



Integrated Report

Year Ended March 31, 2022



**Ever
Onward**

SHIMA SEIKI

Ever Onward

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.

Editorial Policy

This Integrated Report was created to provide our stakeholders with an easy-to-understand description of our future vision and initiatives regarding our medium- to long-term business strategy and solutions to sustainability issues.

Reporting period: April 1, 2021 to March 31, 2022

Active feeds on



Facebook



Instagram
@shimaseiki.official



Instagram
@wholegarment_official



Instagram
@virtualsample



YouTube

Find links to all our social media feeds at the foot of our website.
<https://www.shimaseiki.com>





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Communication Tool

▶ Integrated Report

This Integrated Report provides financial information including our business performance and describes our initiatives for ESG (Environment, Social, and Governance) to equip stakeholders with an understanding of the company's medium-to long-term growth and future vision, as well as the value creation process to realize those goals.



▶ Shareholder Newsletters

We provide our shareholders with semi-annual business reports, our latest news, recent initiatives, etc. (Only Japanese)



▶ Annual Securities Report / Quarterly Securities Report

This report contains our quarterly financial information.

▶ Results Briefing Materials

Presentation slides that outline quarterly financial information (simplified version for 1st and 3rd quarters). Performance information is expressed using diagrams and photographs.

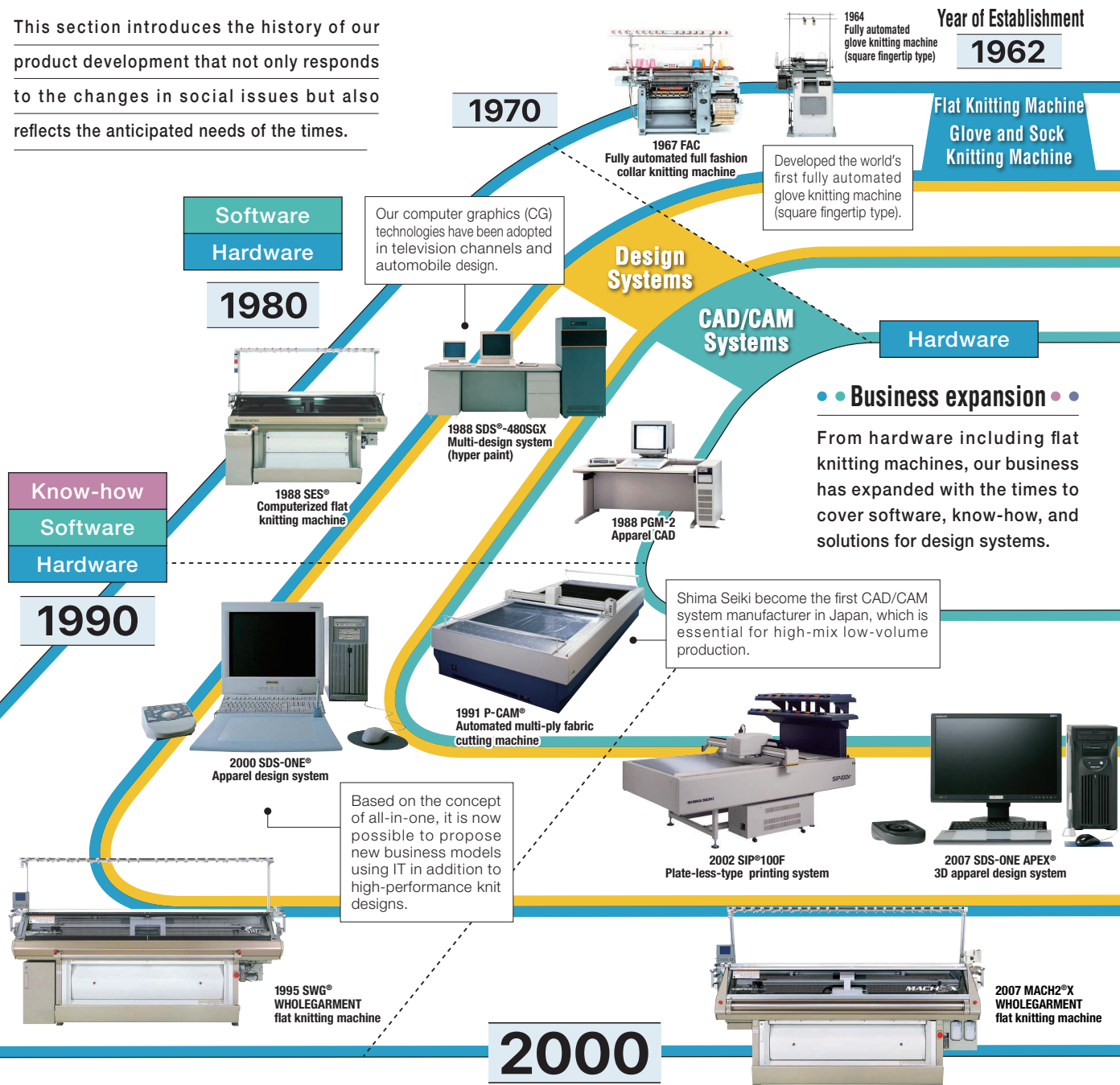
These communication tools are found on the IR page of our website under HOME > IR Library.
<https://www.shimaseiki.com/ire/library/>



History

History of Shima Seiki

This section introduces the history of our product development that not only responds to the changes in social issues but also reflects the anticipated needs of the times.



History of Shima Seiki

1962

SHIMA SEIKI MFG. Established

With the aim of overcoming the challenge of full automation of glove knitting machine, Masahiro Shima established the company in 1962 and successfully developed a fully automated glove knitting machine (square fingertip type) in 1964.

1978

Developed the SNC computerized flat knitting machine

We developed a computerized flat knitting machine in anticipation of fashion becoming more individualized and diversified in the coming years, with knitwear shifting to an era of high-mix low-volume production.

Social Changes and Challenges

1960s

Income Doubling Plan

The "Income Doubling Plan" initiated by the Hayato Ikeda Cabinet in late 1960 dramatically increased consumer spending in Japan.

1970s

The First Oil Crisis

The economy fell into recession due to the oil crisis and Aggregate Demand-Control Policy. Following this, in 1974, the economy recorded its first negative growth after the war.

History before the company was founded



The founder, **Masahiro Shima**, and the establishment of **SHIMA SEIKI MFG.**

Shima learned that accidents were frequently occurring in which workers in dyeing plants and other factories lost their lives when their gloves got caught in machinery. As a solution, he invented "elastic yarn inserted safety gloves" that could be quickly taken off even if when they did get caught. To get the gloves into widespread use, Shima founded the company with the aim of full automation of glove knitting machine, a technically difficult problem at the time.

Seam-free knitwear - WHOLEGARMENT®

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.



60th Anniversary
2022 -
 Commemorating the
 60th Anniversary of
 SHIMA SEIKI MFG.



2012 P-CAM120C Automated cutting machine



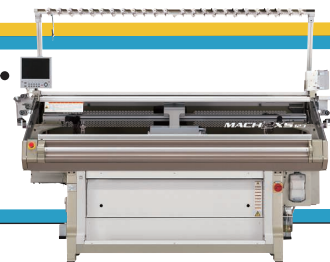
2014 P-CAM181 Multi-ply automated cutting machine



2020 APEXFiz® Design system subscription service

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

Equipped with a moveable sinker to create a three-dimensional silhouette. Contributed to the expansion of sales of WHOLEGARMENT flat knitting machines



2015 MACH2XS WHOLEGARMENT flat knitting machine

- Solution
- Know-how
- Software
- Hardware



2021 SWG-XR WHOLEGARMENT flat knitting machine

2010

2020

1981 Developed the SDS-1000 design system

By displaying images on a screen using computer graphics, we realized a system that could create patterns and samples quickly and efficiently.

1995 Completely Seam-free-type Computerized Flat Knitting Machine

Shima Seiki developed WHOLEGARMENT flat knitting machines, in response to the crisis in the knitwear industry caused by the hollowing out of industry due to the relocation of production bases overseas, and the rapid increase in imports in the apparel industry.

2015 MACH2XS WHOLEGARMENT flat knitting machine and SDS-ONE APEX3

Our "Total Fashion System" was exhibited at the International Textile Machinery Exhibition, ITMA 2015 in Milan to appeal its consistent technology provision.

1980s Plaza Accord

Rapid appreciation of the yen and a falling dollar on the exchange markets caused a rapid rise in export prices for Japanese goods, resulting in market share being captured by low-wage Asian companies.

1990s The Collapse of Japan's Bubble Economy

After the collapse of bubble economy, most industries suffered declines in sales and profits due to falling personal consumption, the rising unemployment rate, and the Asian currency crisis, as well as the destabilization of the financial system.

2000s Advancement of Globalization (Rise of Emerging Countries)

Advancing globalization saw an expansion in trade with East and Southeast Asian countries, who rapidly grew in prominence in the world economy.

Business Overview

The following describes the outline of our business with an overview of the year under review and outlook for the future.

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 SWG-X R® and MACH2®XS WHOLEGARMENT® flat knitting machines, which produce complete pieces three dimensionally; the N.SRY® and N.SVR®SP, which facilitate unprecedented patterns and designs including inlay knitting and shoe applications, and N.SVR and N.SSR® used for volume zone production in the Asian market, etc.

Overview of the Year under Review and Outlook for the Next Fiscal Year

In Asia, the Chinese market is witnessing a shift from OEM-type production toward the crafting of high value-added products for the domestic clothing market. Combined with notable trends like the expansion of the e-commerce market driving a shortening of lead times and labor-saving pressure in response to rising labor costs and labor shortages, this has led to increased introduction of WHOLEGARMENT flat knitting machines.

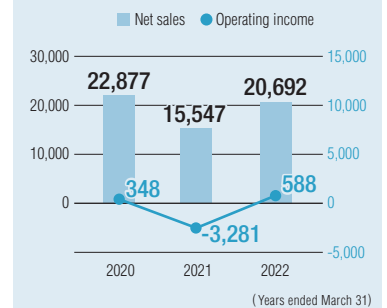
In Europe, the Italian market, which specializes in developing high value-added products, has seen increased capital investment with the resumption in economic activity. Accordingly, demand has increased, centered on WHOLEGARMENT flat knitting machines and molded knitting machines capable of producing advanced designs.

In the Turkish market, sales increased mainly for computerized flat knitting machines due to brisk capital investment to meet orders from overseas apparel companies in the second half of the year. In the Japanese domestic market, unit sales of WHOLEGARMENT flat knitting machines, etc. increased compared with the previous fiscal year.

Consequently, net sales in the flat knitting machine segment in the fiscal year under review were ¥20,692 million (up 33.1% year-on-year).

Following on from the fiscal year ended March 31, 2022, there has been strong interest from customers in Turkey and Bangladesh markets, with sales expected to grow. However, due to recent shortages of parts and materials, some orders have not been recorded because we are unable to confirm delivery dates. In the Chinese market, we have high hopes for the new SWG-XR WHOLEGARMENT flat knitting machine. While we have a favorable sales plan, uncertainties remain over future supply of parts and materials. In view of these circumstances, we plan to achieve net sales of ¥34,700 million for the fiscal year ending March 31, 2023.

Net Sales/Operating Income (¥ Million)



Glove and Sock Knitting Machine segment

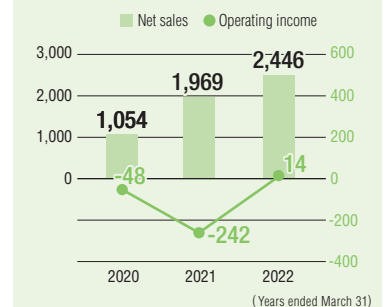


In this segment, we manufacture and sell machines for knitting gloves and socks, the origin of our technological development. By advancing finer-gauge products (to enable knitting of finer yarns), we are enhancing our offerings in high-value-added fields such as healthcare and outdoor applications.

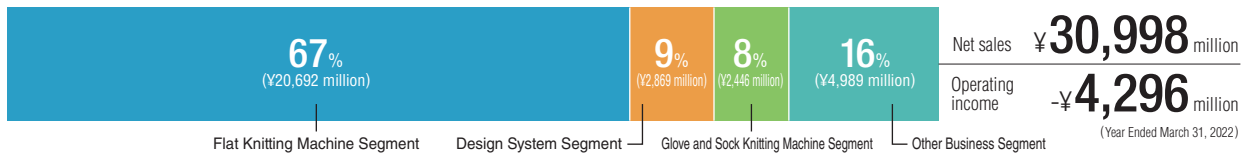
Overview of the Year under Review and Outlook for the Next Fiscal Year

Net sales were ¥2,446 million (up 24.2% year-on-year) due to steady growth in capital investment by major users in Japan and overseas. We anticipate capital investment by major users, which drove performance until the previous fiscal year, will settle down, resulting in a fall in sales. Net sales for the fiscal year ending March 31, 2023 are expected to reach ¥900 million.

Net Sales/Operating Income (¥ Million)



Percentage of net sales for each segment



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 as well as programming for flat knitting machines, which have enabled diverse designs, while at the same time realized shorter lead times and cost reductions. In addition to the hardware-based SDS-ONE APEX4® design system, we have developed the APEXFiz® subscription-type software for design systems. In the field of automatic cutting machines, we have developed Shima Cutting Solutions, which saves labor before and after the cutting process, and are working to have them penetrate into other industries, including automobile and industrial material fields.

Overview of the Year under Review and Outlook for the Next Fiscal Year

In association with the increase in sales of flat knitting machine segment, the number of units sold of the SDS-ONE APEX4 apparel design system increased mainly in overseas markets. Furthermore, the number of license contracts for APEXFiz, which started in earnest this fiscal year, has increased, focused on Western and Japanese fashion brands. Demand for the P-CAM® automatic cutting machine also showed signs of recovery, mainly in Japan.

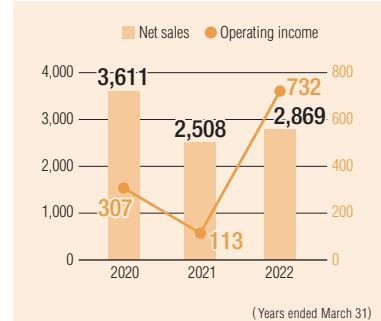
Consequently, net sales in design systems segment were ¥2,869 million (up 14.4% year-on-year). Sales of the APEX series are expected to grow together with the sales growth in

flat knitting machines. The expected increase in the number of APEXFiz and yarnbank contracts will lead to stable improvement in profitability. Further recovery in the domestic market is also expected for automatic cutting machines.

In addition to the above, SHIMA Datamall, which entered service in June 2022, enables customers to search, browse, and purchase 3D design data. By linking this to our other services, further sales expansion can be expected across Shima Seiki as a whole.

Based on the above, sales for the fiscal year ending March 31, 2023 are expected to be ¥3,200 million.

Net Sales/Operating Income (¥ Million)



Other Business segment

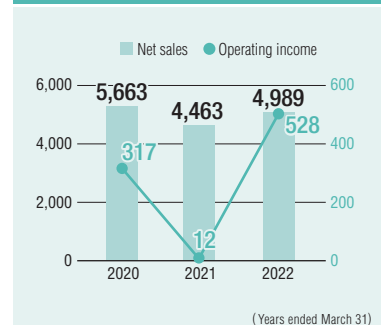


This segment sells maintenance parts, and provides maintenance repairs services for the Company's knitting machines and systems, and operates a spinning business for high-end cashmere yarn at a subsidiary.

Overview of the Year under Review and Outlook for the Next Fiscal Year

Net sales were ¥4,989 million (up 11.8% year-on-year), including sales of maintenance parts and yarn. Sales of maintenance parts are expected to increase along with the increase of sales in flat knitting machine segment. Accordingly, sales for the fiscal year ending March 31, 2023 are expected to reach ¥5,700 million.

Net Sales/Operating Income (¥ Million)



TOPICS

Announcing SWG-XR, Our Latest WHOLEGARMENT Flat Knitting Machine

New Standard of WHOLEGARMENT Flat Knitting Machines



Rather than an upgrade on our existing core models, the SWG-XR®, the next-generation WHOLEGARMENT® flat knitting machine, has been produced by reviewing our product development approach for a major reform.

With an aim of returning to the starting point of WHOLEGARMENT flat knitting machine development, we followed the SWG®-X launched in 1999 and made a dramatic step forward. Productivity is improved by fully exploiting the features of our proprietary SlideNeedle™, combined with the sinker knitting technology that we have cultivated so far. Compatibility with an ever wider range of designs makes for a model capable of producing knitwear for all seasons.

In addition to expanding sales to the world's major WHOLEGARMENT production bases, we wish to establish the SWG-XR as the future standard for timely and optimal-volume local production for local consumption and promote its sales to achieve our goals for strengthening the WHOLEGARMENT business in our medium-term management plan.

Advantages of WHOLEGARMENT Flat Knitting Machines

Zero Cutting Loss, Zero Sewing Loss

With conventional flat knitting machines, parts of the clothing are knitted respectively and sewn together, resulting in losses due to seam allowances. WHOLEGARMENT flat knitting machine knits a whole clothing, eliminating the need for cutting and sewing. This eliminates raw material waste and reduces environmental burden.

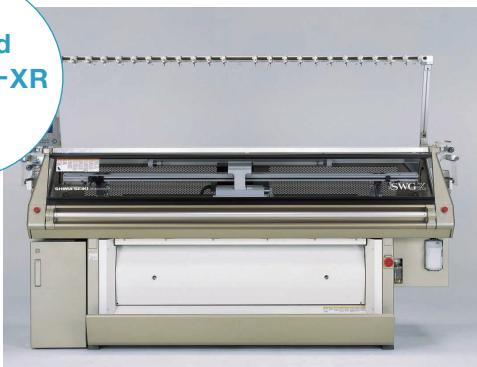
Enabling Shorter Lead Times and Local Production for Local Consumption

By using WHOLEGARMENT flat knitting machines together with our design systems, cutting and sewing processes are not necessary when manufacturing clothing, and lead time can be greatly shortened. This facilitates timely and optimal-volume local production for local consumption.

Enjoying Improved Comfort and Elegant Silhouettes

Elimination of sewing process allows designs and clothing silhouettes precisely as intended. Lighter clothing with no rubbing from sewn seams provides all-day comfort.

Behind the SWG-XR name



The SWG-X WHOLEGARMENT flat knitting machine entered mass production in 1999 as the world's first model with four needle beds. Though praised for its unique ability to produce completely seam-free knitting, the SWG-X was not well received by customers due to the advanced knowledge and skill required to master the machine. In order to be well-accepted by customers, technicians familiar with those times re-examined the concept of product development and endeavored to create a market-orientated product that would respond to our customers' needs.

The name of the SWG-XR came from the strong desire for regeneration of the SWG-X, adding the initial "R" for "Reborn" and "Revolution," key words in our medium-term management plan.

Advantages of SWG-XR

1 New Standard of WHOLEGARMENT Flat Knitting Machines

SWG-XR is a WHOLEGARMENT flat knitting machine that combines many of Shima Seiki's technologies. Innovation in our WHOLEGARMENT flat knitting machines has continued for over 25 years. The SWG-X, which was released in 1999, evolved into the MACH2[®]X with improved productivity. Further steady improvement led to the MACH2XS with an expanded knitting range using spring-type movable sinker system.

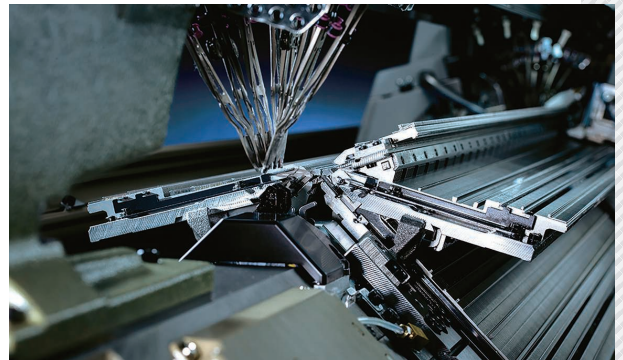
In 2022, to return to our starting point, our new flagship machine SWG-XR was launched, succeeding our SWG-X roots. We will continue to provide a full solution with complementary peripherals and services, with the aim of producing a machine that will become the industry standard.



2 More than 25% Improvement in Production Efficiency

SWG-XR employs four needle beds and our proprietary SlideNeedle technology. Incorporating SlideNeedle produces unprecedented knitting possibilities, significantly improving the design and pattern knitting capabilities in WHOLEGARMENT production.

The renewed sinker system uses a compact and lightweight 4-cam carriage and auto yarn carrier. Knitting at a speed that does not put too much strain on the yarn greatly reduces the defect rate. This raises production efficiency by more than 25% compared to conventional machines.



3 Easy Adjustment for Stabilized Knitting

In addition to improved production efficiency, the SWG-XR achieves high-quality and stable knitting of beautiful fabrics and silhouettes that were not previously possible. By increasing the variety of compatible knits and yarns, this represents a dramatic step forward as a model producing knitwear for all seasons. In addition, fewer demands are placed on the knitting operator, enabling whoever operates the machine to knit beautiful products.

The SWG-XR provides a new solution as a sustainable next-generation WHOLEGARMENT flat knitting machine that minimizes waste to the extreme.



Accelerating its Efforts in Solution-based Business

SHIMA Datamall



Using Digital Data to Streamline Planning and Production

Launched in June 2022, SHIMA Datamall™ is an online service that allows users to search, browse, and purchase various digital data products useful for planning, producing, and selling fashion items. For users of our SDS-ONE APEX® 3D design system series and flat knitting machines, this improves operational efficiency, provides full support for further digital transformation (DX) of manufacturing, and helps shift toward sustainable manufacturing.

The content on SHIMA Datamall, along with that of the yarnbank®

online yarn data search web service where users can search, browse, and download data on yarn from all over the world, can be used and arranged on the SDS-ONE APEX series, which comprehensively supports manufacturing from planning and design to production and sales.

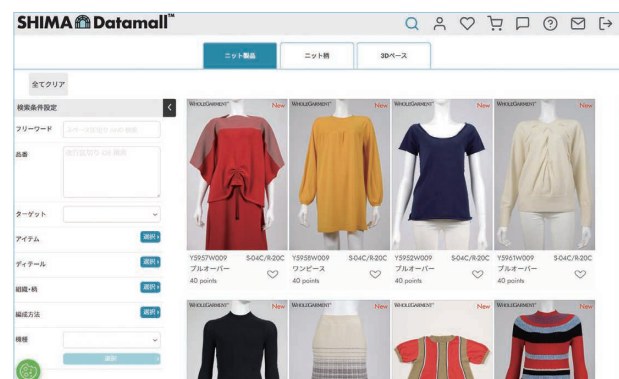
Search and Browse Over 6,000 Items of Digital Data

The digital data in “SHIMA Datamall” can be searched and browsed for free simply by registering an account, even for non-users of our SDS-ONE APEX series design system and flat knitting machines.

For example, apparel companies can collect information and plan products for new collections, and users of our products can use the downloaded data as a tool that facilitates communication with suppliers or as promotional images for e-commerce products.

Users can perform data searches based on our original knitting samples, knitting weave and jacquard patterns, and 3D virtual samples. As examples, knit products can be sorted by “target,” “item,” “detail,” “pattern/structure,” and “knitting method,” allowing users to search and browse data according to their individual needs.

As part of operations of a solution-based business, we will make proposals for solutions that link to our other products and services, support more efficient planning, production, and sales, and promote sustainable manufacturing.



APEXFiz

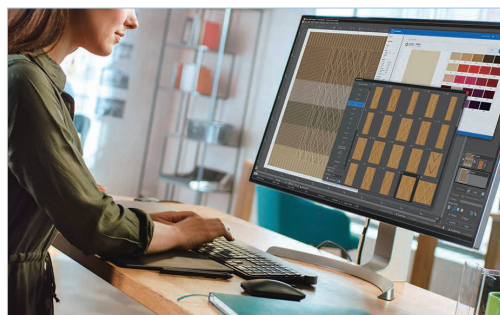
Virtual Sampling and Pattern Making - Anytime and Anywhere

APEXFiz® was developed as a software subscription service that maintains the advantages of the SDS-ONE APEX series design system, and fits with diverse working arrangements in modern lifestyles. Customers can select from a lineup of five products according to their needs.

In the same way as the hardware-integrated SDS-ONE APEX series, customers can plan and design, explore color schemes, carry out realistic fabric simulations of knitwear and textiles, as well as producing 3D virtual product samples. The data planned and transmitted to a knitwear manufacturer can be converted into a production program, achieving a smooth linkup between planning and production using digital data.

In July 2021, we expanded the lineup by releasing the apparel design software APEXFiz PGM, which is dedicated to pattern making, grading, and marking. In conjunction with our automatic cutting machine P-CAM® series, a smooth production flow from paper pattern design to cutting is provided. In addition to the four

products in the lineup, a wide range of options are available to allow customization according to customer needs. APEXFiz provides consistent support across the manufacturing supply chain from planning to production.



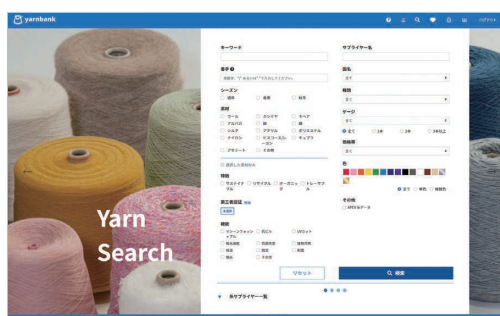
yarnbank

Search and Browse Yarn Data and Contact Yarn Manufacturers Directly Online

“yarnbank” is the world’s first online service that allows users to search, browse, and download yarn data from suppliers worldwide. Yarn manufacturers from all over the world have been registering their latest yarn information and yarn digital data on yarnbank. Users like apparel companies and knitwear manufacturers can search and browse the registered yarn data for yarn that best matches their needs and pricing requirements. Downloaded yarn digital data can also be used to produce virtual samples on our SDS-ONE APEX series design system. Users who previously had to scan purchased yarn for use in simulations can now easily create realistic virtual samples that are suitable for production using yarn that is available for purchase.

yarnbank also provides a new sales promotion platform for yarn manufacturers. The raw materials, time, and cost required to create sample books covering all of actual yarns conventionally used in sales activities can also be curtailed, which contributes to sustainability. yarnbank digitally connects the entire supply chain,

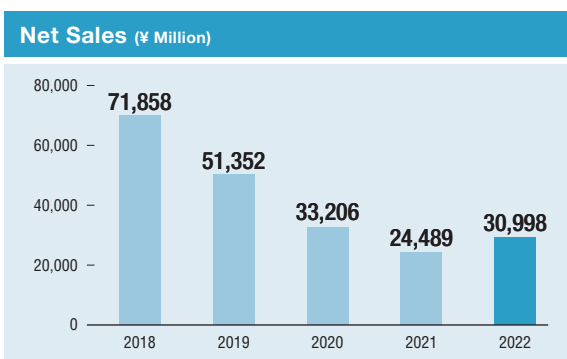
including yarn manufacturers, apparel companies, and knitwear manufacturers, achieving digital transformation (DX) from upstream to downstream.



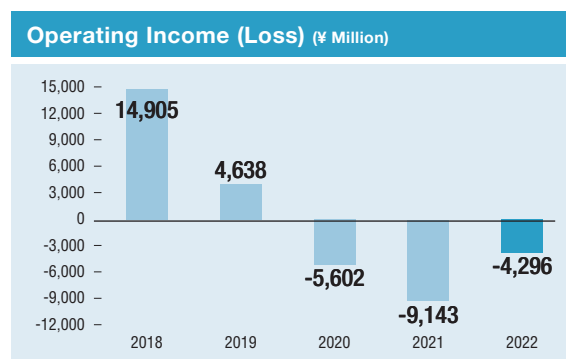
Financial Highlights

The Company's financial performance over the past five years is as follows.

*Years ended March 31

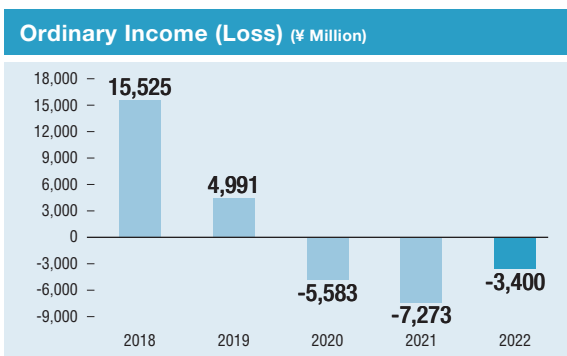


Sales have been recovering since the fiscal year ended March 31, 2021 as the bottom, turning from the sluggishness caused by restraints in clothing production in the apparel and fashion industry, trade friction between the U.S. and China, the impact of spread of COVID-19, and other factors.

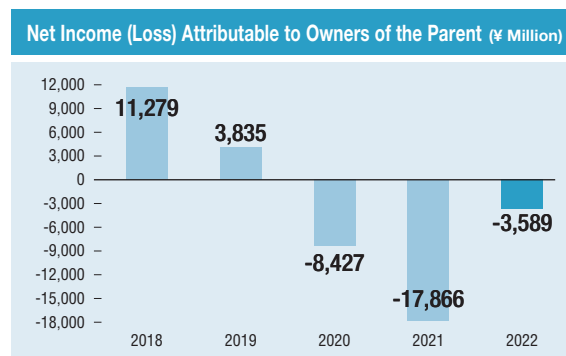


The year ended in deficit for the third consecutive year due to sluggish sales.

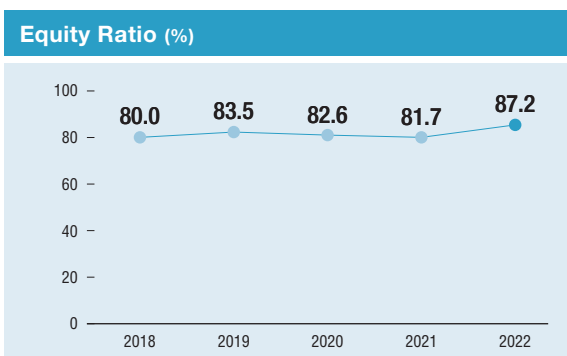
However, deficits have been decreasing due to reduction of fixed costs, etc.



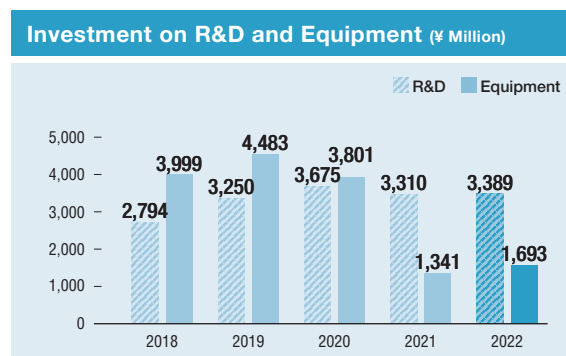
In the fiscal year ended March 31, 2022, we recorded non-operating income of more than ¥1,000 million mainly due to interest income. Ordinary loss was ¥3,400 million.



Although we recorded a deficit for three consecutive years, operating results have been improved significantly from the fiscal year ended March 31, 2021, when we recorded a special impairment loss on fixed assets of over ¥10,000 million.



As a result of the full repayments of short-term borrowings, the equity ratio rose significantly.



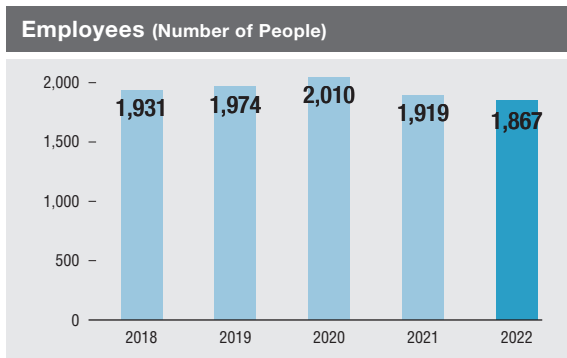
We accelerated R&D investment for the future growth, despite a deficit for the third consecutive year. As for investment on equipment, we made minimum necessary investment for the fiscal year under review, and will increase the amount from next fiscal year.

Non-financial Highlights

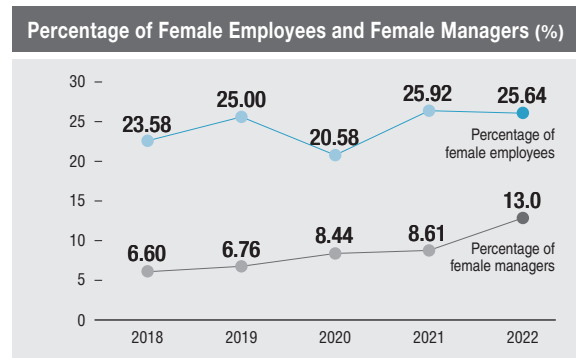
The Company's non-financial results are as follows.

We will continue our efforts to become an indispensable company to society .

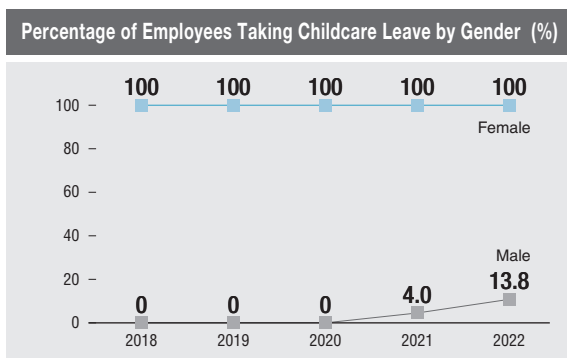
*Years ended March 31



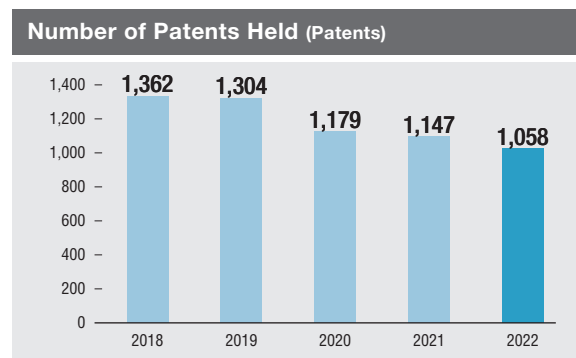
The number of employees has been decreasing due to a decrease in the number of newly hired employees, as well as an increase in the number of employees reaching retirement age.



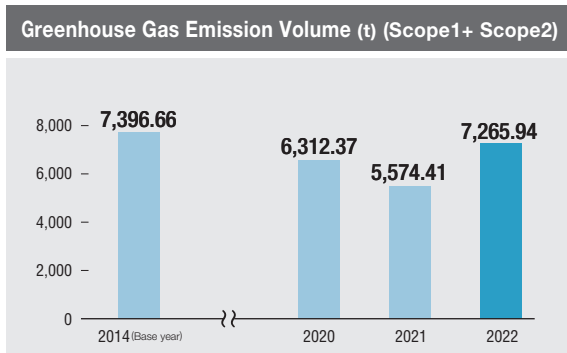
Although the percentage of female in managerial positions is still at 13%, we are aiming to increase it to 30% by 2030, enhancing the opportunities in which female employees can actively participate. (The percentage of female managers for 2022 is as of April 1, 2022)



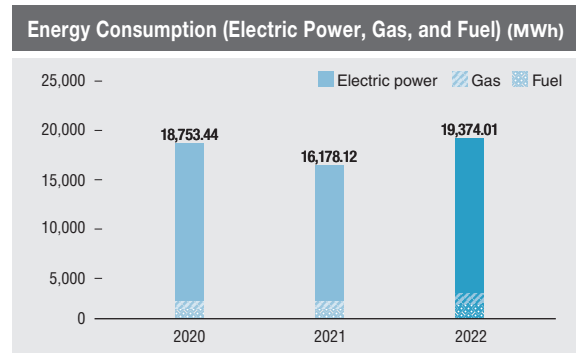
We have created an environment where not only female employees but also male employees can easily take childcare leave, leading to an increase in the percentage of male employees taking childcare leave.



The number of patents held is declining due to the expiration of patent rights acquired more than 20 years ago and the concern that new patent applications would lead to the disclosure of confidential information. (From the fiscal year ended March 31, 2022, the data as of the end of March is presented (formerly as of the end of December).)

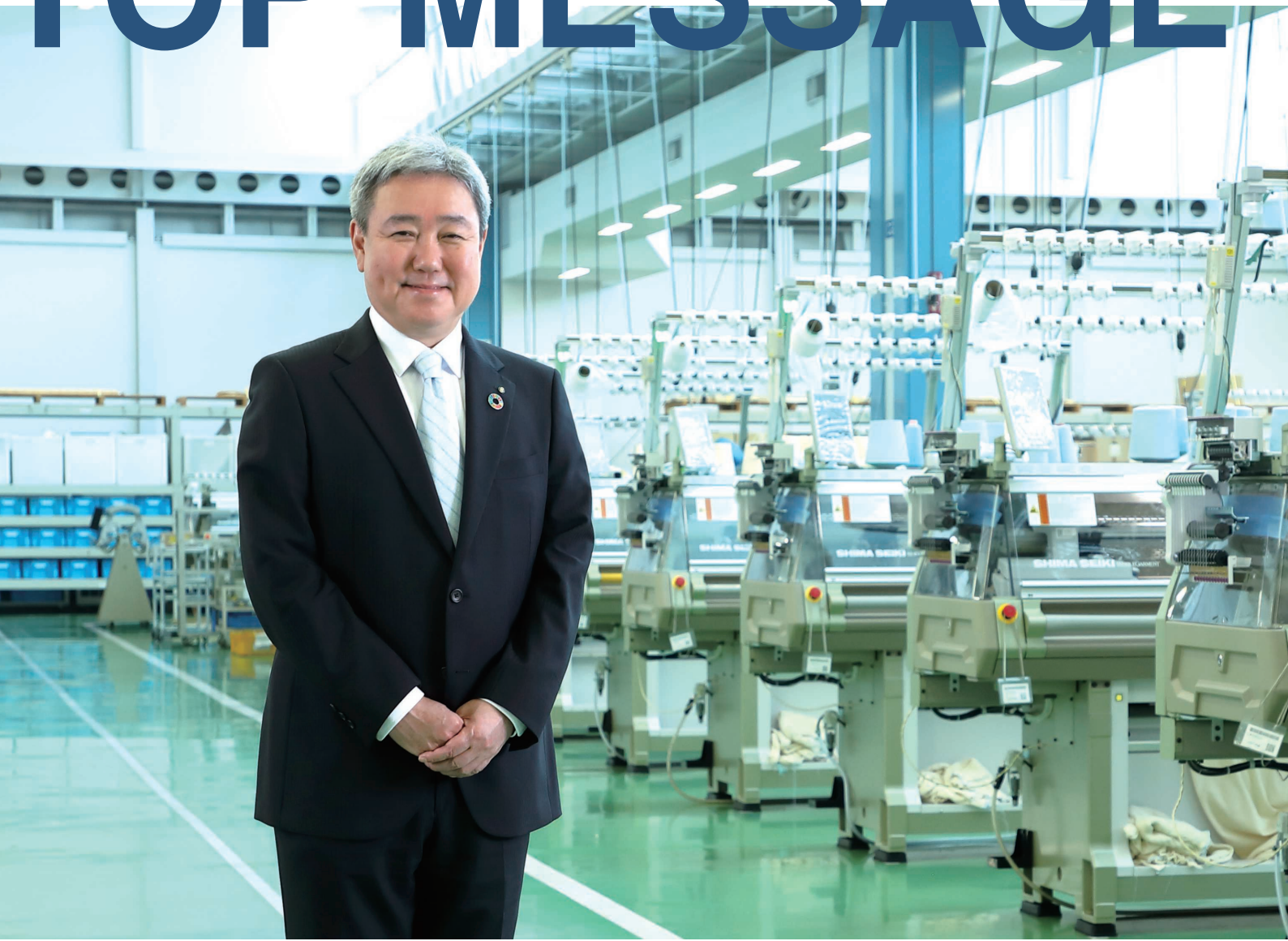


In June 2022, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures . With the goal of reducing GHG emissions by 30% in FY2030 from the base year, we will continue to contribute to the reduction of our environmental impact.



As net sales and production volume increased, energy consumption has also increased. Although production volume is expected to increase also in the future, we are making efforts to produce in an energy-saving manner.

TOP MESSAGE



Business Development Aimed at Solving Social Issues Since Our Founding

Our company celebrated the 60th Anniversary of its founding this year. I would like to take this opportunity to express my sincere gratitude for the support of our customers, employees, partner companies, and local communities.

The root of our company lies in our current Chairman, Masahiro Shima, who has successfully produced inventions to solve social issues one after another, since the time he was a student. Since the time before the Company was founded, Japan had been enjoying a period of high economic growth. While industry flourished nationwide, there was a spate of serious accidents in plants due to work gloves caught in machinery and pulling in the workers' wrists along with the gloves. Heartbroken to hear such news, Masahiro Shima, who was aged 18 at the time, invented elasticated safety gloves that could be quickly removed even in cases where they became caught in machinery. SHIMA SEIKI MFG., LTD. was established in 1962, with the

aim of developing a fully automatic glove knitting machine that could manufacture gloves at low cost, to ensure that everyone could work safely while wearing gloves. In addition, Masahiro Shima had seen his mother knit gloves by hand as piecework, and wanted to make the task easier, which was another motivation for starting the Company.

Since our founding, we have expanded our business by focusing on the development of technologies and products that contribute to the growth of the apparel and fashion industry. In 1995, we developed the WHOLEGARMENT® flat knitting machine, a completely seam-free-type computerized flat knitting machine, which became the catalyst for the Company's continued growth to this day. In recent years, there has been a growing interest in "purpose management," where companies focus on solving social issues. However, we have always pursued management that sincerely addresses social issues, since the time of our founding.



We are aiming for the sustainable growth of the Group through our solution-based business that solves social issues, as well as by contribution to the apparel and fashion industry.

Mitsuhiro Shima, President

While the development of the WHOLEGARMENT flat knitting machine made it possible to provide a wide variety of knitted products in small lots, in the apparel and fashion industry, the business model of producing and selling clothing at low cost and high volume has become widespread. This has created the problem that a large amount of manufactured clothing remains unsold, due to excessive competition on a global scale. As a result, the industry as a whole is facing a negative spiral, in which apparel manufacturers continue to seek production sites with low production costs and cannot secure profitability without selling in large quantities. Although the industry has seen some moves toward production and sales in appropriate quantities in recent years, this fundamental problem still remains.

From the perspective of aiming for business growth through solving social issues, which we have been addressing since our founding, we believe that we need to seriously

work on optimizing the business model of the apparel and fashion industry. To do so, it is essential not only to develop flat knitting machines, but also to propose solutions that focus on the entire supply chain of knit production, from upstream to downstream. Therefore, we aim to create a system where we can supply consumers with the products only in the quantities they need, and in a timely manner. A further challenge is to contribute to making manufacturing more environmentally friendly, by optimizing knit production volume. In other words, we believe that our company's future purpose and responsibility are to create a recycling-oriented business model whose focus starts with the production of raw materials, and encompasses sewing, distribution, and sales, as well as the recycling and secondary distribution of used clothing.

Proposing Solutions that Contribute to the Apparel and Fashion Industry

Talking of our business strength, under our corporate philosophy of "Ever Onward – Limitless Progress" we have been driven to develop advanced technologies with the lofty goal of achieving world firsts. Our strength lies in comprehensive in-house manufacturing through our accumulated expertise in precision processing technology, electronics technology, and assembly technology. Through the early incorporation of computer graphics, we have realized advanced solutions covering everything from planning to the production of apparel products. Behind these initiatives, we have had an unchanging desire to deliver products with the highest functionality at economical prices to meet the needs of the time.

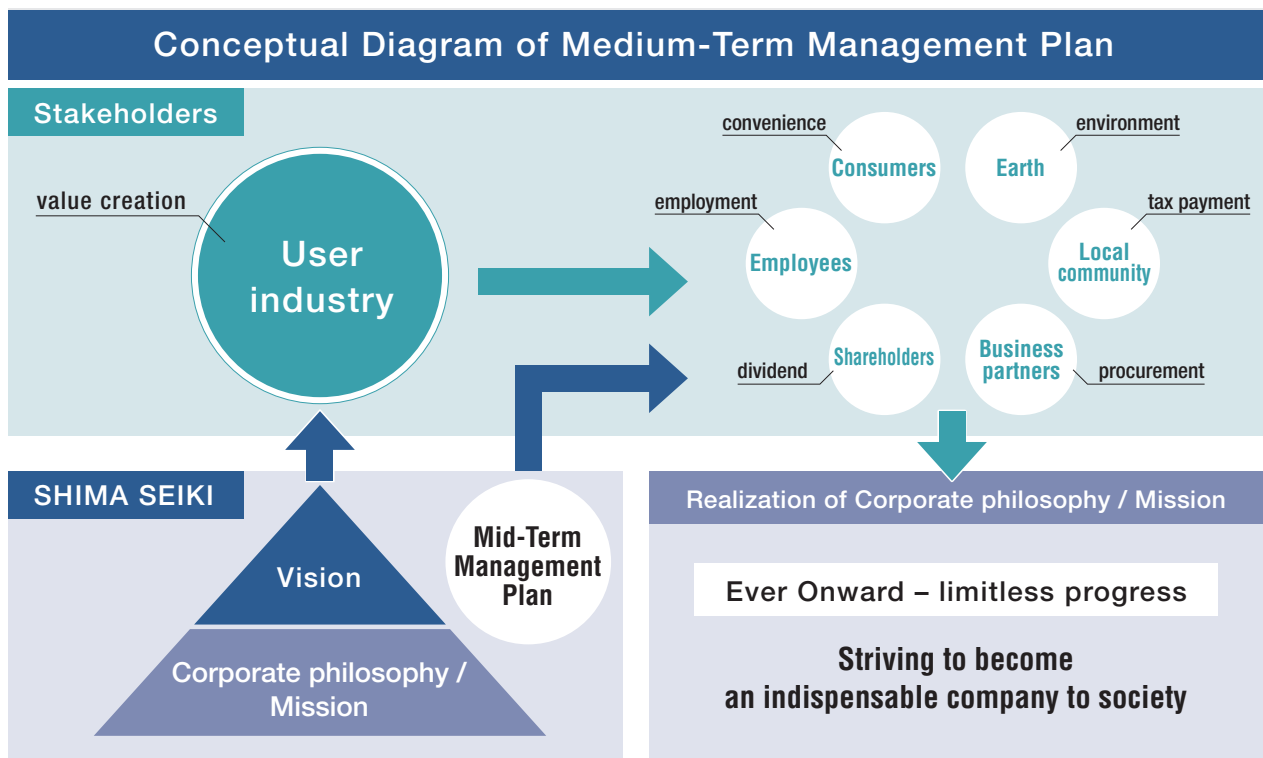
At the same time, we have always placed great importance on manufacturing in Japan. It may be desirable to manufacture products overseas to reduce production costs in the short term. However, from a medium- to long-term perspective, we think it is important to produce domestically in order to pass on Japan's technical heritage. We also continue to address issues such as the pursuit of added value by proposing solutions, and reductions in production costs.

For more than a quarter of a century, we have been making proposals to the apparel and fashion industry regarding optimization of the business model. Conventionally, the manufacturing process for apparel typically starts at least six months in advance, resulting in the issue of the difficulty in predicting the climate and consumption trends that will exist in six months and beyond. In response to this issue, we have made thorough consideration and proposed the creation of a

production system that is capable of the timely production of products that are in actual demand.

In recent years, in addition to computer-based design proposals, it has become possible to significantly shorten the planning period for apparel products through virtual sampling with realistic 3D simulations of materials and products. 3D simulations can also contribute to the production of clothing only in demanded quantities, which significantly reduces manufacturing waste. As the world increasingly values businesses that are conscious of the SDGs, we feel that society's interest in the solutions that our company has been proposing from early on is growing.

The spirit that is rooted in our company has been a passion to always stand at the forefront of the times and take on new challenges. These values are shared by all of our employees, including myself, based on the fact that Masahiro Shima has created innovative technologies one after another over the years. Actually, our initiatives toward DX (digital transformation) are not directed from above, and are implemented mainly by younger employees through a bottom-up approach. When I see the Company operate in this manner, it reassures me that its spirit of taking on challenges has been persistently passed on. A crucial mission of top management remains to build a company-wide framework for taking on the challenge of building a business model that will lead the times from a long-term perspective.



Arrival of Business Opportunities that Expand Possibilities for New Businesses

In the apparel and fashion industry that forms our customer base, since around 2018, there have been increasing doubts in the market regarding the current business model of mass production. There was also a decline in clothing demand due to significant restrictions on going out during the COVID-19 pandemic. On the other hand, since orders from apparel companies to clothing factories had also been stagnant, the inventory retained on the distribution side decreased gradually over roughly two years. Thus, in 2022, clothing production became active and orders for our products increased rapidly. However, from around autumn of 2021, there has been a notable shortage of semiconductors, and it has been taking time to procure the electrical components that are required to manufacture our products.

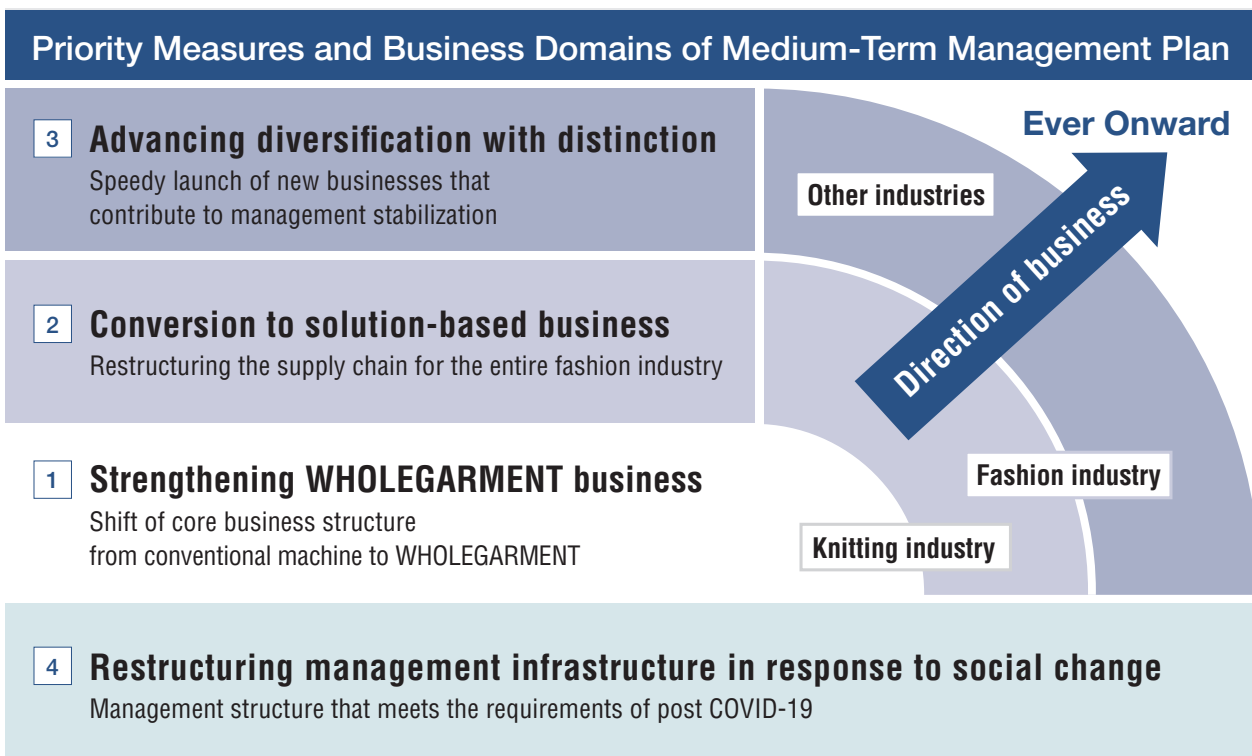
Although the recent market environment has been harsh like this, I consider it as a great opportunity to embark on a transformation toward an appropriate business model for the apparel and fashion industry. It is highly doubtful whether the apparel market will return to its former state after the COVID-19 pandemic. We think it is vital to not pass up this opportunity, and to establish a system that covers the entire supply chain from upstream to downstream in the apparel and fashion industry, which we have been proposing for more than a quarter of a century, as an industry standard. By doing so, we can help the apparel and fashion industry transition to a sustainable state, and aim for growing our company toward the next era.

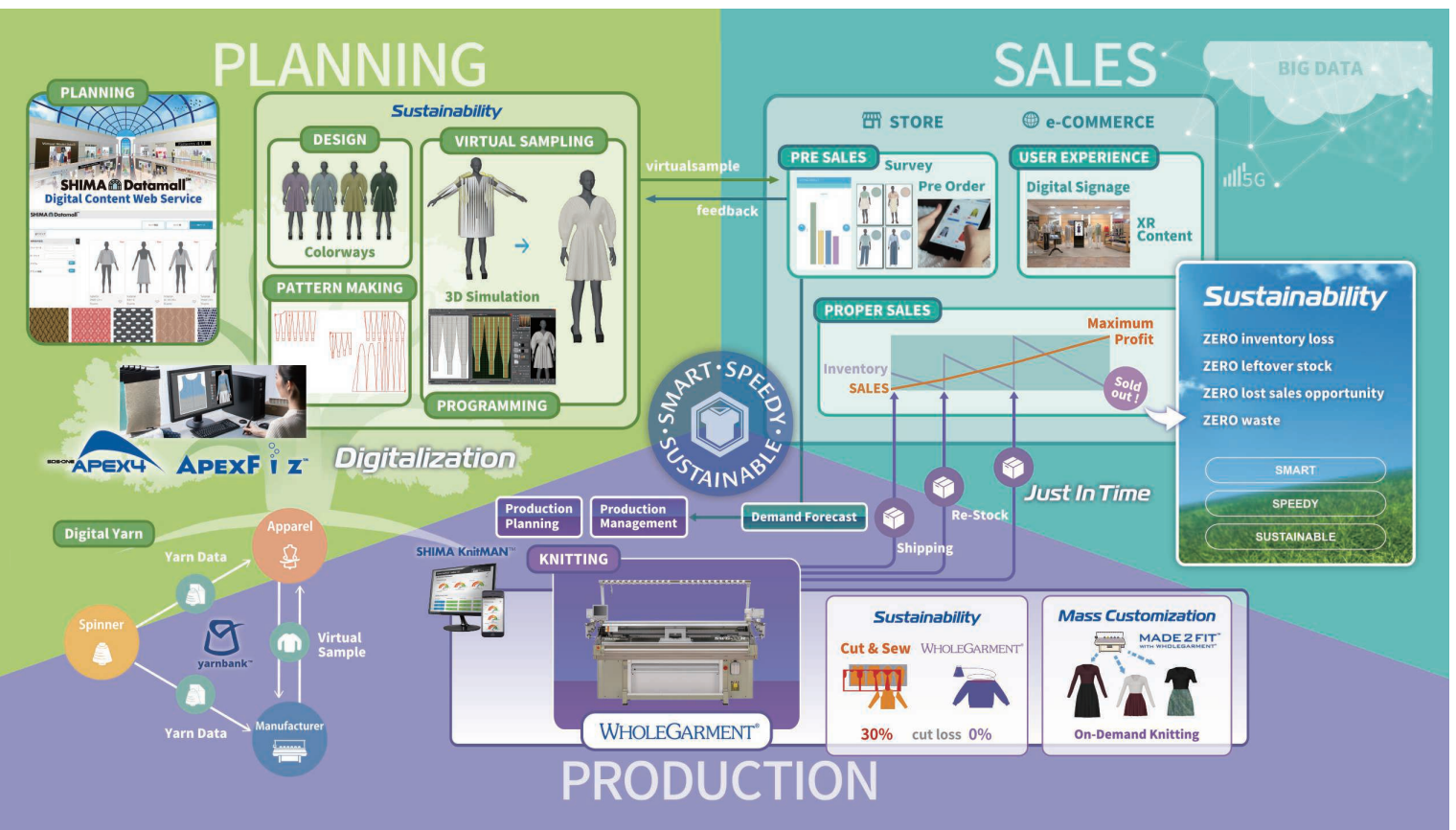
Under our corporate philosophy of “Ever Onward,” our aim

is to become an indispensable company to society. “Ever Onward” is about doing business that solves the issues that the industry is facing today. It also represents our commitment to boldly take on challenges to address issues that will continue to emerge in the decades to come. To realize this, we need to work together as a group to identify contemporary needs and issues, come up with ideas for solutions, and put these solutions into practice.

Going forward, it is essential for the Group to share issues, and for each and every employee to think and act autonomously. It is the task of management to create an organizational framework where this happens.

In the medium-term management plan, we will promote sales of WHOLEGARMENT flat knitting machines, and focus on proposing solutions for innovations in the apparel and fashion industry as well. We intend to expand the manufacturing know-how we will gain in such endeavor to other industries. This will be a great challenge for us, but one in which we will succeed.





Accelerating Our Challenges for Developing New Markets

An important initiative in our medium-term management plan is the development of markets outside of the apparel and fashion industry. We are already working on initiatives in the fields of automotive and industrial materials, and we intend to accelerate these efforts in the plan period, to develop these activities into new pillars of our business. In FY2022, we are participating in exhibitions related to composite materials in Europe and North America.

In the automotive and industrial materials sectors, issues such as decarbonization are driving efforts to make materials lightweight. One trend is a shift from metal to carbon fiber. We consider this change as a business opportunity, and intend to develop the market. Our flat knitting machines go beyond the idea of knitting fibers in a planar manner, and can create a wide variety of products as manufacturing devices for three-dimensional structures. By fully utilizing this feature and expanding into other industries, our company has great potential to dramatically change the world of manufacturing.

To create a three-dimensional object, it has traditionally been necessary to prepare numerous two-dimensional parts, such as paper patterns, and join these together. In addition to the waste of materials involved in shaping parts,

there is also the burden of having to join the parts together. Using our flat knitting machines eliminates material waste, and offers many other advantages in terms of delivery, cost, and quality due to their ability to shape products in a single operation. Since the knitting width of a flat knitting machine is limited, the size of the products that can be made is restricted, which is a major issue. However, the responses to presentations we have made at exhibitions have been very favorable. At present, we are identifying potential issues for practical use and are working on proposing solutions.

In the future, the utilization of manufacturing data will become increasingly important when proposing solutions. In 3D manufacturing, it is necessary to incorporate a wide range of information on threads, such as the material, thickness, degree of stretchiness, surface fuzz, and texture. It is essential to build a system to compile such information into a database, and to present the data in a useable form. Having data in a useable form means having a system that enables people all over the world to search, browse, and make purchases. By promoting the digitization of information, we wish to establish a platform for its use.

In June 2022, we opened SHIMA Datamall. This service enables users to search, browse, and purchase knitting data



for knit products, knit pattern data such as weave patterns, and data components used to create 3D virtual samples. Going forward, we will support the digital transformation of manufacturing by combining the Datamall with our SDS-ONE APEX® series design system.

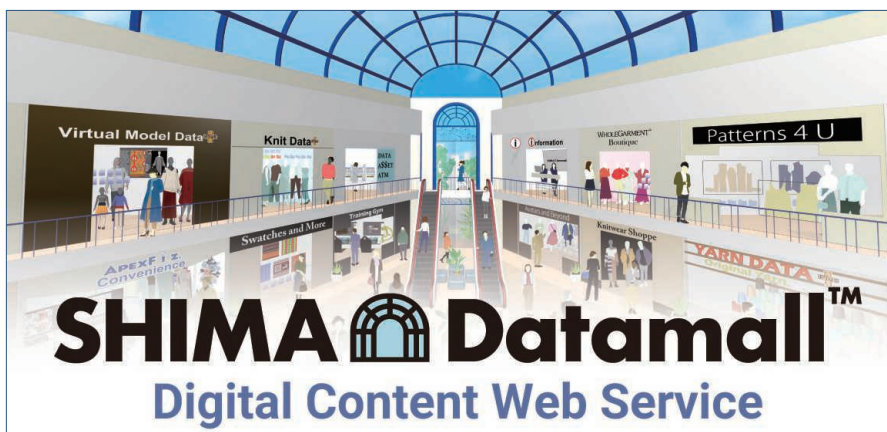
With advancing digitization, it is possible that there will be a tectonic shift in manufacturing practices in the apparel and fashion industry. As an example, it may become possible for people who are unfamiliar with apparel to work in fashion by using data and knitting machines. We expect that this would result in new businesses such as apparel startups appearing in succession. I predict that a time will come when consumers themselves become the creators of fashion.

Focus on Developing Sustainability-oriented Businesses

Going forward, it is becoming increasingly important for the apparel and fashion industry to reduce its

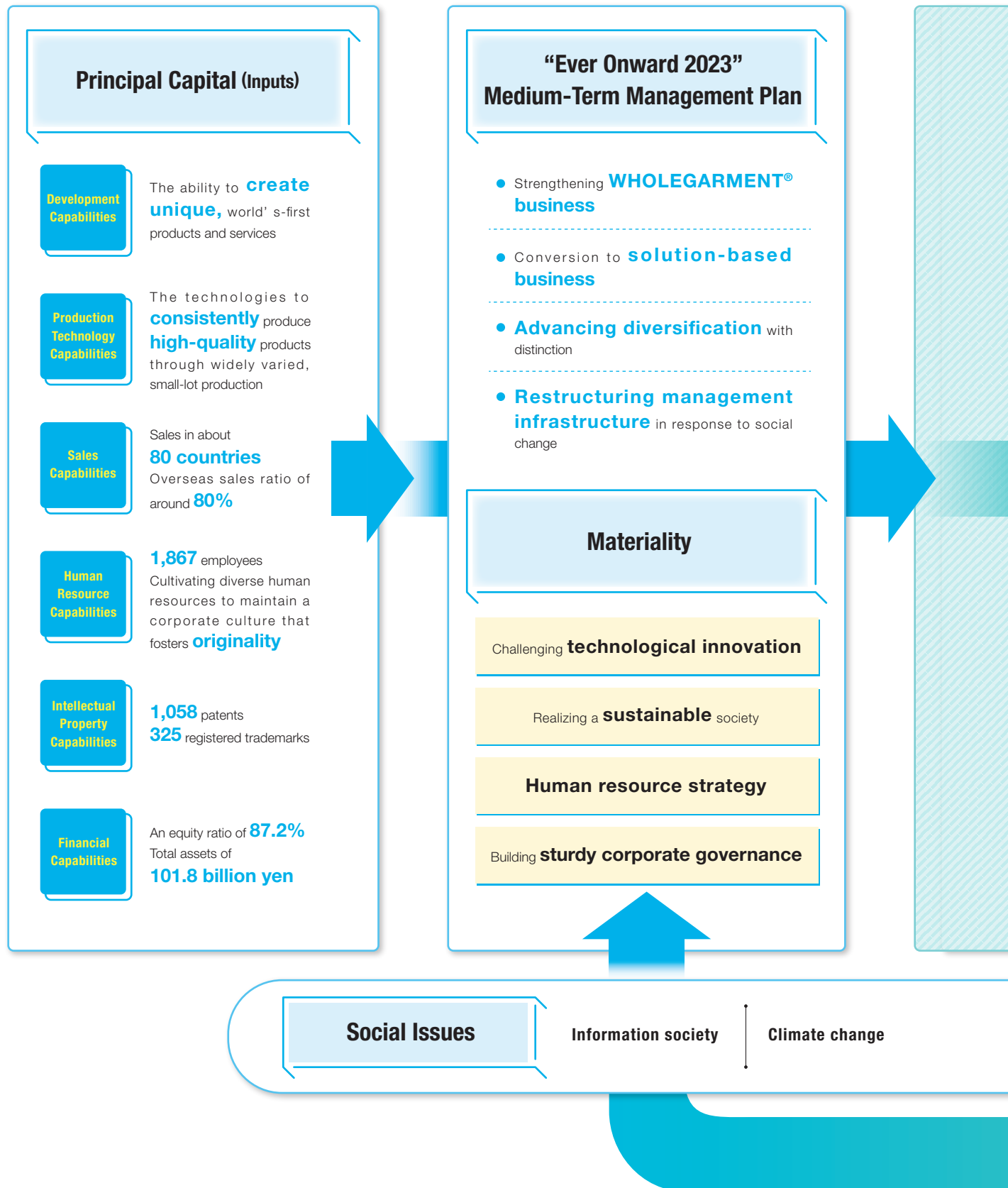
environmental impact. At present, roughly 70% of clothing is made from petroleum-derived fibers. In the future, the problem of disposing used clothing may promote the use of alternative fibers. However, no viable material has yet been found. Animal-derived fibers such as wool and cashmere are costly and production is limited. Plant-derived fibers such as cotton are already consumed in large quantities in the medical field, limiting their potential as an alternative to manmade fibers. While some synthetic fibers using proteins-based materials have appeared, they have not yet reached the point of replacing petroleum-derived fibers.

In light of these issues, we have been promoting initiatives in the field of clothing materials, as part of our business. We consider sustainability to be a vital aspect for promoting our business in the future. While efforts toward decarbonization remain the top priority, it is also important for our group to reduce waste in the clothing manufacturing supply chain. Moreover, we are also required to contribute to a healthy and prosperous life. Going forward, we will aim for sustainable growth based on the two wheels of economic value and social value. I sincerely ask for continued support of our stakeholders.



The Shima Seiki Value Creation Model

Continuing to challenge unknown territory toward the solution of social issues based on Ever Onward – Limitless Progress



Conversion to solution-based business

We aim to solve social issues by using our technology capabilities and hardware and software know-how to build platforms, systems, and frameworks for our customers to satisfy consumers.

Existing Business



Flat knitting machines



Design systems



Automatic fabric cutting machines



Glove and sock knitting machines



New Business Development



APEXFiz®



SHIMA Datamall™

Appeal to customers and industries



Apparel and fashion



Healthcare



Automotive



Home furnishings and interiors



Sports and outdoors



Industrial materials



Aerospace

Return to consumers

Timely and optimal production

Produce the required amount only as needed, and ensure that consumers can get what they want when they want it as well.

Secondary distribution of fashion products

Consumers can feel they are helping the environment and use fashion products more effectively.

A game changer for the industry

Consumers can benefit from cost advantage of reduced wasteful practices in manufacturing.

Contributing to other industries

Contribute not only to the fashion industry, but also to an affluent society, which in turn enriches consumers' life.

Solving social issues

Environmental pollution
Resource depletion

Population decline
in developed countries

Workstyle reform

Strengthening of
international competitiveness

Shima Seiki's Materiality

Identifying Priority Issues for the Future

In order to become an indispensable company to 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

1 Reference indexes at the time of materiality specification

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



2 Assessment of Importance

External Environment and Social Issues by Materiality

Technology

- 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
Emergence of DX and EC sales; shift of the apparel manufacturing industry to local production for local consumption
- 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

Environment

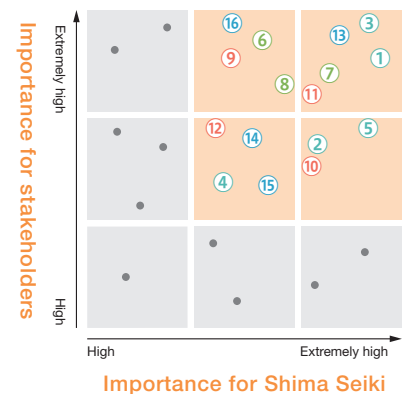
- ⑥ Emergence of environmental problems, such as global warming, abnormal weather conditions, energy consumption, and water resource pollution
- ⑦ Worldwide emissions of 2.1 billion tons a year by the apparel industry
- ⑧ Increase of made-to-order production and customized sales; increasing interest in ethical consumption

Human Resources

- 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

Governance

- 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







3 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.

4 Approval by Management

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

Materiality theme	Issues in Shima Seiki's initiatives	Shima Seiki's activity content	Results up to June 2022	Relation to medium-term management plan	Relevant SDGs
Technology	Development of original technologies that are world's firsts	Development of new products and services; reinforcing functions of existing products	<ul style="list-style-type: none"> • Development and announcement of SWG-XR® • Launched yarnbank® service 	<p>Strengthening WHOLEGARMENT business</p> <p>Conversion to solution-based business</p> <p>Advancing diversification with distinction</p>	
Challenging technological innovation	Productivity improvement through better efficiency	Automation and labor saving through the utilization of digital tools			
	Building a manufacturing platform through digitization	Expansion of the solution-based business that encompasses Shima Seiki products			
	Response to cutting-edge technologies	Development of products compatible with latest technologies such as AI; making internal systems more resilient			
	Creation of added-value clothing	Development of new knitting methods and high added value yarn			
Environment	Environmental preservation	Optimization of the manufacturing process of our products	<ul style="list-style-type: none"> • Established the Sustainability Management Division • Determined the basic policy on sustainability • Expressed support for TCFD 	<p>Strengthening WHOLEGARMENT business</p> <p>Conversion to solution-based business</p>	
Realizing a sustainable society	Supply of products and services with little environmental load	Reducing wasteful practices in the fashion industry			
	Shift to timely and optimal production	Proposal of solutions centered on WHOLEGARMENT® flat knitting machines			
Human Resources	Building a workplace environment in which employees can play an active role sustainably	Raising of mandatory retirement age; implementation of diverse workstyles	<ul style="list-style-type: none"> • Promotion of active participation of women • Implemented COVID-19 vaccination in the workplace • Implemented internal recruitment system 	<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>	
Human resource strategy	Promotion of diversity	Promotion of active participation of women, mid-career employees, foreign nationals, etc.			
	Development of innovative human resources	Support for new business startups; flexible employment system; enhancement of in-house education			
	Promotion of employee workstyle reform	Increasing workstyle options and emphasis on work-life balance			
Governance	Strengthening of effectiveness of Board of Directors	Division of roles of company management and business execution	<ul style="list-style-type: none"> • Appointed new executive officers 	<p>Restructuring management infrastructure in response to social change</p>	
Building sturdy corporate governance	Strengthening of risk management setup	Management of business risk countermeasures; operation of business continuity plans (BCP); strengthening of information security			
	Promotion of compliance	Strengthening of awareness-raising activities in the Compliance Committee			
	Strengthening of investor relations and publicity setup	Online meetings and briefings with individuals and institutional investors; local community contribution activities			

Ever Onward 2023 Medium-Term Management Plan (FY2021–2023)

We formulated Ever Onward 2023, our 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 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

(billion JPY)	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	—

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
of Medium-Term
Management Plan

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

Initiatives for the
Realization of a
Sustainable Society

Advancing our initiatives on mainly 9 issues for 2030 target

Products Level



Digitalization of fashion industry



Reducing inventory loss of knitted products

Company Level



Increasing the number of female managers



Increasing utilization rate of paid-leave



Appropriate waste water treatment from factories



Reducing discharge amount of chemical waste



Reducing CO₂ emissions



Increasing the usage rate of renewable energy



Increasing the green space area ratio

Investment
Plan

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

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

Investment Results and Plan (million JPY)

FY	2017	2018	2019	2020	2021	2023 Plan
R&D	2,794	3,250	3,675	3,310	3,389	3,700
Equipment	3,999	4,483	3,801	1,341	1,693	4,500

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)

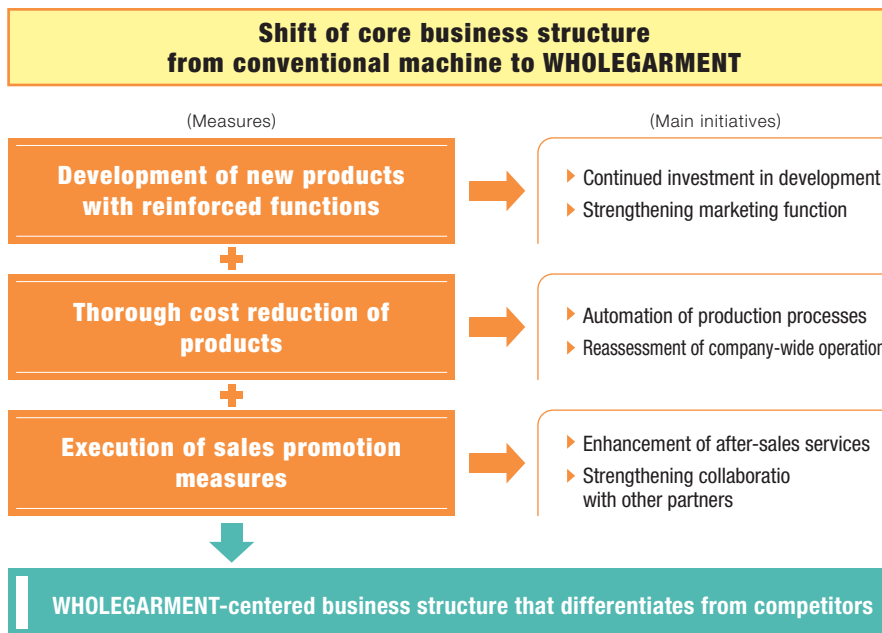
Consolidated payout target ratio of 30%

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.

Priority Measures for Achieving the Four Targets

In the fiscal year ended March 31, 2022, the first year of the “Ever Onward 2023” medium-term management plan, we posted a final loss for the third consecutive year. First and foremost, we aim to return to profitability, and then we will continue with initiatives in line with the four priority measures to achieve further growth.

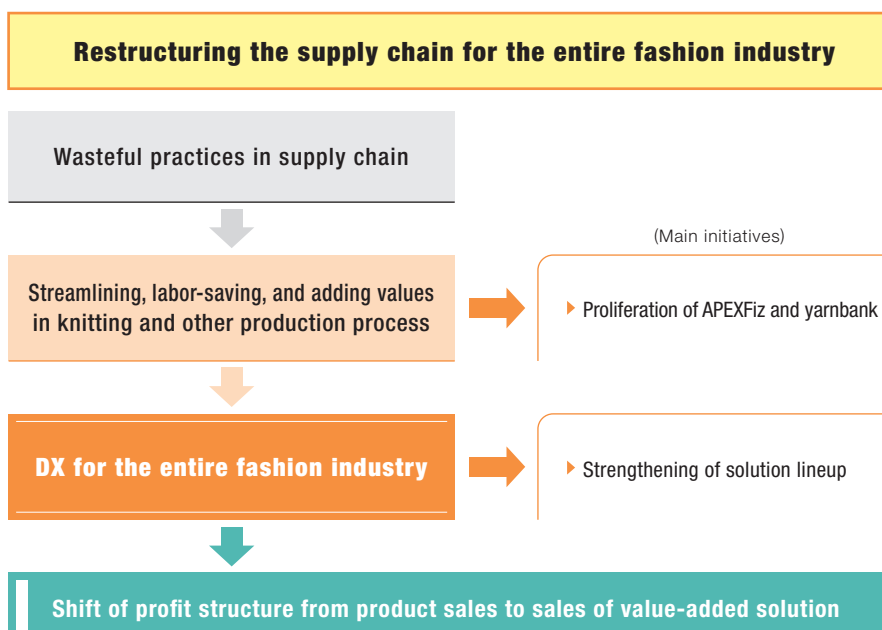
1 Strengthening WHOLEGARMENT business



Main progress results

- Development, announcement, and launch of new SWG-XR model
- Enhanced the production system for WHOLEGARMENT flat knitting machines

2 Conversion to solution-based business

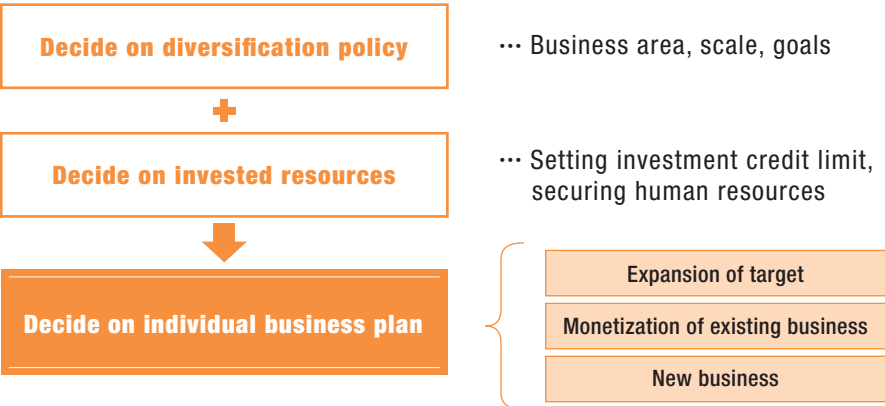


Main progress results

- Release of APEXFiz PGM
- Launched SHIMA Datamall service

3 Advancing diversification with distinction

Speedy launch of new businesses that contribute to management stabilization



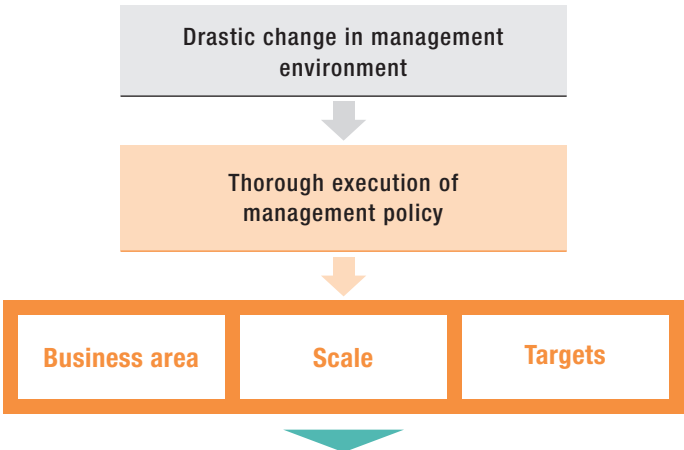
Main progress results

- Developed knitting machines for industrial materials and announced at exhibitions
- Release of SATC90 automatic towel cutting machine
- Strengthened initiatives in the materials field

Rectifying overdependence on flat knitting segment and securing stable profit structure

4 Restructuring management infrastructure in response to social change

Management structure that meets the requirements of post COVID-19



Main progress results

- Established the Sustainability Management Division
- Established the basic policy on sustainability
- Established the Sustainability Committee
- Expressed support for TCFD
- Appointed new executive officers
- Mobility of human resources and placing the right person in the right place
- Expansion of internal recruitment system

Advancement of management infrastructure necessary for execution of these measures



Looking ahead to the future of the apparel and fashion industry, we will actively invest in sustainable growth.

Director, Executive Officer
General Manager of Accounting and Finance Division in charge of the Administrative Division and the Physical Distribution Division

Takashi Nanki

Strength in Creating New Business Opportunities Based on a Stable Financial Base

In recent years, the management environment surrounding our company has been strongly impacted by the COVID-19 pandemic, in addition to a decline in net sales due to a deterioration in market conditions of the apparel and fashion industry. However, looking back over our 60-year history, we have experienced difficult situations many times. Each time, we have created new value, using such difficulties as a springboard. Although there have been difficult times, including financing impasse at the time of the Company's founding, the oil crisis in the 1970s, the high-yen recession in the 1980s, and the global financial crisis in the 2000s, our company has created world's firsts with the spirit of "Ever Onward."

We provide industry with world's firsts by demonstrating our spirit of challenge. We also expand our sales channels across national borders. By repeating this cycle, we believe that we have significantly distinguished our company from our competitors, in terms of development and technological capabilities. Another strength is that we have established strong relationships with major apparel customers and manufacturers in the knitwear industry. This has enabled us to quickly take in customer information and needs, and utilize such information to develop new products.

In addition, our group includes a spinning manufacturer, which provides us with a wealth of knowledge about materials that lie upstream in the clothing industry supply chain. Through our design system, we have a solution that comprehensively covers our customers' manufacturing. We have also established an extensive after-sales service network. Thus, we contribute to

apparel and fashion industry from upstream to downstream. Based on this wide-ranging business base, we have developed a highly profitable business as a leading company in the flat knitting machine industry, thereby building a stable financial base. Thanks to our outstanding financial soundness, we have been able to invest in research and development at a high level, even in situations like the current COVID-19 pandemic. Our financial ability also enables us to develop new products and create new businesses through M&As.

Meanwhile, it is undeniable that the recent dominance of low-priced fast fashion and the rise of Chinese manufacturers have reduced the average unit sales price of apparel products, and caused a decline in profitability. In addition, long-standing customs in the industry result in a long collection period for trade receivables, leading to a deterioration in capital efficiency. From a financial viewpoint, one challenge is how to shorten the number of days in the cash conversion cycle.

While Orders are Recovering, Parts Shortages Remain a Risk

In Europe, the U.S., and Japan, the COVID-19 pandemic has recently begun to subside, and I believe that economic activity is returning to normal. Although the apparel and fashion industry cut production for the past two years, the recovery has been remarkable and if anything, there are now supply shortages. Knitwear manufacturers in Bangladesh and the ASEAN countries have experienced a surge in orders from apparel companies, and production of high-end clothing is increasing in Italy and Turkey, creating a strain on production

facilities. As a result, demand for capital investment is robust. In the Chinese market, we have enjoyed strong sales due to the introduction of WHOLEGARMENT® flat knitting machines. However, the effect of continued lockdowns in urban areas like Shenzhen, Shanghai, and Beijing has caused a prolonged stagnation in the domestic distribution network. We believe that both raw material procurement and product shipments will continue to be affected.

While orders are recovering due to a recovery in demand for capital investment, a new risk factor lies in the difficulty of procuring parts. In some cases, orders have been postponed due to an inability to respond to customers regarding delivery dates.

We have also been working to gain the understanding of our customers to pass on steep increases in costs such as raw materials and marine transportation, which are eroding profits. On the other hand, depreciation of the yen has been a positive factor for our company and has offset soaring prices.

R&D Investment, Capital Investment, and Aggressive Investment for Business Diversification

As a medium- to long-term issue, although the apparel and fashion market will continue to expand, the problems of mass production and mass consumption, which are common practices in the industry, are becoming apparent. As a result, it is urgent for the industry as a whole to shift toward sustainable manufacturing. For this reason, we expect some businesses will temporarily adjust their production volume, and there is the risk that capital investment will be constrained.

However, our company has been making proposals for the industry to become more sustainable from early on. We believe that our Total Fashion System®, which eliminates all types of waste by utilizing WHOLEGARMENT flat knitting machines and our design systems, will demonstrate its power. Therefore, we view structural changes in the industry as a great business opportunity.

Regarding the progress of our medium-term management plan, although we are facing a difficult situation of posting losses for three consecutive years, we have been sowing and nurturing various seeds toward achieving our numerical targets for FY2023, and becoming an indispensable company to society.

As I have already mentioned, due to the strength of our stable financial base, we are able to engage in R&D investment, capital investment, and aggressive investment for business diversification. In addition, we would like to actively promote investments aimed at speeding up the development of new models and expanding our business domains.

In our core flat knitting machine business, we are undergoing a transition to a business structure centered on WHOLEGARMENT flat knitting machines, from conventional computerized flat knitting machines. We will launch next-generation WHOLEGARMENT flat knitting machines, which increase customer satisfaction and have even higher functionality. In regions where the focus is on mass production, we will differentiate ourselves from competitors by providing high value-added solutions. Rather than raising the prices of existing models, we intend to increase our average unit sales price by introducing new models that meet customer needs.

At the same time, we will promote automation and labor-saving in factories to reduce manufacturing costs. We are also working to improve our cost structure by improving productivity through the appropriate allocation of personnel and by reviewing our procurement routes. Through these initiatives, we hope to reduce costs and curb selling, general and administrative expenses, leading us back to profitability.

Regarding exchange rates, although the yen is currently depreciating, which is positive for us, we do not think this trend will continue indefinitely. We are hedging the risk of trade receivables denominated in foreign currencies, so that we do not incur foreign exchange losses when the yen eventually turns to appreciation.

Although we posted a loss in the first year of the medium-term management plan, the market environment is gradually recovering. Net sales in the fiscal year ended March 31, 2022 increased by 26.6% compared to the previous fiscal year. The gross profit margin was 32.9%, an improvement of 8.6 percentage points from 24.3% in the previous fiscal year. In addition, selling, general and administrative expenses have been reduced by 600 million yen from the previous fiscal year. The selling, general and administrative expenses to sales ratio was 46.8%, an improvement of 14.9 percentage points from 61.7% in the previous fiscal year. Thanks to improvements on the financial side, the amount of losses has been reduced significantly.

Aiming for Profitability and toward a New Growth Trajectory

To drive future growth, we invested roughly 3.4 billion yen in research and development in the fiscal year ended March 31, 2022, and plan to invest 3.7 billion yen in the fiscal year ending March 31, 2023. The investments are aimed at continued development, including acceleration of the development of new WHOLEGARMENT flat knitting machines. We also plan to actively invest in research and development, including the use of external resources, to enhance yarnbank® and 3D software, and to expand the functionality of our design systems.

Capital investment was sluggish, at 1.7 billion yen in the fiscal year ended March 31, 2022. This is partly due to a delay of the planned introduction of machine tools until the following fiscal year. Our plan is to invest 3.2 billion yen in the fiscal year ending March 31, 2023. This investment is being undertaken to increase our production capabilities, including the introduction of automated equipment.

Going forward, the Company aims to not only return to profitability, but also to strongly step forward toward a new growth trajectory. We will also make company-wide efforts, so that a more positive outlook can be presented in next year's Integrated Report. I thank you for your continued support.

Interview with Director, General Manager of the Corporate Planning Division and Director, General Manager of the Production Headquarters



Director, Executive officer
General Manager of the Corporate Planning Division in charge of General Affairs and the Personnel Division and the Information System Division

Shosaku Kitagawa

Director, Executive officer
General Manager of the Production Headquarters in charge of the Development Headquarters

Akihiro Ohtani

We will develop new business possibilities by solving social issues in the age to come.

The two Directors from Corporate Planning and Production/Development discuss their thoughts on the changes brought about by the COVID-19 pandemic, the future mission of SHIMA SEIKI and what our image should look like from a long-term perspective.

Pursuing the Dream of Realizing “Timely and Optimal Production”

Kitagawa First of all, I feel that the world has changed significantly during these few years of the COVID-19 pandemic. In the apparel and fashion industry, it is becoming increasingly important for manufacturing to be sustainable. The traditional business model of mass production and mass disposal is now being reviewed, and more people in the industry are calling for a shift to a new business model. The Company has advocated for the establishment of a “timely and optimal production” model with its Total Fashion System® from early on. This is a business model where products can be planned in a short time using our online services and design systems, and brought to market using WHOLEGARMENT® flat knitting machines, which have high productivity and reduce post-processing. It also represents a solution to achieve the “ideal image” of our business, where optimal products are produced in the demanded amounts, in the right place and at the right time. By doing so, producers can eliminate the waste of raw material and improve productivity, while consumers are able to purchase the products they want when they want them. In addition, waste can be eliminated by matching production volume to actual demand, which greatly contributes to reducing the impact on the global environment. Through these initiatives,

we can bring about major changes in the practices of the apparel and fashion industry, and realize our corporate philosophy of becoming an indispensable company to society.

Ohtani In the apparel and fashion industry, when a customer visits a store, the products on display anticipate the coming season, and there are no products for the current season. Even if you wish that the products in the store were somehow different, it is not possible to make them how you would like at that time, at a manufacturing site. This is a structural issue that is unique to the industry, and which has persisted for decades. Personally speaking, I have been feeling irritated about this. As a solution to this issue, I believe that our WHOLEGARMENT machines are the most appropriate option at this time. Among our machines, the new SWG-XR® was developed to allow greater design diversity, and has dramatically improved functionality compared to the former models. I think the scope of meeting the demands of designers has expanded significantly.

Kitagawa Against the backdrop of the COVID-19 pandemic,

the entire apparel and fashion industry, including our company, has realized that “this is not the way it should be.” A belief that the current model has to change is growing rapidly throughout the industry. We consider this increasing understanding of supply chain reform as a great business opportunity for our company. We will take this opportunity to step up our efforts in proposing numerous solutions for the issues the industry is facing, and do all we can to make people understand that supply chain reform is not a pipe dream, but is a current issue that we can solve. Contributing to the development of the industry in this manner is one of our most important missions.

Ohtani While the pandemic has had a positive effect in terms of raising awareness about timely and optimal production, there has also been the negative effect of supply chain disruptions. A pressing issue at production sites is the difficulty in procuring parts. This issue is likely to continue for some time. In the past, there have been occasions where parts could not arrive locally due to climate change, such as floods and severe cold weather. This time, due to the COVID-19 pandemic, the operation of factories halted at every point in the supply chain, and the supply of parts was delayed, which has caused this issue to become especially prominent. This is an issue that the manufacturing division needs to address as soon as possible.

Aiming to Become a Company that People Say, “If We Have a Problem, Let’s Ask Shima Seiki”

Ohtani The two years of the COVID-19 pandemic were tough, with a fall in orders. However, during this period, we focused on building IT infrastructure at our machine manufacturing plants. As an example, we created a system that can automatically allocate a daily workload to each employee, based on the production plan. In addition, regarding parts manufacturing, we quantified how much added value was created when we process materials into parts.

At our development sites, we have proactively reassigned human resources to create an organization that maximizes productivity in line with the development environment. In conjunction with this, when developing new products, we focus on development from a market-oriented perspective, which considers what type of machines are in demand in the world, rather than being product-oriented.

Kitagawa Under the severe management environment in recent years, many management issues have been highlighted for the Company, such as diversification of our human resources and how to improve productivity. Among these issues, I feel that the most important is how we can establish a system that enables us to realize, in a timely manner what customers want as well as potential issues that

customers may face but are unaware of, and to propose solutions. Until now, each time our company developed new products and services and put them on the market, we have communicated their attractiveness to customers. However, in a rapidly changing and diversifying market, this alone may not satisfy customers. The world is always seeking for more. As a result, I think that the most important issue for our company is to create added value beyond what our customers would imagine, and to embody and provide it in our products and services.

For this reason, we set “conversion to solution-based business” as a priority measure in our medium-term management plan, and would like to contribute to society by continuing to provide products and services that solve a variety of issues for our customers, and to communicate such information to them. Personally, I would like to see the Company position itself as an “all-around consultation center” for the apparel and fashion industry, so that people say, “if we have a problem, let’s ask Shima Seiki.”

Ohtani Since the development division is located highly upstream, we have little chance to receive customer feedback directly, and it is difficult to see the results of our work. Hearing customer feedback and inquiries from an “all-around consultation center” would be a great stimulus to our development staff. Directly receiving feedback from customers about how our actions turned out would be rewarding, and provide motivation to those involved in the development process.

Consciousness of humans changes further when they receive feedback regarding changes they have made to their behavior based on their awareness. We now have more people in the Company who realize the value of this awareness. In that sense, there has been a major change in the consciousness within the Company.

What to Maintain and What to Change Toward the Future

Ohtani Since the Company, including development, production, and sales, has developed mainly on its home turf of Wakayama, we can work on a series of manufacturing flows with much greater speed than if these functions were distributed. This is a source of our strength. Our fundamental mindset has always been to create previously nonexistent products ourselves. When work is outsourced, time can just fly by, so that by the time the product is ready, the opportunity may have already passed.

However, it is also important to review what method would be best for acquiring parts and materials, while giving consideration to quality, cost, and speed. This can also apply to procurement and development resources. While maintaining our spirit, we need to make continuous changes.

Kitagawa I believe our company’s corporate value comes from our strength in manufacturing and the product appeal it creates. To fully demonstrate these strengths and differentiate ourselves from competitors, it is important not only to have



Shosaku Kitagawa

Appointed as a Director of the Company in June 2021. Responsible for the Corporate Planning Division, and leads the formulation of the medium-term management plan and the creation of new businesses. Oversees the Corporate Planning Division as a Director, and promotes the optimization of human resources and DX of administrative operations.

products as simple physical goods, but also to establish systems and services that allow these products to be used effectively. As an example, in clothing production, most of the greenhouse gases causing global warming are emitted during the material production process. We have been working on this industry issue. It is also necessary to build a sustainable scheme for the efficient secondary distribution of clothing that is no longer used, instead of simply discarding and incinerating it.

When looking across the supply chain from upstream to downstream, it is an important issue for our company to fully utilize our unique strengths, and create a system that enables the entire industry to drastically change its course. To this end, we will further strengthen the organization and structure of the entire Group, to enhance and diversify our solution-based business.

Contributing to Industries outside of Apparel and Fashion

Kitagawa Although the Company will no doubt continue to focus on the apparel and fashion industry going forward, the wide-ranging technologies and know-how we have cultivated to date have potential to be applied in fields other than clothing, such as industrial materials. For this reason, in addition to increasing the value of our presence as an “all-around consultation center” for the apparel and fashion industry, our aim is to use our

experience and know-how to make various proposals for a wider range of industries. We have already commenced several new projects within the Company, and will accelerate these new initiatives so that they can become actual businesses and contribute to earnings as soon as possible.

Ohtani From the standpoint of production and development, there are endless possibilities for breaking into fields outside of apparel and fashion. I think people who are involved in development are really motivated, because they get to create things that do not yet exist in the world.

Kitagawa We have already received inquiries from various industries about the development of new fields. To meet their expectations, we would like to put our proprietary technologies and ideas to work in solving issues and creating new added value.

At our company, we have the “theory of water in a tub,” which was advocated by our founder, Masahiro Shima. If you try to pull water in a tub toward yourself for your own gain, it will inevitably flow away to the side.

On the other hand, if you push the water so that the customer receives the water first, the customer will receive water, and then the water will return to you. Based on this teaching, we would like to expand the possibilities of our technologies in fields outside of apparel and fashion.

A Game Changer for the World of Apparel and Fashion

Kitagawa Our long-term vision and purpose is to create a world where game changes occur repeatedly in the apparel and fashion industry, and entire industry continuously creates whole new added value.

It will not be easy for us to create new things not existing in the world by ourselves. However, I am convinced that in taking on challenge after challenge without limit, we will eventually solve social issues and become an indispensable company to society.

Ohtani To achieve the goals that Director Kitagawa describes from the manufacturing side, and prevent them from ending up as simply a pipe dream, I would like to work on development that utilizes the strengths of our production facilities.

As one example of research and development, I envision a machine that can automate all processes up to the packaging of the finished products. Developing machines with automation as a starting point will help to diversify the businesses of our company.

We would also like to improve our working environment through automation. At present, there are tasks that are physically demanding. By automating these tasks, I would like to improve the working environment of our employees, and make them feel glad to have worked at Shima Seiki.

We used to say that it is best to handle all new challenges in-house. However, that changed around two years ago.

Due to the rapid development of science and technology, there is a limit to what one company can do on its own. To quickly realize an ideal, it is necessary to cooperate with those who have the technology.

Kitagawa The business environment of the customers who use our products is changing rapidly, and I expect that the speed of this change will continue to accelerate, going forward. I believe a time will soon come when consumers will instantly receive recommendations for clothing that suits their tastes and time, place, and occasion (TPO) using big data, and can also create and wear, in a timely manner, one-of-a-kind fashion items that have been designed by themselves as well.

We must respond appropriately to these changing trends in the world, and at the same time, always look ahead and work on our daily business with the spirit of "Ever Onward." Otherwise, we may fall behind the times.

Ohtani While the business environment is changing, SHIMA SEIKI will continue to anticipate these changes and respond to them flexibly. I am certain that we will live up to the expectations of society. However, our rivals must also have the same thoughts as us. To realize our dreams, the speed of our efforts is the key, and we would like to work together as a team, to provide the best value also in terms of quality and cost.

Akihiro Ohtani

Appointed as a Director of the Company in June 2021. As General Manager of the Production Headquarters, oversees the production and manufacturing division and the material procurement division, and is also responsible for the development division. Manages the Company's overall manufacturing, including making the collaboration between development and production more flexible.



R&D Strategy

We constantly challenge ourselves to develop new technologies, and work to create products and services that can bring major innovations in fashion industry, and other industries as well.

Developing products that solve social issues

Since our present development system was established, our development teams have been working to develop flat knitting machines which clearly demonstrate the concepts from the intended knit products, and glove and sock knitting machines and P-CAM automatic cutting machines that boast the world's best technologies to best meet customers' needs. With our design system as its core, WHOLEGARMENT flat knitting machine achieves the "five right things" production: right time, right place, right product, right price and right quantity, which reduces the amount of unsold and discarded clothing, and in turn will lead to a reduction in environmental impact and to decarbonization.



Creating sustainability-oriented products

Halving power consumption

In 2022, we launched a project with the goal of developing a new model that can reduce the power consumption required to knit a single garment by 50% compared to the SWG-XR WHOLEGARMENT flat knitting machine by 2030. Since project inception, we have subdivided the product into mechanisms and visualized how much power is required by each part.

Although our existing products require a large amount of energy to operate, we will promote power saving in each internal mechanism in the future. Energy-saving products are environmentally friendly and also help customers reducing running costs. We will strengthen our efforts into reducing energy consumption in parallel with improving product functionality.

Standardization of product colors

By minimizing the types and amount of paint used, such as by leaving areas with no added value unpainted, we are eliminating paint waste and reducing power consumption caused by painting. In addition, by promoting the branding of product colors, we can reduce the cost and achieve product unification. For newly developed models in future, we are planning a product lineup with new standards for new color branding, and the product colors will be unified.

Sustainability realized through customers

Conventional shaping knitting machines require linking work to join each stitch, which is extremely difficult on the eyes, and there have been a shortage in linking workers in recent years. With WHOLEGARMENT flat knitting machines, there is no linking and sewing procedures, freeing workers from difficult linking work. In addition, manufacturing that incorporates our design system can greatly reduce lead time, making it possible to knit only the required amount in demand. This helps our customers to eliminate the overburden and waste in production, and contribute to overall sustainability in society.

Advantages from integrated production at our Headquarters

Speedy development and production system

To create market-oriented products incorporating user feedback as much as possible, it is essential to grasp customers' needs directly and quickly. At Shima Seiki, we provide one stop service from product planning and development to production, manufacturing, sales, and after sales service at our headquarters. This generates our greatest strength, which is our ability to advance our business while simultaneously solving the problems in development and production procedures and problems in sales and after-sales service procedures faced by our customers.

Streamlining development and mass production through repeated design reviews

The majority of problems that occur between development departments and production departments are due to a lack of communication and information share between the two sides. To resolve this situation, in April 2020, we set up a department specializing in mass production design in the production departments, and conduct repeated design reviews with the development departments at the prototype stage until we are satisfied. Once this mass production framework is entered, by having processes like revision of drawings performed at the production departments, the development departments are freed up for new innovation, and work hours will be shortened as well, leading to cost reduction.

Increasing mobility for human resources

At Shima Seiki, the average age of our employees has been increasing. While older engineers have skills and experience, they are less likely to innovate compared to young engineers. In the future, we will further encourage the communication between older engineers and young engineers, and look to increase the number of young development engineers in particular.

Intellectual property Policy

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 we will 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.

In recent years, in addition to innovation within single specialized technologies, there has been an increasing trend toward creation of new technologies through fusion with technology from other fields. As one of the related initiatives, we plan to hold in-house seminars on the signing of non-disclosure agreement (NDA), not only for development staff, but also for the sales and administrative departments.

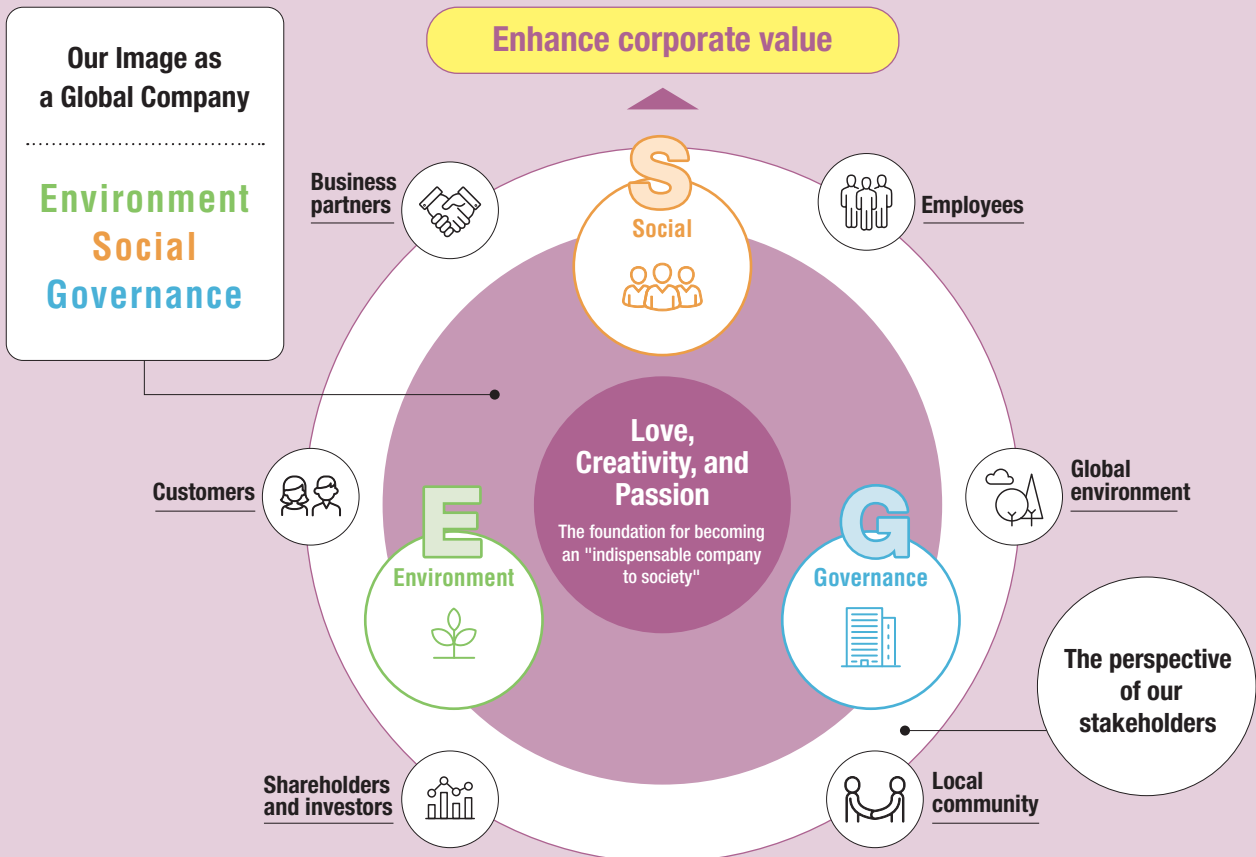
Shima Seiki's Sustainability

The Company views sustainability as an “important initiative to meet social demands and improve corporate value” and has set forth challenges toward achieving the SDGs in its medium-term management plan, “Ever Onward 2023.” In order to become an “indispensable company to society,” we will contribute to the sustainable development of society and the preservation of the global environment, and realize the enhancement of corporate value.

The Shima Seiki Group's Basic Policy on Sustainability

Under the spirit of the corporate motto of the Shima Seiki group “Ever Onward - Limitless Progress,” we will step off of the conventional path and employ “Love,” “Creativity,” and “Passion” as our mantra to cause changes and create new value from the customer and consumer perspectives and further contribute to the building of a better society and environment beyond the borders of the industry. In addition, we will proactively promote sustainability activities in accordance with the points as shown on the right side:

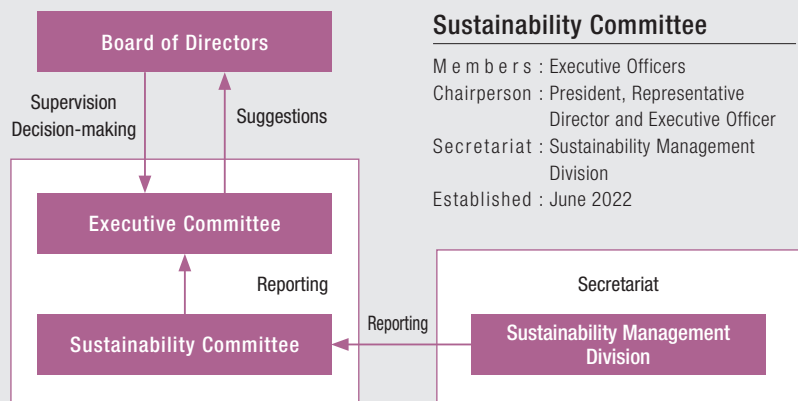
- 1 We will contribute to the sustainable development of society by generating new value through the provision of products and services that help resolve environmental and social problems.
- 2 We endeavor to maintain the global environment by understanding the significance of environmental protection and the maintenance of biodiversity and promoting environmental load reduction, such as by reducing greenhouse gas emissions and preventing pollution, the sustainable procurement of materials, the proper management of chemical substances contained in our products, and the efficient and cyclical use of resources.
- 3 With a view to realizing a society in which the dignity of all people tied in any way to our business is protected, we endeavor to prevent the violation of human rights by taking appropriate actions to address the impact of our business activities on human rights and the risks that such activities pose in this respect.
- 4 We endeavor to create a climate in which each individual can fully demonstrate personal individuality, sensitivity, and creativity by respecting diversity irrespective of race, nationality, sex, age, and other backgrounds and cultivating and utilizing human resources as a source for the creation of new value.
- 5 We will comply with laws, regulations and social norms, and engage in fair and responsible business activities in collaboration with our stakeholders.



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Sustainability Promotion System

As a company with social responsibilities, the Company has established the Sustainability Management Division as a dedicated department to show stakeholders our firm commitment to the ESG and the SDGs. We also established the “Sustainability Committee” to examine responses to various issues related to climate change, implement measures, and manage the progress of activities.



Sustainability Committee

Members : Executive Officers
 Chairperson : President, Representative Director and Executive Officer
 Secretariat : Sustainability Management Division
 Established : June 2022

Environmental Initiatives

In addition to creating products that solve environmental problems, the Company is also manufacturing products with an awareness of sustainability.



Basic Ideas on Environment

In order to maintain our irreplaceable global environment, we will conduct environmental conservation activities through our business. We believe that one of the Company's missions is to reduce environmental impact caused by the disposal of inventory losses in the apparel industry. We will use the Company's creativities to promote corporate activities while

taking into account of global environmental issues. The SHIMA SEIKI Group has formulated its Environmental Conduct Guidelines, and all employees actively work to ensure the systemic and efficient operation of the guidelines and continuously improve its effectiveness.

Environmental Management System

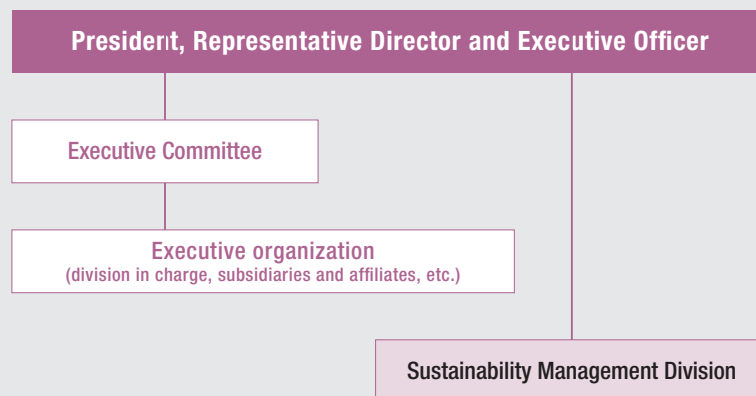
We acquired certification under ISO 14001, an environmental management system in 2015, for all corporate operations across all products we design, manufacture, and sell. Management indicators include reductions of various environmental impacts, factory greening efforts, and the promotion of renewable energy usage as well as the provision of WHOLEGARMENT® flat knitting machines, design system and other environmentally-conscious products. We will contribute to global environmental conservation through our business activities.

Environmental Management System

Established the Sustainability Management Division

As a company with social responsibilities, we established the Sustainability Management Division in July 2021 as a division directly under the supervision of the president to promote the management from the sustainability perspective. It has taken the lead in formulating the "Basic Policy on Sustainability" and the "Policy on Human Rights," which were announced in December

2021, and it is making company-wide efforts to raise awareness internally and promote environmental and social sustainability, and disseminating its activities both internally and externally. We will continue to play a role as a secretariat for QMS/EMS activities and as an administrative department for obtaining and complying with various standards.



■ 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 an 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 the fiscal year ended March 31, 2022, we generated 1,448 MWh of electric power (equivalent to the power consumption of 334 general households) over the course of the year.



■ Environmental Education Activities

Activities of the QMS/EMS Committee

The QMS/EMS Committee meets every month to disseminate and share environment-related information. So far, themes such as “environmentally friendly design,” “supply chain management,” “circular economy,” “global warming and climate change,” and “carbon neutrality” have been covered. We will continue to enhance knowledge and awareness through environmental education.

SDGs Training Program for New Employees

The training program for new employees began from 2021. Starting from the basics of the SDGs, employees will learn about the SDGs for society and companies, and SDGs for Shima Seiki. We aim to develop human resources who will be able to think and implement the SDGs as their own cause and lead Shima Seiki’s future.

Factory Greening

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

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.



Response to TCFD Recommendations



Upon recognizing the impact of climate change on our future sustainable growth, the Company endorsed the "Task Force on Climate-related Financial Disclosures (TCFD)" in June 2022. Based on the recommendations of the TCFD, we are working under the following framework.

<p>Governance</p>	<p>As a company with social responsibilities, we have established a dedicated division, the Sustainability Management Division, to demonstrate our firm commitment to ESG and SDGs to our stakeholders. Under the overall direction by the President, Representative Director and Executive Officer, this division coordinates the direction of the Company and uniformly disseminates it internally and externally. In addition, the Company has established a "Sustainability Committee," chaired by the President, Representative Director and Executive Officer, and composed of Executive Officers, to consider responses to various issues related to climate change, implement measures, and manage the progress of activities. "The Board of Directors" receives reports, deliberates, supervises, and makes decisions on important policies and matters.</p>
<p>Strategies</p>	<p>The Company believes that its products, including our knitting technology WHOLEGARMENT, our total fashion system centered on a design system, and many solutions, are "environmentally-conscious products", which can contribute to environmental protection, and confirms that they are products suitable for timely and optimal production. Through value creation activities by these products and services, the Company will contribute to reducing the environmental impact of apparel products and other products throughout their life cycles.</p> <p>Short/medium-term challenges (2030)</p> <ul style="list-style-type: none"> ● 30% reduction in greenhouse gas emissions ● Raising renewable energy ratio to 30% ● Securing 35% of green areas at factories ● Zero dioxin emissions <p>Long-term challenges (2050)</p> <ul style="list-style-type: none"> ● Achieve carbon neutrality ● Zero waste water from factories
<p>Risk Management</p>	<p>● Identification and evaluation process</p> <p>The Company will identify social issues related to its business activities, evaluate their importance, verify their validity, and ultimately have them approved by the Board of Directors.</p> <p>● Management process</p> <p>With regards to the status and progress of response to risk concerning climate change issues of the Company's businesses, they are managed by relevant divisions and committees, and regularly monitored by the Sustainability Management Division.</p>
<p>Indicators and Targets</p>	<p>The Company calculates GHG emissions in accordance with the GHG Protocol. As an indicator, the combined emissions of Scope 1 and 2 were 7,265.94 t-CO₂ in FY2021. We conducted a scenario analysis, and based on the results, we set the GHG emission reduction targets as Scope 1 and 2 net zero in 2050 to reduce the risks associated with climate change. To achieve these targets, we are working to reduce emissions by 30% in 2030 compared to the FY2013 levels. Target settings for Scope 3 and each category are also being analyzed and considered.</p>

For details, please see our Company website.

Category		Climate change item	Risk	Opportunity	Evaluation	Measures
Transition risks	Policy and legal regulation	Introduction and increase of carbon tax	Increase in procurement costs due to price pass-through of carbon tax	Energy saving Reduction of the impact on energy procurement costs due to early decarbonization response	Medium	Reduce CO ₂ emissions in production activities
			Increase in operating costs due to increases in fuel and electricity costs, and other costs			Promote the efficient implementation of renewable energy
		Energy saving, strengthened decarbonization regulations, and the achievement of emission reduction targets	Increase in facility costs due to upgrading to energy saving and renewable energy compatible facilities	Reduction of emissions through promotion of energy saving and renewable energy	Medium	Promote the efficient implementation of renewable energy
			Increase in expenses due to purchase of emission rights for emission that cannot be reduced			Reduce CO ₂ emissions in production activities Further advance measures to eliminate the need to purchase emission rights
	Technology	Dissemination of low-carbon emission technologies	Increase in costs due to switching to low-carbon and environmentally-conscious materials	Expansion of business opportunities through products that contribute to low carbonization and environmental consciousness	Medium	Promote energy-saving design for products
			Increase in costs of R&D for low-carbon materials and technologies	Expansion of business opportunities through early development and provision to the market		Actively collaborate with research institutes and companies to improve production efficiency and create other new technologies
	Market	Changes in consumption behavior due to global warming	Decrease in clothing purchases	Expansion of business profits through the creation of new added value	Large	Propose all-season knitted products with features that go beyond cold protection
		Changes in consumer preferences toward environmental issues	Challenges in the fashion industry affect consumer choice	Creation of new business opportunities adjusted to consumer preferences		Provide new products and services that contribute to the production of knitted products suitable for timely and optimal production
	Reputation	Negative response from stakeholders regarding climate change response	Criticism toward companies not responding to climate change and decline in evaluation of investment decisions	Improvement of corporate evaluation by demonstrating environmental initiatives	Small	Enhance information disclosure and strengthen communication
	Physical risks	Acute	Intensification of abnormal weather	Reduced manufacturing capacity due to disasters hitting supply chains	Enhancing resilience by dual sourcing and establishing supply chain BCP	Large
Increase in damages such as shutdowns and equipment damage caused by natural disasters				Reduction of restoration costs by strengthening the BCP system and preparing flood prevention measures	Improve drainage facilities, etc. to reduce damage from floods The ultimate goal is to pass on technology to permit consignment production	
Chronic		Increase in average temperature	Increase in cooling costs to maintain working environment and processing accuracy	Introduction of energy saving equipment and development of new business areas using materials that are not affected by environmental temperatures	Small	Promote the efficient implementation of renewable energy

Interaction with Employees

We built a corporate culture that encourages all employees to think and take on challenges on their own initiative, and we have created a pleasant working environment for employees.



Recruitment

As part of our efforts to “conversion to solution-based business,” which is one of our priority measures in our medium-term management plan, we are recruiting personnel who can take on new business models in addition to the production and sales of flat knitting machines.

Ideal candidates sought by Shima Seiki

A person who is willing to challenge anything

We are looking for candidates who are able to learn new things from their challenges and failures, and move forward positively, who can walk together through the challenges that Shima Seiki is tackling.

We also aim to bring about new chemistry by bringing together people with diverse values from all over the world regardless of where they are from.

Employment records over the past five years (cumulative)
New graduates from 2018 to 2022

College Graduates (86 persons)		High School Graduates (95 persons)	
Male	Female	Male	Female
66 persons	20 persons	49 persons	46 persons

Human Resources Development

Since its foundation, the Company has contributed to the apparel and fashion industry by offering the world's first products under our spirit of “If it can't be found anywhere, let's create it.” It is expected that we will enter an era

with even more rapid changes in the future, and we aim to cultivate human resources who can think flexibly, act speedily, and adapt to the ever-changing environment.

■ Various Training Programs

In addition to the training programs for new employees and third-year employees, we also provide trainings catered to each employee's age and position, such as leader trainings for employees newly appointed for managerial positions and the next generation of business management, and second career training programs for rehired retirees to help them think about their work styles. We are also focusing on training programs for improving individual skills, such as programming training for IT human resources and foreign language training.



■ Internal Recruitment System

A system that allows employees to transfer to other departments within the Company. We aim to develop human resources who are able to think and act for their own career development, take on challenges to entering a new stage, and look at things from a wide range of perspectives.

In 2022, we received 22 applications, 13 of which were transferred to different departments.



Work Style Reforms

■ Paid Leave Acquisition

We have made it mandatory for employees to take five days of annual paid leave and introduced a program for leave to be taken in hourly units from the fiscal year ended March 31, 2022 to make it even easier for employees to take paid leave. We are implementing work style reforms including introduction of a work-from-home system during the COVID-19 pandemic.

■ Promoting Childcare Leave

The system and schedule for taking childcare leave are explained individually to employees who intend to take such leave. In recent years, the number of male employees who took childcare leave has increased, and 13.8% of eligible male employees have taken childcare leaves.

Diversity & Inclusion

■ Increasing the Ratio of Female Managers

The ratio of female employees has remained at around 25%. As of April 2022, the ratio of female managers was 13%. We aim to increase this ratio to 30% by 2030, and we are working to further promote initiatives that encourage women to advance their careers.

■ In-House Nursery School Established

In 2017, we established an in-house nursery school, Shima Kids' Land to upgrade our working environment for balancing work and family. As of March 2022, a cumulative total of 138 children of employees have made use of this program.

■ Recruiting Foreign Nationals to Globalize Human Resources

By hiring people from overseas and embracing a variety of values, we aim to meet diverse needs and develop human resources to be the backbone of our overseas business.

■ Employment of People with Disabilities

In addition to achieving statutory employment rate, we are putting efforts in building a working environment that enables people with disabilities to work with a sense of fulfillment.



Shima Kids' Land

New Businesses

In order to develop existing businesses with an awareness of crisis, and simultaneously discover, nurture and monetize creative new businesses to generate a virtuous cycle mutually between them, we have been soliciting proposals for new businesses.

A program for finding new businesses was officially launched in 2020,

and we received a total of 82 applications so far, and 3 projects are currently in the process of being commercialized. Working on new business may enable employees to turn what they have created into business that will contribute to society, and could also be the source of growth for employees as they challenge themselves.

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.

Interaction with Shareholders and Investors

This section introduces our stance toward shareholders and investors and examples of our initiatives.



Basic Ideas

The Company delivers a shareholder newsletter "To Our Shareholders" twice a year, which includes the latest corporate activities and a business report by top management for that fiscal year. Moreover, this Integrated Report includes, in addition to the Company's financial information, non-financial information such as ESG initiatives, and stories for the Company's medium-

to long-term growth. Furthermore, we hold regular meetings with investors to help them make investment decisions of the Company.

We are making various efforts to become a company that is supported by shareholders and investors going forward.

■ IR Calendar (April 2021 to March 2022)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Announcement of Financial Results		● Full year		● First quarter			● Second quarter			● Third quarter		
Payment of Dividends			● Year-end						● Interim			
General Meeting of Shareholders			● Delivery of notice of Ordinary General Meeting of Shareholders ● The Ordinary General Meeting of Shareholders									
Annual (Quarterly) Securities Report			● Annual Securities Report ● Quarterly Report					● Quarterly Report			● Quarterly Report	
Shareholder Newsletters and Integrated Report			● Shareholder Newsletter	● Integrated Report					● Shareholder Newsletter (mid-term)			

General Meeting of Shareholders

Meetings are held in June every year for shareholders with voting rights as at the end of March. The exercise of voting rights during the COVID-19 pandemic has been carried out smoothly not only by attending the meeting, but also by exercising voting rights in writing and in electronic form.

In order to prevent the spread of infectious diseases, the annual factory tour, which had usually been conducted following the general meeting of shareholders, has been suspended.

Results Briefings

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 business performance and forecasts as well as 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.

■ Dialogues with individual investors

Webinars for Individual Investors Conducted

We participated in a web seminar for individual investors hosted by a securities company, where we introduced the Company's corporate profile, business activities, recent business results, and management future vision. Approximately 1,500 people viewed the video during the one-month open period, and we received various feedbacks in a post-viewing survey.

■ Shareholder returns

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.

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.

Shareholder Benefits

To express our appreciation for the support of our shareholders, the Company offers WHOLEGARMENT® products rich in originality and products sold at food and beverage facilities directly managed by the Company, etc., as shareholder benefits.

1 Eligible Shareholders

Shareholders holding 100 shares (1 unit) or more, listed or recorded on the Company's shareholders' register as of March 31 and September 30 of each year.

2 Time of Delivery

Considering the preparation of the benefits, the delivery of the products will be around October for the period ending March 31, and early December for the period ending September 30.

3 Criteria

The following criteria have been set according to the number of shares held.
(1) 100 shares or more but less than 1,000 shares (2) 1,000 shares or more but less than 3,000 shares (3) 3,000 shares or more

Long-term shareholder benefit program

Shareholders who are listed or recorded on the Company's shareholders' register as of the end of September of each year as shareholders holding 1,000 shares or more and have held such shares for over three years (shareholders who have been listed or recorded at least seven consecutive times on the shareholders' register as of September 30 and March 31 under the same shareholder number) will receive the Company's original calendar under the long-term benefit program in addition to the current shareholder benefit program.

Shareholder benefits (past rewards)

Benefits for the fiscal year ended March 31, 2022

Shareholders at the end of March will be able to select the original products from our catalogue according to their number of shares held.



Auberge de South Terrace

Location 2998-10, Shirahama-cho, Nishimuro-gun, Wakayama Prefecture

TEL 0739-42-4555

URL <https://www.southterrace.co.jp/>

Benefits for the fiscal year ended September 30, 2021

Shareholders at the end of September will receive a complimentary discount coupon for the "Auberge de South Terrace" operated by the Company's group company in Nanki-Shirahama.



Interaction with Customers

In order to continue being an “indispensable company” for our customers, we also focus on product quality management and after-sales support, etc.



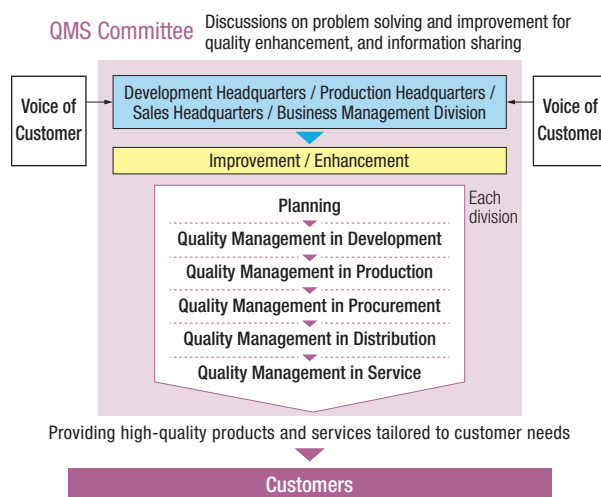
Basic Ideas

Based on Shima Seiki Spirit of “providing products with the highest functionality at economical prices,” the Company rigorously controls the quality of flat knitting machines and other products. After the products have been sold, we provide after-

sales services such as maintenance and fault recovery to our customers. We also provide seminars for customers’ engineers at Japan and overseas offices as needed so that customers can comfortably use our products.

Quality management system

We established a quality management system to earn trust from our customers. The QMS/EMS Committee shares information on quality and discusses solutions for the issues, and works to make continuous improvements. In addition, by comprehending the production process and establishing traceability through systematization, we are able to stabilize and improve the quality of our products and respond quickly to customers.



After Sales

The Company also strengthens its customer support system in place after the products are sold.

After the sales of flat knitting machines, we manage the information related to the sales of consumables which occur as a result of customers’ usage of machines, so that we can understand which part of the products is prone to wear out, and provide feedback to the development for the further improvement of the products.

In after-sales support for our automatic cutting machine, “P-CAM®”, in addition to providing support for parts and consumables, we also sign contracts for the maintenance and operation of the machine, so we can constantly manage the condition of our products owned by customers. As such, we

have established a system that enables the quick response in the event of a failure or malfunction.



Training for Engineers

In Japan and overseas, we offer technician training for engineers that tailored to the needs of each customer. We provide lecture facilities at headquarters so that all customers can fully utilize the functions of our products where the experienced professional staff support the needs of individual customers. At overseas, we are also working to enhance our support system through local subsidiaries and service bases.



Interaction with Local Communities

The Company, which performs all the way from planning to development, production, and sales of products at its headquarters, works also with local communities to resolve social issues.



Basic Ideas

The Group is engaged in business activities that benefit society, such as by developing useful products, and it also actively engages in social contribution activities as a corporate citizen.

Through activities in various fields, we aim to challenge social problems and strive to become an indispensable company to society.

■ Fusion Museum

The purpose of this program is for children, who are the bearers of the future, to experience the fun of manufacturing, to nurture their dreams, and to bring out their imagination and intellectual pursuits.

The museum exhibits the world's oldest knitting machine, as well as knitting machines and design systems from the time of founding of the Company. The exhibition will be enjoyed by everyone, from adults to children, who will be able to experience the Company's history and deepen their understanding of the Company. Visitors can also make scarves, coasters, and other items designed using Company designed system, by pedaling a bicycle for a hands-on WHOLEGARMENT® flat knitting machine.



Basic information

- Location / FORTE WAJIMA 3rd floor, 2-1 Honmachi, Wakayama City
- Hours of Operation / 10:00 a.m. to 7:00 p.m.
- Holiday Closures / January 1st to 3rd ● Admission / Free
- TEL / +81-73-488-1962

■ Forest conservation activities: Foster a local natural environment

The Company has been a participating member of the Wakayama Prefecture's Kigyo no Mori (corporate forest) program since December 2019. We have been engaging in forest maintenance work at the "Amano Satoyama" in Katsuragi Town, Wakayama Prefecture, the site of the activity. So far, we have planted 130 wild cherry trees, 90 red bayberry trees and 55 small chestnut trees. We will continue our forest conservation activities.



Governance Initiatives

The Company is working to enhance its corporate governance as one of its most important managerial priorities, with the aim of achieving sustained growth and increasing medium- to long- term corporate value.



Basic Policies and Systems

SHIMA SEIKI places great importance on enhancing corporate governance to improve management efficiency, soundness, and transparency while at the same time conducting management that emphasizes the interests of stakeholders such as

shareholders, customers, business partners, and employees. By fully utilizing the functions of the Board of Directors and the Audit & Supervisory Committee, we will strive to build a system that enables proper and effective corporate governance.

Governance Structure

Board of Directors

The Board of Directors consists of 11 people, including four 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

2022 Establishment of the Sustainability Committee

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 framework to make an appropriate response. With these regulations as our supreme model of risk management, 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 we have a system in place to enable us making an appropriate response, if a problem were to occur that should be disclosed to customers.

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 implements 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 on a regular basis.

Business and Other Risks

The Company establishes the Risk Management Committee supervising the risks of the business activities of our group and builds and operates the risk management system based on the risk management regulations.

Our group identifies major matters that we think may become potential risk factors in operating the businesses and have an impact on operating results and financial positions as follows. These risks do not encompass all risks, and our group may be

affected in future by unexpected risks and other risks whose impact is considered immaterial as of now.

Our group recognizes the potential for the occurrence of these risks, and strives to avoid the occurrence and take appropriate responses at the time of occurrence. Matters about the future among these descriptions were determined by the Group as of the end of the consolidated fiscal year ended March 31, 2022.

1

Risk on changes in market environment

Trend in production of manufacturers of Japanese and overseas knit goods, which are the main buyers of the Group, depends on changes in lifestyles and the consumption styles of consumers, increasing environmental awareness including the response to sustainability, and unseasonable weather, including mild winter. As a result of these, capital investments including those for flat knitting machines may decline.

In terms of procurement of materials, what are happening in the supply chain, including deteriorating trade issues and lockdown of cities caused by the spread of COVID-19, difficulty in the procurement of components caused by a shortage in resources, and higher fuel costs, may have an impact on operating results and the financial conditions of the Company group. (More details are stated in the “9 Risks including natural disasters, international conflicts, accidents, and spread of infections, (2) Impact on production.”) In relation to these risks, the Company group proactively proposes timely and optimal production corresponding to changes in demand in the consuming regions with the use of the WHOLEGARMENT flat knitting machines and design systems. It is also building a system to propose new values by understanding needs by closely communicating with customers, and implementing measures for enhancing the introduction of knits in non-apparel areas.

2

Impact of changes in social systems in areas where businesses are operated

The supply chain has been globalized in the apparel industry according to the advancement of globalization of the economy. In the case that trade friction between consuming countries and producing countries evolved into trade issues, the trend in capital investment is also significantly affected.

The Company pays close attention to and endeavors to appropriately deal with trends in economic measures, including the rise in reciprocal tariffs and restrictions on the export of technologies triggered by trade friction between the U.S. and China. However, the introduction of and changes in regulations imposed by each country's government and international frameworks could have impact on operating results and the financial conditions of the Group. Therefore, the Company is building a system to understand local developments early and immediately take action, using the network of local subsidiaries and distribution agencies located in countries across the world.

3

Fluctuations in exchange rates

In our Group, the ratio of overseas sales remains at around 80% and transactions are made in JPY and foreign currencies. Therefore, rapid fluctuations in exchange rates could have an impact on operating results and financial positions of the Group.

Accordingly, the Group hedges risks on trade receivables in foreign currencies among trade receivables with forward exchange contracts as described in the notes to the consolidated financial statements (derivative transactions) in annual securities reports.

4

Risks on credit and collection of trade receivables

Trade receivables consist mostly of those related to the flat knitting machine business. It takes a long time for many users from purchasing materials to eventually selling products, and so it also takes a long time to collect trade receivables. This is a business practice peculiar to the industry. Therefore, our group directly strengthens the management of credit to users in the main regions. In the Asian market, both wheels of global apparel and knitted product manufacturers have performed large-scale production in recent years, and the transaction amount per company also shows an upward trend. To reduce the risk on collection, our group executes liquidation of receivables, establishes collaterals, promotes lease transactions, and purchases trade insurance policies. Additionally, the group builds a system to promote payments by the due date by installing PMS (password management system) in flat knitting machines. Our group also takes countermeasures for actual delays in collection, including conservative posting of the provision of reserves based on the actual collection rate and the estimated collectability of individual cases.

5

Problems on the strategy for protection of intellectual property

For some of our group's own technologies and expertise, it may be impossible to gain complete protection based on intellectual property rights or it may gain limited protection mainly because of a lack of awareness of compliance by overseas competitors. Our group's products, WHOLEGARMENT® flat knitting machines, in particular, are a block of advanced technologies. Our group has established the Intellectual Property Department at the Development Headquarters to protect a wide range of technologies, including mechanics and control of flat knitting machines, knitting technologies, and design system-related technologies with intellectual property rights and differentiates itself from other companies. If counterfeit products were distributed due to infringement of patents, however, the Company's businesses would be significantly affected. Therefore, the Group has established a system to constantly monitor the infringement of patents by other companies, and additionally utilizes the information from local subsidiaries and agents in each country to attract attention and take legal procedures as needed.

6

Risk on human resources

Since the start of business, the Company has been highly appreciated in the industry by creating things that do not exist in the world and providing products with the highest functionality at economical prices. This is supported by human resources with a high degree of expertise, creativity, and uniqueness. We strive to continuously secure and develop human resources. However, the product development ability and product quality would be weakened if succession of technologies, or recruitment or development of succeeding human resources did not proceed as planned, or the human resources left us due to resignation, etc. Consequently, this could reduce business competitiveness, which might have an impact on operating results and the financial positions of the Group. Therefore, we proactively execute the succession of technologies, including an improvement in in-house training for junior employees, recommendations for taking skill examinations, and the expansion of OJT with experienced employees.

7

Risk on product liability

The Group has established the Fundamental Quality and Environmental Policies and executes professional committee activities to increase product quality and customer satisfaction under the SHIMA SEIKI Spirit: providing products with the highest functionality at economical prices. However, defects in products could have an impact on operating results and financial positions of the Group because of compensation for damage and the cost of correcting defects. Our group purchases an insurance policy in preparation for product liabilities to reduce the risk.

8

Risk on information security

The information system is one of significant factors for the Group. Human error, failures of devices, defects in services provided by third parties, including telecommunication carriers, as well as outside attack on servers, unauthorized access, and infection by a computer virus could cause malfunctions and defects in the IT system, as well as failures including errors and delays in processing of transactions and information leakage, which could have an impact on operating results and the financial positions of the Group. The Group has established an Information Security Policy to stipulate a code of conduct concerning the treatment of information for all officers and employees. In addition, it continuously conducts awareness-raising activities about physical and technical countermeasures for information security through the Information Security Committee.

9

Risks including natural disasters, international conflicts, accidents, and spread of infections

Natural disasters, including earthquakes, typhoons, and tsunamis, international conflicts, fires, power outage, spread of infections (pandemic), and other events could have an impact on the business of the Company.

1 Impact on sales

Increasing risks in Asia, which is our major sales destination (China, ASEAN member states including Vietnam, and Bangladesh), European market mainly in Italy, and the Middle East market mainly in Turkey would hinder our ordinary sales activities, and if prolonged it would increase the impact on the operating results of the Company. This would also have an impact on the production activities of users, and then the risk of collection of trade receivables could be higher due to deteriorated cash management by users. (More details are available in the “4 Risks on credit and collection of trade receivables.”)

2 Impact on production

In terms of production, it is assumed that the prolonged shutdown of suppliers would cause a shortage of components and enforce us to reduce production. This would have a significant impact on operating results and the financial condition of the Company. Therefore, the Group implements measures, including the securing of stock in an emergency and the construction of the stable supply system of components through purchases from several suppliers.

10

Overconcentration of production base

The Company manufactures products intensively in Wakayama Prefecture, where the headquarters is located, and establishes an integrated system ranging from development to manufacturing there to increase efficiency and cut costs. Therefore, natural disasters in the suburbs of Wakayama Prefecture, including large-scale earthquakes and wind and flood damage, accidental fires in the plants of the Company, and the spread of infection in the Company could result in the long-term shutdown of manufacturing lines. As the Company establishes a daily production system, continuing any suspension of production would increase the impact. Therefore, the Company purchases insurance policies and develops the business continuity plan so that any suspension period of operations can be minimized. Additionally, we implement countermeasures, such as seismic constructions for buildings, drills assuming emergencies, and introduction of safety confirmation system, aiming at establishing the system for early recovery. However, disasters with damage exceeding assumptions could have an impact on continuation of business activities as a result of suspension of functions/destruction of equipment, suspended supply of infrastructures, and suspension of public transportation and communication tools.

11

Risk on pandemic including COVID-19

If there is a spread of infection in the Company due to the global spread of epidemic (pandemic) such as COVID-19, the suspension of business activities such as temporary suspension of plant operation could have an impact on operating results and the financial positions of the Group. The Group has established the Crisis Management Headquarters, headed by the president, to implement a countermeasure to prevent the spread of infection. We implement the measures to put a priority on securing the safety of employees while at the same time minimizing the impact on business, through the prohibition of non-essential meetings and business trips, suspension of acceptance of factory tours, strengthening of preventive measures (such as ensuring daily temperature checks, wearing of masks and sterilization of hands), telework, and workplace vaccination.

12

Risk on compliance

In performing business activities, the Group is subject to a wide variety of laws, regulations and rules. Material compliance violations like misconducts, including unintended violations, could deteriorate the public reputation of our group and have a significant impact on business, including damage from suspension of transactions and lawsuits.

The Group has established the Shima Seiki Group Code of Conduct and complies with it, and set up the Compliance Committee for strengthening the compliance system and the Corporate Ethics Helplines as a window for whistleblowing and consultation regarding compliance and corporate ethics to prevent the impact of compliance violations from expanding.

13

Risk on sustainability issues

Stakeholders are becoming more interested in ESG-focused management and SDGs year by year, and measures for realization of a sustainable society will become more significant in future. In terms of the environment, the entire society, in addition to customers and suppliers, also demands us to reduce emissions of greenhouse gases toward a decarbonized society and to offer environmentally-conscious products and services from the perspective of global climate control.

The Company complies with the requirements of environment-related regulations while it designs and develops products and services under an awareness of environmental load reduction by customers based on the operation of the environment management system. In terms of manufacturing, the Company is promoting the reduction of power usage, reductions in emissions and the recycling of waste, and effective use of resources, in order to control and reduce emissions of CO₂. However, amendments to or establishment of laws and regulations could increase expenses for compliance, and this could have an impact on operating results and the financial condition of the Company.

People are increasingly conscious of business and human rights regarding companies operating global businesses. These companies are required to react to requests from stakeholders for responding to human right issues and conflict minerals and forced labor issues in the supply chain.

The Company has established the Policy on Human Rights and strives to realize workplace environment where intrinsic diversity of every person is respected, and that is pleasant to work for everyone, with an aim to respect the human rights of all persons involved in business activities. However, if no adequate measures were taken by the Company and in the supply chain, operating results and the financial condition of the Company could be affected by the suspension of transactions, administrative penalties, and the loss of social credibility for a company and business opportunities.

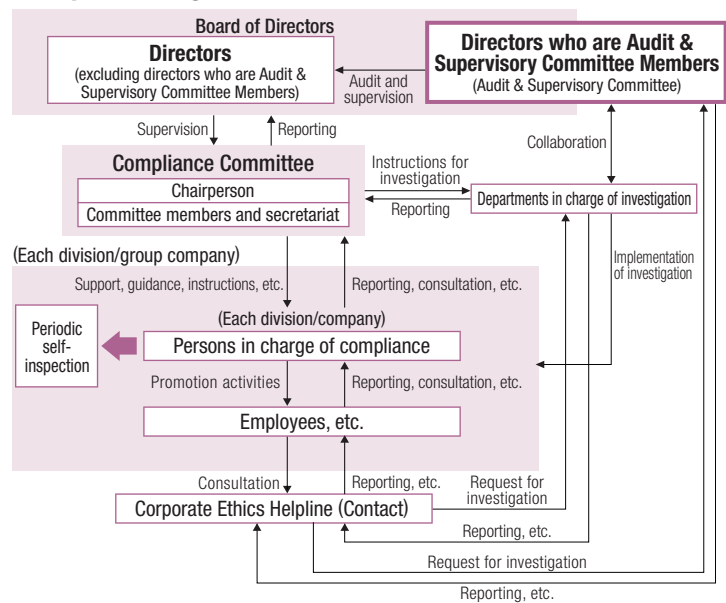
The Company will continue to propose sustainable manufacturing through products and services and solve social issues through corporate activities.

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

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

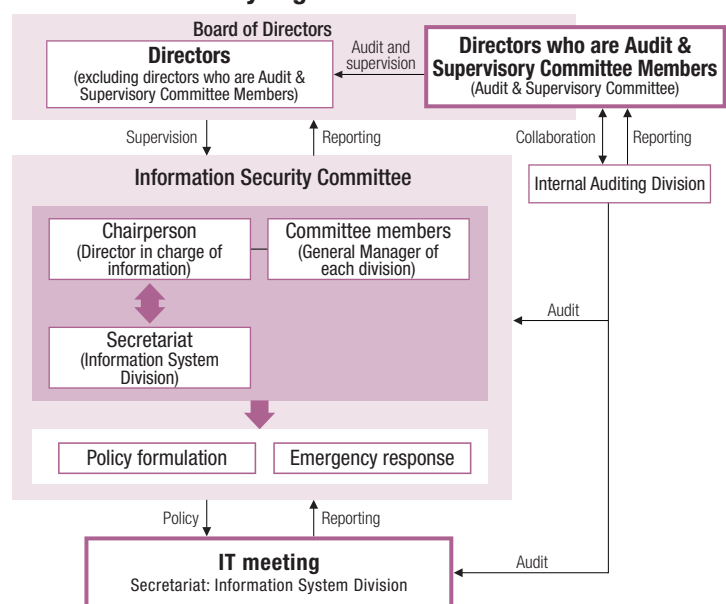
(1) Legal compliance

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.

Information Security Organization



Directors

	Name	Attendance at Board of Director in FY2021	Business management Management strategy	R&D Innovation Production	IT DX	Sales Marketing	Internationality
Directors	 Chairman Masahiro Shima	13 / 13	●	●		●	●
	 President Mitsuhiro Shima	13 / 13	●	●	●	●	●
	 Director Ikuto Umeda	13 / 13	●			●	●
	 Director Takashi Nanki	12 / 13	●		●		
	 Director Akihiro Ohtani	11 / 11	●	●	●		
	 Director Shosaku Kitagawa	11 / 11	●		●		
	 Director Yoshio Ichiryu Outside Independent	13 / 13	●				●
	 Director Rieko Zamma Outside Independent	13 / 13	●			●	

Audit and Supervisory Committee Members	 Director (Standing Audit and Supervisory Committee Member) Hisahito Totsui	Board of Directors 13 / 13 Audit & Supervisory Committee 13 / 13					
	 Director (Audit and Supervisory Committee Member) Daisuke Shinkawa Outside Independent	Board of Directors 13 / 13 Audit & Supervisory Committee 13 / 13					
	 Director (Audit and Supervisory Committee Member) Sachiko Nomura Outside Independent	Board of Directors 13 / 13 Audit & Supervisory Committee 13 / 13					

Finance and accounting (Capital policy)	Legal affairs Compliance Risk management	Personnel affairs Human resource development	ESG Sustainability	Reason for appointment
	●		●	Mr. Masahiro Shima established the Company in 1961 and has developed the Group into a leader in the flat knitting machine industry while serving as the president and representative director. He has a wealth of experience and knowledge in R&D field and has served as the driving force for the Group by showing strong leadership at the center of management.
	●		●	With a wide range of work experience as a person responsible for R&D, manufacturing, and sales, Mr. Mitsuhiro Shima has served as president and representative director since 2017 and has been engaged in the control of the group, including leading the establishment of the long-term vision and preparation of the medium-term management plan to make decisions regarding significant matters on the management and supervise the execution of operations.
			●	Leading management of overseas subsidiaries as CEO of subsidiaries in China/Hong Kong over many years, Mr. Ikuto Umeda has substantial global experience and results. He has made decisions regarding significant managerial matters and supervises the execution of operations as a director while performing his duties and fulfilling his responsibilities.
●	●	●	●	Serving as general manager of the Accounting and Finance Division, Mr. Takashi Nanki has a wealth of insights and actual results regarding business management of the Group. He makes decisions regarding significant managerial matters and supervises the execution of operations from a financial perspective, and appropriately performs the duties and responsibilities as a director.
			●	Having been engaged in the operations of the Development and Manufacturing divisions, Mr. Akihiro Ohtani has a wealth of experience and insights in areas ranging from product development to manufacturing. He now supervises the production and manufacturing departments as general manager of the Production Headquarters and makes decisions about important managerial matters and supervises the execution of operations as director, and appropriately performs his duties and responsibilities.
●	●	●	●	Mr. Shosaku Kitagawa serves as the general manager of the Corporate Planning Division and is initiatively engaged in preparing the medium-term management plan. In addition to the financial viewpoint, he has a wealth of experience and general knowledge in the Corporate Planning Division as he has been in charge of the General Affairs and Personnel Division and Information System Division, etc., and appropriately performs his duties and responsibilities as a director.
	●	●	●	Mr. Yoshio Ichiryu has a wealth of experience in the areas of economic and industrial policy, as well as a wide range of views and experience in general management as a business entrepreneur. From an objective standpoint independent of management, he contributes to securing the health and transparency of the Company's management as a chairperson of the Nominating and Remuneration Committee.
		●	●	Ms. Rieko Zamma has a wealth of experience in event planning and public relations strategy, as well as a wide range of views and experience in general management as a business entrepreneur. She also performs an appropriate role as outside director in the supervision of the execution of operations from an objective standpoint independent of management.
●	●		●	Mr. Hisahito Totsui has belonged to the Accounting and Finance Division for a long time and has a wealth of experience and insights in the area, as well as being familiar with the overall businesses of the Company as he served as head of the Internal Auditing Division. He has served as an Audit and Supervisory Committee member since 2020, and appropriately performs audits from a fair and objective standpoint.
●			●	Mr. Daisuke Shinkawa has a wealth of experience as a certified public accountant and certified tax accountant and has appropriately audited the execution of operations from an accounting and tax perspective as an Audit and Supervisory Committee member of the Company since 2020. We expect that he can contribute to securing the health and transparency of the Company's management from a standpoint independent of the execution of operations as an Audit and Supervisory Committee member.
	●		●	Ms. Sachiko Nomura has a wealth of experience as a lawyer and has appropriately audited the execution of operations from a legal perspective as an Audit and Supervisory Committee member of the Company since 2020. We expect that she can contribute to securing the health and transparency of the Company's management from a standpoint independent of the execution of operations as an Audit and Supervisory Committee member.

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.

■ Remuneration for officers

Basic policy on director remuneration

- 1 The remuneration shall be designed to motivate directors to achieve the Company's continuous growth and improve its medium-to-long-term corporate value.
- 2 The remuneration system shall be commensurate with each director's role and responsibilities, and ensure transparency and objectivity.
- 3 The remunerations shall be designed to contribute to securing talented human resources necessary to enhance corporate value.
- 4 The remuneration system shall be designed to share interests with shareholders.

Remuneration structure of directors

The remuneration of executive directors consists of base remuneration, performance-linked bonus, and share remuneration-type stock option. With respect to the composition ratio of remuneration, performance-linked bonuses may not be paid, and in principle they shall not exceed the base remuneration. Typically, the share remuneration-type stock option shall be approximately 10 to 20% of the base remuneration. (Base remuneration : performance-linked bonus : share remuneration-type stock option = 1 : 0-1 : 0.1-0.2)

Please refer to the 61st Annual Securities Report (pages 41 to 42) for details on the remuneration paid to officers.



Messages from Audit and Supervisory Committee Members

We would like to present three short messages themed on governance from the three Audit and Supervisory Committee members, who play a central role in the Group's auditing system to be a company that continues to be trusted by its stakeholders. Manufacturing using the Company's WHOLEGARMENT flat knitting machines and design systems is environmentally friendly and can contribute to sustainable consumption and production, which is in line with today's movement. We will continue to make efforts to contribute to the realization of a sustainable society through developing the Company's business.



Hisahito Totsui

As a Standing Audit and Supervisory Committee Member, I will put efforts in strengthening the auditing system and enhance the effectiveness of governance.

The Company has been making steady progress in strengthening its governance over the past several years. In addition to active discussions at the Board of Directors' meetings, there has been an increase in the number of statements that reflect the perspectives of various stakeholders, including shareholders and investors. I believe that the effectiveness of governance will be further enhanced in the future by strengthening the monitoring of implementation status of measures for resolving various issues.

Following the transition to a company with an Audit and Supervisory Committee, we are implementing initiatives to enhance the effectiveness and efficiency of audits by deepening cooperation with the accounting auditor and the Internal Auditing Division, being conscious of organizational auditing. In order to further strengthen and enhance audit functions, I will seek to improve cooperation among audit organizations and improve the quality of audits. It will be my mission to put efforts in increasing my responsiveness to various matters to prevent any occurrence of misconduct and the emergence of risks through audits.



Daisuke Shinkawa

I will strive to maintain a highly transparent governance system through audits and contribute to the enhancement of corporate value.

The Company introduced an executive officer system, and the Board of Directors puts its emphasis on its monitoring function, ensuring its effectiveness as a result. However, going forward, I believe it is necessary to strengthen initiatives such as further enhancing discussions on medium- to long-term management strategy and sustainability.

The Audit and Supervisory Committee regularly exchanges information and opinions with the accounting auditor and the Internal Auditing Division for candid discussions. The Audit and Supervisory Committee also enhances the effectiveness of audits, and as a result, the audit system has been functioning appropriately. In the future, I will conduct audits while questioning whether the Company is organizationally and systematically promoting its strategies to implement the priority measures set forth in the medium-term management plan, and confirm the progress. In addition, I would like to conduct audits of domestic and overseas Group companies, paying attention to whether they share sales strategies, technical information, production information, and other information, and whether they are operating in an integrated manner.



Sachiko Nomura

From my standpoint of being a legal expert, my goal is to build a strong governance system as a lawyer.

The Company's Audit and Supervisory Committee is comprised of three members: a Standing Audit and Supervisory Committee Member, an accountant, and a lawyer. In addition to the perspectives from the respective areas of expertise, we have established an audit system that covers the entire company by coordinating and dividing roles with the Internal Auditing Division and the accounting auditor.

At the Board of Directors' meetings, in addition to matters to be resolved and matters to be reported, proposals from executives are also proposed and actively discussed. Considering my profession as a lawyer, legal opinions tend to influence discussions. However, I put efforts into expressing opinions with considering matters from shareholders' and others' perspective, and placing emphasis on simple doubts. If a company causes any scandal, it will be detrimental to its credibility. My mission is to conduct audits of domestic subsidiaries as well as overseas subsidiaries, not only to prevent scandals but also to establish a governance system that makes early detection possible.

Financial and Non-financial Summary

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

Financial Data

	2013	2014	2015	2016	2017	2018
For the Year: Millions of yen						
Net sales	¥34,970	¥40,636	¥48,354	¥49,582	¥62,432	¥71,858
Gross profit	12,212	17,269	21,865	23,345	29,048	33,438
Operating income (loss)	(508)	2,731	5,745	5,781	11,262	14,905
Income (loss) before income taxes and minority interests	3,362	7,230	7,006	4,803	9,979	15,443
Net income (loss) attributable to owners of the parent	1,754	4,863	3,645	3,271	7,198	11,279
At Year-End: Millions of yen						
Total assets	¥112,089	¥119,727	¥126,987	¥126,415	¥141,931	¥154,337
Net assets	87,382	93,222	98,179	98,293	104,879	123,491
Per Share Data: Yen						
Net income (loss)	¥51.26	¥142.13	¥106.54	¥95.61	¥209.97	¥316.82
Cash dividends applicable to the year	25.00	32.50	32.50	37.50	45.00	60.00
Net assets	2,547.88	2,718.57	2,863.49	2,867.00	3,039.66	3,381.85
Ratios: %						
ROA	1.6%	4.2%	3.0%	2.6%	5.4%	7.6%
ROE	2.0	5.4	3.8	3.3	7.1	9.9
Equity ratio	77.8	77.7	77.2	77.6	73.8	80.0
Overseas sales ratio	84.7	83.6	84.1	83.5	87.6	90.0

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥122.39=US\$1 and ¥136.70=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2022.

Non-financial Data

	2017	2018	2019	2020	2021	2022
Environment						
Water consumption (m ³)	128,509	133,413	143,194	149,391	131,127	148,046
Photovoltaic power generation capacity (kw)	2,119	1,972	1,817	1,316	908	1,051
Waste recycling rate (%)	89	88	90	91	91	91
Waste emission volume (t)	1,350	1,380	1,380	1,380	1,660	1,660

Note: The calculation method for water consumption has been changed since the fiscal year ended March 31, 2020.

2019	2020	2021	2022	2021 ▶ 2022	2022	2022
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥51,352	¥33,206	¥24,489	¥30,998	26.6%	\$253,272	€226,759
23,155	11,629	5,961	10,201	71.1%	83,348	74,623
4,638	(5,602)	(9,143)	(4,296)	-	(35,101)	(31,426)
5,099	(6,552)	(17,610)	(3,368)	-	(27,527)	(24,645)
3,835	(8,427)	(17,866)	(3,589)	-	(29,325)	(26,255)
				Percent change	Thousands of U.S. dollars	Thousands of euros
¥145,146	¥130,695	¥110,140	¥101,809	-7.6%	\$831,841	€744,762
121,166	107,950	90,036	88,795	-1.4%	725,509	649,561
				Percent change	U.S. dollars	Euros
¥105.62	¥(239.68)	¥(517.71)	¥(104.00)	-	\$(0.85)	€(0.76)
55.00	35.00	20.00	10.00	-50.0%	0.08	0.07
3,411.08	3,126.86	2,607.72	2,571.71	-1.4%	21.01	18.81
2.6%	(6.1)%	(14.8)%	(3.4)%			
3.1	(7.4)	(18.1)	(4.0)			
83.5	82.6	81.7	87.2			
83.2	78.9	77.1	77.6			

	2017	2018	2019	2020	2021	2022
Social and Governance						
Rate of paid leave acquisition (%)	56.6	58.1	63.0	54.4	36.7	57.1
Employment rate of people with disabilities (%)	1.95	1.82	1.75	1.85	1.87	2.04
Frequency rate of accidents resulting in lost work time (one day or more)	0.00	0.35	0.00	0.33	0.00	0.00
Fusion Museum visitors (number of people)	22,776	21,100	22,475	18,773	14,438	13,079

Corporate and Investor Information

Corporate Information

Company Name	SHIMA SEIKI MFG., LTD.	Capital	¥14,859,800,000
Headquarters	85 Sakata, Wakayama City, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267	Total Number of Employees	Consolidated 1,867 Non-consolidated 1,392
Date of Establishment	February 4, 1962	URL	Corporate Information https://www.shimaseiki.com IR Information https://www.shimaseiki.com/ire/ire.html

Consolidated Subsidiaries	Company name	Location of headquarters	Major business description
	SHIMA FINE PRESS CO., LTD.	Wakayama City	Manufacture of parts for the Company's products
	KAINAN SEIMITSU CO., LTD.	Kainan City, Wakayama	Manufacture of parts for the Company's products
	TOYOBOSHI KOGYO CO., LTD.	Tadaoka-cho, Senboku-gun, Osaka	Manufacture, sales, exports and imports of textile raw materials Sales of flat knit products
	SHIMA SEIKI EUROPE LTD.	United Kingdom	Sales of the Company's products
	SHIMA SEIKI U.S.A. INC.	U.S.A.	Sales of the Company's products
	SHIMA SEIKI (HONG KONG) LTD.	China	Sales of the Company's products
	SHIMA SEIKI ITALIA S.p.A.	Italy	Sales of the Company's products
	SHIMA SEIKI WIN WIN SHANGHAI LTD.	China	Sales of the Company's products
	SHIMA SEIKI SPAIN, S.A.U.	Spain	Sales of the Company's products
	SHIMA SEIKI WIN WIN DONGGUAN LTD.	China	Sales of the Company's products
	SHIMA SEIKI (THAILAND) CO., LTD.	Thailand	Sales of the Company's products
	SHIMA SEIKI KOREA INC.	Korea	Sales of the Company's products

Directors and Audit and Supervisory Committee Members (As of June 28, 2022)

Position	Name	Responsibility and significant concurrent positions
Chairman	Masahiro Shima	
President	Mitsuhiro Shima	Executive Officer, Director of Sales Headquarters in charge of Internal Auditing Division and Sustainability Management Division
Director	Ikuto Umeda	Executive Officer, CEO of SHIMA SEIKI (HONG KONG) LTD.
Director	Takashi Nanki	Executive Officer, General Manager of Accounting and Finance Division in charge of the Administrative Division and the Physical Distribution Division
Director	Akihiro Ohtani	Executive Officer, General Manager of the Production Headquarters in charge of the Development Headquarters
Director	Shosaku Kitagawa	Executive Officer, 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	President & CEO, Ichiryu Associates, Inc. / Newscaster
Outside Director	Rieko Zamma	CEO, CANDID PRODUCE, Inc. / Producer
Director (Standing Audit and Supervisory Committee Member)	Hisahito Totsui	
Outside Director (Audit and Supervisory Committee Member)	Daisuke Shinkawa	Representative Partner, HOKUTO tax accountant office
Outside Director (Audit and Supervisory Committee Member)	Sachiko Nomura	Partner Attorney, DOJIMA LAW OFFICE

Stock Information

► Stock Status (As of March 31, 2022)

- (1) Authorized Common Shares 142,000,000
 (2) Issued Common Shares 35,800,000
 (3) Number of Shareholders 15,105

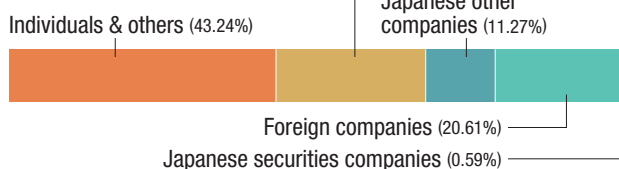
(Rounded down to the nearest thousand shares)

(4) Major Shareholders	Name	Number of shares held (Thousands)	Percentage of shares held (%)
	The Master Trust Bank of Japan, Ltd. (Trust Account)	3,717	10.77
	Wajima Kosan Co., Ltd.	3,001	8.70
	The Kiyo Bank, Ltd.	1,387	4.02
	Custody Bank of Japan, Ltd. (Trust Account)	1,107	3.21
	Masahiro Shima	1,070	3.10
	Mitsuhiro Shima	1,061	3.08
	The Bank of Mitsubishi UFJ, Ltd.	880	2.55
	THE BANK OF NEW YORK MELLON 140044	789	2.29
	Wako LLC	780	2.26
	Chikage Umeda	632	1.83

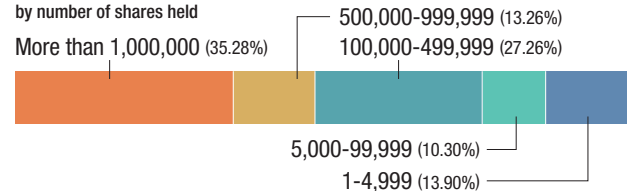
Notes: 1. The Company holds 1,285 thousand shares of treasury stock. 2. Treasury stock is excluded from the calculation of percentage of shares held.

► Stock Ownership

Shareholder breakdown by type



Shareholder breakdown by number of shares held



Shareholders' Memo

Fiscal year	From April 1 to March 31 of next year
General Meeting of Shareholders	Record Date: March 31 / Every year in June
Date of record for dividend	Year-end dividend: March 31 / Interim dividend: September 30
Method of public notice	Electronic public notice Available on the Company's website (https://www.shimaseiki.com/ire/ire.html) However, the information will appear in the Nihon Keizai Shimbun in case electronic public notice is not possible due to unavoidable reasons.
Transfer agent Account management institution for special accounts	Mitsubishi UFJ Trust and Banking Corporation
Handling office	Osaka Corporate Agency Division Mitsubishi UFJ Trust and Banking Corporation 3-6-3, Fushimimachi, Chuo-ku, Osaka / Telephone (toll-free) 0120-094-777

(Notice)

- As a general rule, procedures such as change of shareholder's address, request for purchase stocks are handled by the account management institution (securities company, etc.) where the shareholder has opened the account. Please contact your securities company, etc. for such issues. Please be aware that the transfer agent (Mitsubishi UFJ Trust and Banking Corporation) cannot handle such matters.
- For procedures regarding the shares recorded in the special account, please contact the account management institution for special accounts (Mitsubishi UFJ Trust and Banking Corporation). Inquiries are also accepted at the head office and branch offices of Mitsubishi UFJ Trust and Banking Corporation across Japan.
- Unreceived dividends will be paid at the head office and branch offices of Mitsubishi UFJ Trust and Banking Corporation.

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



SHIMA SEIKI MFG., LTD.

Headquarters: 85 Sakata, Wakayama City,
Wakayama 641-8511, Japan

Phone: +81-73-471-0511

Facsimile: +81-73-474-8267

<https://www.shimaseiki.com>

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2022