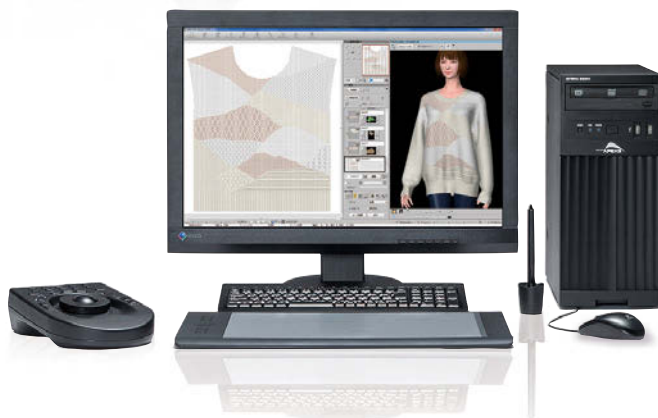


# Ever Onward

**Annual Report 2016**

Year Ended March 31, 2016



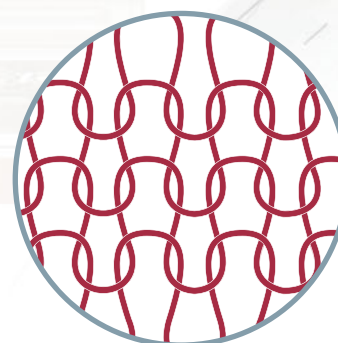
# A Leading Flat Knitting Machine Company Creating a Variety of Knitwear

Flat knitting machines are used to produce highly designable knitwear.

Shima Seiki leads user industries and continuously takes on challenges to develop new technologies as a computerized flat knitting machine manufacturer.



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



## The Merits of Knitwear

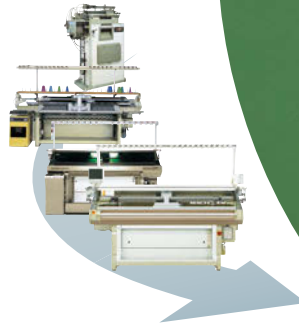
Knitwear is apparel or material made from loop-knitted fabric. It is elastic, soft to the touch, breathable and available in a rich variety of colors. Using the appropriate material, knit can be worn all year regardless of the season.



## Shima Seiki's Five Unique Features

### 1 Ongoing Technological Innovation for Half a Century

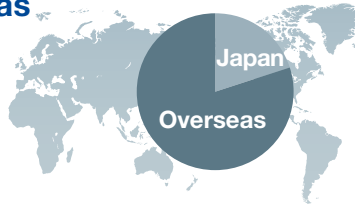
Shima Seiki was established over 50 years ago as a manufacturer of glove knitting machines and continues to contribute to the global knitting and apparel industries through technological innovations as a comprehensive mechatronics company fusing mechanical and electronic technologies.



Knit coat made on the SRY® computerized flat knitting machine

### 2 Over 80% of Sales are Overseas

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



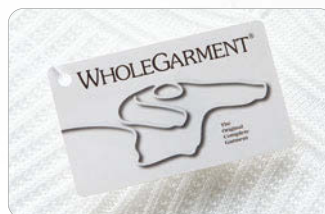
### 3 Domestic Integrated Production System Provides Japanese Quality

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



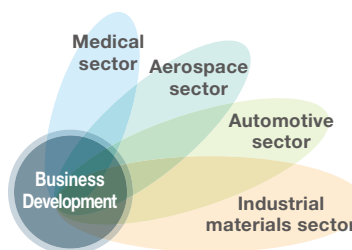
### 4 WHOLEGARMENT®, the Forefront of Flat Knitting Machines

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



### 5 Proactive Development in Areas Other than Apparel

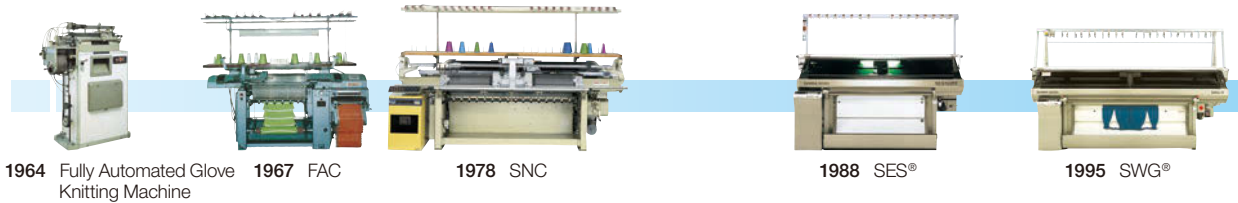
The design system business makes a wide range of proposals in areas other than apparel, including design systems and automatic fabric cutting machines. We provide various industries with high-performance and high-quality manufacturing equipment.



# Ever Onward – Limitless Progress

Based on our corporate motto, “**Ever Onward** – Limitless Progress,” we will maintain a spirit of tireless challenge as we work to bring innovative products into the world.

## Flat Knitting Machines Glove Knitting Machines



## Design Systems \*Inkjet Printing Machines



## Automatic Fabric Cutting Machines



## Business Segments

The Shima Seiki Group comprises four segments, centered on the manufacture and sale of flat knitting machines and design systems.

### 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 unique technologies, such as WHOLEGARMENT® flat knitting machines, which produce complete pieces three-dimensionally; the SRY®, featuring loop pressers; the SSR®, which delivers outstanding cost performance; and the SVR®, which enables even higher-speed knitting.



MACH2®XS

### Design System Segment

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



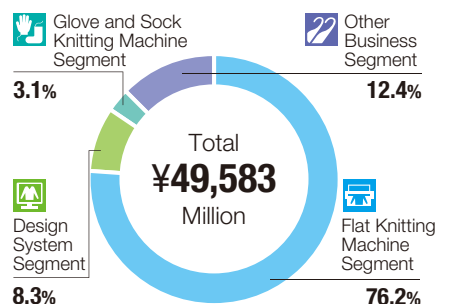
SDS®-ONE APEX3

### Glove and Sock Knitting Machine Segment

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

### Other Business Segment

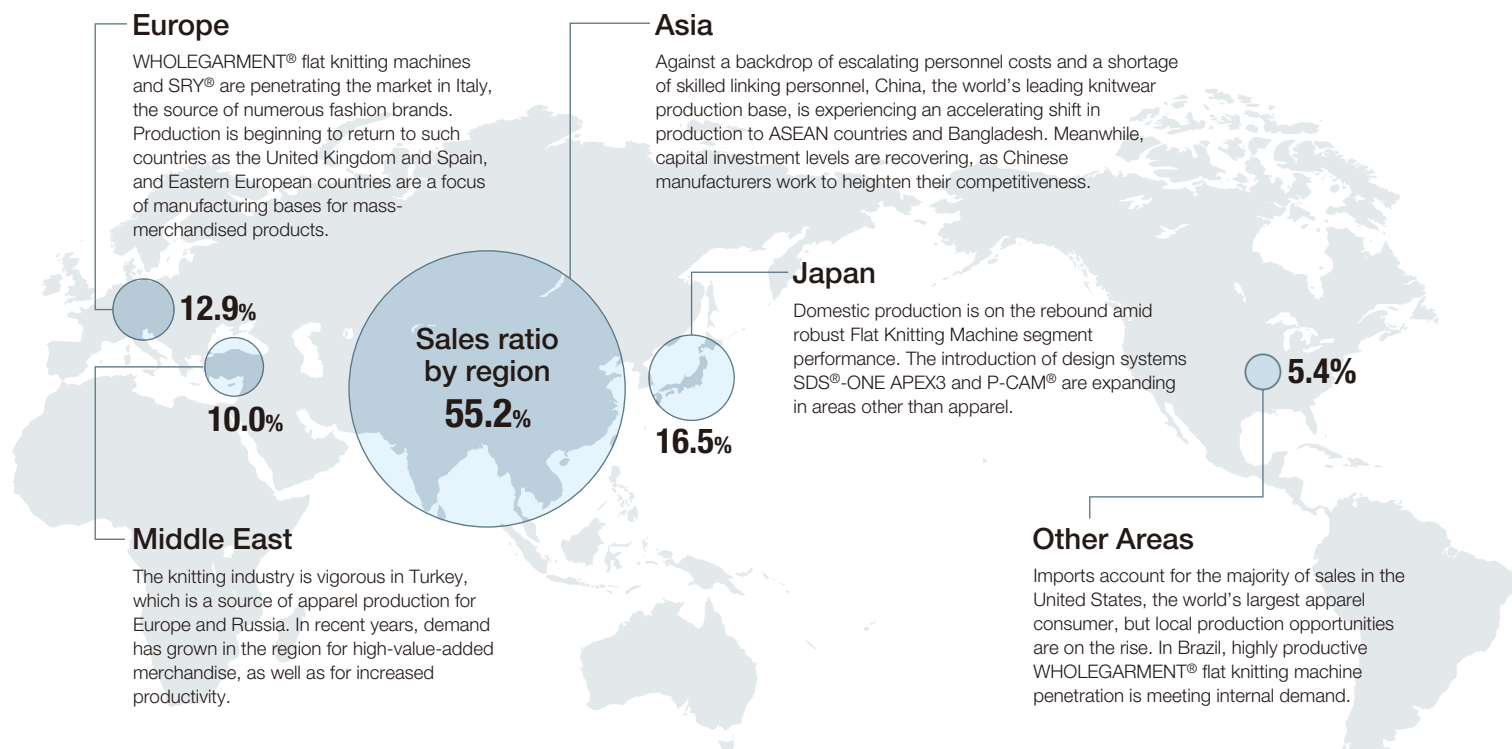
This segment maintains, repairs and sells maintenance parts for the Company's knitting machines and systems and participates in such businesses as spinning high-end cashmere yarn and selling knit products.



The Company was established in 1962 by Masahiro Shima, our current president, to address the difficult issue of glove knitting machine automation. Since that time, Shima Seiki has retained a corporate spirit that seeks to develop products with the most advanced technologies and offer them at affordable prices, and we have led the industry in providing numerous world-first and unique products and technologies, including computerized flat knitting machines and design systems. The impact on the global knitting industry of WHOLEGARMENT® flat knitting machines, which we developed in the 1990s, was comparable to the advances made during the Industrial Revolution. In the future, Shima Seiki looks forward to contributing to developments in the apparel and various other industries through technological innovations and to doing its utmost to develop excellent products leveraging its creativity.



## Sales Ratio by Region



## Financial Highlights

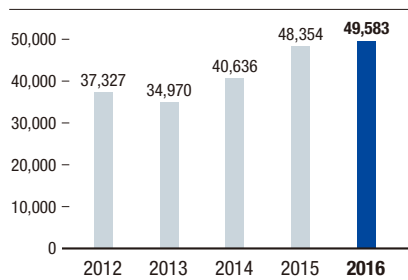
SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

Years ended March 31

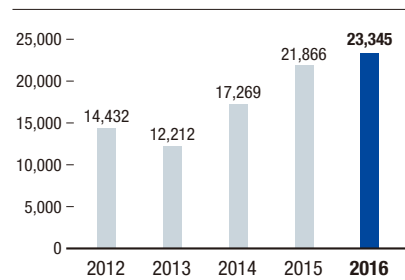
	2016	2015	2014	2013	2012		2016	2016	
<b>For the Year:</b>		Millions of yen					Percent change 2015 / 2016	Thousands of U.S. dollars	Thousands of euros
Net sales	<b>¥49,583</b>	¥48,354	¥40,636	¥34,970	¥37,327	2.5%	<b>\$440,034</b>	<b>€388,277</b>	
Gross profit	<b>23,345</b>	21,866	17,269	12,212	14,432	6.8	<b>207,180</b>	<b>182,811</b>	
Operating income (loss)	<b>5,782</b>	5,745	2,732	(509)	883	0.6	<b>51,313</b>	<b>45,278</b>	
Income (loss) before income taxes and minority interests	<b>4,803</b>	7,006	7,230	3,363	(537)	(31.4)	<b>42,625</b>	<b>37,612</b>	
Net income (loss) attributable to owners of the parent	<b>3,271</b>	3,646	4,863	1,754	(642)	(10.3)	<b>29,029</b>	<b>25,615</b>	
<b>At Year-End:</b>		Millions of yen					Percent change 2015 / 2016	Thousands of U.S. dollars	Thousands of euros
Total assets	<b>¥126,416</b>	¥126,987	¥119,727	¥112,089	¥106,863	(0.5)%	<b>\$1,121,903</b>	<b>€989,945</b>	
Net assets	<b>98,293</b>	98,179	93,222	87,382	84,167	0.1	<b>872,320</b>	<b>769,718</b>	
<b>Per Share Data:</b>		Yen					Percent change 2015 / 2016	U.S. dollars	Euros
Net income (loss)	<b>¥95.61</b>	¥106.54	¥142.13	¥51.26	¥(18.60)	(10.3)%	<b>\$0.85</b>	<b>€0.75</b>	
Cash dividends applicable to the year	<b>37.50</b>	32.50	32.50	25.00	40.00	15.4	<b>0.33</b>	<b>0.29</b>	
Net assets	<b>2,867.00</b>	2,863.49	2,718.57	2,547.88	2,454.07	0.1	<b>25.44</b>	<b>22.45</b>	
<b>Ratios:</b>		%							
ROA	<b>2.6%</b>	3.0%	4.2%	1.6%	(0.6)%				
ROE	<b>3.3</b>	3.8	5.4	2.0	(0.8)				
Equity ratio	<b>77.6</b>	77.2	77.7	77.8	78.6				
Overseas sales ratio	<b>83.5</b>	84.1	83.6	84.7	87.6				

Note: Yen amounts have been translated into U.S. dollars and euros, for convenience only, at the rates of ¥120.17=US\$1 and ¥130.32=€1, respectively, the approximate Tokyo foreign exchange market rates as of March 31, 2015.

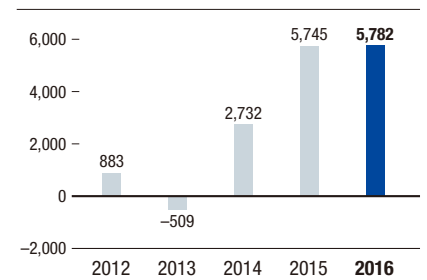
### Net sales (¥ Million)



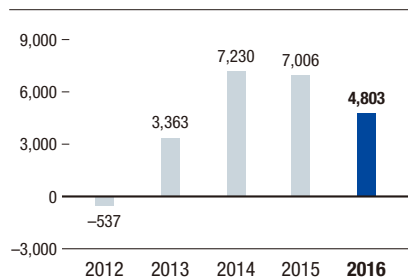
### Gross profit (¥ Million)



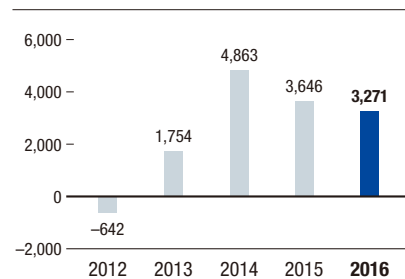
### Operating income (loss) (¥ Million)



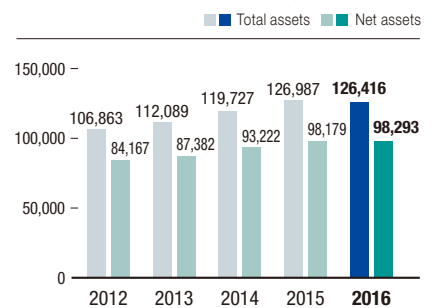
### Income (loss) before income taxes and minority interests (¥ Million)



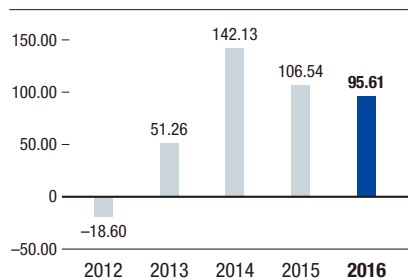
### Net income (loss) attributable to owners of the parent (¥ Million)



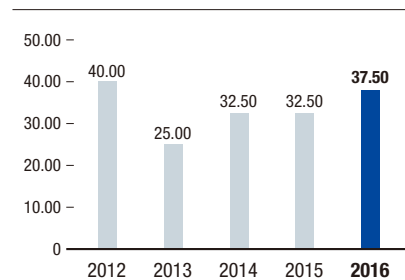
### Total assets / Net assets (¥ Million)



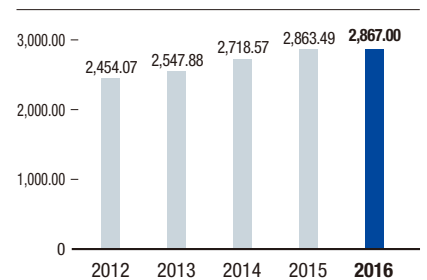
### Net income (loss) per share (¥)



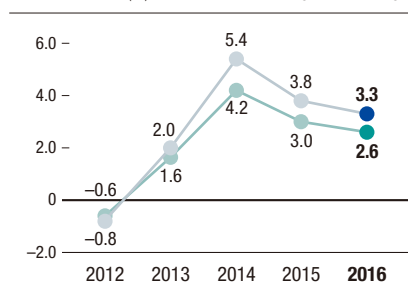
### Cash dividends per share applicable to the year (¥)



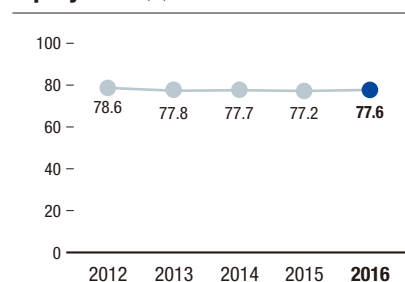
### Net assets per share (¥)



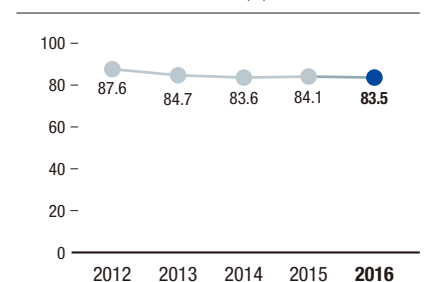
### ROA / ROE (%)



### Equity ratio (%)



### Overseas sales ratio (%)



**Income has increased three fiscal years in a row and we have received orders leading into next fiscal year. Going forward, we will continue offering the world new manufacturing proposals.**

This fiscal year, as we commemorated 20 years since the development of the WHOLEGARMENT® flat knitting machine, the opportunity to participate in the ITMA exhibition held in Milan, Italy, resulted in increased orders in the fourth quarter.

We will maintain this momentum into next fiscal year and beyond to inspire global manufacturing innovation.



**Masahiro Shima**  
President

Established the Company in 1962. He led the design and development of many products and, as the leader of the Company's top management, helped the Company grow to become the leading company in the industry.



## Q1 Please describe major initiatives and the Company's performance during the fiscal year ended March 31, 2016.

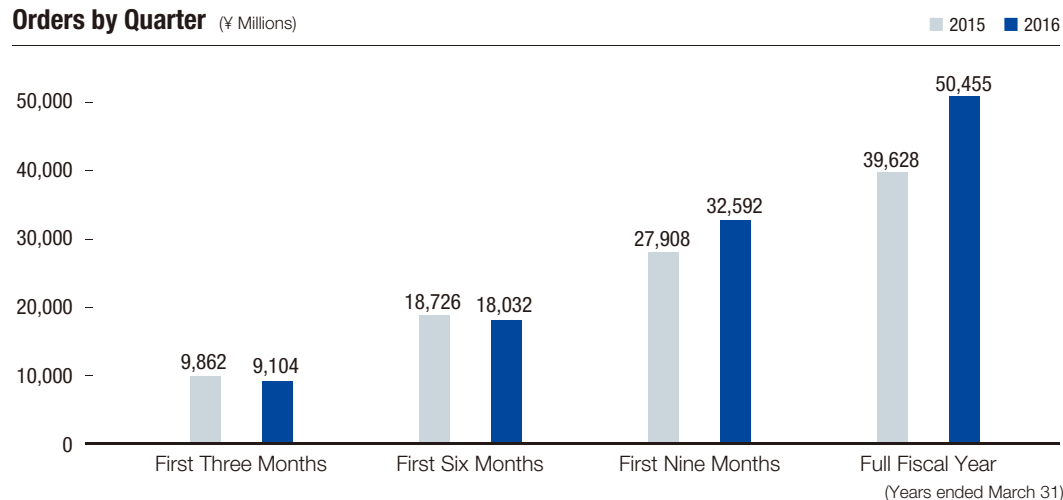
### A1 Orders expanded in the fourth quarter, thus we will continue to operate production facilities at full capacity.

This fiscal year, which marks 20 years since the development of the WHOLEGARMENT® flat knitting machine, to meet various user needs in Japan and each overseas location, we strove to provide services and develop products corresponding to needs in each market and developed proposal-making activities tailored to customers in each region. Also, ITMA, the world's largest international textile and garment machinery exhibition conducted every four years was held in Milan, Italy, in November 2015. We promoted our comprehensive capabilities and presented a variety of products incorporating proprietary technologies to users from around the world, including our new model, the MACH2®XS, a WHOLEGARMENT® flat knitting machine featuring four needle beds equipped with the world's first movable full sinkers.

Consolidated net sales edged up 2.5% to ¥49,583 million, the third straight fiscal year of income growth. At the same time, operating income remained nearly the same, increasing just 0.6% to ¥5,782 million due to higher selling, general and administrative expenses, including an additional provision for allowance for doubtful accounts on an extraordinary loss on trade receivables from an Indonesian customer in the previous year. Furthermore, compared to the previous fiscal year, ordinary income dropped 46.5% to ¥4,532 million and net income attributable to owners of the parent declined 10.3% to ¥3,271 million. This was mainly due to the rapid strengthening of the yen at the end of the fiscal year, which resulted in a non-operating expense of approximately ¥1.9 billion on foreign exchange losses.

Despite the rise in income and decline in profits, orders from around the world have been steadily expanding since the ITMA exhibition. In particular, the biggest demand came in the fourth quarter, when orders increased more rapidly than usual, resulting in an extremely large backlog of orders at the end of the fiscal year. Going into fiscal 2016, we will continue to operate production facilities at full capacity to quickly deliver products to customers. We will maintain this momentum going forward, establishing a new growth trajectory for the entire business.

Orders by Quarter (¥ Millions)





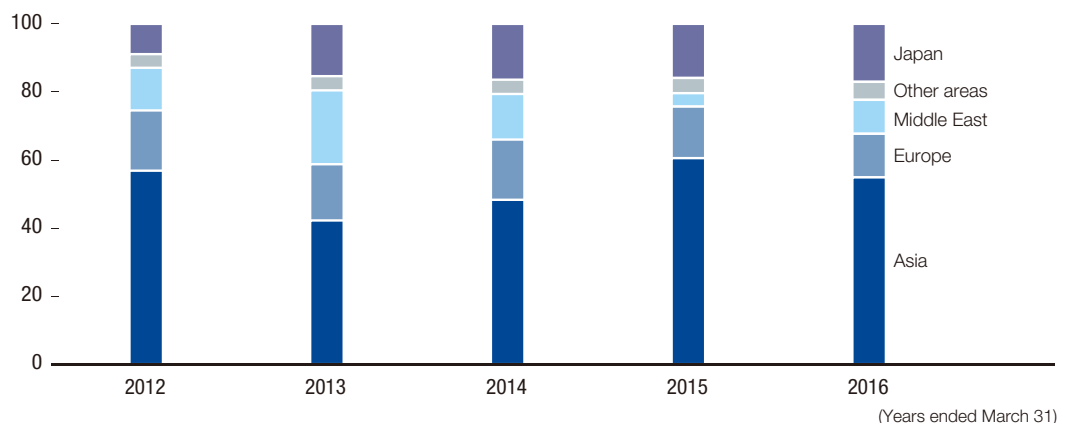
**Q2** Please explain conditions in different segments during the year.

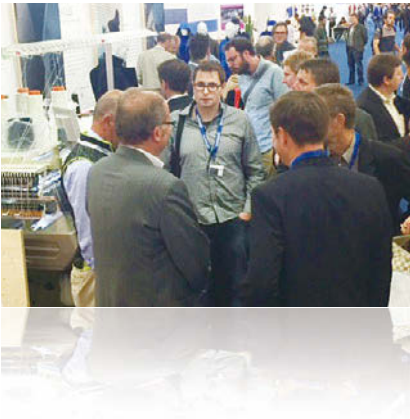
**A2** In addition to the success of ITMA, sales of WHOLEGARMENT® flat knitting machines and design systems are growing in each region.

In the Flat Knitting Machine Segment, overall business was driven by growth in sales of the SSR®, which provides superior cost performance, and the SVR®, which enables high-speed knitting, to Bangladesh, the production base for European and U.S. apparel in the mainstay Asian market, and ASEAN countries including Vietnam, where capital investment is expanding in anticipation of the TPP. In the Chinese market, production of apparel for the Europe and U.S. was sluggish as production shifted to surrounding countries. However, economic growth has led to an increase in the Chinese middle class, thus demand is gradually increasing for high-quality garments in the domestic market. The promotion of proposal-based marketing targeting these new needs enabled us to maintain sales at the same level as in the previous fiscal year. Also, in the South Korean market, the new WHOLEGARMENT® flat knitting machine model MACH2®XS was introduced ahead of schedule.

In the Middle Eastern market of Turkey, we regained competitiveness by responding to demands for quick-turnaround orders of European apparel, and capital investment recovered, causing sales to increase substantially, driven mainly by the SVR®.

Sales ratio by Region (%)





In advanced country markets, Italy, the center of the fashion industry, moved toward a recovery as the trend toward domestic production gains momentum in other European countries and the United States causing sales to increase. In Japan, sales were robust, led mainly by the WHOLEGARMENT® flat knitting machine MACH2®XS.

In the Design System Segment, shipments of SDS®-ONE APEX3 units increased. In advanced countries in particular, this machine is used widely not only for knit programming, but also as a design tool introduced in non-knitting industries including textiles, interior items, furniture and sundry goods. Shipments of P-CAM® automatic fabric cutting machines also increased mainly in Japan and sales grew in a wide range of industries as a result of expanded model variations in line with the needs of each industry, including automotive interiors, aerospace and industrial materials.

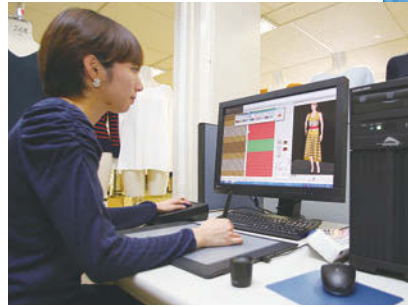
**Q<sub>3</sub> Please discuss main initiatives and the earnings forecast for the upcoming fiscal year.**

**A<sub>3</sub> We aim to expand sales of WHOLEGARMENT® flat knitting machines centered on our new model, the MACH2®XS.**

The recovery of domestic production in advanced countries and the strong reputation of Shima Seiki products in nations that lead production are coalescing to create a market environment in which we can leverage our strengths globally. We will continue to proactively promote proposal-making activities tailored to each country and region in the upcoming fiscal year.

We are placing particular emphasis on the MACH2®XS, announced as the 20-year culmination of WHOLEGARMENT® flat knitting machines. Offering abundant product variation, productivity, stability and operability, this groundbreaking product surpasses conventional WHOLEGARMENT® flat knitting machines in every way. Since the ITMA exhibition, this product is building a strong reputation in each country throughout the world as we continue to receive numerous inquiries. Next fiscal year, we will proactively propose the MACH2®XS mainly in Europe, the United States, South Korea and Japan.

In the Flat Knitting Machine Segment, the Chinese market is approaching a turning point in terms of market needs. The demand for high-quality and highly competitive knit garments will be greater than ever, thus the provision of detailed technical guidance and accumulated business know-how should contribute to increased sales. Furthermore, we will uncover various potential needs pertaining to the user industry trend toward the expanding use of computerized flat knitting machines for sports shoes.



In the Design System Segment, we will continue to focus efforts on further sales activities centered on SDS®-ONE APEX3 and P-CAM®. With regard to the SDS®-ONE APEX3, we will further strengthen proposals to non-knitting industries focusing on TOTAL FASHION SYSTEM®. Also, with respect to P-CAM®, the sales of which have grown mainly in Japan, we will engage in the full-scale overseas launch of this product first exhibited at ITMA last year and expand proposals leveraging technological and quality capabilities accumulated in Japan.

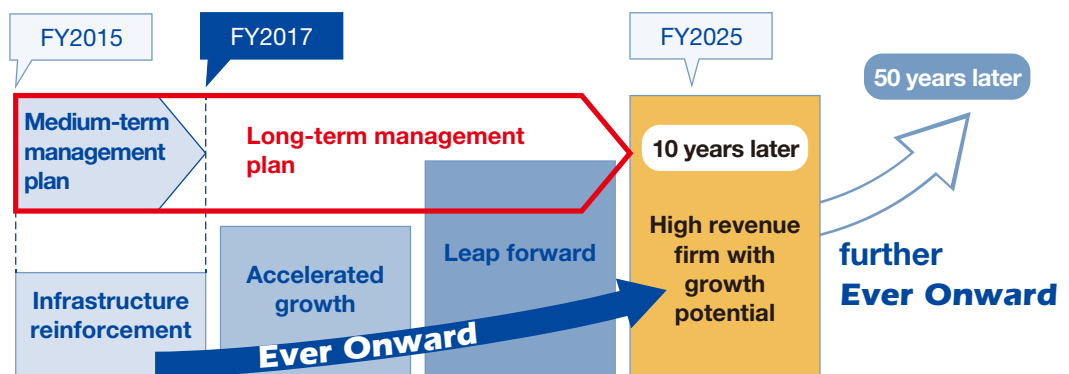
As a result of these initiatives, in the upcoming fiscal year we forecast consolidated net sales of ¥63.0 billion, operating income of ¥11.5 billion, ordinary income of ¥11.0 billion and net income attributable to owners of the parent of ¥7.0 billion.

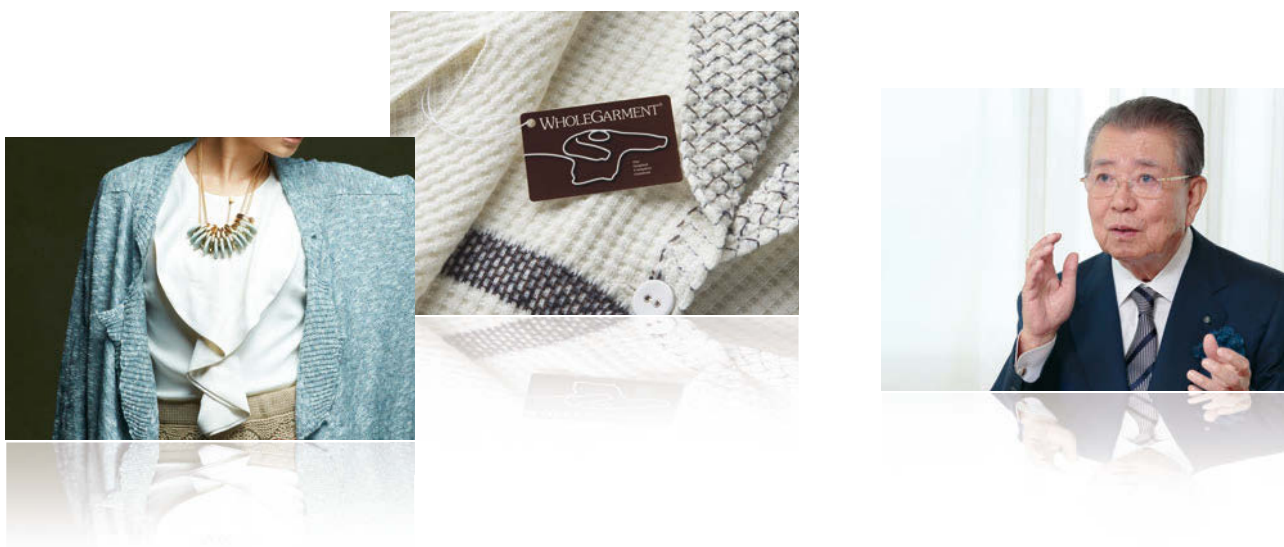
**Q4** What is your message to shareholders and investors?

**A4** Shima Seiki will inspire innovation through the expanded proposal of TOTAL FASHION SYSTEM® in a wide range of areas.

Shima Seiki positions the return of profits to shareholders as its topmost management priority. With regard to profit distribution, we strive to maintain long-term stable dividends, based on business performance improvements taking into account forecasts for future profits and business expansion for the future.

**Outline of Medium-Term Management Plan**





During the fiscal year under review, we awarded an interim dividend of ¥15.00 per share, and with the addition of a commemorative dividend of ¥2.50 per share in recognition of the 20th anniversary of WHOLEGARMENT® flat knitting machines, we paid a year-end dividend of ¥22.50 per share, resulting in a full-year dividend of ¥37.50 per share.

Furthermore, in August 2015, we announced the medium-term management plan “Ever Onward 2017.” This medium-term management plan was formulated based on the three keywords of “love,” “creativity” and “passion” aimed at realizing our corporate motto of “Ever Onward—Limitless Progress” and long-term management policies based on our vision of where we wish to be in 10 years’ time. After more than 50 years in this industry, and for the next 50 years, we will aim for sustainable growth to further enhance corporate value in a business environment that is changing on a global scale.

In the coming era, the “assembly line production” structure of the mass production age will be transformed amid increasing demands for “integrated manufacturing” in support of high-mix, low-volume production. This is none other than the linking of all processes through TOTAL FASHION SYSTEM® that Shima Seiki has continuously advocated for more than 30 years. Going forward, we will continue to inspire big innovations around the world through manufacturing proposals utilizing TOTAL FASHION SYSTEM® focused on WHOLEGARMENT® flat knitting machines and design systems.

At last year’s ITMA exhibition, we announced the APEX-T design system for textiles jointly developed with the Toyota Industries Corporation. With this product, which was realized through this collaboration and is earning a strong reputation for the effectiveness of its high-definition virtual samples, we are confident that TOTAL FASHION SYSTEM® can inspire innovation in areas other than knitting.

Going forward, we will continue contributing to a variety of industries as we achieve innovations in global manufacturing. We ask all our shareholders and investors for their continued understanding and support.

Masahiro Shima,  
President

# ITMA 2015 November 12–19, 2015

## Promoting Shima Seiki's Overwhelming Comprehensive Strengths to the World

In 2015, the year Shima Seiki commemorated 20 years of WHOLEGARMENT® flat knitting machines, we took part in ITMA 2015, the world's largest international textile and garment machinery exhibition held in Milan, Italy.

We displayed and demonstrated a variety of products in our booth, including the MACH2®XS WHOLEGARMENT® flat knitting machine, the SDS®-ONE APEX3 design system, as well as two products displayed for the first time in Europe: the P-CAM® automatic cutting machine and the SIP® inkjet printing machine.

We promoted our technological capabilities as a comprehensive mechatronics company and proposed manufacturing and distribution innovations able to realize TOTAL FASHION SYSTEM® for customers from around the world.

### Flat Knitting Machines

#### MACH2®XS, the culmination of WHOLEGARMENT® flat knitting machines

At the exhibition we unveiled the MACH2®XS, a WHOLEGARMENT® flat knitting machine featuring four needle beds equipped with the world's first movable full sinkers. In addition to increased productivity, this latest machine enables enhanced knitting stability with a three-dimensional design.



### Virtual Fitting System

#### Experience trying on clothing just by standing in front of a camera

Our booth featured the first fitting room enabling visitors to try on clothing virtually. A camera is used to sense the motion of someone standing in front of the monitor to compose an image of the person trying on clothing. The SDS®-ONE APEX3 enables the incorporation of virtual samples and photographs processed with color scheme deployment and other elements.

### Product Utilization Introduction

#### Marketing to the interior and furniture industries

We promoted MADE IN JAPAN in our booth's "interior exhibit corner" through a focus on various items, including chair covers, lampshades, kimono and hanging scrolls, and emphasized how Shima Seiki knitwear knitted on flat knitting machines can be used in the interior and furniture areas.

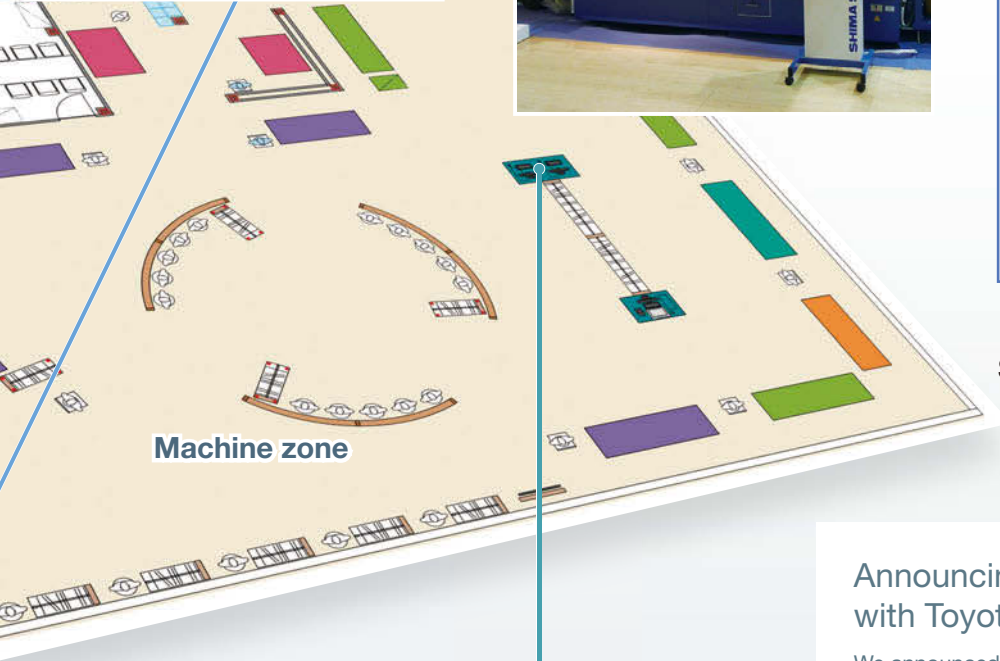
Milan



### Automatic Fabric Cutting Machine

#### First European exhibit of our automatic fabric cutting machine

This was the first display of our P-CAM® automatic fabric cutting machine, which has a proven track record in Japan. In recent years, we have attempted to expand this series with models that support not only the apparel industry, but also industrial material fabric cutting and other applications. At the ITMA exhibition, rather than focusing only on flat knitting machines, we promoted Shima Seiki's comprehensive strengths.



Machine zone

### Shima Seiki booth

### Production Management System

#### Visualization of all process in the production of multiple knitwear products

In recent years, as knitwear production bases are becoming increasingly decentralized, knitwear manufacturer production management has also become more complex, thus user support is becoming extremely important. Our booth also included an informative display on the Shima KnitPLM, our proprietarily developed production management system enabling the visualization of all processes.

### Announcing APEX-T, Jointly Developed with Toyota Industries Corporation

We announced the APEX-T textiles design solution system, jointly developed with Toyota Industries Corporation, at that company's booth. This joint development is the realization of a proposal by Toyota Industries Corporation focused on the TOTAL FASHION SYSTEM® concept with a design system at its core. The use of APEX-T realizes "All in One" management, from the creation of textile designs to simulations and actual production. This collaboration provided us with the opportunity to accumulate know-how in the textiles area and expand proposals into areas other than knitwear and apparel.



# Design System Challenges Aiming for the Highest Quality

In the 70th year since its founding, SANYO SHOKAI formulated the tagline “TIMELESS WORK. Creating truly good things.” and took on the challenge of production aimed at high quality.

In light of these developments, this section will discuss the uses of design system SDS®-ONE APEX3, which is the core of the TOTAL FASHION SYSTEM® advocated by Shima Seiki.

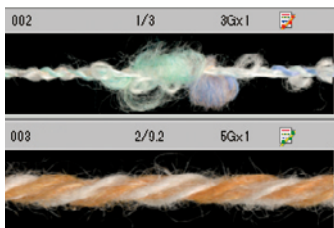
**TIMELESS WORK.**

ほんとうにいいものをつくろう。

## Design System Usage Flow to Create High-Quality Products

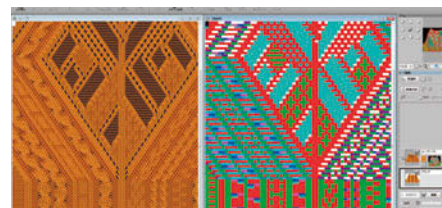


### SHIMA SEIKI Value



The desired yarn is scanned and entered into the system, enabling simulations of final product images. Furthermore, using virtual samples, finished product images are shared with all staff, enabling everyone to have an aligned perspective.

### SHIMA SEIKI Value



The design system produces virtual design data, while at the same time generating knitted fabric data used to operate actual flat knitting machines, enabling samples to be created in a short amount of time.





## We Will Continue to Provide Customers with Quality Items Utilizing Design Systems that Facilitate an Aligned Perspective

Director & Senior Executive Managing Officer  
General Manager of Business Headquarters & Supervising Planned Products and Production  
SANYO SHOKAI LTD.

**Mutsumi Sakuma**



### To create high-quality items, we also conduct in-house knitwear planning and design.

SANYO SHOKAI started out as a company selling raincoats, and for many years, we focused on the production and sales of coats and other fabrics. To expand the variety of proposal scenarios to customers, about 20 years ago we established a structure for the dedicated development of knitwear products. Since then, we have also attempted to strengthen production within knitwear.

Our motto is “Creating truly good things.” We are focused on creating high-quality products suitable for every brand in the knitwear area.

### An aligned perspective is particularly important for knitwear. Design systems are an indispensable tool.

With fabric products, just looking at the material enables everyone to have a shared image of the finished product, but knitwear products are made with yarn, thus the difficulty of sharing an image and achieving an aligned perspective was a problem.

While struggling with this issue, we discovered Shima Seiki design systems. They make it easy for all staff involved in production to have an aligned perspective, as the design system is used to run simulations with real visual samples. This facilitates the reduction and streamlining of processes and enhanced quality.

### We collaborate with factories at the Niigata atelier.

SANYO SHOKAI established an atelier as a development base in Niigata, where knitwear production is concentrated, to enhance design capabilities and strengthen collaborative relationships with factories.

Going forward, we will enhance data collaboration between the atelier and factories, making full use of Shima Seiki design systems in all processes, from planning and design to production, with the aim of achieving higher quality product production. We will also use 3D virtual simulations in our online sales business as we continue to pursue higher customer satisfaction.

**SANYO SHOKAI LTD.** [www.sanyo-shokai.co.jp](http://www.sanyo-shokai.co.jp)

1943 Incorporated as SANYO SHOKAI LTD.

1977 Listed on the First Section of the Tokyo Stock Exchange

2015 Received No. 1 J∞QUALITY Product Certification

SANYO SHOKAI is a comprehensive apparel company with headquarters in Tokyo that commemorated 70 years of business in 2013. With an insistence on producing value, the company develops numerous brands and has received No. 1 J∞QUALITY Product Certification for its “100-year coat,” a testament to world-class Japanese quality. The company is also expanding its presence in e-commerce with the “SANYO iStore” and other efforts. Recently, the company has also been focusing efforts on CSR activities including “FUKUIKU” and “WATATSUMUGI.”

EPOCA EPOCA UOMO AMACA TO BE CHIC

#### 4. Sample Confirmation



The texture and feel of actual samples knitted at the atelier are confirmed at the headquarters and the degree of product completion is raised even further.

#### 5. Exhibition



An exhibition is held assuming brands for each store introducing completed products. The products are assessed by external parties to determine color, size and production volume.

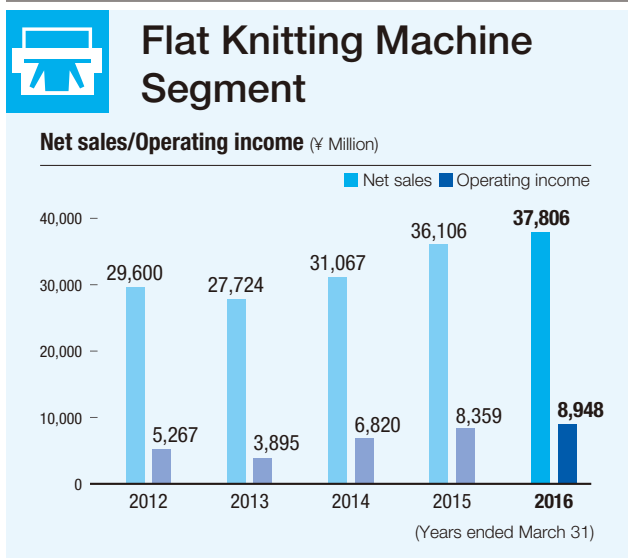
Production starts immediately once the knitted fabric data created at the atelier is sent to the factory. Products are displayed in shopfronts in a timely manner.

#### 6. Mass Production at Factories



# Overview and Outlook

The Shima Seiki Group categorizes its business into four segments: the Flat Knitting Machine Segment, the Design System Segment, the Glove and Sock Knitting Machine Segment and the Other Business Segment.



## Overview of the Year under Review

In the core Asian market, in Bangladesh—the production base for European and U.S. apparel, and ASEAN countries, where capital investment continues to be robust, sales increased, driven mainly by the SSR<sup>®</sup>, which offers superior cost performance, and the SVR<sup>®</sup>, which enables high-speed knitting. In the Chinese market, where market needs are shifting from production areas to consumption areas, the promotion of proposal-based marketing targeting domestic demand resulted in sales remaining at the same level as in the previous year. In the South Korean market, we moved forward with the swift introduction of MACH2<sup>®</sup>XS, the latest WHOLEGARMENT<sup>®</sup> flat knitting machine model. In the Turkish market, capital investment recovered in response to demands for quick-turnaround orders of European apparel as sales increased significantly driven mainly by the SVR<sup>®</sup>.

At the same time, in European and U.S. markets, where the movement toward local production for local markets is evident, orders mainly for SRY<sup>®</sup>, which enables configurations of knitted new fabrics with woven effects, and MACH2<sup>®</sup>XS increased in Italy and other countries after the ITMA exhibition in November. The MACH2<sup>®</sup>XS also performed well in the Japanese market.

Consequently, sales in the Flat Knitting Machine Segment increased 4.7% during the year, to ¥37,806 million.

## Outlook for the Next Fiscal Year

In Bangladesh and ASEAN countries, mass production with an emphasis on cost is expected to continue growing, thus we will expand sales promotion efforts focused on the SSR<sup>®</sup> and SVR<sup>®</sup>. At the same time, in the Chinese market, in response to the ongoing manufacturing transition toward high-end products, including specialty store retailer of private label apparel (SPA) brands focused on quality and products for wealthy Chinese, we will further strengthen highly functional equipment proposal activities, including WHOLEGARMENT<sup>®</sup> flat knitting machines. Furthermore, in the Middle Eastern Turkish market, where capital investment has substantially recovered, we will continue to respond to robust demand mainly for the SVR<sup>®</sup>. In addition, we will focus efforts on proposal activities in sports shoe-related areas, which are an expanding trend in client industries.

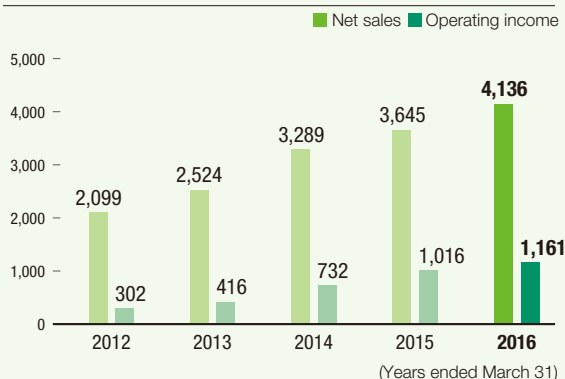
In developed markets, we are positioning the MACH2<sup>®</sup>XS WHOLEGARMENT<sup>®</sup> flat knitting machine as a strategic machine linked to design systems to strengthen local production for local market proposals.

As a result of these initiatives, in the upcoming fiscal year we anticipate sales from the Flat Knitting Machine Segment of ¥48.1 billion, up 27.2% from the year under review.



## Design System Segment

Net sales/Operating income (¥ Million)



### Overview of the Year under Review

The number of SDS®-ONE APEX3 design systems shipped increased on the expanded introduction as a design tool in the knitting industry as well as in other industries including textiles, interior items, furniture and sundry goods.

In line with the needs of each industry, we increased P-CAM® automatic fabric cutting machine model variations, which led to higher sales in a wide range of areas in addition to apparel.

As a result, Design System Segment sales rose 13.5% during the year, to ¥4,136 million.



### Outlook for the Next Fiscal Year

Regarding the SDS®-ONE APEX3, we will further cultivate new demand by proactively proposing high-speed and high-definition 3D virtual simulations targeting the fashion industry, as well as a wide range of other sectors.

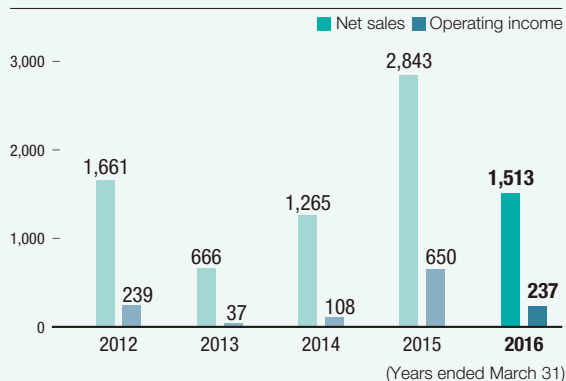
In terms of the P-CAM® automatic fabric cutting machine, we will make efforts to provide technical services closely tailored to individual customers and expand sales networks in overseas markets. We will also attempt to further expand sales by strengthening marketing activities in a wide range of other industries, including automotive, furniture, aerospace and industrial materials.

Through these measures, we expect Design System Segment sales to grow 28.1% in the upcoming fiscal year, to ¥5.3 billion.



## Glove and Sock Knitting Machine Segment

Net sales/Operating income (¥ Million)



### Overview of the Year under Review

In addition to a backlash after substantial sales growth in the previous fiscal year and a drop in demand for work gloves, sales in the Glove and Sock Knitting Machine Segment decreased 46.8% during the year, to ¥1,513 million.

### Outlook for the Next Fiscal Year

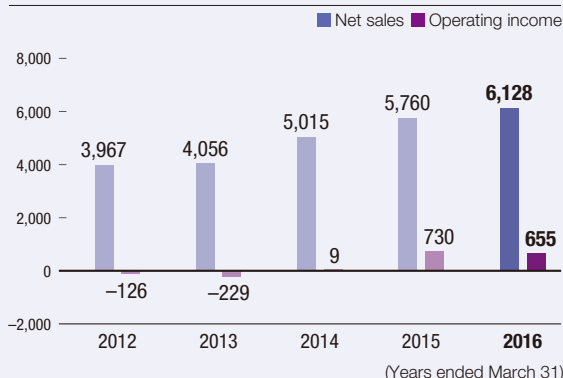
We will reclaim demand in healthcare, precision manufacturing and other high-value-added fields in Japan and overseas and attempt to grow sales through comprehensive proposal activities to customers.

In the upcoming fiscal year, we anticipate sales in the Glove and Sock Knitting Machine Segment of ¥2.0 billion, up 32.2%.



## Other Business Segment

Net sales/Operating income (¥ Million)



### Overview of the Year under Review

Service part sales and cashmere-related businesses performed favorably, causing sales to increase, resulting in Other Business Segment sales growing 6.4%, to ¥6,128 million.

### Outlook for the Next Fiscal Year

In the upcoming fiscal year, we will continue to develop the same activities as in the fiscal year under review.

Accordingly, we expect sales to increase 24.0%, to ¥7.6 billion.

## TOPICS

### Group Company Develops a “World’s First” Spinning Technology Inspiring Industry Innovation

In November 2015, Shima Seiki Group company TOYOBOSHI KOGYO CO., LTD., announced E-FILU, a world’s-first spinning technology.

Conventional spinning methods damage textiles in the spinning process, thus over time, discoloration and texture deterioration are a problem. With E-FILU, there is almost no damage to textiles, enabling the production of yarns offering whiteness and vivid colors like never before.

This Group company was also the first in Japan to successfully manufacture cashmere yarns in 1930, boasting world-class cashmere spinning quality and technologies. This technology can also be applied to animal fibers other than cashmere. The Shima Seiki Group will utilize this innovative spinning technology to further enhance the strength of our products.



E-FILU sample

### Promoting the TOTAL FASHION SYSTEM® Concept at an Exhibition in Los Angeles

At its Los Angeles Showroom built in September 2015, Shima Seiki held a five-day “Global 3D Knitting Seminar” beginning February 29, 2016. This event, held on the west coast where knitwear and major sports apparel manufacturers are concentrated, focused on promoting the TOTAL FASHION SYSTEM® concept featuring the SDS®-ONE APEX3 with the aim of instilling a new style of manufacturing in the U.S. market.

The seminar was conducted for a variety of users over successive days making use of Shima Seiki products. This was effective at garnering sales inquiries from knitwear manufacturers as well as furniture manufacturing, sports apparel and a variety of other industries as many proactive attendees visited the venue over two to three days.



Global 3D Knitting Seminar

## Research and Development Activities

Since our establishment, we have engaged in proprietary development, from substrate designs to software, through the employment of unique technological developments based on creativity.

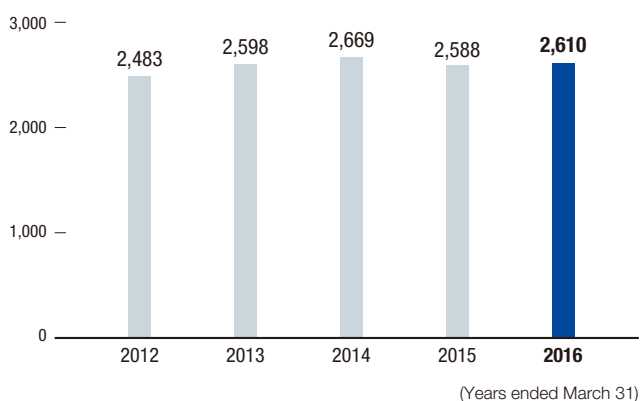
During the fiscal year under review, we expanded model variations of leading-edge MACH2<sup>®</sup>XS WHOLEGARMENT<sup>®</sup> flat knitting machines and developed new devices realizing efficient manufacturing generating no waste during knitting to boost the advancement of WHOLEGARMENT<sup>®</sup> flat knitting machines.

In addition, with respect to mini-versions of WHOLEGARMENT<sup>®</sup> flat knitting machines traditionally used mainly for fashion items such as caps and scarves, we also see expanded usage to industrial materials and other non-apparel applications, thus we promoted the development of knitting machines for these applications.

We have also developed samples of KNEAVE<sup>®</sup>, a technology that offers a more comfortable fit and unique textures by applying a special inlay knitting process, as well as Airdrobe<sup>®</sup> WHOLEGARMENT<sup>®</sup> products utilizing inlay technologies, among other efforts to develop knitting technology concepts never before available.

We strengthened development of P-CAM<sup>®</sup> automatic fabric cutting machines in response to demands from a wide range of industries, including the addition of models with enhanced suction power to hold fabric when cutting.

R&D Expenditures (¥ Million)



## Intellectual Property Activities

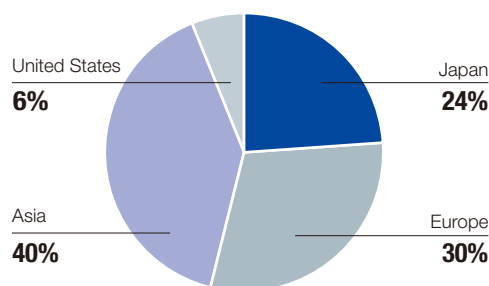
We have established a system for protecting our R&D successes and leveraging them as intellectual property rights, which has become the source of our growth potential.

Within our intellectual property strategy, we have

acquired patents across a broad range of technologies—not only technical patents on flat knitting machines, but also knitting and design technologies—which are stored in a database of accumulated technologies and expertise, enabling them to be shared throughout the Company.

As of March 31, 2016, Shima Seiki had acquired over 1,500 patents worldwide, and in recent years, we have been enhancing intellectual property rights protection, particularly in Asia.

Ratio of Patents by Region (FY2015)



## Environmental Activities

Shima Seiki engages in environmentally conscious business activities through the promotion of energy conservation in production divisions and the introduction of solar power generation systems. In October 2015, we acquired ISO 14001 certification at our headquarters. In addition to management indicators including reductions of various environmental impacts, factory greening efforts and the promotion of renewable energy usage, we contribute to global environmental conservation through our business, including the development and provision of environmentally conscious WHOLEGARMENT<sup>®</sup> flat knitting machines, design systems and other products.

## Business Continuity Plan (BCP)

Shima Seiki is engaged in the establishment of a system enabling the company to meet its responsibility of supplying products to customers that minimizes interruptions to business activities while ensuring the safety of employees, their families and our stakeholders in the event of a major natural disaster or accident.

We conduct scenarios assuming damage in normal operations to prepare for the rapid resumption of business. In the event a real disaster were to occur, we will establish a Crisis Management Headquarters and engage in rapid responses based on our business continuity plan.

## Basic Policies and Systems

The Shima Seiki Group considers strengthening corporate governance an important management issue from the standpoint of increasing efficient, sound, transparent and stakeholder-oriented management.

As a company with an Audit & Supervisory Board, we have formulated a framework for appropriate and effective corporate governance through the full functioning of a Board of Directors system and an Audit & Supervisory Board system. We also ensure that Audit & Supervisory Board member, the Internal Auditing Division and the accounting auditor are able to cooperate on audits, while at the same time maintaining their independence.

## Governance Structure

### Directors, Board of Directors

The Board of Directors, comprising 11 directors, meets at least once each month to supervise the execution of business. This includes one outside director in an attempt to strengthen the management structure through an external perspective.

During the year ended March 31, 2016, the Board of Directors met 13 times. Also, in June 2016, the number of outside directors was increased to two members to further promote the strengthening of the management structure through an external perspective.

### Audit & Supervisory Board Members, Audit & Supervisory Board

The Audit & Supervisory Board comprises four members, including two outside members, and they monitor the execution of duties by directors and audit the appropriateness of management. The advice that outside Audit & Supervisory Board members provide from their specialist backgrounds—one is an attorney and another is a certified public accountant and tax attorney—acts as an audit on directors' activities. During the year, the Audit & Supervisory Board met 13 times.

### Internal Auditing System

The Company has established an Internal Auditing

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

### Accounting Audits

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

## Internal Control System

Recognizing the importance of creating and operating an internal control system to realizing our corporate philosophy and targets, we have formulated and are pursuing Basic Policies Related to Improvement of the Internal Control System. In addition to the Committee for the Promotion of the Internal Control System, we have established a Compliance Committee, a Risk Management Committee and an Information Security Committee in an effort to enhance internal controls.

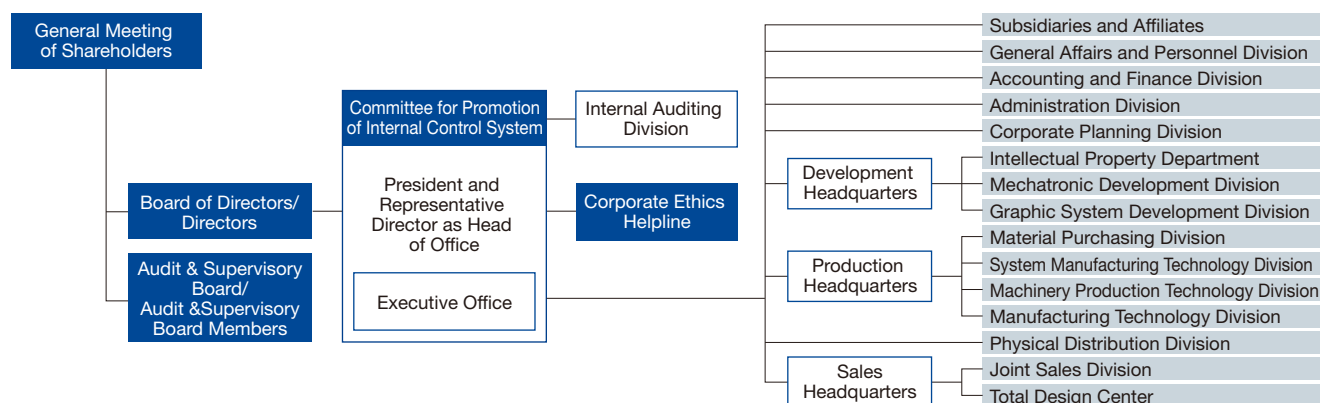
With regard to internal control over financial reporting, as well, we have systems in place to promote fair and impartial disclosure, thereby ensuring the reliability of financial reporting.

## Efforts toward Compliance

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

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

## Corporate Governance Organization



## Ensuring the Effectiveness of the Board of Directors

To facilitate an effective and efficient Board of Directors function, the board comprises an appropriate amount of directors numbering 15 people or less in consideration of ensuring diversity and a balance of knowledge, experience, skills and specialization throughout the entire Board of Directors. Furthermore, outside directors meet the criteria set forth by the Company relating to independence and are appointed based on a variety of perspectives, including those who possess a wide range of knowledge and abundant experience pertaining to corporate management, legal affairs, finance, accounting and other accomplishments in their former and current positions.

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

## Strategic Shareholdings

Shima Seiki engages in strategic shareholdings when they are determined to contribute to the Company's sustainable growth and enhance corporate value over the medium to long term through importance to the business or trade relation maintenance, enhancement or cooperation. Furthermore, the Board of Directors verifies the necessity of shareholdings with respect to important strategic shareholdings. With regard to the execution of voting rights involved with strategic shareholdings, proposals are carefully examined and executed appropriately after determining whether or not they contribute to an increase in shareholder value.

## Transactions Between Related Parties

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

## Policies and Procedures for Determining Director Remuneration

Director remuneration comprises fixed remuneration and a director bonus linked to performance in the applicable fiscal year. Stock options are also incorporated into remuneration to function as incentive remuneration. Moreover, outside director remuneration is a fixed amount based on consideration for the director's role and independence. Director remuneration is approved by the General Meeting of Shareholders and passed by resolution by the Board of Directors. When the Board of Directors passes a resolution pertaining to remuneration, the opinions of outside directors are sought to heighten the objectivity of these decisions.

## Director and Auditor Training

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

## Outside Director and Outside Auditor Main Activities and Reason for Appointment

Category Name	Board of Directors (Met 13 times)	The Audit & Supervisory Board (Met 13 times)	Reason for appointment
Outside Director Yoshio Ichiryu	Attended 13 times	—	Appointed as an outside director for his abundant experience in the areas of economics and industrial policy, as well as a wide range of experience and insight into overall management as a corporate manager.
Outside Director Rieko Zamma	— (Appointed in June 2016)	—	Appointed as an outside director for her abundant experience as a producer involved in event planning and public relations strategy, as well as a wide range of experience and insight into overall management as a corporate manager (see page 24 for profile).
Outside Auditor Daisuke Shinkawa	Attended 13 times	Attended 13 times	Appointed as an outside auditor for his abundant experience as a certified public accountant and tax attorney who is expected to contribute to maintaining the health of Company management through auditing, mainly from the perspective of accounting and tax affairs.
Outside Auditor Sachiko Nomura	Attended 10 times*	Attended 10 times*	Appointed as an outside auditor for her abundant experience as an attorney who is expected to contribute to maintaining the health of Company management through auditing, mainly from the perspective of legal affairs.

Note: Since being appointed in June 2015, outside auditor Sachiko Nomura attended all 10 Board of Directors meetings and all 10 Audit & Supervisory Board meetings.

### General Meeting of Shareholders

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

After the general meeting, a factory tour is conducted in an effort to deepen shareholders' understanding of our business.



Headquarters factory tour after the General Meeting of Shareholders

### Briefing for Individual Investors

Shima Seiki conducts briefings for individual investors to ensure as many individual investors as possible understand our business activities and policies.

In the fiscal year under review, briefings were held in August in Tokyo and in February in Tokyo and Wakayama and attended by a large number of individual investors.

Going forward, we will continue to further efforts aimed at promoting an understanding of our business, increasing visibility and expanding awareness of the Company.



Briefing for individual investors (Wakayama)

### Results Briefing

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

The president attends the results briefings to explain performance results, outlook and future vision in an attempt to communicate with institutional investors.



Results briefing (Tokyo)

### IR Media Utilization

We fully utilize a variety of IR media to provide our shareholders and investors with a deeper understanding of Shima Seiki's business, including the publishing of annual reports and the shareholder newsletter "To Our Shareholders," the distribution of shareholder questionnaires and the timely disclosure of information on the IR pages of our corporate website.



Shareholder newsletter "To Our Shareholders"



## Directors and Audit & Supervisory Board Members

As of July 1, 2016



**Masahiro Shima**  
President,  
Representative Director  
Director of Sales Headquarters



**Mitsuhiro Shima**  
Executive Vice President  
Deputy Director of Sales  
Headquarters, in charge of  
Corporate Planning Division



**Takashi Wada**  
Executive Director  
Director of Production Headquarters,  
in charge of Machinery Production  
Technology Division, Manufacturing  
Technology Division and System  
Manufacturing Technology Division



**Reiji Arikita**  
Executive Director  
Director of Development  
Headquarters



**Ikuto Umeda**  
Executive Director  
Deputy Director of Sales  
Headquarters,  
CEO of SHIMA SEIKI (HONG  
KONG) LTD.



**Osamu Fujita**  
Director  
General Manager of  
General Affairs and  
Personnel Division



**Toshio Nakashima**  
Director  
General Manager of  
Total Design Center



**Takashi Nanki**  
Director  
General Manager of Accounting  
and Finance Division, in charge of  
the Administration Division and  
Physical Distribution Division



**Hirokazu Nishitani**  
Director  
General Manager of  
Material Purchasing Division



**Kiyokata Nishikawa**  
Director  
General Manager of  
Joint Sales Division



**Yoshio Ichiryu**  
Outside Director  
President & CEO,  
Ichiryu Associates, Inc.



**Rieko Zamma**  
Outside Director  
CEO, CANDID PRODUCE ,Inc.

### Introducing Rieko Zamma, Outside Director

In June 2016, Shima Seiki welcomed Rieko Zamma, CEO of CANDID PRODUCE, Inc., as an outside director. She possess a wealth of knowledge as a producer and will enhance our governance structure by utilizing her wide-ranging perspective on overall management as a business owner.

#### Career Summary

- 1980 Established CANDID, Inc. (now CANDID COMMUNICATIONS, Inc.) CEO
- 2005 Established Creative Senior, Inc. (now CANDID PRODUCE, Inc.) CEO (incumbent)



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



**Masao Tanaka**  
Standing Audit &  
Supervisory Board Member



**Daisuke Shinkawa**  
Outside Audit &  
Supervisory Board Member  
Certified public accountant,  
tax attorney



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



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## Five-Year Financial Summary

### Five-Year Financial Summary

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

	2016	2015	2014	2013	2012	2016
<b>For the Year:</b>	Millions of yen					Thousands of U.S. dollars
Net sales	<b>¥49,583</b>	¥48,354	¥40,636	¥34,970	¥37,327	<b>\$440,034</b>
Cost of sales	<b>26,238</b>	26,488	23,367	22,758	22,895	<b>232,854</b>
Gross profit	<b>23,345</b>	21,866	17,269	12,212	14,432	<b>207,180</b>
Selling, general and administrative expenses	<b>17,563</b>	16,121	14,537	12,721	13,549	<b>155,867</b>
Operating income (loss)	<b>5,782</b>	5,745	2,732	(509)	883	<b>51,313</b>
Income (loss) before income taxes and minority interests	<b>4,803</b>	7,006	7,230	3,363	(537)	<b>42,625</b>
Net income (loss) attributable to owners of the parent	<b>3,271</b>	3,646	4,863	1,754	(642)	<b>29,029</b>
Net cash provided by (used in) operating activities	<b>1,257</b>	(1,957)	(2,401)	3,614	(2,094)	<b>11,155</b>
Net cash provided by (used in) investing activities	<b>(2,350)</b>	2,288	(367)	(3,218)	532	<b>(20,856)</b>
Net cash provided by (used in) financing activities	<b>(1,776)</b>	(1,966)	(1,597)	227	(1,929)	<b>(15,761)</b>
Capital investment	<b>2,128</b>	2,108	1,360	934	2,275	<b>18,885</b>
Depreciation and amortization	<b>1,590</b>	1,614	1,594	1,661	1,809	<b>14,111</b>
Research and development expenses	<b>2,610</b>	2,588	2,669	2,598	2,483	<b>23,163</b>
<b>At Year-End:</b>	Millions of yen					Thousands of U.S. dollars
Total assets	<b>¥126,416</b>	¥126,987	¥119,727	¥112,089	¥106,863	<b>\$1,121,903</b>
Net assets	<b>98,293</b>	98,179	93,222	87,382	84,167	<b>872,320</b>
<b>Per Share Data:</b>	Yen					U.S. dollars
Net income (loss)	<b>¥95.61</b>	¥106.54	¥142.13	¥51.26	¥(18.60)	<b>\$0.85</b>
Cash dividends applicable to the year	<b>37.50</b>	32.50	32.50	25.00	40.00	<b>0.33</b>
Net assets	<b>2,867.00</b>	2,863.49	2,718.57	2,547.88	2,454.07	<b>25.44</b>
<b>Ratios:</b>	%					
Ratio of operating income to net sales	<b>11.7%</b>	11.9%	6.7%	(1.5)%	2.4%	
ROA	<b>2.6</b>	3.0	4.2	1.6	(0.6)	
ROE	<b>3.3</b>	3.8	5.4	2.0	(0.8)	
Equity ratio	<b>77.6</b>	77.2	77.7	77.8	78.6	

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥112.68=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2016.

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

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

### Overview

In terms of economic trends during the consolidated fiscal year under review, although the employment environment continued to improve in the United States, economic expansion was sluggish after the interest rate hike. In Europe, despite positive growth, there was no sense of acceleration. In addition, low crude oil prices and a slowdown in emerging country economies were coupled with intensified uncertainty in the future of the overall global economy. In Japan, despite economic stimulus from the introduction of negative interest rates and other bold monetary easing measures, individual consumption and capital investment appeared to stagnate, prolonging the economic standstill. Furthermore, there were concerns over the deteriorating profitability of export companies due to continued yen appreciation from the beginning of the year.

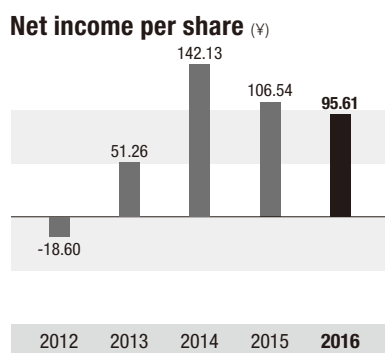
Amid these conditions, the Shima Seiki Group made an effort to ascertain the various needs of customers in Japan and overseas, developing new models conforming to the market and engaging in proposal-based marketing activities tailored to manufacturing regions.

Looking at sales conditions in the year under review, although the core Flat Knitting Machine Segment made moderate progress in the first half of the fiscal year, orders expanded after ITMA, the world's largest international textile and garment machinery exhibition held in Milan, Italy in November, while sales grew mainly in Asian and Middle Eastern markets. Furthermore, in the Design System Segment, sales of design systems and automatic fabric cutting machines grew steadily. However, sales in the Glove and Sock Knitting Machine Segment declined year on year. The Other Business Segment performed favorably.

As a result, the Company posted consolidated net sales of ¥49,583 million for the fiscal year ended March 31, 2016, up 2.5% from the preceding fiscal year.

In terms of profits, although the favorable impact of the full-year average exchange rate led to an increase in yen-converted sales prices and the effect of increased production caused the gross profit ratio to rise, selling, general and administrative (SG&A) expenses increased due to an extraordinary loss of approximately ¥1.2 billion on provision for the allowance for doubtful accounts related to trade receivables

from a customer in Indonesia in the previous fiscal year, resulting in operating income of ¥5,782 million, up 0.6% from the preceding fiscal year. Furthermore, the rapid appreciation of the



yen at the end of the fiscal year resulted in the recording of a non-operating foreign exchange loss of ¥1,893 million, thus net income attributable to owners of the parent was ¥3,271 million, down 10.3% from the previous fiscal year.

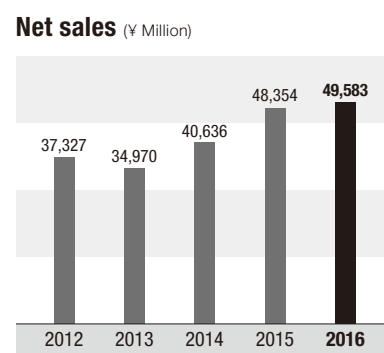
Shima Seiki treats the return of profits to shareholders as a priority management issue. With regard to profit distribution, the Company strives to maintain long-term stable dividends based on improved performance, taking into account forecasts for future profits and business expansion with the belief it should engage in raising stock value per share. In the year under review, consolidated net income per share (EPS) declined from ¥106.54 in the previous year to ¥95.61. The year-end dividend increased ¥2.50 per share, and in addition to a commemorative dividend of ¥2.50 per share in recognition of the 20th anniversary of WHOLEGARMENT® flat knitting machines, the year-end dividend was ¥22.50 per share. Combined with an interim dividend of ¥15.00 per share, the full-year dividend was ¥37.50 per share.

### Net Sales

Shima Seiki's consolidated net sales rose 2.5% from the previous fiscal year, to ¥49,583 million.

In the Company's core business of flat knitting machines, sales in the mainstay Asian market were sluggish in the first half of the fiscal year and declined compared to the previous fiscal year. However, active movement returned in the second half of the fiscal year in ASEAN countries and Bangladesh, driven by equipment demand for computerized flat knitting machines offering high production efficiency. Sales mainly comprised SSR®, which offers superior cost performance, and SVR®, which enables high-speed knitting. Also, in the Chinese market where there are concerns of an economic slowdown, sales remained at the same level as in the previous fiscal year due to proposal-based marketing that attempted to regain competitiveness through improved quality targeting domestic demand. The new WHOLEGARMENT® flat knitting machine model MACH2®XS was introduced in the South Korean market ahead of schedule.

Business in the Middle Eastern country of Turkey has struggled for the past few years due to expanded production in the Asian market, but we regained competitiveness through response to demands for quick-turnaround orders of European apparel, while capital investment in computerized flat knitting machines



grew substantially.

In advanced country markets, sales in the European region declined year on year due to a slowdown in capital investment ahead of the ITMA exhibition held in Milan in November as users waited to see what would be exhibited. At the ITMA, our product line making use of proprietary technologies, including the state-of-the-art WHOLEGARMENT® flat knitting machine MACH2®XS, was well received, resulting in numerous inquiries leading to high expectations for the next fiscal year. Also, in the United States, the trend toward domestic manufacturing is gaining momentum as sales of computerized flat knitting machines, including WHOLEGARMENT® flat knitting machines, increased.

In the domestic market, sales increased, led mainly by WHOLEGARMENT® flat knitting machines.

As a result of these trends, sales in the Flat Knitting Machine Segment grew 4.7%, to ¥37,806 million.

In the Design System Segment, we proactively developed proposal-based marketing aimed at innovations to improve the efficiency of production and distribution centered on the SDS®-ONE APEX3, which is now used in a wide range of industries other than the knitting industry for textiles, interior items, furniture and sundry goods.

Sales of P-CAM® automatic fabric cutting machines increased as a result of expanded model variations and sales to a wide range of non-apparel industries, including automotive interiors, furniture, aerospace and industrial materials. These efforts resulted in Design System Segment sales of ¥4,136 million, up 13.5% year-on-year.

In the Glove and Sock Knitting Machine Segment, due to the backlash after a substantial increase in sales in the previous fiscal year, demand for work gloves declined, resulting in sales of ¥1,513 million, down 46.8% compared to the previous fiscal year.

In the Other Business Segment, service parts sales grew causing net sales to increase 6.4%, to ¥6,128 million.

Overall, overseas net sales grew 1.8%, to ¥41,391 million, accounting for 83.5% of net sales during the year, a 0.6 percentage point decrease from the previous year. By geographical region, 55.2% of net sales were conducted in Asia (compared with 60.5% during the previous year), 12.9% in Europe (15.2%), 10.0% in the Middle East (3.9%) and 5.3% in other areas (4.5%), indicating the declining percentage of sales in Asia, but a rising percentage of sales in the Middle East.

In the Japanese market, domestic net sales grew 6.5% to ¥8,192 million, attributable to higher sales of computerized flat knitting machines, mainly WHOLEGARMENT® flat knitting machines, in the Flat Knitting Machine Segment and robust sales in the Design System Segment.

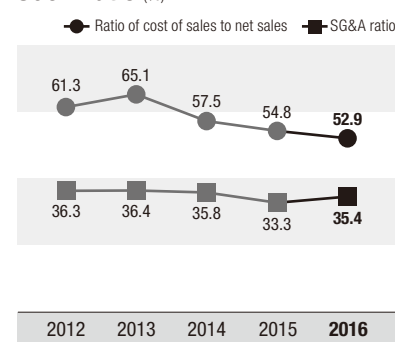
## Cost of Sales and SG&A Expenses

Higher flat knitting machine unit sales, increased unit production and improved yen-converted sales prices due to the favorable exchange rate caused the gross profit ratio to rise. Cost of sales came to ¥26,238 million, and as a result

gross profit grew 6.8%, to ¥23,345 million. The gross profit ratio rose 1.9 percentage points year on year, to 47.1%.

Selling, general and administrative (SG&A) expenses increased 8.9% year on year, to ¥17,563 million, owing to higher labor costs in line with staff increases and increased provision for allowance for doubtful accounts. The SG&A ratio rose 2.1 percentage points year on year, to 35.4%.

### Ratio of cost of sales to net sales/ SG&A ratio (%)



## Operating Income

While the gross profit ratio improved, SG&A expenses also increased, resulting in operating income increasing just 0.6% to ¥5,782 million.

By business segment, operating income in the Flat Knitting Machine Segment came to ¥8,948 million, up 7.0% year on year; ¥1,161 million in the Design System Segment, up 14.3%; ¥237 million in the Glove and Sock Knitting Machine Segment, down 63.5%; and ¥655 million in the Other Business Segment, down 10.3% compared to the previous term.

## Other Income and Expenses

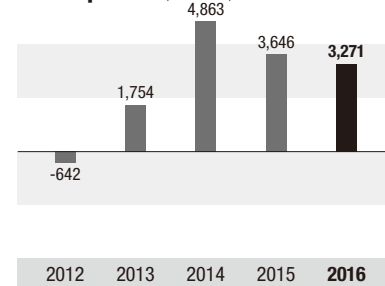
Other income was lower than other expenses, leading to net other losses of ¥979 million, compared with net other income of ¥1,261 million in the previous year. This was due to the recording of ¥1,893 million on foreign exchange losses owing to factors such as losses on the valuation of receivables denominated in foreign currencies due to the strengthening yen.

## Net Income Attributable to Owners of the Parent

Income before income taxes was ¥4,803 million, compared to ¥7,006 million in the previous year.

Corporate income, residential and enterprise taxes totaled ¥1,848 million, representing a decrease of ¥1,078 million from a year earlier. Corporate income tax adjustments for the period under review were a negative ¥316 million, compared with ¥433 million in the previous year. As a result, the Company's tax

### Net income attributable to owners of the parent (¥ Million)



burden after the application of tax effect accounting decreased ¥1,827 million from the previous fiscal year, to ¥1,532 million.

Owing to the above factors, consolidated net income attributable to owners of the parent for the Shima Seiki Group during the fiscal year under review came to ¥3,271 million, a 10.3% decline compared to the preceding fiscal term.

## Liquidity and Capital Resources

Cash and cash equivalents were ¥9,752 million as of March 31, 2016, down ¥3,412 million from one year earlier. Net cash provided by operating activities was ¥1,257 million, compared with ¥1,957 million used in this category in the previous fiscal year. Uses of cash included an increase in trade receivables of ¥8,222 million, compared to ¥9,506 million in the previous fiscal year, while principle sources of cash was an increase in income before income taxes and minority interests.

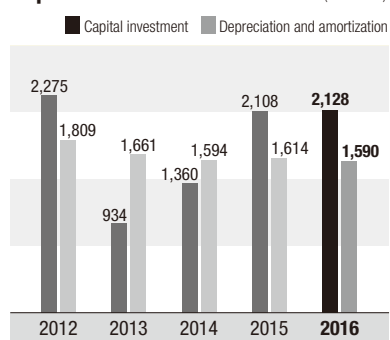
Net cash used in investing activities amounted to ¥2,350 million, compared with ¥2,288 million provided by these activities in the preceding fiscal year. Sources of cash include ¥1,339 million in proceeds from the disposal of investments in securities, while the main use of cash was purchases of property, plant and equipment totaling ¥1,420 million.

Net cash used in financing activities was ¥1,776 million, whereas these activities used ¥1,996 million in the preceding term. The main use of cash in this category was for the payment of dividends, which amounted to ¥1,111 million during the year under review, compared with ¥1,111 million in the previous year.

The Shima Seiki Group's funding activities combine various procurement methods, including cash flows from operating activities and loans from financial institutions, in an effort to secure low-cost, stable capital in response to uses of funds required to pursue the Group's objectives. At fiscal year-end, the equity ratio and current ratio, indicators of a company's margin of safety, were 77.6% and 460.3%, respectively, implying an extremely good financial position.

The Shima Seiki Group will continue to ensure its solid position as a global leading company into the future, firmly believing that it can procure adequate capital by leveraging its healthy financial position and vigorous sales efforts and by maintaining stable

### Capital investment/ Depreciation and amortization (¥ Million)



growth to secure the working funds and funds for capital investment required for stable growth.

## Assets, Liabilities and Net Assets

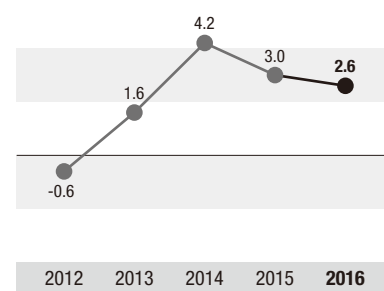
Consolidated total assets as of March 31, 2016, were ¥126,416 million, down ¥571 million from a year earlier. In terms of short-term assets and liabilities, current assets rose 2.1%, or ¥1,880 million, to ¥89,984 million. Major reasons for these changes were a ¥5,736 million increase in trade accounts and notes receivable and a ¥3,353 million decline in cash and cash equivalents. Current liabilities, meanwhile, declined 2.5%, or ¥502 million, to ¥19,549 million. This was primarily due to a ¥787 million decrease in accrued income taxes.

With regard to long-term assets and liabilities, long-term assets decreased ¥2,451 million, or 6.3%, to ¥36,432 million, largely due to a reduction in investments in securities. Long-term liabilities decreased ¥183 million, or 2.1%, to ¥8,574 million.

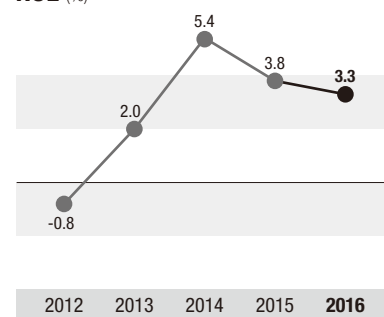
Net assets increased ¥114 million, or 0.1%, to ¥98,293 million, owing principally to higher retained earnings. As a result, the shareholders' equity ratio rose 0.4 percentage point from the preceding year-end, to 77.6%.

Return on assets declined from 3.0% to 2.6%. Return on equity also declined, from 3.8% to 3.3%.

### ROA (%)



### ROE (%)



### Business Risks and Uncertainties

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

The Group strives to prevent manifestation of those risks and employ proper countermeasures. Forward-looking statements are decisions made by the Group as of March 31, 2016.

#### (1) Risks of dependency on particular overseas markets

Overseas sales account for around 85% of the Group's total sales, with sales to the Asian markets, including Bangladesh, China and ASEAN countries, exceeding 50% of the total. There is a concern over economic and political changes in these markets, including competition with other flat knitting machine manufacturers, changes in monetary policies and tax systems, and trade friction with other regions, which could lead to a decline in orders, and thus affect the performance and financial position of the Group.

#### (2) Risks associated with fluctuations in currency exchange rates

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

#### (3) Risks associated with credit and accounts receivable recovery

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

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

In some countries and regions, it is virtually impossible, or possible only to a limited extent, to protect the Group's proprietary technologies and know-how in terms of its intellectual property rights due to a lack of awareness concerning legal compliance. Consequently, the Group may not be able to effectively prevent a third party from illegally using the Group's intellectual property rights and producing counterfeit products. Accompanying deterioration in sales and price competition could affect the performance and financial position of the Group.

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

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

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

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

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

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

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

## Consolidated Balance Sheets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries  
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Note 3, 4) .....	¥11,159	¥14,512	\$99,033
Short-term investments in securities (Note 4, 5) .....	45	61	399
Trade notes and accounts receivable (Note 4) .....	58,314	52,578	517,519
Inventories (Note 6) .....	18,222	18,677	161,714
Deferred tax assets (Note 12) .....	1,678	1,453	14,892
Prepaid expenses and other current assets .....	2,416	2,119	21,441
Less: allowance for doubtful accounts .....	(1,850)	(1,296)	(16,418)
<b>Total current assets</b> .....	<b>89,984</b>	<b>88,104</b>	<b>798,580</b>
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries (Note 4) .....	321	130	2,849
Investments in securities (Note 4, 5) .....	6,789	7,648	60,250
Net defined benefit assets (Note 9) .....	694	650	6,159
Deferred tax assets (Note 12) .....	710	317	6,301
Goodwill .....	4,312	5,041	38,268
Other .....	7,332	8,752	65,069
Less: allowance for doubtful accounts .....	(4,169)	(3,669)	(36,999)
<b>Total investments and other assets</b> .....	<b>15,989</b>	<b>18,869</b>	<b>141,897</b>
<b>Property, plant and equipment:</b>			
Land .....	10,910	10,892	96,823
Buildings and structures .....	24,029	23,799	213,250
Machinery and equipment .....	6,054	5,807	53,727
Tools, furniture and fixtures .....	7,169	7,210	63,623
Leased assets .....	3,676	3,158	32,623
Construction in progress .....	317	14	2,813
	<b>52,155</b>	<b>50,880</b>	<b>462,859</b>
Less: accumulated depreciation .....	(31,712)	(30,866)	(281,433)
<b>Property, plant and equipment, net</b> .....	<b>20,443</b>	<b>20,014</b>	<b>181,426</b>
<b>Total assets</b> .....	<b>¥126,416</b>	<b>¥126,987</b>	<b>\$1,121,903</b>

See the accompanying notes to the consolidated financial statements.



	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 4, 8) .....	<b>¥6,002</b>	¥6,251	<b>\$53,266</b>
Lease obligation .....	<b>389</b>	416	<b>3,452</b>
Trade notes and accounts payable (Note 4) .....	<b>6,717</b>	6,384	<b>59,611</b>
Accrued expenses .....	<b>1,250</b>	1,209	<b>11,093</b>
Accrued income taxes .....	<b>1,073</b>	1,860	<b>9,523</b>
Other current liabilities .....	<b>4,118</b>	3,931	<b>36,546</b>
<b>Total current liabilities</b> .....	<b>19,549</b>	20,051	<b>173,491</b>
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 4, 8) .....	<b>5,000</b>	5,000	<b>44,374</b>
Long-term accounts payable .....	<b>1,051</b>	1,087	<b>9,327</b>
Lease obligation .....	<b>1,203</b>	1,072	<b>10,676</b>
Deferred tax liabilities for land revaluation (Note 7) .....	<b>24</b>	25	<b>213</b>
Net defined benefit liability (Note 9) .....	<b>976</b>	1,068	<b>8,662</b>
Other long-term liabilities .....	<b>320</b>	505	<b>2,840</b>
<b>Total long-term liabilities</b> .....	<b>8,574</b>	8,757	<b>76,092</b>
<b>Contingent liabilities</b> (Note 10)			
<b>Net assets:</b>			
Shareholders' equity:			
Common stock:			
Authorized — 142,000,000 shares			
Issued			
2016 — 36,600,000 shares			
2015 — 36,600,000 shares .....	<b>14,860</b>	14,860	<b>131,878</b>
Capital surplus .....	<b>21,724</b>	21,724	<b>192,793</b>
Retained earnings .....	<b>75,135</b>	72,976	<b>666,800</b>
Treasury stock, at cost			
2016 — 2,382,183 shares			
2015 — 2,381,276 shares .....	<b>(6,908)</b>	(6,907)	<b>(61,306)</b>
Total shareholders' equity .....	<b>104,811</b>	102,653	<b>930,165</b>
Accumulated other comprehensive income:			
Net unrealized holding gain on securities .....	<b>124</b>	836	<b>1,100</b>
Land revaluation difference (Note 7) .....	<b>(7,003)</b>	(7,005)	<b>(62,149)</b>
Foreign currency translation adjustments .....	<b>(29)</b>	1,312	<b>(257)</b>
Remeasurements of defined benefit plans .....	<b>200</b>	189	<b>1,775</b>
Total accumulated other comprehensive income .....	<b>(6,708)</b>	(4,668)	<b>(59,531)</b>
Subscription rights to share (Note 14) .....	<b>180</b>	180	<b>1,597</b>
Non-controlling interests in consolidated subsidiaries .....	<b>10</b>	14	<b>89</b>
<b>Total net assets</b> .....	<b>98,293</b>	98,179	<b>872,320</b>
<b>Total liabilities and net assets</b> .....	<b>¥126,416</b>	¥126,987	<b>\$1,121,903</b>

See the accompanying notes to the consolidated financial statements.

**Consolidated Statements of Income**

 SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries  
 Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Net sales</b> .....	<b>¥49,583</b>	¥48,354	<b>\$440,034</b>
<b>Cost of sales</b> .....	<b>26,238</b>	26,488	<b>232,854</b>
<b>Gross profit</b> .....	<b>23,345</b>	21,866	<b>207,180</b>
<b>Selling, general and administrative expenses</b> (Note 13) .....	<b>17,563</b>	16,121	<b>155,867</b>
<b>Operating income</b> .....	<b>5,782</b>	5,745	<b>51,313</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>613</b>	515	<b>5,440</b>
Interest expense .....	<b>(84)</b>	(132)	<b>(745)</b>
Foreign exchange gain (loss) .....	<b>(1,893)</b>	2,555	<b>(16,800)</b>
Provision of allowance for doubtful accounts .....	<b>(283)</b>	(1,414)	<b>(2,511)</b>
Other, net .....	<b>668</b>	(263)	<b>5,928</b>
<b>Income before income taxes</b> .....	<b>4,803</b>	7,006	<b>42,625</b>
<b>Income taxes</b> (Note 12):			
Current .....	<b>1,848</b>	2,926	<b>16,400</b>
Deferred .....	<b>(316)</b>	433	<b>(2,804)</b>
	<b>1,532</b>	3,359	<b>13,596</b>
<b>Net income</b> .....	<b>3,271</b>	3,647	<b>29,029</b>
<b>Net income (loss) attributable to non-controlling interests</b> .....	<b>(0)</b>	1	<b>(0)</b>
<b>Net income attributable to owners of the parent</b> .....	<b>¥3,271</b>	¥3,646	<b>\$29,029</b>
		Yen	U.S. dollars
<b>Per share:</b>			
Net income .....	<b>¥95.61</b>	¥106.54	<b>\$0.85</b>
Cash dividends applicable to the year .....	<b>37.50</b>	32.50	<b>0.33</b>

See the accompanying notes to the consolidated financial statements.

**Consolidated Statements of Comprehensive Income**

 SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries  
 Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Net income</b> .....	<b>¥3,271</b>	¥3,647	<b>\$29,029</b>
<b>Other comprehensive income</b> (Note 15):			
Net unrealized holding gain (loss) on securities .....	<b>(711)</b>	507	<b>(6,310)</b>
Land revaluation difference .....	<b>1</b>	2	<b>9</b>
Foreign currency translation adjustments .....	<b>(1,341)</b>	2,451	<b>(11,901)</b>
Remeasurements of defined benefit plans .....	<b>11</b>	(163)	<b>97</b>
Total other comprehensive income .....	<b>(2,040)</b>	2,797	<b>(18,105)</b>
<b>Comprehensive income</b> .....	<b>¥1,231</b>	¥6,444	<b>\$10,924</b>
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent .....	<b>¥1,231</b>	¥6,443	<b>\$10,924</b>
Comprehensive income (loss) attributable to non-controlling interests .....	<b>(0)</b>	1	<b>(0)</b>

See the accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries  
Years ended March 31, 2016 and 2015

	Thousands	Millions of yen										
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets
<b>Balance at March 31, 2014</b>	36,600	¥14,860	¥21,724	¥71,158	¥(6,904)	¥329	¥(7,351)	¥(1,139)	¥352	¥180	¥13	¥93,222
Cumulative effects of changes in accounting policies	—	—	—	(372)	—	—	—	—	—	—	—	(372)
Net income attributable to owners of the parent	—	—	—	3,646	—	—	—	—	—	—	—	3,646
Cash dividends	—	—	—	(1,112)	—	—	—	—	—	—	—	(1,112)
Purchases of treasury stock	—	—	—	—	(3)	—	—	—	—	—	—	(3)
Reversal of land revaluation difference	—	—	—	(344)	—	—	—	—	—	—	—	(344)
Other changes, net	—	—	—	—	—	507	346	2,451	(163)	—	1	3,142
<b>Balance at March 31, 2015</b>	36,600	¥14,860	¥21,724	¥72,976	¥(6,907)	¥836	¥(7,005)	¥1,312	¥189	¥180	¥14	¥98,179
Net income attributable to owners of the parent	—	—	—	3,271	—	—	—	—	—	—	—	3,271
Cash dividends	—	—	—	(1,112)	—	—	—	—	—	—	—	(1,112)
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	—	—	—	(1)
Other changes, net	—	—	—	—	—	(711)	1	(1,341)	11	—	(4)	(2,044)
<b>Balance at March 31, 2016</b>	<b>36,600</b>	<b>¥14,860</b>	<b>¥21,724</b>	<b>¥75,135</b>	<b>¥(6,908)</b>	<b>¥125</b>	<b>¥(7,004)</b>	<b>¥(29)</b>	<b>¥200</b>	<b>¥180</b>	<b>¥10</b>	<b>¥98,293</b>

	Thousands of U.S. dollars											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Land revaluation difference	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests in consolidated subsidiaries	Total net assets	
<b>Balance at March 31, 2015</b>	\$131,878	\$192,794	\$647,639	\$(61,297)	\$7,419	\$(62,167)	\$11,644	\$1,677	\$1,597	\$124	\$871,308	
Net income attributable to owners of the parent	—	—	29,029	—	—	—	—	—	—	—	29,029	
Cash dividends	—	—	(9,868)	—	—	—	—	—	—	—	(9,868)	
Purchases of treasury stock	—	—	—	(9)	—	—	—	—	—	—	(9)	
Other changes, net	—	—	—	—	(6,310)	9	(11,901)	98	—	(36)	(18,140)	
<b>Balance at March 31, 2016</b>	<b>\$131,878</b>	<b>\$192,794</b>	<b>\$666,800</b>	<b>\$(61,306)</b>	<b>\$1,109</b>	<b>\$(62,158)</b>	<b>\$(257)</b>	<b>\$1,775</b>	<b>\$1,597</b>	<b>\$88</b>	<b>\$872,320</b>	

See the accompanying notes to the consolidated financial statements.

**Consolidated Statements of Cash Flows**

 SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries  
 Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Cash flows from operating activities:</b>			
Income before income taxes .....	¥4,803	¥7,006	\$42,625
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization .....	1,590	1,614	14,111
Amortization of goodwill .....	441	416	3,914
Increase in allowance for doubtful accounts .....	2,053	2,183	18,220
Decrease in net defined benefit liability .....	(108)	(161)	(958)
Interest and dividend income .....	(613)	(515)	(5,440)
Interest expense .....	84	132	746
Foreign exchange loss (gain) .....	1,323	(2,564)	11,741
Loss on sales and disposal of property, plant and equipment, net .....	23	(6)	204
Impairment loss .....	—	104	—
Loss (gain) on valuation of derivatives .....	(210)	141	(1,864)
Increase in trade receivables .....	(8,222)	(9,506)	(72,968)
Decrease (increase) in inventories .....	(155)	1,398	(1,376)
Increase in trade payables .....	1,642	1,580	14,572
Other .....	726	(737)	6,443
Subtotal .....	3,377	1,085	29,970
Interest and dividend income received .....	609	490	5,405
Interest expense paid .....	(84)	(167)	(746)
Income taxes paid .....	(2,645)	(3,365)	(23,474)
<b>Net cash provided by (used in) operating activities .....</b>	<b>1,257</b>	<b>(1,957)</b>	<b>11,155</b>
<b>Cash flows from investing activities:</b>			
Increase in time deposits, net .....	502	2,477	4,455
Purchases of property, plant and equipment .....	(1,420)	(1,028)	(12,602)
Proceeds from sales of property, plant and equipment .....	3	84	27
Purchases of investments in securities .....	(1,370)	(205)	(12,158)
Proceeds from sales and redemption of investments in securities .....	1,339	1,539	11,883
Payment for acquisition of subsidiaries and affiliated companies .....	(200)	—	(1,775)
Payment of long-term loans receivable .....	(450)	(500)	(3,994)
Other .....	(754)	(79)	(6,692)
<b>Net cash provided by (used in) investing activities .....</b>	<b>(2,350)</b>	<b>2,288</b>	<b>(20,856)</b>
<b>Cash flows from financing activities:</b>			
Decrease in short-term borrowings, net .....	(250)	(443)	(2,218)
Repayment of finance lease obligations .....	(413)	(410)	(3,665)
Purchases of treasury stock .....	(2)	(2)	(18)
Cash dividends paid .....	(1,111)	(1,111)	(9,860)
<b>Net cash used in financing activities .....</b>	<b>(1,776)</b>	<b>(1,966)</b>	<b>(15,761)</b>
Effect of exchange rate changes on cash and cash equivalents .....	(543)	980	(4,818)
Net decrease in cash and cash equivalents .....	(3,412)	(655)	(30,280)
Cash and cash equivalents at beginning of year .....	13,164	13,819	116,826
Cash and cash equivalents at end of year (Note 3) .....	¥9,752	¥13,164	\$86,546

See the accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

SHIMA SEIKI MFG., LTD. and Consolidated Subsidiaries

### 1. Basis of presenting consolidated financial statements

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the exchange rate prevailing at March 31, 2016, which was ¥112.68 to US\$1. These convenience translations should not be construed as representations that the Japanese yen amounts have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 2. Summary of significant accounting policies

#### (a) Principles of consolidation

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

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

#### (b) Translation of foreign currencies

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

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

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

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

#### (c) Cash and cash equivalents

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

#### (d) Short-term investments and investments in securities

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

#### (e) Inventories

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

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

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

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

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

The principal estimated useful lives are as follows:

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

### (g) Leased assets

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

Financial leases other than those that are deemed to transfer the ownership of leased assets to the lessees, which commenced in fiscal years beginning prior to April 1, 2008, are accounted for in a similar way to operating leases.

### (h) Allowance for doubtful accounts

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

### (i) Retirement benefits

#### 1. Periodic allocation methodology for the estimated retirement benefit amount

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

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

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

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

### (j) Research and development costs

Research and development costs are charged to income

as incurred.

### (k) Income taxes

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

### (l) Derivatives and hedging activities

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

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

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

### (m) Per share information

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

Diluted net income per share is not presented for the year ended March 31, 2016 and 2015 since there are no residual securities with dilutive effect upon exercise into common stock.

### (Changes in accounting policies)

Effective beginning the fiscal year ended March 31, 2016, the Company has adopted the "Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21 of September 13, 2013; hereafter the "Business Combinations Accounting Standard")," the "Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 of September 13, 2013; hereafter the "Consolidation Accounting Standard")," the "Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 of September 13, 2013; hereafter the "Business Divestitures Accounting Standard")" and other standards. Accordingly, the accounting method was changed to record the difference arising from changes in equity in subsidiaries which the Company continues to control as a capital surplus, and

business acquisition costs as expenses for the fiscal year in which they occurred. Regarding business combinations implemented on or after April 1, 2015, the accounting method was changed to reflect adjustments to the allocation of acquisition cost under provisional accounting treatment on the consolidated financial statements of the fiscal year in which the relevant business combinations became or will become effective. In addition, the changes in the presentation of net income and the changes in the presentation from minority interests to non-controlling interests have been implemented. In connection with the changes in the presentation of the consolidated financial statements, reclassifications have been made on the consolidated financial statements of the fiscal year ended March 31, 2015.

The Business Combinations Accounting Standard and other standards were applied in accordance with the transitional treatments stated in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard from the beginning of the fiscal year ended March 31, 2016.

Changes in description method have been implemented for cash flow statement of the fiscal year ended March 31, 2016, as cash flows related to acquisition or sale of subsidiaries without changes in consolidation scope were provided in the section of cash flows from financing activities, while cash flows related to the cost incurred from acquisition or sale of subsidiaries entailing changes in consolidation scope or the cost incurred from acquisition or sale of subsidiaries without changes in consolidation scope were provided in the section of cash flows from operating activities.

There is no impact on consolidated financial statements or per share information in the fiscal year ended March 31, 2016.

#### **(Accounting Standard, etc., Issued but Not Yet Adopted)**

“Revised Implementation Guidance on the Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016)

##### **1. Outline**

“Revised Implementation Guidance on the Recoverability of Deferred Tax Assets” sets out guidelines for the application of the Accounting Standard for Tax Effect Accounting (Business Accounting Council, Financial Services Agency) in relation to the recoverability of deferred tax assets. As part of the transfer of practical and auditing guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ, in relation to guidelines on the recoverability of deferred tax assets, particularly those set out in JICPA Audit Committee Report No.66, (Auditing Treatment Regarding Judgment of the Recoverability of Deferred Tax Assets), the ASBJ has

made essential revisions to guidance in selected areas, including classification requirements and handling posted figures for deferred tax assets, while still essentially following the framework for estimating deferred tax assets by classifying companies into five categories and calculating the amount based on each of the relevant categories.

##### **2. Planned application date**

The Guidance will be applicable from the first day of the consolidated fiscal year beginning on or after April 1, 2016.

##### **3. Impact of application of the above accounting standard, etc.**

The impact that the application of “Revised Implementation Guidance on the Recoverability of Deferred Tax Assets” will have on consolidated financial statements is currently under evaluation.

#### **3. Cash and deposits**

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets as of March 31, 2016 and 2015 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	<b>2016</b>	2015	<b>2016</b>
Cash and time deposits .....	<b>¥11,159</b>	¥14,512	<b>\$99,033</b>
Time deposits with an original maturity in excess of three months included in cash and deposits .....	<b>(1,407)</b>	(1,348)	<b>(12,487)</b>
Cash and cash equivalents at end of year .....	<b>¥9,752</b>	¥13,164	<b>\$86,546</b>

#### **4. Financial Instruments**

##### **(a) Policy for financial instruments**

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

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

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

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

## Notes to the Consolidated Financial Statements

fluctuations of foreign currency exchange.

The Companies use borrowings and interest-bearing debt to procure funds for operating transactions due for a maximum of 18 months. The Companies hedges risk for long-term borrowings by using derivatives (interest rate swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

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

### (c) Risk management of financial instruments

#### 1. Credit risk management

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

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

The Companies have derivative transactions only with counterparties rated highly.

#### 2. Market risk management

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

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

#### 3. Liquidity risk in procurement of funds

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

### (d) Supplemental information on fair value of financial instruments

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

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

### (e) Fair value of financial instruments

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

	Millions of yen		
	2016		
	Carrying value	Fair value	Variance
<1> Cash and time deposits .....	¥11,159	¥11,159	—
<2> Trade notes and accounts receivable ..	58,314	—	—
Less: allowance for doubtful accounts *1 ...	(1,663)	—	—
	<b>56,651</b>	<b>56,651</b>	<b>—</b>
<3> Short-term investments in securities, investments in securities .....	4,407	4,407	—
<4> Trade notes and accounts payable ..	6,717	6,717	—
<5> Short-term borrowings .....	6,002	6,002	—
<6> Long-term debt including long-term borrowings due within one year .....	5,000	5,016	¥16
<7> Derivative instruments *2 .....	(133)	(133)	—

	Millions of yen		
	2015		
	Carrying value	Fair value	Variance
<1> Cash and time deposits .....	¥14,512	¥14,512	—
<2> Trade notes and accounts receivable ..	52,578	—	—
Less: allowance for doubtful accounts *1 ...	(1,277)	—	—
	51,301	51,280	¥(21)
<3> Short-term investments in securities, investments in securities .....	6,265	6,265	—
<4> Trade notes and accounts payable ..	6,384	6,384	—
<5> Short-term borrowings .....	6,251	6,251	—
<6> Long-term debt including long-term borrowings due within one year .....	5,000	5,005	5
<7> Derivative instruments *2 .....	(353)	(353)	—

	Thousands of U.S. dollars		
	2016		
	Carrying value	Fair value	Variance
<1> Cash and time deposits .....	\$99,033	\$99,033	—
<2> Trade notes and accounts receivable ..	517,519	—	—
Less: allowance for doubtful accounts *1 ...	(14,759)	—	—
	<b>502,760</b>	<b>502,760</b>	<b>—</b>
<3> Short-term investments in securities, investments in securities .....	39,111	39,111	—
<4> Trade notes and accounts payable ..	59,611	59,611	—
<5> Short-term borrowings .....	53,266	53,266	—
<6> Long-term debt including long-term borrowings due within one year .....	44,374	44,515	\$141
<7> Derivative instruments *2 .....	(1,180)	(1,180)	—

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

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



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

- <1> Cash and time deposits; Carrying amount approximates fair value due to the short maturities.
- <2> Trade notes and accounts receivable; The fair value is based on the discounted by the free rate to be applied to the periods of collection, assuming allowance for doubtful accounts as credit risks since it is difficult to value credit risks individually.
- <3> Short-term investments in securities, investments in securities; Fair value of equity securities are based on the prices quoted by financial institutions.
- <4> Trade notes and accounts payable; Carrying amount approximates fair value due to the short maturities.
- <5> Short-term borrowings; Carrying amount approximates fair value due to the short maturities.
- <6> Long-term debt; Fair value of long-term debt is calculated by discounting the sum of future principal and interest payments to present value at the rate expected in another loan with the same conditions.
- <7> Derivative instruments; Refer to Note 11 Derivative financial instruments.

**(Note2) Fair values that are difficult to determine as of March 31, 2016 and 2015**

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted equity bonds .....	¥200	¥200	\$1,775
Unlisted equity securities .....	2,182	1,182	19,365
Shares of subsidiaries and affiliates ..	281	87	2,494
Investment in limited partnership .....	45	61	399

**(Note3) Redemption schedule of monetary receivables and marketable securities with maturities after March 31, 2016 and 2015**

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2016)				
Cash and time deposits .....	¥11,159	—	—	—
Trade notes and accounts receivable .....	26,745	¥31,569	¥0	—
Investment securities				
Held-to-maturity securities				
– Bonds .....	—	—	200	—
Available-for-sale securities with maturity				
– Bonds .....	—	1,068	—	—
– Other investments .....	45	36	—	—
Total .....	¥37,949	¥32,673	¥200	—

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2015)				
Cash and time deposits .....	¥14,512	—	—	—
Trade notes and accounts receivable .....	27,735	¥24,782	¥61	—
Investment securities				
Held-to-maturity securities				
– Bonds .....	—	—	200	—
Available-for-sale securities with maturity				
– Bonds .....	—	998	—	—
– Other investments .....	60	38	—	—
Total .....	¥42,307	¥25,818	¥261	—

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
(As of March 31, 2016)				
Cash and time deposits .....	\$99,033	—	—	—
Trade notes and accounts receivable .....	237,354	\$280,165	—	—
Investment securities				
Held-to-maturity securities				
– Bonds .....	—	—	\$1,775	—
Available-for-sale securities with maturity				
– Bonds .....	—	9,478	—	—
– Other investments .....	399	320	—	—
Total .....	\$336,786	\$289,963	\$1,775	—

**5. Short-term investments and investments in securities**

Other securities with quoted market prices at March 31, 2016 and 2015 were as follows:

	Millions of yen		
	2016	2015	2014
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities .....	¥2,011	¥2,354	¥343
Bonds .....	1,066	1,068	2
Other .....	236	267	31
Subtotal .....	¥3,313	¥3,689	¥376
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities .....	¥588	¥439	¥(149)
Bonds .....	—	—	—
Other .....	327	279	(48)
Subtotal .....	¥915	¥718	¥(197)
Total .....	¥4,228	¥4,407	¥179

## Notes to the Consolidated Financial Statements

	Millions of yen		
	2015		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities .....	¥2,471	¥3,617	¥1,146
Bonds .....	—	—	—
Other .....	719	837	118
Subtotal .....	¥3,190	¥4,454	¥1,264
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities .....	¥6	¥6	¥(0)
Bonds .....	1,000	998	(2)
Other .....	834	808	(26)
Subtotal .....	¥1,840	¥1,812	¥(28)
Total .....	¥5,030	¥6,266	¥1,236

	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:			
Equity securities .....	\$17,847	\$20,891	\$3,044
Bonds .....	9,460	9,478	18
Other .....	2,095	2,370	275
Subtotal .....	\$29,402	\$32,739	\$3,337
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:			
Equity securities .....	\$5,218	\$3,896	\$(1,322)
Bonds .....	—	—	—
Other .....	2,902	2,476	(426)
Subtotal .....	\$8,120	\$6,372	\$(1,748)
Total .....	\$37,522	\$39,111	\$1,589

Other securities without quoted market prices at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2016	2015	2016
Held-to-maturity securities .....	¥200	¥200	\$1,775
Other securities .....	2,227	1,243	19,764
	¥2,427	¥1,443	\$21,539

### 6. Inventories

Inventories at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished goods .....	¥10,208	¥10,225	\$90,593
Work in process .....	1,130	930	10,028
Raw materials .....	6,605	7,283	58,617
Supplies and others .....	279	239	2,476
	¥18,222	¥18,677	\$161,714

### 7. Land revaluation

On March 31, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the income tax effect on revaluation gain or loss, has been stated as a component of net assets, "Land revaluation difference." The income tax effect has been stated as a component of long-term liabilities, "Deferred tax liabilities for land revaluation." The fair value of the revalued land was less than its carrying value by ¥5,020 million (\$44,551 thousand) and ¥4,757 million at March 31, 2016 and 2015, respectively.

### 8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Average rate of 0.23% unsecured loans from banks .....	¥6,002	¥6,251	\$53,266

Long-term debt at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Average rate of 0.55% unsecured loans from banks .....	¥5,000	¥5,000	\$44,374
Less current portion .....	(—)	(—)	(—)
	¥5,000	¥5,000	\$44,374

The aggregate annual maturities of long-term debt at March 31, 2016 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	—	—
2018	¥5,000	\$44,374
2019	—	—
2020	—	—
Thereafter	—	—
Total	¥5,000	\$44,374

### 9. Retirement benefits

Retirement benefits at March 31, 2016 and 2015 consisted of the following:

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

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

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

retirement benefit.

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

Defined benefit plans, including a plan applying a simplified method

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance, beginning of year	¥6,062	¥4,908	\$53,798
Cumulative effects of changes in accounting policies	—	576	—
Restated balance	6,062	5,484	53,798
Service cost	321	302	2,849
Interest cost	60	54	533
Actuarial loss (gain)	(118)	493	(1,047)
Benefit paid	(286)	(271)	(2,538)
Balance, end of year	¥6,039	¥6,062	\$53,595

(2) Movement in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance, beginning of year	¥5,643	¥5,167	\$50,080
Expected return on plan assets	65	59	577
Actuarial loss (gain)	(55)	283	(488)
Contributions paid by the employer	317	321	2,813
Benefit paid	(213)	(187)	(1,890)
Balance, end of year	¥5,757	¥5,643	\$51,092

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligations	¥5,063	¥4,993	\$44,933
Plan assets	(5,757)	(5,643)	(51,092)
	(694)	(650)	(6,159)
Unfunded retirement benefit obligations	976	1,068	8,662
Total net liability for retirement benefits, end of year	282	418	2,503
Net defined benefit liability	976	1,068	8,662
Net defined benefit assets	(694)	(650)	(6,159)
Total net liability for retirement benefits, end of year	¥282	¥418	\$2,503

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥321	¥302	\$2,849
Interest cost	60	54	532
Expected return on plan assets	(65)	(59)	(577)
Net actuarial loss amortization	(53)	(58)	(470)
Past service costs amortization	1	0	9
Total retirement benefits costs	¥264	¥239	\$2,343

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service costs	¥1	¥0	\$9
Actuarial gains and losses	9	(266)	80
Total balance, end of year	¥10	¥(266)	\$89

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service costs that are yet to be recognized	¥(2)	¥(3)	\$(18)
Actuarial gains and losses that are yet to be recognized	290	281	2,574
Total balance, end of year	¥288	¥278	\$2,556

(7) Plan assets

<1> Plan assets at March 31, 2016 comprise:

Equity securities	12%
Bonds	14%
Insurance assets (General account)	69%
Other	5%
Total	100%

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

<2> Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumption at March 31, 2016 (expressed as weighted averages) are as follows:

Discount rate	1.00%
Long-term expected rate of return	1.15%
Rate of increase in future compensation	2.10%

## 10. Contingent liabilities

Contingent liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Guarantees of customers' loans and lease obligations	¥1,888	¥1,170	\$16,755

# Notes to the Consolidated Financial Statements

## 11. Derivative financial instruments

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

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

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2016 are as follows:

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

	Millions of yen			
	2016			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Capital-safe deposit including derivative instrument .....	¥845	¥282	¥(133)	¥(133)
Total .....	¥845	¥282	¥(133)	¥(133)

	Thousands of U.S. dollars			
	2016			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Capital-safe deposit including derivative instrument .....	\$7,499	\$2,503	\$(1,180)	\$(1,180)
Total .....	\$7,499	\$2,503	\$(1,180)	\$(1,180)

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

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2016			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Foreign exchange contracts:				
Put US\$ .....	¥13,382	¥4,179		
EUR .....	8,086	2,660		
KWR .....	1,279	222		
Interest rate swap contracts:				
To receive variable/to pay fixed..	¥1,500	¥1,500		

	Thousands of U.S. dollars			
	2016			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Foreign exchange contracts:				
Put US\$ .....	\$118,761	\$37,087		
EUR .....	71,761	23,607		
KRW .....	11,351	1,970		
Interest rate swap contracts:				
To receive variable/to pay fixed..	\$13,312	\$13,312		

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2015 are as follows:

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

	Millions of yen			
	2015			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Capital-safe deposit including derivative instrument .....	¥1,502	¥901	¥(320)	¥(320)
Foreign exchange contract:				
Call JP¥ .....	1,722	—	(33)	(33)
Total .....	¥3,224	¥901	¥(353)	¥(353)

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

(b) Derivatives that meet the criteria for hedge accounting

	Millions of yen			
	2015			
	Contract amount		Estimated fair value	Unrealized gain (loss)
Total	Settled over one year			
Foreign exchange contracts:				
Put US\$ .....	¥10,064	¥3,912		
EUR .....	5,470	1,925		
Interest rate swap contracts:				
To receive variable/to pay fixed..	¥1,500	¥1,500		

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

## 12. Income taxes

The Company and its domestic subsidiaries are subject to a number of Japanese income taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 32.83% and 35.38% for the year ended March 31, 2016 and 2015.

(1) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
<b>Deferred tax assets:</b>			
Tax loss carryforwards .....	<b>¥1,294</b>	¥1,407	<b>\$11,484</b>
Allowance for doubtful accounts ..	<b>786</b>	802	<b>6,976</b>
Intercompany profit .....	<b>707</b>	505	<b>6,274</b>
Long - term liabilities .....	<b>321</b>	343	<b>2,849</b>
Loss on valuation of investments in securities .....	<b>274</b>	288	<b>2,432</b>
Accrued bonuses to employees ..	<b>241</b>	245	<b>2,139</b>
Impairment loss on fixed assets ..	<b>197</b>	213	<b>1,748</b>
Allowance for losses on guarantees ..	<b>148</b>	203	<b>1,313</b>
Other .....	<b>838</b>	895	<b>7,436</b>
Total gross deferred tax assets ..	<b>4,806</b>	4,901	<b>42,651</b>
Less valuation allowance .....	<b>(2,248)</b>	(2,618)	<b>(19,950)</b>
Net deferred tax assets .....	<b>2,558</b>	2,283	<b>22,701</b>

### Deferred tax liabilities:

Unrealized holding gain on securities .....	<b>(55)</b>	(397)	<b>(488)</b>
Reserve for special depreciation ..	<b>(47)</b>	(36)	<b>(417)</b>
Asset retirement obligation .....	<b>(7)</b>	(9)	<b>(62)</b>
Other .....	<b>(61)</b>	(71)	<b>(541)</b>
Total gross deferred tax liabilities ..	<b>(170)</b>	(513)	<b>(1,508)</b>
Net deferred tax assets .....	<b>¥2,388</b>	¥1,770	<b>\$21,193</b>

(2) Amendment to deferred tax assets and liabilities due to change in corporation tax rates

As "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and "Act for Partial Amendment of the Council Tax Act, etc." (Act No. 13 of 2016) were enacted by the Diet on March 29, 2016, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.06% to 30.69% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2016 and on April 1, 2017 and to 30.46% for temporary differences expected to be eliminated in the fiscal year beginning on and after April 1, 2018.

As a result, deferred tax assets after offsetting deferred tax liabilities decreased by 33 million yen (U.S.\$293 thousands), income taxes-deferred increased by 41 million yen (U.S.\$364 thousands), net unrealized holding gain on securities increased by 2 million yen (U.S.\$18 thousands), and remeasurements of defined benefit plans increased by 4 million yen (U.S.\$35 thousands). Deferred tax liabilities for land revaluation decreased by 1 million yen (U.S.\$9 thousands) and land revaluation difference increased by 1 million yen (U.S.\$9 thousands).

## 13. Research and development costs

Research and development costs charged to income were ¥2,610 million (\$23,163 thousand) and ¥2,588 million for the years ended March 31, 2016 and 2015, respectively.

## 14. Stock option plan

As of March 31, 2016 and 2015, the Company has the following stock option programs.

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

(a) Number and price information  
(As of March 31, 2016)

Date of resolution	July 20, 2010
Unvested stock options	
Outstanding as of March 31, 2015	—
Granted	—
Expired	—
Vested	—
Outstanding as of March 31, 2016	—
Vested stock options	
Outstanding as of March 31, 2015	384,000
Vested	—
Exercised	—
Expired	—
Outstanding as of March 31, 2016	384,000

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

(b) Estimate of number of vested stock options

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

## 15. Comprehensive income

The amount of recycling and amount of income tax effect associated with other comprehensive income at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
			2016
Net unrealized holdings gain on securities:			
Amount recognized in the period under review .....	¥(903)	¥806	\$(8,014)
Amount of recycling .....	149	84	1,322
Before income tax effect adjustments ..	(1,052)	722	(9,336)
Amount of income tax effect .....	(341)	215	(3,026)
Net unrealized holdings gain on securities .....	(711)	507	(6,310)
Land revaluation difference			
Amount recognized in the period under review .....	—	—	—
Amount of recycling .....	—	—	—
Before income tax effect adjustments ..	—	—	—
Amount of income tax effect .....	(1)	(2)	(9)
Land revaluation difference .....	1	2	9
Foreign currency translation adjustments:			
Amount recognized in the period under review .....	(1,341)	2,451	(11,901)
Amount of recycling .....	—	—	—
Before income tax effect adjustments ..	(1,341)	2,451	(11,901)
Amount of income tax effect .....	—	—	—
Foreign currency translation adjustments .....	(1,341)	2,451	(11,901)
Remeasurements of defined benefit plans			
Amount recognized in the period under review .....	63	(210)	559
Amount of recycling .....	53	56	470
Before income tax effect adjustments ..	10	(266)	89
Amount of income tax effect .....	(1)	(103)	(8)
Remeasurements of defined benefit plans .....	11	(163)	97
Total other comprehensive income .....	¥(2,040)	¥2,797	\$(18,105)

## 16. Segment information

### (a) Outline of reportable segments

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

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

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

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

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

The accounting method for the reported operating segments is basically the same as those in note "2. Summary of significant accounting policies".

Segment profit (loss) is based on operating income.

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

Information related to the reportable segments of the Company and its consolidated subsidiaries for the years ended March 31, 2016 and 2015 were as follows:

Millions of yen						
2016						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
<b>Sales and operating income:</b>						
Sales to customers .....	¥37,806	¥4,136	¥1,513	¥43,455	¥6,128	¥49,583
Inter-segment sales .....	—	—	—	—	—	—
Total sales .....	37,806	4,136	1,513	43,455	6,128	49,583
Operating expenses .....	28,858	2,975	1,276	33,109	5,473	38,582
Segment profit .....	¥8,948	¥1,161	¥237	¥10,346	¥655	¥11,001
<b>Segment Assets:</b> .....	¥92,696	¥4,454	¥1,383	¥98,533	¥8,506	¥107,039
<b>Others:</b>						
Capital expenditure .....	¥1,300	¥56	¥42	¥1,398	¥152	¥1,550
Depreciation .....	1,052	45	35	1,132	159	1,291
Amortization of goodwill .....	421	3	0	424	17	441

Millions of yen						
2015						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
<b>Sales and operating income:</b>						
Sales to customers .....	¥36,106	¥3,645	¥2,843	¥42,594	¥5,760	¥48,354
Inter-segment sales .....	—	—	—	—	—	—
Total sales .....	36,106	3,645	2,843	42,594	5,760	48,354
Operating expenses .....	27,747	2,629	2,193	32,569	5,030	37,599
Segment profit .....	¥8,359	¥1,016	¥650	¥10,025	¥730	¥10,755
<b>Segment Assets:</b> .....	¥89,649	¥4,620	¥2,624	¥96,893	¥8,594	¥105,487
<b>Others:</b>						
Capital expenditure .....	¥1,229	¥98	¥79	¥1,406	¥204	¥1,610
Depreciation .....	1,055	48	71	1,174	150	1,324
Amortization of goodwill .....	385	3	0	388	28	416

Thousands of U.S. dollars						
2016						
	Flat Knitting Machine	Design System	Glove and Sock Knitting Machine	Total	Other	Grand total
<b>Sales and operating income:</b>						
Sales to customers .....	\$335,517	\$36,706	\$13,427	\$385,650	\$54,384	\$440,034
Inter-segment sales .....	—	—	—	—	—	—
Total sales .....	335,517	36,706	13,427	385,650	54,384	440,034
Operating expenses .....	256,106	26,402	11,324	293,832	48,571	342,403
Segment profit .....	\$79,411	\$10,304	\$2,103	\$91,818	\$5,813	\$97,631
<b>Segment Assets:</b> .....	\$822,648	\$39,528	\$12,274	\$874,450	\$75,488	\$949,938
<b>Others:</b>						
Capital expenditure .....	\$11,537	\$497	\$373	\$12,407	\$1,349	\$13,756
Depreciation .....	9,336	399	311	10,046	1,411	11,457
Amortization of goodwill .....	3,736	27	0	3,763	151	3,914

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

## Notes to the Consolidated Financial Statements

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

#### Sales to customers

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Reportable segments total .....	<b>¥43,455</b>	¥42,594	<b>\$385,650</b>
Other sales .....	<b>6,128</b>	5,760	<b>54,384</b>
Net sales in the consolidated statements of income .....	<b>¥49,583</b>	¥48,354	<b>\$440,034</b>

#### Segment profit (loss)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Reportable segments total .....	<b>¥10,346</b>	¥10,025	<b>\$91,818</b>
Other income .....	<b>655</b>	730	<b>5,813</b>
Corporate expenses .....	<b>(5,219)</b>	(5,010)	<b>(46,318)</b>
Operating income in the consolidated statements of income .....	<b>¥5,782</b>	¥5,745	<b>\$51,313</b>

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

#### Segment assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Reportable segments total .....	<b>¥98,533</b>	¥96,893	<b>\$874,450</b>
Other assets .....	<b>8,506</b>	8,594	<b>75,488</b>
Company-wide assets .....	<b>19,377</b>	21,500	<b>171,965</b>
Total assets in the consolidated balance sheets .....	<b>¥126,416</b>	¥126,987	<b>\$1,121,903</b>

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

#### Others

	Millions of yen						The amount in the consolidated financial statements	
	Reportable segments total		Other		Adjustment		2016	2015
	2016	2015	2016	2015	2016	2015		
Capital expenditure .....	<b>¥1,398</b>	¥1,406	<b>¥152</b>	¥204	<b>¥578</b>	¥498	<b>¥2,128</b>	¥2,108
Depreciation .....	<b>1,132</b>	1,174	<b>159</b>	150	<b>299</b>	290	<b>1,590</b>	1,614
Amortization of goodwill .....	<b>424</b>	388	<b>17</b>	28	<b>—</b>	—	<b>441</b>	416

	Thousands of U.S. dollars			
	2016			
	Reportable segments total	Other	Adjustment	The amount in the consolidated financial statements
Capital expenditure .....	<b>\$12,407</b>	<b>\$1,349</b>	<b>\$5,129</b>	<b>\$18,885</b>
Depreciation .....	<b>10,046</b>	<b>1,411</b>	<b>2,654</b>	<b>14,111</b>
Amortization of goodwill .....	<b>3,763</b>	<b>151</b>	<b>—</b>	<b>3,914</b>

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



## (Related information)

### Information about geographical region

Information about geographical region of the Company and its consolidated subsidiaries for the year ended March 31, 2016 and 2015 were as follows:

	Millions of yen					
	<b>2016</b>					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers .....	<b>¥8,192</b>	<b>¥6,392</b>	<b>¥4,975</b>	<b>¥27,383</b>	<b>¥2,641</b>	<b>¥49,583</b>

	Millions of yen					
	<b>2015</b>					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers .....	¥7,690	¥7,327	¥1,905	¥29,271	¥2,161	¥48,354

	Thousands of U.S. dollars					
	<b>2016</b>					
	Japan	Europe	Middle East	Asia	Other	Total
Sales to customers .....	<b>\$72,701</b>	<b>\$56,727</b>	<b>\$44,152</b>	<b>\$243,016</b>	<b>\$23,438</b>	<b>\$440,034</b>

## 17. Subsequent events

Shareholders approved the following appropriation of retained earnings at the annual meeting held on June 28, 2016.

	Millions of yen	Thousands of U.S. dollars
Cash dividends .....	¥770	\$6,834

## Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHIMA SEIKI MFG., LTD. and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### Convenience Translation

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

Osaka, Japan  
June 28, 2016

*Ohtemae Audit Co.*

Ohtemae Audit Corporation

## Corporate Information

<b>Company Name</b>	SHIMA SEIKI MFG., LTD.
<b>Headquarters</b>	85 Sakata, Wakayama City, Wakayama 641-8511, Japan Telephone: +81-73-471-0511 Facsimile: +81-73-474-8267
<b>Date of Establishment</b>	February 4, 1962
<b>Capital</b>	¥14,859,800,000
<b>Total Number of Employees</b>	Consolidated 1,788 Non-consolidated 1,244
<b>URL</b>	Corporate Information <a href="http://www.shimaseiki.com">http://www.shimaseiki.com</a> IR Information <a href="http://www.shimaseiki.co.jp/ire/ire.html">http://www.shimaseiki.co.jp/ire/ire.html</a>
<b>Consolidated Subsidiaries</b>	SHIMA FINE PRESS CO., LTD. SHIMA SEIKI EUROPE LTD. SHIMA SEIKI WIN WIN SHANGHAI LTD. TSM Industrial CO., LTD. SHIMA SEIKI U.S.A. INC. SHIMA SEIKI SPAIN, S.A.U. KAINAN SEIMITSU CO., LTD. SHIMA SEIKI (HONG KONG) LTD. SHIMA SEIKI WIN WIN DONGGUAN LTD. TOYOBOSHI KOGYO CO., LTD. SHIMA SEIKI ITALIA S.p.A. SHIMA SEIKI (THAILAND) CO., LTD. SHIMA SEIKI KOREA INC.



## Investor Information

<b>Accounting Year-End</b>	March 31
<b>Month of General Shareholders' Meeting</b>	June
<b>Authorized Common Shares</b>	142,000,000
<b>Issued Common Shares</b>	36,600,000
<b>Number of Shareholders</b>	18,113
<b>Stock Exchange Listing</b>	The First Section of the Tokyo Stock Exchange
<b>Auditing Corporation</b>	Ohtemae Audit Corporation

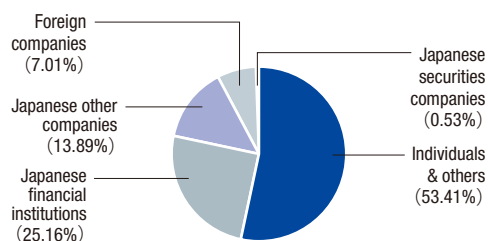
## Major Shareholders

Name	Number of shares held (Thousands)	Percentage of shares held (%)
Wajima Kosan Co., Ltd.	4,020	11.75
Japan Trustee Services Bank, Ltd. (Trust Account)	1,810	5.29
The Kiyo Bank, Ltd.	1,459	4.26
Masahiro Shima	1,070	3.13
Mitsuhiro Shima	1,061	3.10
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	880	2.57
Wako LLC	780	2.28
Shima Seiki Employees Shareholding Association	704	2.06
The Senshu Ikeda Bank, Ltd.	700	2.05
Hiromi Goto	697	2.04

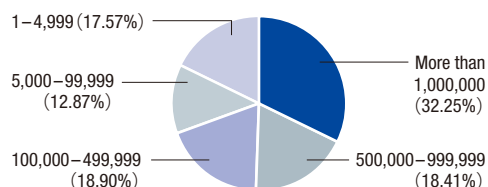
Notes: 1. The Company, which owns 2,382 thousand shares of treasury stock, or 6.51% of the total, is omitted from the above list of major shareholders, and percentage shareholding calculations exclude the Company's holdings of treasury shares.  
2. Holdings of less than 1,000 shares have been omitted.

## Stock Ownership

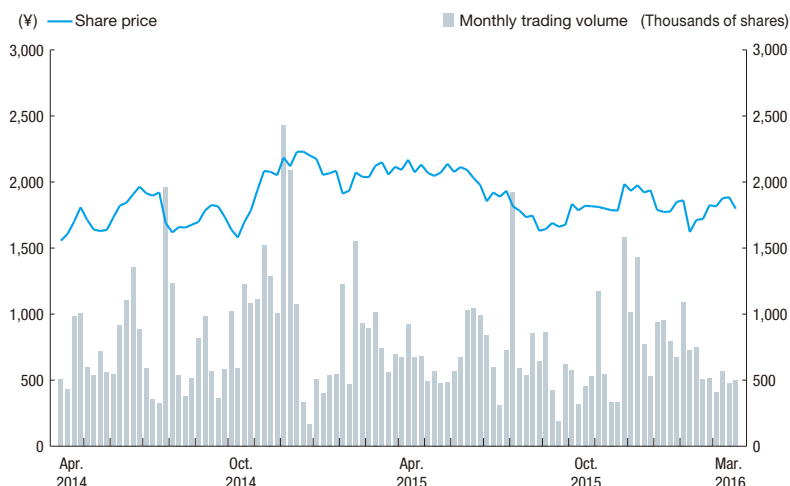
### Shareholder breakdown by type



### Shareholder breakdown by number of shares held



## Share Price and Trading Volume



## IR Website

<http://www.shimaseiki.co.jp/ire/ire.html>

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.



## SHIMA SEIKI MFG., LTD.

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Wakayama 641-8511, Japan  
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<http://www.shimaseiki.com>

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