

The following is an English translation of the Notice of the 57<sup>th</sup> Ordinary General Meeting of Shareholders of SHIMA SEIKI MFG., LTD. to be held on June 27, 2018. The Company provides this translation for your reference and convenience only and without any guarantee as to its accuracy.

Securities Code: 6222  
June 5, 2018

## To Our Shareholders

85 Sakata, Wakayama  
SHIMA SEIKI MFG., LTD.  
Mitsuhiro Shima  
President

### Notice of the 57<sup>th</sup> Ordinary General Meeting of Shareholders

We would like to take this opportunity to thank you for your kind and continuous support. SHIMA SEIKI MFG., LTD. (the "Company") will hold the 57<sup>th</sup> Ordinary General Meeting of Shareholders as stated below, and we would like to request your participation.

If you are unable to attend the meeting, you may exercise your voting rights in writing or via the Internet. In such case, please review the Reference Document for the General Meeting of Shareholders provided below and cast your vote by 5:45 p.m., Tuesday, June 26, 2018.

- 1. Date and Time** 10:00 a.m., Wednesday, June 27, 2018  
(Start time of reception 9:00 a.m.)
- 2. Place** High-Vision Hall, Company Headquarters, 85 Sakata, Wakayama
- 3. Objectives**

#### **Matters to be reported**

1. The business report, the consolidated financial statements, and the results of consolidated financial statement audits by the Accounting Auditor and the Board of Corporate Auditors for the 57<sup>th</sup> business period from April 1, 2017 to March 31, 2018.
2. The unconsolidated financial statements for the 57<sup>th</sup> business period from April 1, 2017 to March 31, 2018.

#### **Proposals to be resolved**

- Proposal No. 1 :** Appropriation of Surplus
- Proposal No. 2 :** Appointment of Nine(9) Directors
- Proposal No. 3 :** Appointment of Two(2) Corporate Auditors
- Proposal No. 4 :** Revision to Remuneration of Directors
- Proposal No. 5 :** Provision of Share Remuneration-type Stock Options (Equity Warrants) as Remuneration to Directors (Excluding Outside Directors)

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- ◎ Shareholders attending the meeting are requested to submit the enclosed voting form to the receptionist at the venue.
  - ◎ Any amendments to the reference documents for the general meeting of shareholders, the business report, the consolidated financial statements or the unconsolidated financial statements will be posted on the Company website (<http://www.shimaseiki.co.jp/irj/irj.html>).
  - ◎ Of the documents provided under current laws and regulations and the provisions of Article 16 of the Articles of Incorporation, the following items are presented on the Company website (<http://www.shimaseiki.co.jp/irj/irj.html>) and are not presented in the documents attached to the convocation notice.
    - (i) Consolidated statements of changes in net assets and notes to the consolidated financial statements
    - (ii) Unconsolidated Statements of changes in net assets and notes to unconsolidated financial statements

The above consolidated and unconsolidated statements of changes in net assets and notes to consolidated and unconsolidated financial statements consist of a part of the consolidated and unconsolidated financial statements that were audited in preparing the audit report by corporate auditors and the accounting audit report by the accounting auditor.

- ◎ On the meeting date, small gifts will be handed to attending shareholders at the venue—one gift for one attending shareholder regardless of the number of voting forms held.

## **Instructions of Exercising Your Voting Right**

### **When attending the General Meeting of Shareholders:**

Please present the enclosed voting form to the receptionist at the meeting.

Time and date of the meeting: 10:00 a.m., Wednesday, June 27, 2018

### **When exercising in writing:**

After indicating the approval or disapproval in relation to the proposals on the enclosed voting form, please send back the completed form to the Company.

Exercise period: No later than 5:45 p.m., Tuesday, June 26, 2018

### **When exercising through the Internet:**

Please access the website for exercising voting rights specified by the Company (<https://evote.tr.mufg.jp/>) by a personal computer, smartphone or mobile phone with the "Login ID" and "Tentative Password" printed on the enclosed voting form and enter approval or disapproval according to the guidance on the screen.

Please refer to the next page for more information.

\*If the voting rights are exercised both in writing and through the Internet, the content of exercising voting rights through the Internet will be deemed to be valid. In cases where the voting rights are exercised more than once through the Internet, the last exercise will be looked upon as a valid exercise of the voting rights. If the voting rights are exercised more than once through personal computer, smartphone and mobile phone, those exercised on the last occasion will be deemed to be effective and valid.

## Instructions of Exercising Voting Rights through the Internet

Before exercising your voting rights through the Internet, please note the following matters. If you attend the General Meeting of Shareholders in person, the procedures for exercising voting rights by postal mail (voting card) or through the Internet are unnecessary.

### 1. Website for Exercising Voting Rights

- (1) The exercise of voting rights through the Internet is possible only by accessing the website for the exercise of voting rights designated by the Company (<https://evote.tr.mufg.jp/>) from a personal computer, smartphone, or mobile phone (i-mode, EZweb, or Yahoo! Mobile\*).  
(However, please note that voting on the designated website is not available between the hours of 2:00 a.m. and 5:00 a.m.)  
\*i-mode, EZweb, and Yahoo! are trademarks or registered trademarks of NTT DOCOMO, Inc., KDDI CORPORATION, and Yahoo! Inc.(U.S.A), respectively.
- (2) You may not be able to exercise voting rights by a personal computer or smartphone depending on your Internet settings, service available, models in use.
- (3) Although the exercise of voting rights through the Internet is available until 5:45 p.m. on Wednesday, June 26, 2018, shareholders are advised to vote early. Please contact the Help Desk for questions.

### 2. How to Exercise Voting Rights through the Internet

- (1) On the website for the exercise of voting rights (<https://evote.tr.mufg.jp/>), please use the "Login ID" and "Tentative Password" printed on the enclosed voting form and enter approval or disapproval according to the guidance on the screen.
- (2) To prevent unauthorized access (impersonation) by third parties other than shareholders and to prevent the alteration of votes, shareholders who vote through the Internet are requested to change the temporary password on the designated voting website.

### 3. Costs Incurred When Accessing the Website for the Exercise of Voting Rights

All costs incurred when accessing the website for exercising voting rights (Internet connection charges, call charges, etc.) are borne by the shareholder. In addition, when voting through mobile phone, packet communication charges and other charges for the use of a mobile phone are required, and these charges are also borne by the shareholder.

#### Contact for Questions

Mitsubishi UFJ Trust and Banking Corporation, Corporate Agency Division (Help Desk)  
Phone: 0120-173-027 (9:00 a.m. to 9:00 p.m. <Tokyo Time>; toll-free, within Japan only)

### [Information on the Electronic Voting Platform (To Institutional Investors)]

Nominal shareholders (including standing proxies) such as master trust banks and other companies that have applied in advance to use the electronic voting platform operated by ICJ, Inc., may use the platform.

## Reference Documents for the General Meeting of Shareholders

### Proposals and References

#### Proposal No. 1 : Appropriation of Surplus

The Company has made it the basic policy to pay stable dividends over the long term through continuous business development by setting profit returns to shareholders as one of the most important managerial issues.

In addition, the Company has a policy of investing balanced allocations for growth from the long-term perspective and internal reserve in preparation for future business development.

Under these policies, the Company proposes to pay a year-end dividend per share of 35 yen for the current fiscal year.

#### Year-End Dividends

- (1) Type of dividend property  
Cash
- (2) Distribution of dividends to shareholders and total of dividends  
35 yen per share of common stock of the Company.  
This will amount to the total dividends of 1,277,920,595 yen.
- (3) Effective date of the distribution of retained earnings  
June 28, 2018

The interim dividend per share of 25 yen was paid; consequently, the annual dividend per share, which consists of interim and year-end dividends, amounts to 60 yen, which is an increase of 15 yen from the previous fiscal year.

**Proposal No. 2: Appointment of Nine(9) Directors**

The current twelve(12) directors will reach the expiration of their terms of office at the end of the general meeting of shareholders. Therefore, in relation to the introduction of the executive officer system, the Company proposes to reduce the number of directors and appoint nine(9) directors.

The candidates for directors are as follows:

Candidate No.	Name	Present position in the Company			
1	Masahiro Shima	Chairman, Representative Director	Re- appointment		
2	Mitsuhiro Shima	President, Representative Director	Re- appointment		
3	Ikuto Umeda	Executive Director	Re- appointment		
4	Reiji Arikita	Executive Director	Re- appointment		
5	Takashi Nanki	Director	Re- appointment		
6	Hirokazu Nishitani	Director	Re- appointment		
7	Kiyokata Nishikawa	Director	Re- appointment		
8	Yoshio Ichiryu	Director	Re- appointment	Outside	Independent
9	Rieko Zamma	Director	Re- appointment	Outside	Independent

No.	Name (Date of birth)	Profile, position, responsibility and significant concurrent positions	Number of shares of the Company held	
1	Masahiro Shima (March 10, 1937) <u>Re-appointment</u>	July 1961	Founded Sanshin Seiki Mfg. Ltd., (now the Company) President, Representative Director	1,070,000 shares
		March 2009	President, Representative Director, Director of Sales Headquarters	
		June 2017	Chairman, Representative Director (current)	
		[Reasons for nomination as a candidate for Director] Mr. Masahiro Shima established the Company in 1961 and has developed the group into a leader in the flat knitting machine industry while serving as the president and representative director over a long period. Mr. Shima has substantial experience and knowledge in the R&D field, especially in the development of products from automated glove knitting machines to the WHOLEGARMENT flat knitting machines, and has served as the driving force for the group by showing strong leadership at the center of management. He has also supervised the entire management as chairman and representative director since 2017. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.		
2	Mitsuhiro Shima (June 23, 1961) <u>Re-appointment</u>	March 1987	Joined the Company	1,061,600 shares
		March 1998	General Manager of System Development Division	
		June 2002	Director, General Manager of System Development Division	
		June 2007	Executive Director in charge of Control System Development Division, Intellectual Property Department and Total Design Center, General Manager of Graphic System Development Division	
		June 2011	Senior Executive Director in charge of Machinery Production Technology Division and Total Design Center, Director of Production Headquarters	
		June 2012	Executive Vice President in charge of Corporate Planning Division and Total Design Center, Deputy Director of Sales Headquarters	
		April 2015	Executive Vice President, Deputy Director of Sales Headquarters, in charge of Corporate Planning Division	
		June 2017	President, Representative Director, Director of the Sales Headquarters of the Company in charge of the Corporate Planning Division (current)	
		[Reasons for nomination as a candidate for Director] Mr. Mitsuhiro Shima has substantial experience and knowledge in R&D and the manufacturing fields and manages the sales division as the director of the sales headquarters. Mr. Shima also led the preparation of and contributed to the realization of the medium-term management plan. Since 2017, he has made decisions on significant managerial matters and supervised the execution of operations as president and representative director. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.		

No.	Name (Date of birth)	Profile, position, responsibility and significant concurrent positions	Number of shares of the Company held
3	Ikuto Umeda (February 20, 1957) <u>Re-appointment</u>	<p>May 1990      Joined the Company</p> <p>March 1998    Manager of Senshu Branch, Sales Division</p> <p>June 2004     Director, General Manager of Export Division</p> <p>November 2007 Director, General Manager of Export Division, CEO of SHIMA SEIKI WIN WIN LTD. (now SHIMA SEIKI (HONG KONG) LTD.)</p> <p>November 2008 Director in charge of Export Division CEO of SHIMA SEIKI WIN WIN LTD.</p> <p>March 2009    Director, CEO of SHIMA SEIKI WIN WIN LTD.</p> <p>March 2013    Director in charge of Corporate Planning Division, CEO of SHIMA SEIKI (HONG KONG) LTD.</p> <p>June 2013     Executive Director, Deputy Director of Sales Headquarters, General Manager of Corporate Planning Division, CEO of SHIMA SEIKI (HONG KONG) LTD.</p> <p>April 2015     Executive Director, Deputy Director of Sales Headquarters, CEO of SHIMA SEIKI (HONG KONG) LTD. (current)</p>	153,600 shares
<p>[Reasons for nomination as a candidate for Director]</p> <p>Mr. Ikuto Umeda has substantial global experience and actual achievements while serving as the person responsible for overseas sales and the deputy director of the sales headquarters. In addition, Mr. Umeda managed the overseas subsidiaries as CEO of local subsidiaries in China and Hong Kong over a long period. He has made decisions on significant managerial matters and supervises the execution of operations as director while performing his duties and responsibilities. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.</p>			
4	Reiji Arikita (February 21, 1953) <u>Re-appointment</u>	<p>March 1971    Joined the Company</p> <p>March 2004    General Manager of Mechatronic Development Division</p> <p>June 2006     Director, General Manager of Mechatronic Development Division</p> <p>November 2007 Director in charge of Control System Development Division, General Manager of Mechatronic Development Division</p> <p>March 2009    Director, Director of Development Headquarters</p> <p>June 2011     Executive Director, Director of Development Headquarters (current)</p>	9,200 shares
<p>[Reasons for nomination as a candidate for Director]</p> <p>Mr. Reiji Arikita supervises the development division as the director of the development headquarters and has substantial experience and knowledge in the R&amp;D field. He has proactively promoted R&amp;D and contributed to the creation of products over a long period. He has made decisions regarding significant managerial matters and supervises the execution of operations as the director while performing his duties and responsibilities. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.</p>			



No.	Name (Date of birth)	Profile, position, responsibility and significant concurrent positions	Number of shares of the Company held
5	Takashi Nanki (March 28, 1959) <u>Re-appointment</u>	March 1986      Joined the Company November 2008      General Manger of Accounting Division May 2010      General Manger of Accounting and Finance Division June 2010      Director in charge of Administration Division, General Manager of Accounting and Finance Division March 2013      Director in charge of Administration Division and Physical Distribution Division: General Manager of Accounting and Finance Division July 2013      Director in charge of Physical Distribution Division, General Manager of Accounting and Finance Division November 2014      Director, General Manager of Accounting and Finance Division, in charge of Physical Distribution Division March 2016      Director, General Manager of Accounting and Finance Division, in charge of the Administration Division and Physical Distribution Division (current)	700 shares
		<p>[Reasons for nomination as a candidate for Director]</p> <p>Mr. Takashi Nanki serves as the person responsible for the accounting and finance division and has substantial knowledge and actual achievements in the business management of the group. He has made decisions regarding significant managerial matters and supervises the execution of operations from the financial viewpoint to appropriately fulfill the duties and responsibilities of director. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.</p>	
6	Hirokazu Nishitani (August 4, 1955) <u>Re-appointment</u>	March 1978      Joined the Company March 2006      General Manager of Control System Development Division April 2010      General Manager of Material Purchasing Division June 2011      Director, General Manager of Material Purchasing Division (current)	4,700 shares
		<p>[Reasons for nomination as a candidate for Director]</p> <p>Mr. Hirokazu Nishitani serves as the person responsible for the development division and has substantial experience and knowledge in product development. Mr. Nishitani is in charge of the material purchasing division while using his experience and actual achievements in the development division. He has made decisions regarding significant managerial matters and supervises the execution of operations as the director to appropriately fulfill his duties and responsibilities. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.</p>	

No.	Name (Date of birth)	Profile, position, responsibility and significant concurrent positions	Number of shares of the Company held	
7	Kiyokata Nishikawa (October 23, 1957) <u>Re-appointment</u>	April 1980	Joined Nichimen Corporation (now Sojitz Corporation)	300 shares
		October 2002	General Manger, Apparel Department of Nichimen Corporation	
7	Kiyokata Nishikawa (October 23, 1957) <u>Re-appointment</u>	April 2004	General Manager, Apparel Department of Sojitz Corporation	300 shares
		November 2010	Joined the Company	
7	Kiyokata Nishikawa (October 23, 1957) <u>Re-appointment</u>	March 2012	General Manager for Sales Headquarters	300 shares
		June 2012	Director, General Manager for Sales Headquarters	
7	Kiyokata Nishikawa (October 23, 1957) <u>Re-appointment</u>	March 2013	Director, General Manager of Joint Sales Division (current)	300 shares
		March 2013	Director, General Manager of Joint Sales Division (current)	
[Reasons for nomination as a candidate for Director] Mr. Kiyokata Nishikawa served in the positions responsible for the apparel business of a trading company and has substantial knowledge and experience in the apparel field. Mr. Nishikawa positively drives business operations as the general manager of the joint sales division using his experience. He has made decisions regarding significant managerial matters and supervises the execution of operations as the director to appropriately fulfill his duties and responsibilities. Consequently, he has been chosen as a candidate for director and has been judged appropriate after helping to achieve the group's continuous enhancement in enterprise value.				
8	Yoshio Ichiryu (January 3, 1946) <u>Re-appointment</u> <u>Outside</u> <u>Independent</u>	April 1968	Joined the Ministry of International Trade and Industry (now Ministry of Economy, Trade and Industry)	9,200 shares
		June 1993	Director-General, MITI-Kinki Bureau	
8	Yoshio Ichiryu (January 3, 1946) <u>Re-appointment</u> <u>Outside</u> <u>Independent</u>	June 1995	Director-General, Machinery and Information Industries Policy, Machinery and Information Industries Bureau	9,200 shares
		August 1996	Director-General for Policy Coordination, Minister's Secretariat	
8	Yoshio Ichiryu (January 3, 1946) <u>Re-appointment</u> <u>Outside</u> <u>Independent</u>	June 1998	Retired the MITI	9,200 shares
		July 2000	Established Ichiryu Associates, Inc. President & CEO (current)	
8	Yoshio Ichiryu (January 3, 1946) <u>Re-appointment</u> <u>Outside</u> <u>Independent</u>	June 2014	Director (current)	9,200 shares
		June 2014	Director (current)	
(Significant concurrent positions) President & CEO, Ichiryu Associates, Inc. Outside Director, SALA Corporation				
[Reasons for nomination as a candidate for Outside director] Mr. Yoshio Ichiryu has substantial experience in the field of economic and industrial policies and a wide range of insights and experience in management as a business administrator. He also serves as an outside director for the supervision of the execution of operations from an objective viewpoint independent of management. In light of this, he has been chosen as a candidate for outside director and has been judged capable of continuously supervising management for achievement of the group's continuous enhancement in enterprise value.				

No.	Name (Date of birth)	Profile, position, responsibility and significant concurrent positions	Number of shares of the Company held
9	Rieko Zamma (March 21, 1950) <u>Re-appointment</u> <u>Outside</u> <u>Independent</u>	<p>April 1970      Joined Shizuoka Broadcasting System Co., Ltd.</p> <p>June 1973      Joined Kobunsha Co., Ltd.</p> <p>June 1980      Established CANDID, Inc. (now CANDID COMMUNICATIONS, Inc.) CEO</p> <p>July 2005      Established Creative Senior, Inc. (now CANDID PRODUCE, Inc.) CEO (current)</p> <p>January 2009   Established club willbe, a network for grown-ups Representative (current)</p> <p>June 2016      Director (current)</p> <p>(Significant concurrent positions) CEO, CANDID PRODUCE, Inc. Outside Director, FUJITA KANKO INC. Outside Director, IBJ, Inc. Outside Director, Trust Tech Inc.</p>	100 shares
<p>[Reasons for nomination as a candidate for Outside Director]</p> <p>Ms. Rieko Zamma has substantial experience in the planning of events and the promotion of an advertising strategy as a producer with a wide range of insights and experience in management as a business administrator. She also serves as an outside director for the supervision of the execution of operations from an objective viewpoint independent of management. In light of this, she has been chosen as a candidate for outside director and has been judged capable of continuously supervising management for achievement of the group's continuous enhancement in enterprise value.</p>			

(Note)

1. Director candidates Mr. Masahiro Shima and Mr. Mitsuhiro Shima have all the shares of Wajima Kosan Co., Ltd., a major shareholder of the Company, and the Company has transaction relationships such as real estate leasing with Wajima Kosan.  
There are no special interests between other director candidates and the Company.
2. The number of shares held by each candidate includes their shareholding through the stock ownership plan for officers of Shima Seiki.
3. The Company has an agreement with Mr. Yoshio Ichiryu and Ms. Rieko Zamma concerning the limitation on liability for damage as provided in Article 423, Paragraph 1, of the Companies Act. The limit of liability under the agreement is the minimum liability as provided in Article 425, Paragraph 1, of the same law. The Company will maintain the above agreement with both persons concerning the limitation on liability for damage when they are reappointed.
4. Matters concerning candidates for Outside Director are as follows.
  - (1) Mr. Yoshio Ichiryu and Ms. Rieko Zamma are candidates for Outside Director.
  - (2) Yoshio Ichiryu will serve as the outside director for four years as of the end of the general meeting of shareholders.
  - (3) Ms. Rieko Zamma will serve as the outside director of the Company for two years as of the end of the general meeting of shareholders.
5. The Company designated Mr. Yoshio Ichiryu and Ms. Rieko Zamma as the independent officers based on the provisions of the Tokyo Stock Exchange and reported this to the exchange.

## [Reference] Criteria for the independence of outside officers

The judgment of the independence of outside directors or outside corporate auditors (hereinafter called “outside officers”) from the Company shall satisfy all of following requirements:

1. Outside officers have not served as an executor of business <sup>(Note 1)</sup> of the Company or its affiliates (hereinafter called “our group”). In addition, outside corporate auditors have not served as a group director not executing business.
2. Outside officers do not now nor have in the past three years met the following conditions:
  - (1) A person whose major client is our group<sup>(Note 2)</sup> or its executor of business
  - (2) A major client of our group<sup>(Note 3)</sup> or its executor of business
  - (3) A major shareholder (a person directly or indirectly holding 10% or more of all voting rights) of the Company or its executor of business
  - (4) An executor of business of a person whose major shareholder (directly or indirectly holding 10% or more of all voting rights) is our group
  - (5) A consultant, accounting specialist such as certified public accountant, or a specialist in the law such as an attorney who receives money and other properties<sup>(Note 4)</sup> from the group, in addition to officer’s remuneration (a person belonging to an organization such as a legal entity and an union in the case where the organization receive the above properties)
  - (6) A person who receives large contributions in money and other property <sup>(Note 4)</sup> from our group or its executor of business
  - (7) An executor of the business of other companies where an executor of business of our group is an outside officer
  - (8) The spouse, relative within the second degree, or a relative or a person within the same household of a person applying to the above (1)-(7) in the case where the person is significant
  - (9) The spouse, relative within the second degree, or a relative or a person within the same household of a person executing significant business such as director (excluding outside director) and the person responsible for the divisions of our group
3. There are no other reasons for judging it reasonable that outside officers fail to perform duties as independent outside officers

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<sup>(Note 1)</sup>An executor of business means an executive director, company executive, executive officer, and employee executing business and other persons executing business such as a position holder and employee similar to the above of legal entities and other organizations.

<sup>(Note 2)</sup>A person whose main client is our group means a person whose annual amount of trade with our group is above 100 million yen or 2% of consolidated sales.

<sup>(Note 3)</sup>A major client of our group means a person whose annual amount of trade with our group is above 100 million yen or 2% of our group’s consolidated sales and loans to our group are above 2% of our group’s consolidated total assets.

<sup>(Note 4)</sup>Large amounts of money and other property mean that the total amount is more than 10 million yen per year for individuals and 2% of annual sales for organizations.

**Proposal No. 3 : Appointment of Two(2) Corporate Auditors**

At the end of the general meeting of shareholders, the corporate auditor Mr. Mitsunori Ueda will reach the expiration of the term of office and the corporate auditor Mr. Masao Tanaka will retire. Therefore, the Company will appoint two(2) corporate auditors.

The proposal has been agreed by the board of corporate auditors.

Candidates for corporate auditors are as follows:

No.	Name (Date of birth)	Profile, position, and significant concurrent positions	Number of shares of the Company held
1	Mitsunori Ueda (January 30, 1951) <u>Re-appointment</u>	March 1973      Joined the Company October 2006    General Manager of the Sales Division of the Company	19,700 shares
		March 2010      Consultant for the Domestic Sales Division of the Company June 2010       Standing Corporate Auditor of the Company (current)	
	[Reason for nomination as a candidate for Corporate Auditor] Mr. Mitsunori Ueda served as the person responsible for the sales division over a long period and has many actual achievements and substantial knowledge in the sales field, as well as knowledge of all businesses of the Company. He has been a corporate auditor since 2010 and appropriately conducts audits from a fair and objective position. In light of this, he has been chosen as a candidate for corporate auditor after judging that he is capable of continuously contributing to the soundness and transparency of the Company's management through audits.		
2	Hisahito Totsui (April 3, 1965) <u>New appointment</u>	March 1988      Joined the Company March 2008      Deputy General Manager, Internal Auditing Division (current)	2,000 shares
	[Reason for nomination as a candidate for Corporate Auditor] Mr. Hisahito Totsui had been in charge of the accounting and finance division over a long period and has substantial experience and knowledge in the accounting and finance field. He knows the entire businesses of the Company as the person responsible for the internal auditing division while using his experience and actual achievements in the accounting and finance division. In light of this, he has been chosen as a candidate for corporate auditor after judging that he is capable of continuously contributing to the soundness and transparency of the Company's management through audits.		

(Note)

1. The Company has no special interest with each candidate for corporate auditor.
2. The number of held shares includes equity shares of the Shima Seiki officer shareholding association.

**[Reference] Basis for the view on directors' remuneration program related to Proposal No. 4 and 5**

The Company designs the remuneration program according to the following basic policy for directors' remuneration in order to further increase directors' willingness to contribute to an increase in operating results and enterprise value and to ensure excellent human resources.

(Basic policy for directors' remuneration)

- 1 Details of the remuneration shall increase the directors' incentive to achieve continuous growth and medium- and long-term enhancement in enterprise value of the Company
- 2 The remuneration system shall be based on the roles and responsibilities of directors to ensure the transparency and fairness.
- 3 The directors' remuneration shall ensure excellent human resources necessary for realizing an enhancement in enterprise value.
- 4 The remuneration system shall share the value with shareholders.

Based on the above policy, directors' remuneration consists of flat fixed remuneration, performance-linked variable remuneration reflecting consolidated operating results for each fiscal year, and share remuneration-type stock options as an incentive to increase medium - and long-term enterprise value.

(The officers' retirement benefit program was abolished on June 27, 2013.)

Apart from the fixed remuneration to further increase the link between the directors' remuneration (This does not apply to outside directors.) and the operating results to increase the incentive, the performance linked variable remuneration will be newly established with payments being determined within the range of 0% to 150% of the base amount set for each position according to the consolidated operating results for each fiscal year and the results of the business division.

The share remuneration-type stock option will be introduced to function as an incentive to share the value with shareholders and enhance medium - and long-term enterprise value. (This does not apply to outside directors.)

Additionally, to ensure transparency and the fairness of directors' remuneration, the Company will establish a remuneration committee with an outside director as the chair and 50% or more of the members will be outside directors.

Based on this view of the directors' remuneration program, the Company will submit the Proposal No. 4, "Revision to Remuneration of Directors," and Proposal No. 5, "Provision of Share Remuneration-type Stock Option (Equity Warrants) as Remuneration to Directors (Excluding Outside Directors)."

**Proposal No. 4 :** Revision to Remuneration of Directors

It was approved at the 53<sup>rd</sup> ordinary general meeting of shareholders on June 27, 2014, that directors' remuneration of the Company shall be 280 million yen or less (of this, 30 million yen or less for outside directors). The Company hopes that the approval of the separation of directors' remuneration into two parts, fixed remuneration and performance linked variable remuneration, will increase the remuneration of outside directors in light of the expansion of responsibilities and the expected roles of outside directors, including strengthening of the supervisory function and the future increase in outside directors to increase the directors' incentive to increase operating results.

The Company reports that the remuneration consists of the fixed remuneration with an annual amount of 300 million yen or less (of this, 50 million yen for outside directors) and the performance linked variable remuneration of 2% or less of net income attributable to owners of the parent (not applicable to outside directors). The remuneration of directors shall exclude salary as employees or employee-directors as conventionally set. The number of related directors will be nine(9) (including two(2) outside directors) when the Proposal No. 2 is approved as originally intended.

**Proposal No. 5:** Provision of Share Remuneration-type Stock Options (Equity Warrants) as Remuneration to Directors (Excluding Outside Directors)

As for the remuneration of directors, the equity warrants allocated to directors of 100 million yen or less per year (hereinafter called the "ordinary stock option") were approved at the 49th ordinary general meeting of shareholders on June 29, 2010. At this time, we request the approval to abolish the existing ordinary stock option program due to the alteration of the stock option program for directors, and provide share remuneration-type stock option equity warrants per year of 100 million yen or less to directors (excluding outside directors).

The new share remuneration-type stock option program will provide directors (excluding outside directors) subject to the provision of stock options with monetary remuneration equivalent to the total of the equity warrants and offset the monetary remuneration receivable by the paid-in-obligation of equity warrants. This is designed to further enhance the share value for shareholders from the medium - and long-term viewpoint and functions as a soundness incentive for directors (excluding outside directors) to maintain and enhance the sustainable enterprise value.

The annual remuneration related to the equity warrants of 100 million yen or less will be established separate from the remuneration of directors, which the Company hopes will be approved under Proposal No. 4 "Revisions to Remuneration of Directors." The number of directors (excluding outside directors) subject to the stock options will be seven(7) from the time of the end of the general meeting of shareholders when Proposal No. 2 is approved and passed as originally intended. The Company proposes to give the board of directors the discretionary time to issue the equity warrants and the allocations of the equity warrants to directors.

Note

(1) Subjects to allocation of the equity warrants  
Our directors (excluding outside directors)

(2) Classes and numbers of shares subject to the equity warrants  
The shares subject to equity warrants will be common shares. The number of

shares subject to each equity warrant (hereinafter called the “number of shares provided”) will be 100. In the case of a share split, free share awards, or a reverse split, the number of shares provided will be adjusted by the following formula. However, the adjustment is made only to equity warrants not exercised as of that time, and any fractions less than one share arising from the adjustment would be rounded down.

$$\text{Adjusted number of shares provided} = \text{Unadjusted number of shares provided} \times \text{Ratio of a share split, free share awards, or a reverse split}$$

When the equity warrants are succeeded because of an absorption or consolidation type merger or the exchange or transfer of shares making us a wholly owned subsidiary, we will be able to adjust the number of shares we think necessary according to the ratio of mergers and other factors.

(3) Upper limit of the equity warrants

The upper limit will be 500 equity warrants issued to directors within one year after the date of the ordinary general meeting of shareholders for each fiscal year. The equity warrants are allocated on an annual basis.

(4) Paid-in amount of the equity warrants

The paid-in amount will be the fair value calculated on the date of allocation of the equity warrants by the Black-Scholes model and other methods. The amounts will be offset by the equivalent remuneration claims.

(5) Value of the property contributed in exercising the equity warrants

Money will be the property contributed in exercising each equity warrant. The value will be the number of shareholders to be issued by exercise of the equity warrants multiplied by 1 yen per share.

(6) Exercise period of the equity warrants

The exercise period will be up to 30 years from a day after the allocation date of the equity warrants to be determined by the board of directors.

(7) Terms and conditions of exercise of the equity warrants

Subscribers receiving allocations of equity warrants (hereinafter called “holders of equity warrants”) will be able to exercise the equity warrants for a period from one day after losing the position as director to 10 days after. Other terms and conditions of the exercise of equity warrants will be determined by the board of directors.

(8) Restriction on transfer of the equity warrants

Acquiring equity warrants by transfer will require the approval of the board of directors.

(9) Treatment of a fraction less than 1 share in the number of shares to be issued at the time of exercise

In the number of shares to be issued to the holders of equity warrants, any fraction less than 1 share will be rounded down.

(10) Other details of the equity warrants

Details of the above items (2) - (9) and other details of the equity warrants will be determined by the board of directors, which makes all decisions regarding the offer of equity warrants.

(Reference)

In conjunction with the introduction of the above-mentioned share remuneration-type stock options (equity warrants) to directors (excluding outside directors), we will annually allocate the same details of share remuneration-type stock options (equity warrants) as the above to executive officers.