,863	¥112,089	¥119,727	¥126,987	¥126,415	¥141,931
Net assets	84,167	87,382	93,222	98,179	98,293	104,879

	2012	2013	2014	2015	2016	2017
Per Share Data:	Yen					
Net income (loss)	¥(18.60)	¥51.26	¥142.13	¥106.54	¥95.61	¥209.97
Cash dividends applicable to the year	40.00	25.00	32.50	32.50	37.50	45.00
Net assets	2,454.07	2,547.88	2,718.57	2,863.49	2,867.00	3,039.66

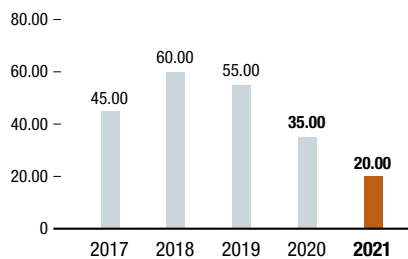
	2012	2013	2014	2015	2016	2017
Ratios:	%					
ROA	(0.6)%	1.6%	4.2%	3.0%	2.6%	5.4%
ROE	(0.8)	2.0	5.4	3.8	3.3	7.1
Equity ratio	78.6	77.8	77.7	77.2	77.6	73.8
Overseas sales ratio	87.6	84.7	83.6	84.1	83.5	87.6

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥110.71=US\$1 and ¥129.80=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2021.

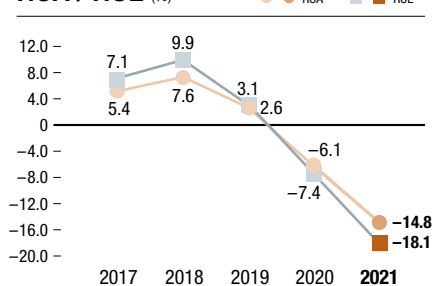
Total Assets / Net Assets (¥ Million)



Cash Dividends per Share Applicable to the Year (¥)



ROA / ROE (%)



2018	2019	2020	2021	2020 ▶ 2021	2021	2021
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥71,858	¥51,352	¥33,206	¥24,489	-26.3%	\$221,199	€188,667
33,438	23,155	11,629	5,961	-48.7	53,843	45,924
14,905	4,638	(5,602)	(9,143)	—	(82,585)	(70,439)
15,443	5,099	(6,552)	(17,610)	—	(159,064)	(135,670)
11,279	3,835	(8,427)	(17,866)	—	(161,376)	(137,642)
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥154,337	¥145,146	¥130,695	¥110,140	-15.7%	\$994,851	€848,536
123,491	121,166	107,950	90,036	-16.6	813,259	693,651
				Percent change	U.S. dollars	Euros
¥316.82	¥105.62	¥(239.68)	¥(517.71)	—	\$(4.67)	€(3.98)
60.00	55.00	35.00	20.00	-42.9%	0.18	0.15
3,381.85	3,411.08	3,126.86	2,607.72	-16.6	23.55	20.09
7.6%	2.6%	(6.1)%	(14.8)%			
9.9	3.1	(7.4)	(18.1)			
80.0	83.5	82.6	81.7			
90.0	83.2	78.9	77.1			

• Knitting Machine

A knitting machine is a machine that knits clothes, among other things, using yarn. The main product of our company is the flat knitting machine, which enables knitting of various parts of the garment such as the front body, back body, and the sleeves, as well as the creation of various ingenious designs. In addition to flat knitting machines, we also have circular knitting machines and warp knitting machines.

• Cut and Sewn (Cut-Sew)

Cut-and-sewn refers to clothes that are made by cutting the fabric and sewing it together. Fabrics include woven as well as knitted fabrics. Woven fabrics are durable and suitable for mass production as they can maintain shape fairly well, but they need to be cut and sewn. Knitted fabrics have stretch and lack durability, but they need minimal cutting and sewing and are suitable for widely varied, small-lot production.

• SlideNeedle

The SlideNeedle is a revolutionary knitting needle developed by our company in 1997. In the past, the conventional latch needles had been used for 150 years, but they offered only six kinds of knitting techniques. With the SlideNeedle this has doubled to 12 knitting techniques, and in combination with the fore and aft needle beds, it has led to four times the conventional knitting techniques used in the past. Consequently, it is possible to create complex patterns and innovative knitting structures never imagined before, and a variety of knitted products can be created. The SlideNeedle is indispensable for four-bed WHOLEGARMENT® flat knitting machines.

• Virtual Samples

Virtual samples refer to images generated by computers, giving product images that are almost the same as the final product. In the past, many samples were discarded as several actual samples were manufactured by way of trial and checked during the product planning and investigation stages. Virtual samples not only reduce the number of samples but also significantly shorten the lead time from planning to production.

• CAD/CAM Systems

Computer Aided Design (CAD) refers to design by computer while Computer Aided Manufacturing (CAM) refers to manufacture by computer. Shima Seiki offers apparel CAD (design systems) that can process the design of paper patterns, development of sizes, as well as efficient layouts, and the P-CAM® series, a wide variety of computerized fabric cutting systems for processing multi-ply, single-ply fabrics, or genuine leather hides. Currently, we offer our products not only to the apparel sector but also to areas involved in cutting including interiors, automotive, and industrial materials.

• i-DSCS + DTC®

The Intelligent-Digital Stitch Control System + Dynamic Tension Control (i-DSCS + DTC) is a component that controls both yarn feed and yarn retrieval directions. Since the knit fabric stretches and shrinks, it was difficult to make clothes in certain designated dimensions. However, this system not only controls yarn feed and yarn retrieval directions, but also controls yarn tension electronically, enabling high-precision knitting with a dimensional error of just $\pm 1\%$. Also, the possibilities of the WHOLEGARMENT flat knitting machines have further expanded as they can additionally handle yarns that were usually difficult to knit.

• ITMA

International Textile Machinery Exhibition (ITMA) is the world's largest textile machinery trade fair held every four years in different cities in Europe.

ITMA has a 70-year history since it began in 1951. Shima Seiki first participated in 1971. The next trade fair will be held in Milan, Italy, in 2023.

Please refer to the Glossary on the IR site for other terms.

<https://www.shimaseiki.com/ire/company/vocabulary.html>

Corporate Data (As of March 31, 2021)

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 1,919	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. KAINAN SEIMITSU CO., LTD. TOYOBOshi KOGYO CO., LTD.	SHIMA SEIKI EUROPE LTD. SHIMA SEIKI U.S.A. INC. SHIMA SEIKI (HONG KONG) LTD. SHIMA SEIKI ITALIA S.p.A. SHIMA SEIKI WIN WIN SHANGHAI LTD. SHIMA SEIKI SPAIN, S.A.U. SHIMA SEIKI WIN WIN DONGGUAN LTD. 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	35,800,000
Number of Shareholders	15,463
Stock Exchange Listing	The First Section of the Tokyo Stock Exchange
Auditing Corporation	Ohtemae Audit Corporation

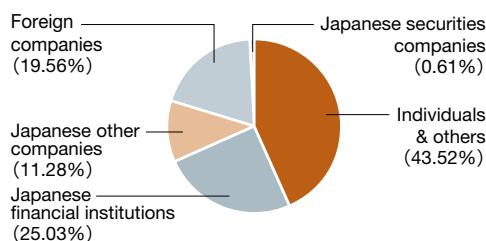
Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	3,001	8.70
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,849	5.36
The Kiyo Bank, Ltd.	1,387	4.02
Custody Bank of Japan, Ltd. (Trust Account)	1,284	3.72
Masahiro Shima	1,070	3.10
Mitsuhiro Shima	1,061	3.08
The Bank of Mitsubishi UFJ, Ltd.	880	2.55
Wako LLC	780	2.26
THE BANK OF NEW YORK MELLON 140044	691	2.00
Chikage Umeda	632	1.83

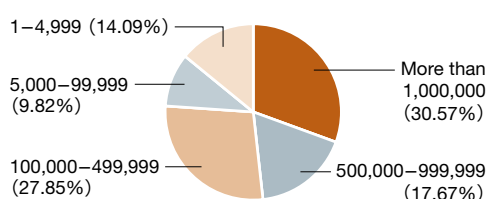
Note: Treasury stock (1,288 thousand shares) is excluded from the calculation of percentage of shares held.

Stock Ownership

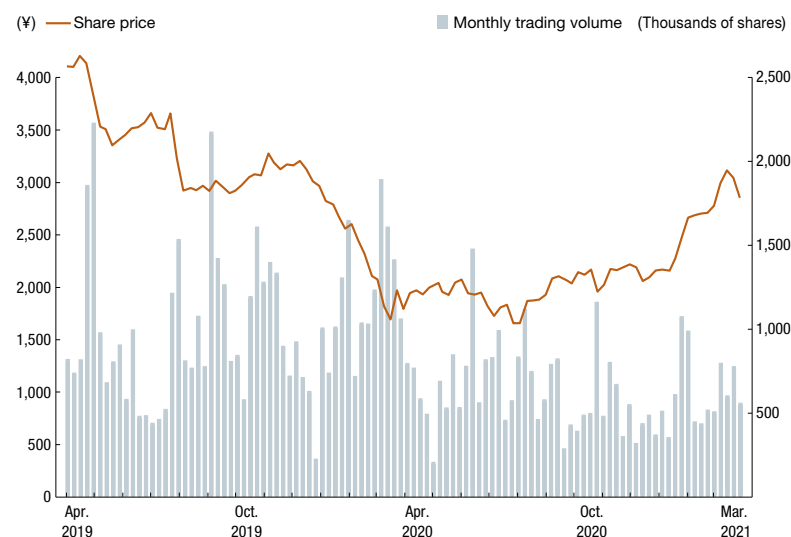
Shareholder breakdown by type



Shareholder breakdown by number of shares held

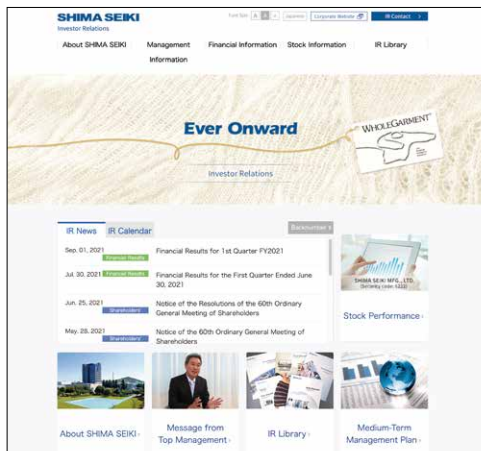


Share Price and Trading Volume



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.



Financial Statement Details

Please see separate materials for the following financial information:

- MD&A
- Business Risks and Uncertainties
- Consolidated Balance Sheet
- Consolidated Statement of Income
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Changes in Net Assets
- Consolidated Statement of Cash Flow
- Notes to the Consolidated Financial Statements

Integrated Report 2021 (English Financial Statements)
<https://www.shimaseiki.com/ire/library/list.php?cate=3>

*Fractions in the English financial statement table have been rounded off.



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