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Code Number: 7309  
March 5, 2019

To Those Shareholders with Voting Rights

Yozo Shimano  
President  
SHIMANO INC.  
3-77 Oimatsu-cho, Sakai-ku, Sakai City, Osaka, Japan

## Notice of Convocation of the 112th Ordinary General Meeting of Shareholders

You are cordially invited to attend the 112th Ordinary General Meeting of Shareholders of Shimano Inc.

If you are unable to attend the meeting, you can exercise your voting rights by indicating your approval or disapproval of the proposals on the enclosed ballot form and returning it or by accessing the Company's designated voting rights exercise website and exercising your voting rights by electronic means (via the Internet etc.). Please review the Reference Documents for the General Meeting of Shareholders and exercise your voting rights by 5:00 p.m. (Japan Standard Time) on Monday, March 25, 2019.

- 1. Date and Time:** 10:00 a.m. (Japan Standard Time), Tuesday, March 26, 2019  
(The reception desk will open at 9:00 a.m.)
- 2. Venue:** **Manufacturing Technology Center, Shimano Inc. Head Office**  
3-77 Oimatsu-cho, Sakai-ku, Sakai City, Osaka
- 3. Agenda:**  
**Matters to be reported:** (1) The Business Report, Consolidated Financial Statements, and Non-consolidated Financial Statements for the 112th Fiscal Year (from January 1, 2018 to December 31, 2018)  
(2) Results of Audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board  
**Proposals to be resolved:**  
**Proposal No. 1:** Appropriation of Surplus  
**Proposal No. 2:** Election of 7 Directors  
**Proposal No. 3:** Revision of the Amount of Remuneration for Directors

### Instructions for the Exercise of Voting Rights

- (1) Exercise of Voting Rights by Post  
Please indicate your approval or disapproval of the proposals on the enclosed ballot form and return it so that it arrives by 5:00 p.m. (Japan Standard Time) on Monday, March 25, 2019.
- (2) Exercise of Voting Rights via the Internet etc.  
When exercising voting rights via the Internet etc., please refer to Procedures for Exercising Voting Rights via the Internet etc. on page 2 and exercise your voting rights by 5:00 p.m. (Japan Standard Time) on Monday, March 25, 2019.  
The Company participates in the electronic voting platform for institutional investors operated by ICJ, Inc., a joint-venture company established by the Tokyo Stock Exchange Inc., etc.

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- \* Shareholders who will attend the meeting are requested to submit the enclosed ballot form at the reception desk.
  - \* If any necessary revisions are made to the contents of the Reference Documents for the General Meeting of Shareholders, Business Report, Non-consolidated Financial Statements or Consolidated Financial Statements up to the day before the General Meeting of Shareholders, revisions will be notified by posting on the Company's website (<https://www.shimano.com>).

**[Procedures for Exercising Voting Rights via the Internet etc.]**

**When exercising your voting rights via the Internet etc., please review the matters below.**

- If attending the General Meeting of Shareholders  
The procedures for exercising voting rights by post (the ballot form) or for exercising voting rights via the Internet etc. are unnecessary.
  - If not attending the General Meeting of Shareholders
    - 1) If you exercise your voting rights by post, the procedure for exercising voting rights via the Internet etc. is unnecessary.
    - 2) If you exercise your voting rights via the Internet etc., the procedure for exercising voting rights by post is unnecessary.
1. It is possible to exercise your voting rights via the Internet only by using the following website for exercising voting rights designated by the Company. It is also possible to access the website using a cellular telephone.  
**URL of the website for exercising voting rights: <https://www.web54.net>**
  2. When exercising voting rights via the Internet, after entering the voting rights code and password recorded on the enclosed ballot form, follow the instructions on the screen to record your approval or disapproval of proposals.
  3. Although the exercise of voting rights via the Internet etc. is accepted until 5:00 p.m. (Japan Standard Time) on Monday, March 25, 2019, we request that you exercise voting rights ahead of time to facilitate tabulation of voting results.
  4. In cases of duplicated exercise of voting rights by post and the Internet etc., the exercise of voting rights via the Internet etc. will be treated as the exercise of voting rights.
  5. In cases of the exercise of voting rights multiple times via the Internet etc., the final exercise of voting rights will be treated as the valid exercise of voting rights.
  6. The Company shall not be responsible for any charge for a dial-up connection to an Internet service provider and any telecommunication charges (call charge, etc.) to a telephone carrier incurred when using the website for exercising voting rights.

**[Inquiries Concerning Exercising Voting Rights via the Internet]**

If you have any questions about the use of a personal computer, etc. concerning the exercise of voting rights via the Internet, please address inquiries to the following point of contact.

**Shareholder Registry Administrator: Sumitomo Mitsui Trust Bank, Limited  
Stock Transfer Agency Web Support**

**Dedicated number: ☎ 0120-652-031 (open from 9:00 a.m. to 9:00 p.m. (Japan Standard Time))**

Please address other inquiries to the following point of contact.

**Shareholder Registry Administrator: Sumitomo Mitsui Trust Bank, Limited  
Stock Transfer Agency Business Planning Dept.**

**☎ 0120-782-031 (open from 9:00 a.m. to 5:00 p.m. (Japan Standard Time) on weekdays)**

## Reference Documents for the General Meeting of Shareholders

### Proposal No. 1 Appropriation of Surplus

The Company considers the return of earnings to shareholders to be one of the most important issues for management. The Company's basic policy is to continue providing stable returns reflecting overall business performance and strategy.

In accordance with the above policy, we propose payment of the year-end dividends for fiscal year 2018, as detailed below.

As the Company has paid an interim dividend of 77.50 yen per share, the annual dividend will amount to 155.00 yen per share.

(1) Type of dividend property: Cash

(2) Matters concerning the allotment of dividend property to shareholders and the total amount:

77.50 yen per share of the Company's common stock, for a total amount of 7,184,371,675 yen

Breakdown:

Ordinary dividend 6.25 yen

Special dividend 71.25 yen

(3) Effective date of dividends from surplus:

March 27, 2019 (Wednesday)

**Proposal No. 2 Election of 7 Directors**

The terms of office of the following 7 Directors will expire at the close of this General Meeting of Shareholders: Messrs. Keiji Kakutani, Shinji Wada, Satoshi Yuasa, Chia Chin Seng, Tomohiro Ohtsu, Kazuo Ichijo, and Mitsuhiro Katsumaru. Accordingly, we request the election of 7 Directors (including 3 Outside Directors).

The candidates for Directors are listed below.

Messrs. Tamotsu Yoshida and Sadayuki Sakakibara are new candidates.

Candidate No.	Name (Date of birth)	Career summary, position, assignment, and significant concurrent positions	Number of shares of the Company held
1	Keiji Kakutani (May 20, 1950)  <u>Reappointment</u>	<p>Oct. 1974      Joined Shimano Inc.            Oct. 1996      Vice President, Accounting Dept.            Feb. 1997      Director and Senior Vice President, Accounting Dept.            Mar. 1998      Director and Senior Vice President, Accounting and Information Systems Dept.            Jan. 2001      Director and Senior Vice President, Accounting Dept. and Information Systems Dept.            Jan. 2005      Director and Head of General Operations Div., Accounting Dept., and Information Systems Dept.            Mar. 2005      Executive Vice President and Head of General Operations Div., Accounting Dept., and Information Systems Dept.            Jan. 2006      Executive Vice President and Head of General Operations Div.            Mar. 2010      Representative Director, Senior Executive Vice President and Head of General Operations Div.            Jan. 2013      Representative Director, Senior Executive Vice President and Head of General Operations Div. and Internal Control Office            Jan. 2016      Representative Director, Senior Executive Vice President and Head of General Operations Div. and Internal Auditing Office            Jan. 2017      Representative Director, Senior Executive Vice President, Chief Internal Auditing Officer            Mar. 2017      Representative Director and Deputy President (to present)</p> <p>Reasons for nomination as a candidate for Director:            Having served in key departments involved in management, including Accounting Dept. and Information Systems Dept., Mr. Keiji Kakutani has been contributing to the Company's development. Considering that based on his wealth of experience and achievements, he is able to make decisions on important matters concerning overall management and fulfill duties as a Director, the Company has nominated him as a candidate for Director.</p>	5,200 shares

Candidate No.	Name (Date of birth)	Career summary, position, assignment, and significant concurrent positions		Number of shares of the Company held
2	Chia Chin Seng (Apr. 11, 1960)  <u>Reappointment</u>	Feb. 1992  Jan. 2002  Mar. 2011 Sep. 2011  Aug. 2014	Director, Shimano Components (Malaysia) Sdn. Bhd. President, Shimano Components (Malaysia) Sdn. Bhd. Director, Shimano Inc. (to present) President, Shimano (Tianjin) Bicycle Components Co., Ltd. President, Shimano (Singapore) Pte. Ltd.; President, Shimano Components (Malaysia) Sdn. Bhd.; Chairman, Shimano (Kunshan) Bicycle Components Co., Ltd.; Chairman and President, Shimano (Tianjin) Bicycle Components Co., Ltd. (to present)	0 shares
		<p>Significant concurrent positions: President, Shimano (Singapore) Pte. Ltd. President, Shimano Components (Malaysia) Sdn. Bhd. Chairman, Shimano (Kunshan) Bicycle Components Co., Ltd. Chairman and President, Shimano (Tianjin) Bicycle Components Co., Ltd.</p> <p>Reasons for nomination as a candidate for Director: Having served as manager of overseas subsidiaries, including as President of Shimano (Singapore) Pte. Ltd., Mr. Chia Chin Seng has been striving to strengthen the foundation of the Company's international business. Considering that based on his wealth of experience and achievements, he is able to make decisions on important matters concerning overall management and fulfill duties as a Director, the Company has nominated him as a candidate for Director.</p>		
3	Tomohiro Ohtsu (Mar. 12, 1965)  <u>Reappointment</u>	Mar. 1987 Jan. 2008  Jan. 2012  Mar. 2015  Jan. 2017  Jan. 2019	Joined Shimano Inc. Senior Vice President, Production Engineering Div. Senior Vice President, Production Engineering Div. and Shimano Research Laboratories Director and Senior Vice President, Production Engineering Div. and Shimano Research Laboratories Director and Senior Vice President, Production Engineering Dept., Shimano Research Laboratories, and SPC (Shimano Process Control) Development Dept. Director and Senior Vice President, Chief of Manufacturing Officer, Bicycle Components Div., Chief of Production Engineering Officer, SDM (Shimano Digital Manufacturing) Development Div. and Shimano Research Laboratories (to present)	300 shares
		<p>Reasons for nomination as a candidate for Director: Having served in Production Engineering and other departments, Mr. Tomohiro Ohtsu has been contributing to development of the Company's engineering operations. Considering that based on his wealth of experience and achievements, he is able to make decisions on important matters concerning overall management and fulfill duties as a Director, the Company has nominated him as a candidate for Director.</p>		

Candidate No.	Name (Date of birth)	Career summary, position, assignment, and significant concurrent positions		Number of shares of the Company held
4	Tamotsu Yoshida (Jun. 8, 1961)  <u>New candidate</u>	<p>Mar. 1985 Jan. 2012</p> <p>Jan. 2017</p> <p>Jan. 2019</p>	<p>Joined Shimano Inc. Vice President, Shimano (Kunshan) Bicycle Components Co., Ltd. and Vice President, Shimano (Tianjin) Bicycle Components Co., Ltd.</p> <p>Vice President, Global Procurement Dept., in charge of factories in China</p> <p>Vice President, Global Procurement Dept., in charge of Overseas Factories, and SPC (Shimano Process Control) Dept. of SDM (Shimano Digital Manufacturing) Development Div. (to present)</p> <p>Reasons for nomination as a candidate for Director: Having served in important posts at factories in China, Mr. Tamotsu Yoshida has been contributing to development of the Company's manufacturing operations. Considering that based on his wealth of experience and achievements, he is able to make decisions on important matters concerning overall management and fulfill duties as a Director, and the Company has nominated him as a candidate for Director.</p>	1,500 shares
5	Kazuo Ichijo (Oct. 13, 1958)  <u>Reappointment</u>	<p>Oct. 1993</p> <p>Apr. 2000</p> <p>Apr. 2001</p> <p>Apr. 2003</p> <p>Mar. 2005</p> <p>Apr. 2007</p> <p>Apr. 2014</p> <p>Jun. 2015</p> <p>Jun. 2017</p> <p>Jan. 2018</p> <p>Apr. 2018</p>	<p>Assistant Professor, Faculty of Social Sciences, Hitotsubashi University</p> <p>Assistant Professor, Graduate School of Social Sciences and Graduate School of International Corporate Strategy, Hitotsubashi University</p> <p>Professor, Graduate School of Social Sciences and Graduate School of International Corporate Strategy, Hitotsubashi University</p> <p>Visiting Professor, International Institute for Management Development (to present)</p> <p>Director, Shimano Inc. (to present)</p> <p>Professor, Graduate School of International Corporate Strategy, Hitotsubashi University</p> <p>Dean, Graduate School of International Corporate Strategy, Hitotsubashi University</p> <p>Outside Director, Information Services International-Dentsu, Ltd. (to present)</p> <p>Outside Director, PIA Corporation (to present)</p> <p>Outside Director, World Co., Ltd. (to present)</p> <p>Professor, Dean, School of International Corporate Strategy, Hitotsubashi University Business School (to present)</p> <p>Significant concurrent positions: Professor, Dean, School of International Corporate Strategy, Hitotsubashi University Business School Visiting Professor, International Institute for Management Development Outside Director, Information Services International-Dentsu, Ltd. Outside Director, PIA Corporation Outside Director, World Co., Ltd.</p> <p>Reasons for nomination as a candidate for Outside Director: Mr. Kazuo Ichijo is a professor at Hitotsubashi University Business School. Considering that his knowledge of international business strategy makes him an extremely valuable person for ensuring the appropriateness of the execution of the Company's business, the Company nominated him as a candidate for Outside Director.</p>	4,300 shares

Candidate No.	Name (Date of birth)	Career summary, position, assignment, and significant concurrent positions	Number of shares of the Company held
6	Mitsuhiro Katsumaru (Oct. 10, 1951)  <u>Reappointment</u>	Apr. 1978            Prosecutor, Tokyo District Public Prosecutors Office Jul. 1989            First Secretary, Japanese Embassy in Germany Jun. 2000            Director of the Criminal Affairs Division, Criminal Affairs Bureau, Ministry of Justice Jun. 2001            Director of the General Affairs Division, Criminal Affairs Bureau, Ministry of Justice Jan. 2003            Director of the Finance Division, Minister's Secretariat, Ministry of Justice Apr. 2005            Assistant Vice-Minister of Justice (in charge of General Policy) Dec. 2005            Chief Prosecutor, Fukui District Public Prosecutors Office Jun. 2007            Chief Prosecutor, Mito District Public Prosecutors Office Oct. 2008            Chief Prosecutor, Saitama District Public Prosecutors Office Jan. 2010            Director-General, Public Security Division, Supreme Public Prosecutors Office Apr. 2010            Adjunct Instructor, Graduate Program for Public Policy Studies, Kyoto University (to present) Dec. 2010            Superintending Prosecutor, Takamatsu High Public Prosecutors Office Apr. 2012            Adjunct Instructor, Kyoto University Law School (to present) Jun. 2012            Superintending Prosecutor, Hiroshima High Public Prosecutors Office Jul. 2014            Retired from the position of Superintending Prosecutor Oct. 2014            Registered as attorney-at-law, Of Counsel, Shiba International law offices (to present) Jun. 2015            Outside Director, TAIYO NIPPON SANSO CORPORATION (to present) Nov. 2015            Outside Director, MoriX Co., Ltd. (to present) Mar. 2017            Director, Shimano Inc. (to present)  Significant concurrent positions: Of Counsel, Shiba International law offices Outside Director, TAIYO NIPPON SANSO CORPORATION Outside Director, MoriX Co., Ltd. Adjunct Instructor, Graduate Program for Public Policy Studies, Kyoto University Adjunct Instructor, Kyoto University Law School  Reasons for nomination as a candidate for Outside Director: Mr. Mitsuhiro Katsumaru held important posts at the Ministry of Justice and the Public Prosecutors Office and now practices as an attorney-at-law. Considering that his wealth of experience and specialized knowledge concerning compliance make him an extremely valuable person for ensuring the legal appropriateness of the execution of the Company's business, the Company nominated him as a candidate for Outside Director.	300 shares

Candidate No.	Name (Date of birth)	Career summary, position, assignment, and significant concurrent positions	Number of shares of the Company held
7	Sadayuki Sakakibara (Mar. 22, 1943)  <span style="border: 1px solid black; padding: 2px;">New candidate</span>	<p>Apr. 1967      Joined Toyo Rayon Co., Ltd. (currently Toray Industries, Inc.)</p> <p>Jun. 1994      General Manager, Corporate Planning Department No. 1, Toray Industries, Inc.</p> <p>Jun. 1996      Vice President (Member of the Board), Toray Industries, Inc.</p> <p>Jun. 1998      Senior Vice President (Member of the Board), Toray Industries, Inc.</p> <p>Jun. 1999      Senior Vice President (Member of the Board and Member of the Executive Committee), Toray Industries, Inc.</p> <p>Jun. 2001      Executive Vice President and Representative Member of the Board, Toray Industries, Inc.</p> <p>Jun. 2002      President and Representative Member of the Board, Toray Industries, Inc.</p> <p>Jun. 2010      Chairman and Representative Member of the Board, Toray Industries, Inc.</p> <p>Jun. 2012      Outside Director, Nippon Telegraph and Telephone Corporation (to present)</p> <p>Jun. 2014      Chairman, Japan Business Federation (Keidanren)</p> <p>Jun. 2014      Chairman of the Board, Toray Industries, Inc.</p> <p>Jun. 2015      Chief Senior Adviser and Chief Senior Counselor, Toray Industries, Inc.</p> <p>Jun. 2017      Senior Adviser, Toray Industries, Inc.</p> <p>May 2018      Honorary Chair, Japan Business Federation (Keidanren) (to present)</p> <p>Jun. 2018      Special Adviser, Toray Industries, Inc. (to present)</p> <p>Significant concurrent positions: Special Adviser, Toray Industries, Inc. Outside Director, Nippon Telegraph and Telephone Corporation Honorary Chair, Japan Business Federation (Keidanren)</p> <p>Reasons for nomination as a candidate for Outside Director: Mr. Sadayuki Sakakibara has a wealth of experience and deep insight as a manager of international companies. Considering that he is an extremely valuable person for ensuring the appropriateness of the execution of the Company's business, the Company nominated him as a candidate for Outside Director.</p>	0 shares

Notes:

1. No conflict of interest exists between the Company and the above candidates.
2. Mr. Kazuo Ichijo, Mr. Mitsuhiro Katsumaru, and Mr. Sadayuki Sakakibara are candidates for Outside Director.  
(Notes on candidates for Outside Director)
  - (1) Although Mr. Kazuo Ichijo has no experience of direct involvement in corporate management, the Company believes he can appropriately execute the duties of an Outside Director because of his wide-ranging knowledge of and deep insight into international corporate strategy.  
Although Mr. Mitsuhiro Katsumaru has no experience of direct involvement in corporate management, the Company believes he can appropriately execute the duties of an Outside Director because of his wide-ranging knowledge of and deep insight into compliance.
  - (2) Mr. Kazuo Ichijo's tenure of office as an Outside Director of the Company will be 14 years at the close of this General Meeting of Shareholders. Mr. Mitsuhiro Katsumaru's tenure of office as an Outside Director of the Company will be 2 years at the close of this General Meeting of Shareholders.
  - (3) The Company has entered into limited liability contracts with Mr. Kazuo Ichijo and Mr. Mitsuhiro Katsumaru, whereby their liability is limited to the amount provided for by laws and regulations. Upon approval of the reappointment of Mr. Kazuo Ichijo and Mr. Mitsuhiro Katsumaru, the Company intends to maintain the above-mentioned limited liability contracts with them.  
Upon approval of the appointment of Mr. Sadayuki Sakakibara, the Company intends to enter into a limited liability contract with him of the same nature as those with Mr. Kazuo Ichijo and Mr. Mitsuhiro Katsumaru.
  - (4) Toray Industries, Inc., where Mr. Sadayuki Sakakibara served as Chairman of the Board, has transactions with the Company, whereby the Company purchases products of Toray Industries. However, the amount of transactions in each of the most recent three fiscal years was extremely small (less than 2%) compared with Toray Industries consolidated net sales. In addition, although the Company pays a membership fee, etc. to Japan Business Federation (Keidanren), where Mr. Sadayuki Sakakibara served as Chairman, the amount of transactions in each of the most recent three fiscal years was extremely small (less than 2%) compared with Keidanren's ordinary revenue.
  - (5) The Company has filed a notification with the Tokyo Stock Exchange for Mr. Kazuo Ichijo and Mr. Mitsuhiro Katsumaru as independent officers. Upon approval of the reappointment of Mr. Kazuo Ichijo and Mr. Mitsuhiro Katsumaru, the Company intends to continue their appointments.  
Upon approval of the appointment of Mr. Sadayuki Sakakibara, the Company intends to file a notification with the Tokyo



Stock Exchange for him as an independent officer.

## **[Reference] Independence Criteria for Outside Officers**

The Company's Board of Directors has determined the criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members (hereinafter collectively called, "Outside Officers") as follows:

- 1) If none of the following attributes applies to an Outside Officer, the Company judges that such Outside Officer is independent from the Company. (\*1)
  1. A major shareholder of the Company (holding 10% or more of the voting rights of the Company at the end of the most recent fiscal year) or an executive officer (\*2) thereof
  2. A person whose major business partner (\*3) is the Company or an executive officer thereof
  3. A person who is a major business partner of the Company or an executive officer thereof
  4. A person engaged in auditing of the Company or any of its consolidated subsidiaries as the Accounting Auditor of the Company or a consolidated subsidiary or as an employee thereof
  5. An attorney-at-law, judicial scrivener, patent attorney, certified public accountant, certified tax accountant, consultant, etc. who has received cash or other property exceeding 10 million yen from the Company in the most recent fiscal year other than officer remuneration (or if such person is an organization, such as a corporation or an association, a person who is affiliated with an organization whose revenue from the Company exceeds 2% of its annual revenue)
  6. A principal lender to the Company (a lender whose name is indicated in the business report for the most recent fiscal year) or an executive officer thereof
  7. A person who has received a donation exceeding 10 million yen from the Company in the most recent fiscal year (or if such person is an organization, such as a corporation or an association, an executive officer of an organization whose revenue from the Company exceeds 2% of its annual revenue)
  8. A person to whom any of 1 to 7 above applied in the most recent three fiscal years
  9. A spouse or relative within the second degree of kinship of a person to whom any of 1 to 8 above applies (only a significant person)
  10. A spouse or relative within the second degree of kinship of an executive officer of the Company or a subsidiary (if a person is an employee, only a significant person)
  11. A spouse or relative within the second degree of kinship of an executive officer of the Company or a subsidiary (if a person is an employee, only a significant person) in the most recent three fiscal years
  12. In addition to the preceding items, a person who has a special reason that prevents him/her fulfilling his/her duty as an independent Outside Officer, such as a risk of causing permanent conflict of interest with the Company
  13. Even in the case of a person to whom any of the preceding items applies, if the Company considers the person is appropriate as an independent Outside Officer in light of his/her personality and insight, etc., the Company may appoint such person as an Outside Officer, provided that the Company explains the reasons why the Company considers him/her appropriate as an Outside Officer to external parties.
- 2) An Outside Officer who is considered to be independent in accordance with the Criteria shall notify the Company immediately if he/she loses his/her independence.

\*1. An investigation shall be conducted to the extent that is economical and reasonable.

\*2. An executive officer is a person to whom any of the following applies.

- 1) An executive director, an executive or any other officer who executes business of a corporation etc.
- 2) An employee who executes business, a person who executes duties stipulated in Article 598, Paragraph 1 of the Companies Act, or any person with a similar role
- 3) An employee

\*3. A major business partner is a person to whom sales exceed 2% of annual consolidated sales for the most recent fiscal year.

**Proposal No. 3 Revision of the Amount of Remuneration for Directors**

It was approved at the 110th Ordinary General Meeting of Shareholders held on March 28, 2017 that the maximum amount of remuneration for Directors of the Company shall be 700 million yen a year (including 40 million yen for Outside Directors).

In view of circumstances, such as the increase in the number of Outside Directors in order to further strengthen corporate governance, the Company proposes that the maximum amount of remuneration for Directors be revised to 720 million yen a year (including 60 million yen for Outside Directors).

As before, the amount of remuneration for Directors does not include remuneration for employment by the Company and the associated payroll bonuses to Directors.

When Proposal No. 2 is approved, the Company will have 16 Directors (including 3 Outside Directors).

## BUSINESS REPORT

(From January 1, 2018 to December 31, 2018)

### **1. Overview of the Shimano Group**

#### **(1) Review of Operations and Results**

During fiscal year 2018, the European economy was on a mild recovery trajectory with stable personal consumption backed by improvements in employment and income environments. The pace of the recovery, however, was not a little affected by growing uncertainty about the economy's future following the U.S.-China trade issues. The U.S. saw its economy grow steadily, as business conditions remained solid against the backdrop of the tax reduction policy and the buoyant employment environment fueled strong personal consumption. In Japan, the robust employment environment supported personal consumption and the economy stayed firm despite temporary declines in consumption and exports in the aftermath of a series of natural disasters such as heavy rain and typhoons.

In these circumstances, inspired by our mission—"To promote health and happiness through the enjoyment of nature and the world around us"—the Shimano Group sought to attract consumers with a stream of captivating products designed to enrich the experience of cyclists and anglers around the world, and moreover attuned to the contemporary emphasis on well-being and the environment.

As a result, for fiscal year 2018, net sales increased 3.6% from the previous year to 348,035 million yen. Operating income increased 2.1% to 65,687 million yen, ordinary income increased 32.0% to 73,588 million yen, and net income attributable to owners of parent increased 40.3% to 53,931 million yen.

#### **Reportable Segment Overview**

##### *Bicycle Components*

In Europe, retail sales of completed bicycles, mainly sport E-BIKE, were generally robust partly because the favorable weather continued from April through the summer season, and distributor inventories of bicycles remained relatively low.

In North America, retail unit sales of completed bicycles fell below the previous year's level, but shifting to high-end models helped retail sales amount to stay at the same level as the previous year. Distributor inventories remained at an appropriate level.

In China, retail sales of completed bicycles were below the previous year's level, but distributor inventories remained in an appropriate range.

With regard to the other emerging markets, Southeast Asia as a whole lacked vigor although retail sales of completed bicycles showed signs of a gradual recovery in Indonesia. In South America, the Brazilian market eventually bottomed out after consumption had slightly weakened, while the Argentine market remained stagnant due to the effects of currency depreciation. Distributor inventories remained at an appropriate level except for the Argentine market.

In the Japanese market, retail sales of both sports bicycles and community bicycles remained sluggish owing partly to unseasonable weather conditions, which started with the cold waves at the beginning of the year, as well as natural disasters. Nonetheless, retail sales of E-BIKE as a whole increased, and particularly, sport E-BIKE has gained more attention. Distributor inventories remained at a slightly high level within an appropriate range.

Under these market conditions, the new SHIMANO 105 Series, which is one of the high-end road bike components, and the new SHIMANO STEPS E7000/E6100 sport E-BIKE components, were well received in the market.

As a result, net sales from this segment increased 2.6% from the previous year to 277,243 million yen, and operating income decreased 0.3% to 57,250 million yen.

##### *Fishing Tackle*

In the Japanese market, retail sales were lackluster as a series of natural disasters from the beginning of the year affected the fishing environment and consumer sentiment.

Overseas, in the North American market, sales remained robust supported by the steadily expanding economy despite the East Coast suffering from a hurricane disaster. In Europe, distributor inventories

remained at a slightly high level in the UK, one of the major markets, but showed a sign of adjustment to an appropriate level. Australia recorded strong sales since favorable weather continued after cyclones hit the country in March. In Asia, the Chinese, South Korean, and Southeast Asian markets witnessed robust sales thanks to growing popularity of sports fishing.

Under these market conditions, sales in Japan topped the previous year's level because the new lure-related products, among other products, were continuously well received in the market. Overseas, sales on the whole exceeded the previous year's level, especially as Curado DC, the new model of baitcasting reel equipped with a digital control braking system, was highly acclaimed.

As a result, net sales from this segment increased 8.0% from the previous year to 70,436 million yen, and operating income increased 21.8% to 8,544 million yen.

#### Others

Net sales from this segment decreased 4.7% from the previous year to 355 million yen and an operating loss of 107 million yen was recorded, following an operating loss of 72 million yen for the previous year.

### 1) Sales by segment

	FY2017 January 1, 2017 to December 31, 2017		FY2018 January 1, 2018 to December 31, 2018		Year-over-year change (Figures in parentheses indicate a decrease.)	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage change
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Bicycle Components	270,206	80.5	277,243	79.7	7,036	2.6
Fishing Tackle	65,220	19.4	70,436	20.2	5,215	8.0
Others	373	0.1	355	0.1	(17)	(4.7)
Total	335,800	100.0	348,035	100.0	12,234	3.6

### 2) Situation by segment

#### 1. Trend of sales by segment

(Millions of yen)

	FY2015 (109th) January 1, 2015 to December 31, 2015	FY2016 (110th) January 1, 2016 to December 31, 2016	FY2017 (111th) January 1, 2017 to December 31, 2017	FY2018 (112th) January 1, 2018 to December 31, 2018
Bicycle Components	314,010	259,455	270,206	277,243
Fishing Tackle	64,245	63,143	65,220	70,436
Others	390	399	373	355

#### 2. Trend of operating income by segment

(Millions of yen)

	FY2015 (109th) January 1, 2015 to December 31, 2015	FY2016 (110th) January 1, 2016 to December 31, 2016	FY2017 (111th) January 1, 2017 to December 31, 2017	FY2018 (112th) January 1, 2018 to December 31, 2018
Bicycle Components	79,816	57,874	57,410	57,250
Fishing Tackle	5,372	6,842	7,013	8,544
Others	(135)	(170)	(72)	(107)

Note: Figures in parentheses indicate operating loss.

#### 3. Trend of net sales by geographical area

(Millions of yen)

	FY2015 (109th) January 1, 2015 to December 31, 2015	FY2016 (110th) January 1, 2016 to December 31, 2016	FY2017 (111th) January 1, 2017 to December 31, 2017	FY2018 (112th) January 1, 2018 to December 31, 2018
Japan	34,889	37,004	38,305	41,180
North America	41,519	35,215	35,770	35,855
Europe	144,664	123,009	128,347	140,049
Asia	139,416	113,517	116,513	115,220
Others	18,155	14,251	16,863	15,729

Note: Net sales are classified by countries and regions according to customer location.

## (2) Capital Investment and Financing

Consolidated capital investment totaled 24,884 million yen during the fiscal year ended December 31, 2018. Capital investment was mainly used for reinforcing product development capabilities, increasing production capacity and improving production efficiency. By segment, capital investment totaled 16,139 million yen for bicycle components, 2,064 million yen for fishing tackle, 2 million yen for others, and 6,678 million yen for Company-wide (common). All capital investment was financed from cash flow.

(Millions of yen)

	FY2015 (109th) January 1, 2015 to December 31, 2015	FY2016 (110th) January 1, 2016 to December 31, 2016	FY2017 (111th) January 1, 2017 to December 31, 2017	FY2018 (112th) January 1, 2018 to December 31, 2018
Bicycle Components	23,956	20,379	11,989	16,139
Fishing Tackle	419	2,882	1,601	2,064
Others	8	25	2	2
Company-wide (common)	4,796	8,395	1,663	6,678
Total	29,182	31,683	15,257	24,884

Note: The amount of capital investment stated under "Company-wide (common)" concerns administrative departments.

## (3) Summary of Assets and Profits

### 1) Assets and profits of the Shimano Group

	FY2015 (109th) January 1, 2015 to December 31, 2015	FY2016 (110th) January 1, 2016 to December 31, 2016	FY2017 (111th) January 1, 2017 to December 31, 2017	FY2018 (112th) January 1, 2018 to December 31, 2018
Net sales (Millions of yen)	378,645	322,998	335,800	348,035
Operating income (Millions of yen)	85,053	64,546	64,351	65,687
Ordinary income (Millions of yen)	101,110	70,002	55,748	73,588
Net income attributable to owners of parent (Millions of yen)	76,190	50,964	38,443	53,931
Basic earnings per share	821.87 yen	549.76 yen	414.69 yen	581.77 yen
Net assets (Millions of yen)	371,298	391,381	430,465	453,457
Total assets (Millions of yen)	429,080	443,954	488,770	504,283

### 2) Assets and profits of the Company

	FY2015 (109th) January 1, 2015 to December 31, 2015	FY2016 (110th) January 1, 2016 to December 31, 2016	FY2017 (111th) January 1, 2017 to December 31, 2017	FY2018 (112th) January 1, 2018 to December 31, 2018
Net sales (Millions of yen)	292,477	181,215	191,088	204,851
Operating income (Millions of yen)	30,024	26,849	26,359	29,708
Ordinary income (Millions of yen)	34,522	31,216	31,483	38,609
Net income (Millions of yen)	23,813	22,224	23,509	30,418
Basic earnings per share	256.88 yen	239.73 yen	253.60 yen	328.13 yen
Net assets (Millions of yen)	119,508	127,387	137,233	151,611
Total assets (Millions of yen)	159,013	157,594	177,440	192,781

Note: Basic earnings per share indicated in 1) and 2) above is computed based on the average number of outstanding shares during the fiscal year, excluding treasury stock.

## (4) Issues to be Addressed

The economy in Europe threatens to decelerate if uncertainties such as the turmoil in Brexit negotiations and rising fiscal instability in Italy manifest themselves. In the U.S., vigorous personal consumption is expected to expand the economy, while there exists a concern that the pace of growth will slow down as the effect of the tax reduction fades off. In Japan, personal consumption is estimated to hold up well on the back of a good employment environment, which hopefully leads to a moderate economic recovery. However, the consumption tax increase may cast a shadow over consumer sentiment. In addition, there is a

global concern over the impact of the U.S.-China trade issues on the economy.

In these circumstances, the Shimano Group, while closely monitoring economic trends in Japan and overseas, is endeavoring to further enhance management efficiency. We will pursue the creation of new cycling and fishing culture.

We request your continuing support in our endeavors.

(5) Principal Business Segments

Segment	Description of main businesses
Bicycle Components	Manufacture and sale of derailleurs and other drive components, brakes and other braking components, other bicycle components and related goods
Fishing Tackle	Manufacture and sale of reels, rods and other recreational fishing gear
Others	Manufacture and sale of rowing-related equipment

(6) Principal Sales Offices and Factories

1) Principal operating sites of the Company

Head office		3-77 Oimatsu-cho, Sakai-ku, Sakai City, Osaka
Factories	Sakai Factory	Sakai-ku, Sakai City, Osaka
	Shimonoseki Factory	Shimonoseki City, Yamaguchi Prefecture
Sales offices	Saitama Sales Office	Ageo City, Saitama Prefecture
	Tokyo Sales Office	Ota-ku, Tokyo
	Nagoya Sales Office	Nakagawa-ku, Nagoya City, Aichi Prefecture
	Osaka Sales Office	Sakai-ku, Sakai City, Osaka
	Chushikoku Sales Office	Minami-ku, Okayama City, Okayama Prefecture
	Kyushu Sales Office	Tosu City, Saga Prefecture

2) Principal operating sites of subsidiaries

Domestic	Shimano Sales Co., Ltd.	Sakai-ku, Sakai City, Osaka
	Shimano Kumamoto Co., Ltd.	Yamaga City, Kumamoto Prefecture

Overseas	Shimano (Singapore) Pte. Ltd.	Singapore
	Shimano Components (Malaysia) Sdn. Bhd.	Malaysia
	Shimano Europe B.V.	The Netherlands
	Shimano North America Holding, Inc.	USA
	Shimano (Kunshan) Bicycle Components Co., Ltd.	China
	Shimano (Tianjin) Bicycle Components Co., Ltd.	China

(7) Employees

Segment	Number of employees	
Bicycle Components	8,225	(1,517)
Fishing Tackle	2,587	(601)
Others	202	(41)
Company-wide (common)	586	(82)
Total	11,600	(2,241)

Notes:

- Figures refer to full-time employees (excluding any employees on assignment from the Shimano Group to other firms, but including any employees on transfer from outside the Shimano Group). Annual average numbers of part-time employees in each segment are shown in parentheses.
- “Company-wide (common)” figures refer to employees that belong to administrative departments.
- Part-time employees are defined as anyone working for the Shimano Group on anything less than a full-time basis (excluding any temporary staff).

## (8) Principal Lenders

Lender	Outstanding borrowings (Millions of yen)
MUFG Bank, Ltd.	952
MUFG Union Bank, N.A.	88
BNP Paribas S.A.	35

## (9) Major Subsidiaries

Company name	Common stock	Ownership %	Principal business
Shimano (Singapore) Pte. Ltd.	S\$ 65,994 thousand	100	Manufacture and sale of bicycle components and sale of fishing tackle
Shimano Components (Malaysia) Sdn. Bhd.	RM18,000 thousand	100 (100)	Manufacture and sale of bicycle components and manufacture of fishing tackle
Shimano Europe B.V.	EUR 5,148 thousand	100	Sale of bicycle components and fishing tackle and management of sales subsidiaries in Europe
Shimano North America Holding, Inc.	US\$ 14,000 thousand	99	Sale of bicycle components and fishing tackle and management of sales subsidiaries in North America
Shimano (Kunshan) Bicycle Components Co., Ltd.	US\$ 34,500 thousand	100 (100)	Manufacture and sale of bicycle components
Shimano Sales Co., Ltd.	JPY 277 million	100	Sale, repair and storage of bicycle components; repair and storage of fishing tackle
Shimano (Tianjin) Bicycle Components Co., Ltd.	US\$ 24,000 thousand	100 (100)	Manufacture and sale of bicycle components

Note: Figures in parentheses refer to parent company equity stakes held via indirect ownership.

**2. Share-related information**

- (1) Total number of shares authorized: 262,400,000 shares
- (2) Total number of shares issued: 92,720,000 shares (including treasury stock of 18,430 shares)
- (3) Number of shareholders: 6,887
- (4) Major shareholders (Top 10)

Name of shareholder	Number of shares (Thousands of shares)	Percentage of ownership (%)
Minato Kosan Co., Ltd.	7,715	8.32
The Master Trust Bank of Japan, Ltd. (trust account)	6,023	6.50
Japan Trustee Services Bank, Ltd. (trust account)	5,136	5.54
Taiyo Kogyo Co., Ltd.	4,060	4.38
JP MORGAN CHASE BANK 380055	3,677	3.97
Three S Co., Ltd.	2,171	2.34
Nippon Life Insurance Company	2,098	2.26
MUFG Bank, Ltd.	2,066	2.23
Japan Trustee Services Bank, Ltd. (trust account 9)	1,790	1.93
Resona Bank, Limited.	1,711	1.85

Note: The percentage of ownership is calculated excluding treasury stock (18,430 shares).



### 3. Information related to Directors and Audit & Supervisory Board Members

#### (1) Directors and Audit & Supervisory Board Members

(As of December 31, 2018)

Title	Name	Assignment	Significant concurrent positions
President Representative Director	Yozo Shimano	Chairman of the Board	Chairman, Shimano (Singapore) Pte. Ltd. Chairman, Shimano Components (Malaysia) Sdn. Bhd. President, Taiyo Kogyo Co., Ltd. Chairman, Japan Fishing Tackle Manufacturers Association
Deputy President Representative Director	Keiji Kakutani		
Senior Executive Vice President	Shinji Wada	Chief of Manufacturing Officer	
Executive Vice President	Satoshi Yuasa	Head of Bicycle Components Div. and Senior Vice President, Sales Administration Dept., Bicycle Components Div.	
Executive Vice President	Yoshihiro Hirata	Head of General Operations Div. and Chief of Internal Auditing Officer	
Executive Vice President	Taizo Shimano	Supervising of Fishing Operations Div. and Chief of Marketing Officer, Bicycle Components Div.	
Executive Vice President	Masahiro Tsuzaki	Senior Vice President, Corporate Communications Dept. Supervising of Human Resources Dept., General Affairs Dept., and Lifestyle Gear Div.	
Executive Vice President	Takashi Toyoshima	Chief of Technology Officer, Bicycle Components Div. and Senior Vice President, Technology R&D Dept., SMA (Shimano Modular Architecture) Development Dept. and Product R&D Dept., Bicycle Components Div.	
Director	Kiyoshi Tarutani	Senior Vice President, Quality Control Div.	
Director	Chia Chin Seng		President, Shimano (Singapore) Pte. Ltd. President, Shimano Components (Malaysia) Sdn. Bhd. Chairman, Shimano (Kunshan) Bicycle Components Co., Ltd. Chairman and President, Shimano (Tianjin) Bicycle Components Co., Ltd.

Title	Name	Assignment	Significant concurrent positions
Director	Hiroshi Matsui	Senior Vice President, Business Administration Dept., General Operations Div., Corporate Planning Dept., and Aifie Div.	President of Shimano North America Holding, Inc.
Director	Tomohiro Ohtsu	Senior Vice President, Production Engineering Dept. Shimano Research Laboratories, and SPC (Shimano Process Control) Development Dept.	
Director	Masahiro Ohtake	Senior Vice President, Human Resources Dept., General Operations Div.	
Director	Kinji Kiyotani	Head of Fishing Operations Div. and Senior Vice President, Production Dept., Fishing Operations Div.	
Director	Kazuo Ichijo		Professor, Dean, School of International Corporate Strategy, Hitotsubashi University Business School Visiting Professor, International Institute for Management Development Outside Director, Information Services International-Dentsu, Ltd. Outside Director, PIA Corporation Outside Director, World Co., Ltd.
Director	Mitsuhiro Katsumaru		Of Counsel, SHIBA INTERNATIONAL Law Offices Outside Director, TAIYO NIPPON SANSO CORPORATION Outside Director, MoriX Co., Ltd. Adjunct Instructor, Graduate Program for Public Policy Studies, Kyoto University School of Government Adjunct Instructor, Graduate School of Law, Kyoto University
Full-time Audit & Supervisory Board Member	Koichi Shimazu		
Full-time Audit & Supervisory Board Member	Hideo Katsuoka		
Audit & Supervisory Board Member	Kanako Nozue		Attorney-at-law, Tsujinaka Law Firm
Audit & Supervisory Board Member	Toshihiko Hashimoto		Certified Tax Accountant, Hashimoto Certified Tax Accountant Office Outside Auditor, JA Hyogominami Auditor, Kakogawa Sangyokaikan Co., Ltd.

Notes:

1. Directors Kazuo Ichijo and Mitsuhiro Katsumaru are Outside Directors as defined in Article 2, Item 15 of the Companies Act.
2. Audit & Supervisory Board Members Kanako Nozue and Toshihiko Hashimoto are Outside Audit & Supervisory Board Members as

defined in Article 2, Item 16 of the Companies Act.

- The Company has filed notifications with Tokyo Stock Exchange, Inc. for all of its Outside Directors and Outside Audit & Supervisory Board Members as independent officers.
- Audit & Supervisory Board Member Toshihiko Hashimoto is a certified tax accountant and possesses considerable knowledge of tax and accounting matters.
- Director Yasuhiro Hitomi and Audit & Supervisory Board Member Gohei Matsumoto retired upon expiration of their terms of office at the close of the 111th Ordinary General Meeting of Shareholders held on March 27, 2018.
- The changes made to the assignment of Directors after December 31, 2018, are as follows:

Name	Before the change	After the change	Date of change
Shinji Wada	Senior Executive Vice President, Chief of Manufacturing Officer	Senior Executive Vice President	As of January 1, 2019
Satoshi Yuasa	Executive Vice President, Head of Bicycle Components Div. and Senior Vice President, Sales Administration Dept., Bicycle Components Div.	Executive Vice President	As of January 1, 2019
Taizo Shimano	Executive Vice President, Supervising of Fishing Operations Div. and Chief of Marketing Officer, Bicycle Components Div.	Executive Vice President, Head of Bicycle Components Div. Senior Vice President, Marketing Dept., Sales Administration Dept., Bicycle Components Div.	As of January 1, 2019
Takashi Toyoshima	Executive Vice President, Chief of Technology Officer, Bicycle Components Div. and Senior Vice President, Technology R&D Dept., SMA (Shimano Modular Architecture) Development Dept. and Product R&D Dept., Bicycle Components Div.	Executive Vice President, Head of SDM (Shimano Digital Manufacturing) Development Div. Chief of Technology Officer, Bicycle Components Div. Senior Vice President, Technology R&D Dept., Bicycle Components Div.	As of January 1, 2019
Hiroshi Matsui	Director, Senior Vice President, Business Administration Dept., General Operations Div., Corporate Planning Dept., and Aifie Div.	Director, Senior Vice President, Supervising of Business Administration Dept., General Operations Div., Corporate Planning Dept. and Aifie Div.	As of January 1, 2019
Tomohiro Ohtsu	Director, Senior Vice President, Production Engineering Dept. Shimano Research Laboratories, and SPC (Shimano Process Control) Development Dept.	Director, Senior Vice President, Chief of Manufacturing Officer, Bicycle Components Div., Chief of Production Engineering Officer, SDM (Shimano Digital Manufacturing) Development Div. and Shimano Research Laboratories	As of January 1, 2019

## (2) Outline of Limited Liability Agreements

The Company has concluded limited liability agreements with all Outside Officers under Article 423, Paragraph 1 of the Companies Act, under which the maximum contractual liability of such Outside Officers is set at the minimum figure specified in Article 425, Paragraph 1 of the same Act.

## (3) Total Remuneration of Directors and Audit & Supervisory Board Members

Category	Total number of people	Total amount of remuneration for the fiscal year ended December 31, 2018 (Millions of yen)
Directors	17	530
Audit & Supervisory Board Members	5	56
Total (Outside Officers)	22 (5)	587 (37)

Notes:

- The above numbers of Directors and Audit & Supervisory Board Members and amounts of remuneration of Directors and Audit & Supervisory Board Members include 1 Director and 1 Outside Audit & Supervisory Board Member who retired at the close of the 111th Ordinary General Meeting of Shareholders held on March 27, 2018, and the amounts of their remuneration, respectively.
- The above amount of remuneration of Directors includes the provision of reserve for officer bonuses amounting to 182 million yen recorded for the fiscal year ended December 31, 2018.
- The above amounts do not include remuneration for employment by the Company and the associated payroll bonuses to Directors.

4. The Company abolished the retirement benefit program for Directors and Audit & Supervisory Board Members at the close of the 105th Ordinary General Meeting of Shareholders held on March 29, 2012 and made a resolution to pay officer retirement benefits based on the Company's standards to each retiring Director and Audit & Supervisory Board Member upon their retirement. In accordance with this resolution, in addition to the above amounts, the Company paid officer retirement benefits amounting to 5 million yen to 1 Director who retired during the fiscal year ended December 31, 2018.

(4) Policy concerning Decisions on the Amount of Remuneration for Directors and Audit & Supervisory Board Members and the Calculation Method

The annual remuneration for Directors and Audit & Supervisory Board Members is decided within the maximum total remuneration amounts for all Directors and all Audit & Supervisory Board Members, respectively, established by resolution of the General Meeting of Shareholders.

The amount of annual remuneration for each Director is decided by the Representative Director designated by the Board of Directors in accordance with certain standards set force by the Company, and the amount of annual remuneration for each Audit & Supervisory Board Member is decided through discussion by the Audit & Supervisory Board.

(5) Outside Officers

- 1) Relationship between other companies/organizations where the Outside Officers concurrently hold positions and the Company

The Company has no relationships with other companies/organizations where the Outside Officers concurrently hold positions.

2) Principal activities in the fiscal year ended December 31, 2018

Category	Name	Activities
Director	Kazuo Ichijo	Attended all 13 meetings of the Board of Directors held in the fiscal year ended December 31, 2018. He is a professor of international corporate strategy at the Hitotsubashi University Business School who has ample knowledge and experience in corporate management. He provides input necessary for deliberations concerning the Company's management from a long-term perspective that is based on knowledge and experience of the business world, and how that differs from the Company's existing ways of thinking.
Director	Mitsuhiro Katsumaru	Attended all 13 meetings of the Board of Directors held in the fiscal year ended December 31, 2018. He held important posts at the Ministry of Justice and the Public Prosecutors Office. He now practices as an attorney-at-law and has a wealth of knowledge and profound insight about compliance. He provides input necessary for deliberations concerning the Company's management from a professional and objective perspective.
Audit & Supervisory Board Member	Kanako Nozue	Attended all 13 meetings of the Board of Directors and all 14 meetings of the Audit & Supervisory Board in the fiscal year ended December 31, 2018. She provides mainly specialist counsel in a legal capacity.
Audit & Supervisory Board Member	Toshihiko Hashimoto	Attended all 10 meetings of the Board of Directors held on and after March 27, 2018 and all 9 meetings of the Audit & Supervisory Board held on and after March 27, 2018. He provides mainly specialist counsel in the capacity of tax accountant.

#### 4. Accounting Auditor

(1) Name of the Accounting Auditor Appointed by the Company: Seiryō Audit Corporation

(2) Amount of Compensation for the Accounting Auditor for the Fiscal Year Ended December 31, 2018:

Category	Amount paid (Millions of yen)
1) Total amount of audit fee and other fees to be paid to the Accounting Auditor by the Company	36
2) Total amount of monetary and other financial interest to be paid to the Accounting Auditor by the Company and its subsidiaries	36

Notes:

1. The Audit & Supervisory Board conducted necessary examination as to whether the content of the audit plan of the Accounting Auditor, its performance of accounting audit, and the basis for estimation of the amount of compensation are appropriate for the Company's business scale, etc. As a result, the Audit & Supervisory Board gave consent for the amount of compensation for the Accounting Auditor.
2. The contract between the Company and Seiryō Audit Corporation makes no distinction between auditing services, as stipulated in the Companies Act, and auditing services, as stipulated in the Financial Instruments and Exchange Act. Moreover, since no essential distinction could be made between these two categories, the amount above is the total amount for both types of audit services.
3. Audit firms other than Seiryō Audit Corporation are engaged in audits of major overseas subsidiaries of the Company.

(3) Policy for Determination of Dismissal or Non-reappointment of the Accounting Auditor

In the event that the Audit & Supervisory Board deems that there may be major disruptions to the audit of the Company by the Accounting Auditor, and it is impossible for the Accounting Auditor to appropriately perform its duties, or in the event that the Audit & Supervisory Board deems it to be necessary, the Audit & Supervisory Board shall determine the content of a proposal for dismissal or non-reappointment of the Accounting Auditor to be submitted to the General Meeting of Shareholders.

In the event that any of the items stipulated in Article 340, Paragraph 1 of the Companies Act apply to the Accounting Auditor, the Audit & Supervisory Board may dismiss the Accounting Auditor by the unanimous consent of all Audit & Supervisory Board Members. In such event, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the dismissal of the Accounting Auditor and the reason for dismissal at the first General Meeting of Shareholders called after the dismissal.

## **5. Systems to Ensure the Appropriateness of Operations (Internal Control Systems) and the Status of Implementation of Such Systems**

### **(1) Systems to Ensure the Appropriateness of Operations**

In accordance with the provisions of the Companies Act, the Board of Directors has decided on the implementation of systems to ensure that the execution of duties by Directors is in compliance with laws, regulations and the Articles of Incorporation and systems to ensure the appropriateness of other operations. The Company will continue to ensure the appropriateness of management and operations and endeavor to improve the internal control systems described below, while making such alterations as may be required by changes in the business environment.

#### **Basic Policies on Establishment of Internal Control Systems**

##### **1. System to ensure that the execution of duties by the Company's Directors is in compliance with laws and regulations and the Articles of Incorporation**

The Company shall establish Compliance Regulations and various other rules and regulations and take the initiative to ensure compliance throughout the Company and its subsidiaries (hereinafter referred to as the "Shimano Group").

##### **2. Systems governing the storage and management of information relating to the execution of duties by the Company's Directors**

Any information relating to the execution of duties by Directors that requires storage shall be recorded and stored by the responsible operating department(s) of the Company in accordance with the Information Control Regulations.

##### **3. Regulations and other systems governing management of the risk of losses**

- (1) The Company recognizes the following major internal and external risks: 1) risks related to management decision-making and execution of operations, 2) risks of legal/regulatory compliance violations, 3) risks related to environmental protection, 4) risks related to product quality, 5) risks related to export/import control, 6) information security risks, and 7) disaster risks. Based on the recognition of these risks, the Company shall establish necessary rules and regulations and shall endeavor to establish systems that facilitate quick response by providing training programs aimed at improving related internal knowledge and expertise.
- (2) The internal audit organization shall perform internal audits of the status of operations in each part of the organization in accordance with the Internal Audit Regulations to assess the status. Any points that require improvement shall be noted immediately, and subsequent checks shall be made to follow up on any required changes.

##### **4. Systems to ensure the efficient execution of duties by the Company's Directors**

- (1) Regular meetings of the Board of Directors shall be convened once a month. The Board of Directors shall deliberate and decide matters contained in each meeting's agenda, which is created and managed according to the Board of Directors Regulations.
- (2) The Board of Directors shall decide statutory matters relating to business policies, laws and regulations and all other important business-related matters, and oversee the overall operation of the business.
- (3) Directors shall endeavor to manage those parts of the organization entrusted to them in accordance with the Regulations for Division of Duties and the Regulations for Clarification of Authority swiftly and efficiently so as to improve the performance of these operations.

##### **5. Systems to ensure that the execution of duties by the Company's employees is in compliance with laws and regulations and the Articles of Incorporation**

- (1) Various internal regulations, including the Compliance Regulations, shall be established to ensure that the execution of duties by employees is in full compliance with laws and regulations and the Articles of Incorporation.
- (2) The internal audit organization shall perform internal audits of the status of compliance, in accordance with the Internal Audit Regulations and other regulations mentioned above. The results shall be reported in a timely fashion to the Board of Directors and the Audit & Supervisory Board.
- (3) The Company shall conduct education and training to ensure that employees have an adequate understanding of the Compliance Regulations.

- 6. Systems for reporting of matters concerning execution of duties by subsidiaries' directors etc. to the Company**
- (1) When a subsidiary makes an important management decision, it shall implement necessary measures in accordance with internal regulations, such as requesting the Company's prior approval.
  - (2) Subsidiaries shall periodically report their financial conditions to the Company.
- 7. Regulations and other systems governing subsidiaries' management of the risk of losses**
- The Company's Directors in charge shall provide comprehensive advice and guidance concerning subsidiaries' business operations and risk management systems.
- 8. Systems to ensure efficient execution of duties by subsidiaries' directors**
- Information technology shall be utilized appropriately and effectively, such as the introduction of a shared system for consolidated accounting, throughout the Shimano Group for communication of information between the Company and subsidiaries and for business processes to the extent applicable.
- 9. Systems to ensure that the execution of duties by subsidiaries' directors and employees is in compliance with laws and regulations and the Articles of Incorporation**
- Each subsidiary shall establish compliance systems through the establishment of regulations similar to the Company's Compliance Regulations or other internal rules and regulations, according to each subsidiary's individual situation.
- 10. Other systems to ensure the appropriateness of operations across the Shimano Group consisting of the Company and its subsidiaries**
- With the aim of instituting effective internal controls across the whole Shimano Group, the Company shall appoint managers with requisite responsibilities, assess situations of legal/regulatory compliance and risk management, and swiftly implement necessary countermeasures.
- 11. Matters concerning employees who provide assistance to Audit & Supervisory Board Members, in the case that the Company's Audit & Supervisory Board Members request that the Company assign employees as assistants to support their duties**
- If deemed necessary by Audit & Supervisory Board Members, appropriate personnel shall be exclusively assigned to provide assistance to Audit & Supervisory Board Members.
- 12. Matters concerning the independence of employees mentioned in (11) above from the Company's Directors**
- Employees mentioned in (11) above shall be outside the Directors' chain of command and follow instructions of the Audit & Supervisory Board Members.
- 13. Matters concerning the ensuring of effectiveness of instructions of the Company's Audit & Supervisory Board Members to employees mentioned in (11) above**
- Employees mentioned in (11) above, in accordance with the instructions issued by the Audit & Supervisory Board Members, shall have authority to perform investigations.
- 14. Systems for reporting by the Company's Directors and employees to the Company's Audit & Supervisory Board Members**
- Directors and employees shall swiftly report the status of performance of internal audits, as well as statutory matters, to the Company's Audit & Supervisory Board Members.
- 15. Systems for reporting by subsidiaries' directors, audit & supervisory board members and employees, or persons who received reports from such persons, to the Company's Audit & Supervisory Board Members**
- Subsidiaries' directors, audit & supervisory board members and employees shall swiftly report the matters which the Company's Audit & Supervisory Board Members request, as well as statutory matters. Persons who received reports from subsidiaries' directors, audit & supervisory board members and employees shall do the same.
- 16. Other systems for reporting to the Company's Audit & Supervisory Board Members**
- (1) Upon request of any Audit & Supervisory Board Member, reporting and information gathering shall be swiftly conducted, in accordance with the stipulations of the Audit & Supervisory Board.
  - (2) The internal audit organization shall closely collaborate with the Audit & Supervisory Board, including by means of discussion and exchange of opinions.
- 17. Systems to ensure that reporting persons mentioned in (14)-(16) above do not receive discriminatory treatment as a result of such reports**
- (1) Regarding persons who reported to Audit & Supervisory Board Members, the fact of such reporting and

the content of the reporting shall be kept confidential, and it is prohibited to discriminate against persons who have reported to Audit & Supervisory Board Members for that reason alone.

- (2) Regarding persons who reported to the designated internal or external point of contact for compliance matters for swift recognition of violations of laws and regulations and/or unethical behaviors, the fact of such reporting and the content of the reporting shall be kept confidential, and it is prohibited to discriminate against persons who reported to the point of contact for that reason alone.

**18. Matters concerning procedures for advance payment or reimbursement of expenses incurred in the course of execution of duties by the Company's Audit & Supervisory Board Members and policies related to processing of expenses or liabilities arising from execution of duties**

Audit & Supervisory Board Members may consult lawyers, certified public accountants, and/or other external experts, as necessary, and expenses incurred shall be borne by the Company.

**19. Other systems to ensure effective performance of audits by the Company's Audit & Supervisory Board Members**

- (1) Opportunities shall be made available for Audit & Supervisory Board Members to attend meetings of the Board of Directors and other important meetings so that Audit & Supervisory Board Members can identify important internal issues and state their views, as necessary.
- (2) Forums shall be established, as necessary, to facilitate exchanges of views between Audit & Supervisory Board and Representative Directors.

**(2) Status of Implementation of the Systems to Ensure the Appropriateness of Operations**

- 1) Internal workshops and seminars on basic compliance matters, for which external instructors are invited, are held in house for officers and employees of the Company and its subsidiaries, in order to instill the consciousness of compliance.
- 2) An assessment of the effectiveness of internal controls over financial reporting, based on the Financial Instruments and Exchange Act, concluded no material violations were detected in the fiscal year ended December 31, 2018, and internal control systems are appropriately implemented.
- 3) Reports on the Company's and subsidiaries' businesses are periodically made, not only at meetings of the Company's Board of Directors, but also at important internal meetings. If issues requiring improvement or problems arise, instructions are issued to the departments concerned, as necessary.



## **6. Basic Policy on the Control of the Company**

### **(1) Details of the Basic Policy**

The Company believes that it is necessary that the persons who control decisions on the Company's financial and business policies fully understand the Company's financial and business details and the sources of the Company's corporate value and make possible the continuous and sustained preservation and enhancement of the Company's corporate value and the common interests of the shareholders.

The Company will not repudiate even a large-scale purchase of the Company's shares, provided the purchase contributes to the Company's corporate value and the common interests of the shareholders.

However, a number of large-scale share purchases would have little value to the corporate value and the common interests of the shareholders. For instance, some large-scale share purchases, in light of their purposes, would clearly impair the corporate value and the common interests of the shareholders, pose a risk of effectively compelling shareholders to sell their shares, fail to provide the Board of Directors or shareholders of the targeted company with sufficient time or information to consider the details of the large-scale share purchase or for the Board of Directors of the targeted company to make an alternative proposal, or require the targeted company to discuss and negotiate with the purchaser to obtain more favorable terms than those offered by the purchaser.

In particular, the sources of the Shimano Group's corporate value include 1) worldwide sales bases and networks that make possible the rapid detection of customer needs; 2) highly creative planning and development capabilities and technological capabilities that satisfy customer needs; 3) a cost-competitive production structure that takes advantage of the strengths of the countries where the manufacturing bases are located and supply capacity to meet worldwide demand; 4) a global service structure; and 5) harmonious business operation among the Shimano Group companies. The factors that form the foundation of these strengths include (i) firm relationships of trust with customers, business partners, employees, and other stakeholders; (ii) the technical development capabilities and expertise of individual employees; and (iii) a corporate culture that enables individual employees to fully demonstrate those capabilities. If a person conducting a large-scale purchase of the Company's shares failed to understand not only the details of the Company's finances and business, but also these sources of the Company's corporate value, and failed to preserve and enhance them in the medium term and long term, the Company's corporate value and the common interests of the shareholders would be impaired. Also, if the Company receives a proposal for a large-scale purchase of shares from an outsider, to enable the shareholders to make the optimal choice it will be necessary for the Company to judge the affects the purchase will have on the Company's corporate value and the common interests of the shareholders after appropriately ascertaining the tangible and intangible elements that constitute the Company's corporate value and information about the purchaser and share purchase. Any large-scale purchase forcibly conducted while such information remained undisclosed would pose a risk of impairment to the Company's corporate value and the common interests of the shareholders.

The Company believes that a person conducting a large-scale purchase of shares that does not contribute to the Company's corporate value and the common interests of the shareholders would be inappropriate as a person to control decisions on the Company's financial and business policies and that it is necessary to secure the Company's corporate value and the common interests of the shareholders by adopting necessary and appropriate measures to counter a large-scale purchase by such a person.

### **(2) Outline of the Measures for the Realization of the Basic Policy**

#### **(A) Special Measures to Contribute to the Realization of the Basic Policy**

##### **(i) Measures for the Enhancement of Corporate Value**

To maintain and further strengthen the above-mentioned sources of corporate value, the Company believes that it must continue to supply services and products that are trusted by and provide satisfaction to customers and in the coming years engage in the development and manufacture of products that respond to heightened customer interest in the environment, health, and other matters. Also, demand for bicycle components and fishing equipment, the Company's mainstay products, is increasing in emerging markets, such as China and South America. The Company intends to implement various measures so as to earn the confidence of customers also in these emerging markets. Against that backdrop, the Company will realize medium-term to long-term enhancement of corporate value by having as its basic policies 1) the reinforcement of core competences and 2) the creation of a cycling culture and fishing culture and brand reinforcement.

(ii) Reinforcement of Corporate Governance and Shareholder Returns

At the Company, supervision of the Directors' execution of duties is performed by means of 2 Independent Outside Directors and an Audit & Supervisory Board that includes 2 Independent Outside Audit & Supervisory Board Members. Also, the Company has established the Internal Audit Office as an internal audit organization. It periodically audits the state of compliance and risk management and is engaged in the development and implementation of global internal control systems.

The Company regards shareholder returns as an important management priority and has a basic policy of maintaining and continuing stable dividends and allocating profits in accordance with the development of business performance. The Company has continued to pay stable dividends since it listed its shares in 1972 and, furthermore, has increased dividends in line with improvement in business performance. The Company also has been actively conducting share repurchases.

Furthermore, with regard to activities to discharge social responsibility, the Shimano Group has long actively engaged in cultural activities, participated in volunteer activities, and sponsored events in communities where it has a presence. These activities build relationships of trust with business partners, area residents, and other stakeholders.

**(B) Outline of the Measures to Prevent Decisions on the Company's Financial and Business Policies from Being Controlled by Persons Viewed as Inappropriate under the Basic Policy**

In the event of a large-scale purchase of the Company's shares, the Company will make appropriate responses, as necessary, including making efforts for vigorous gathering of information and appropriate disclosure, in order to secure and enhance the Company's corporate value and the common interests of the shareholders.

**(3) The Decisions of the Company's Board of Directors Concerning Specific Measures and the Reasons Thereof  
Special Measures to Contribute to the Realization of the Basic Policy**

The measures for the enhancement of corporate value and measures for the reinforcement of corporate governance described in the above (2) (A) have been formulated as specific measures for the continuous and sustained preservation and enhancement of the Company's corporate value and the common interests of the shareholders and indeed contribute to realization of the Basic Policy. Accordingly, these measures are in line with the basic policy and in accordance with the common interests of the Company's shareholders and are not for the purpose of maintaining the position of the Company's corporate officers.

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Notes:

1. Regarding amounts, numbers of shares, etc. presented in this business report, any fractions less than the units indicated are rounded down. However, percentages are rounded to the nearest significant digit.
2. Consumption taxes are not included in the amounts presented in this business report.
3. Figures and information in this report are as of December 31, 2018, unless otherwise specified.

## Consolidated Balance Sheet

(As of December 31, 2018)

(Millions of yen)

Accounts	Amount	Accounts	Amount
(Assets)		(Liabilities)	
Current assets	356,404	Current liabilities	43,163
Cash and time deposits	242,903	Accounts payable-trade	13,995
Notes and accounts receivable-trade	38,989	Short-term loans payable	602
Merchandise and finished goods	36,069	Income taxes payable	7,097
Work in process	23,002	Deferred income taxes	99
Raw materials and supplies	4,968	Accrued employee bonuses	2,098
Deferred income taxes	3,060	Accrued officer bonuses	186
Others	7,670	Provision for loss on fire	1,609
Allowance for doubtful accounts	(259)	Provision for sales returns	140
Fixed assets	147,878	Others	17,334
Property, plant and equipment	113,995	Long-term liabilities	7,661
Buildings and structures	57,703	Long-term loans payable	482
Machinery and vehicles	21,560	Deferred income taxes	557
Land	13,622	Net defined benefit liability	3,327
Leased assets	69	Others	3,293
Construction in progress	15,088	<b>Total liabilities</b>	<b>50,825</b>
Others	5,950		
Intangible assets	14,650	(Net assets)	
Goodwill	4,413	Shareholders' equity	452,610
Software	6,404	Common stock	35,613
Software in progress	1,127	Capital surplus	5,642
Others	2,706	Retained earnings	411,476
Investments and other assets	19,231	Treasury stock	(121)
Investment securities	12,185	Accumulated other comprehensive income	708
Deferred income taxes	3,294	Unrealized gain (loss) on other securities	2,560
Others	4,294	Foreign currency translation adjustments	(1,852)
Allowance for doubtful accounts	(541)	Non-controlling interests	139
		<b>Total net assets</b>	<b>453,457</b>
<b>Total assets</b>	<b>504,283</b>	<b>Total liabilities and net assets</b>	<b>504,283</b>

Note: Amounts are rounded down to the nearest million yen.

**Consolidated Statement of Income**  
(From January 1, 2018 to December 31, 2018)

(Millions of yen)

Accounts	Amount	
Net sales		348,035
Cost of sales		211,463
Gross profit		136,572
Selling, general and administrative expenses		70,884
Operating income		65,687
Non-operating income		
Interest and dividend income	4,344	
Others	4,917	9,261
Non-operating expenses		
Interest expenses	206	
Others	1,154	1,361
Ordinary income		73,588
Extraordinary income		
Gain on sales of land	741	
Insurance income	25	766
Extraordinary losses		
Loss on impairment	266	
Loss on factory reconstruction	258	
Loss on fire	2,605	3,130
Income before income taxes		71,224
Income taxes-current	17,273	
Income taxes-deferred	11	17,285
Net income		53,939
Net income attributable to non-controlling interests		7
Net income attributable to owners of parent		53,931

Note: Amounts are rounded down to the nearest million yen.

## **Consolidated Statement of Shareholders' Equity**

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	35,613	5,642	371,914	(102)	413,066
Changes of items during the year					
Cash dividends paid			(14,368)		(14,368)
Net income attributable to owners of parent			53,931		53,931
Acquisition of treasury stock				(18)	(18)
Net changes of items other than shareholders' equity					
Total changes of items during the year	—	—	39,562	(18)	39,543
Balance at end of year	35,613	5,642	411,476	(121)	452,610

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at beginning of year	4,374	12,872	17,246	152	430,465
Changes of items during the year					
Cash dividends paid					(14,368)
Net income attributable to owners of parent					53,931
Acquisition of treasury stock					(18)
Net changes of items other than shareholders' equity	(1,813)	(14,725)	(16,538)	(12)	(16,551)
Total changes of items during the year	(1,813)	(14,725)	(16,538)	(12)	22,991
Balance at end of year	2,560	(1,852)	708	139	453,457

Note: Amounts are rounded down to the nearest million yen.

## Notes relating to Consolidated Financial Statements

### 1. Basis of presenting consolidated financial statements

#### (1) Consolidation

(a) The consolidated financial statements include the accounts of the Company and the following 49 subsidiaries.

Shimano (Singapore) Pte. Ltd.  
Shimano Components (Malaysia) Sdn. Bhd.  
Shimano (Kunshan) Bicycle Components Co., Ltd.  
Shimano (Mersing) Sdn. Bhd.  
PT Shimano Batam  
Shimano (Philippines) Inc.  
MSC Pte. Ltd.  
Shimano (Cambodia) Co., Ltd.  
Shimano (Taiwan) Co., Ltd.  
PRO (Taiwan) Procurement Co., Ltd.  
Shimano (Kunshan) Fishing Tackle Co., Ltd.  
Shimano (Shanghai) Sales Corporation  
Shimano (Tianjin) Bicycle Components Co., Ltd.  
Shimano (Lianyungang) Industrial Co., Ltd.  
Shimano South Asia Private Ltd.  
Shimano North America Holding, Inc.  
Shimano Canada Ltd.  
G.Loomis, Inc.  
DashAmerica, Inc. (Pearl Izumi USA)  
Innovative Textiles, Inc.  
Shimano Europe B.V.  
Shimano Germany Fishing GmbH  
Shimano - Pearl Izumi Softgoods Division Europe GmbH  
Shimano Benelux B.V.  
Shimano U.K. Ltd.  
Shimano Italy Fishing S.R.L.  
Shimano Italy Bicycle Components S.R.L.  
Shimano Belgium N.V.  
Lazer Sport N.V.  
Shimano France Composants Cycles S.A.S.  
Shimano Italia S.p.A. in liquidazione  
Shimano Czech Republic, s.r.o.  
Shimano Nordic Cycle AB  
Shimano Nordic Cycle OY  
Shimano Nordic Cycle AS  
Shimano Nordic Denmark ApS  
Shimano Polska Sp. z o.o.  
Shimano Menat Spor Etkinlikleri Spor Malzemeleri ve Ekipmanlari Ticaret Limited Sirketi  
Shimano Bisiklet Parca ve Ekipmanlari Satis Servis Ticaret Anonim Sirketi  
Shimano Balicilik Malzemeleri ve Ekipmanlari Satis Ticaret Anonim Sirketi  
Shimano Australia Cycling Pty. Ltd.  
Shimano Oceania Holdings Pty. Ltd.  
Shimano Australia Fishing Pty. Ltd.  
Shimano New Zealand Ltd.  
Shimano Latin America Representacao Comercial Ltda.  
Shimano Uruguay S.A.  
Shimano Argentina S.A.U.  
Shimano Sales Co., Ltd.  
Shimano Kumamoto Co., Ltd.

During fiscal year 2018, Shimano Europe Holding B.V., which was a consolidated subsidiary, merged with Shimano Europe B.V., Shimano Europe Fishing Holding B.V., and Bikefitting.com B.V., which were consolidated subsidiaries. The former Shimano Europe Holding B.V. remained as the surviving company and changed its name to Shimano Europe B.V. As a result, the former Shimano Europe B.V., the former Shimano Europe Fishing Holding B.V., and the former Bikefitting.com B.V. were excluded from the scope of consolidation.

Shimano Argentina S.A.U. is included in the scope of consolidation due to its establishment.

(b) The remaining subsidiaries including Shimano Adachi Co., Ltd. are excluded from consolidation since the aggregate amounts of the total assets, net sales, net income and retained earnings of these subsidiaries are immaterial to the comparable amounts in the accompanying consolidated financial statements.

#### (2) Applications of the equity method

None of the unconsolidated subsidiaries and affiliated companies (20 to 50 percent-owned companies) including Sanbo Co., Ltd. is accounted for by the equity method since the aggregate amounts of net income and retained earnings of these companies are immaterial to the comparable amounts in the accompanying consolidated financial statements.

(3) Fiscal year of the consolidated subsidiaries

The fiscal year of Shimano Italia S.p.A. in liquidazione ends on November 30 and its financial statements as of November 30 are used for preparation of the consolidated financial statements. Any material effects occurring during the period from December 1 to December 31 are adjusted in the consolidated financial statements.

(4) Summary of significant accounting policies

(a) Valuation basis and method for principal assets

Securities

Other securities (syn. Available-for-sale securities)

Other securities with market prices

Other securities with market prices are stated at closing quoted prices at the balance sheet date.

Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets.

Realized gains and losses on sales of these securities are credited or charged to income, with cost determined on the moving average basis.

Other securities with no market prices

Other securities with no market prices are stated at moving average cost.

Inventories

Inventories held for sale in the ordinary course of business are stated principally at cost (the book value devaluation method based on decline in profitability).

Finished goods, merchandise, work in process and raw materials are stated principally at cost determined by the weighted average method.

Supplies are stated principally at the most recent purchase method.

(b) Depreciation and amortization of principal fixed assets

Property, plant and equipment

Property, plant and equipment acquired on or before March 31, 2007 (excluding leased assets)

Property, plant and equipment of the Company and its consolidated domestic subsidiaries are depreciated principally by the former declining-balance method.

Molds for die casting and mechanical pressing are depreciated by the straight-line method based on the estimated useful lives of the respective assets.

Buildings (excluding building fixtures) acquired on or after April 1, 1998, are depreciated by the former straight-line method.

Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the respective assets.

Property, plant and equipment acquired on or after April 1, 2007 (excluding leased assets)

Property, plant and equipment of the Company and its consolidated domestic subsidiaries are depreciated principally by the declining-balance method.

Molds for die casting and mechanical pressing are depreciated by the straight-line method based on the estimated useful lives of the respective assets.

Buildings (including building fixtures) are depreciated by the straight-line method.

Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the respective assets.

Property, plant and equipment acquired on or after April 1, 2016 (excluding leased assets)

Property, plant and equipment of the Company and its consolidated domestic subsidiaries are depreciated principally by the declining-balance method.

Molds for die casting and mechanical pressing are depreciated by the straight-line method based on the estimated useful lives of the respective assets.

Buildings (including building fixtures) and structures are depreciated by the straight-line method.

Depreciation of property, plant and equipment of consolidated foreign subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the respective assets.

Leased assets

Leased assets related to finance lease transactions with ownership transfer

Depreciation of leased assets related to finance lease transactions with ownership transfer is computed by the same depreciation method as for the depreciable assets that are owned.

Leased assets related to finance lease transactions without ownership transfer

Depreciation of leased assets related to finance lease transactions without ownership transfer is principally computed by the straight-line method based on the period of the leasing contract as the useful lives and with no residual value.

Intangible assets

Intangible assets are amortized principally by the straight-line method. Amortization of software for internal use is computed by the straight-line method over an estimated useful life (principally 5 years).

Long-term prepaid expenses

Long-term prepaid expenses are amortized primarily by the straight-line method.

(c) Provision for principal allowances and reserves

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. Such amount is computed by applying bad debt loss ratios based on past experience for general receivables and by individually reviewing collectibility for specific doubtful accounts.

Accrued employee bonuses

Accrued employee bonuses are provided in an amount corresponding to the fiscal year based on the projected amount sufficient to meet future payments of bonuses to employees.

Accrued officer bonuses

Accrued officer bonuses are provided in an amount corresponding to the fiscal year based on the projected amount sufficient to meet future payments of bonuses to officers.

Provision for sales returns

Provision for sales returns is provided in an estimated amount sufficient to cover losses on sales returns. Such amount is computed based on historical results.

Provision for loss on fire

Provision for loss on fire is provided in an estimated amount sufficient to cover expenditure required for recovery of assets damaged by the fire that broke out at the Head Office Factory (Sakai-ku, Sakai City).

(d) Translation of assets and liabilities denominated in foreign currencies into yen

Monetary assets and liabilities of the Company denominated in foreign currencies are translated into Japanese yen at applicable current exchange rates at the balance sheet date. However, receivables and payables denominated in foreign currencies covered by forward exchange contracts are translated at the contracted rates. Differences arising from translation are charged or credited to income. Assets and liabilities of consolidated overseas subsidiaries are translated into Japanese yen at the rate of exchange at the balance sheet date, and revenue and expense accounts are translated into Japanese yen at the average rates over the fiscal year. Differences arising from translation are included in foreign currency translation adjustments and non-controlling interest in net assets.

(e) Accounting for hedges

Method of hedge accounting

With respect to receivables and payables denominated in foreign currencies covered by forward exchange contracts, appropriation accounting is applied.

Hedging instrument and risk hedged

Foreign exchange forward contracts are used to provide hedges against risk of fluctuation in currency exchange rates concerning foreign currency-denominated assets and liabilities and for scheduled foreign currency-denominated transactions.

Hedging policy

Hedging transactions are only adopted in order to appropriately control and reduce risks associated with export and import.

Assessing the effectiveness of a hedge

Hedge accounting is applied in accordance with the "Practical Guidelines Concerning Accounting for Financial Instruments" (The Japanese Institute of Certified Public Accountants).

(f) Method and period of amortization of goodwill

Goodwill is amortized by the straight-line method over a reasonable number of years within 20 years, based on judgment of individual items. Goodwill whose amount is immaterial is fully amortized as incurred.

(g) Other significant accounting policies for preparation of consolidated financial statements

i) Accounting for consumption taxes

All amounts stated are exclusive of consumption and local taxes.

ii) Accounting for employee retirement benefits

The liability, including both the unfunded lump-sum benefit and the funded pension plan, is calculated as the difference between the expected and discounted future retirement and Shimano corporate pension payments, and the assets under the pension plan to meet such future payments. All the past service costs and actuarial gains and losses are expensed in the fiscal year in which they occur.

In calculating retirement benefit obligation, the benefit formula basis is applied to allocate projected retirement benefits to the periods until the end of the current fiscal year.

Certain consolidated subsidiaries use the simplified method whereby the amount that would be required to be paid if all their eligible employees voluntarily terminated their employment as of the balance sheet date is treated as retirement benefit obligation for the calculation of net defined benefit liability and retirement benefit cost.

## 2. Notes relating to consolidated balance sheet

Accumulated depreciation of property, plant and equipment 135,621 million yen

## 3. Notes relating to consolidated statement of income

(1) Selling, general and administrative expenses

Main components of selling, general and administrative expenses for the fiscal year ended December 31, 2018:

Salaries and wages	17,935 million yen
Advertising and sales promotion expenses	9,172 million yen
R&D expenses	5,678 million yen

(2) R&D expenses

R&D expenses included in selling, general and administrative expenses and manufacturing expenses for the fiscal year ended December 31, 2018 12,850 million yen

(3) Write-down of inventories held for ordinary sales purposes due to a decline in profitability

Cost of sales (61) million yen

(4) Loss on impairment

The Shimano Group recognized loss on impairment for the following assets.

Location	Use	Category	Amount
Innovative Textiles, Inc.	Fishing Tackle	Goodwill	266 million yen

(Background)

As a result of reviewing the profit plan of Innovative Textiles, Inc., the book value of goodwill was fully written off because lower cash flow was estimated over the expected period.

(Method of grouping)

The Shimano Group assets are grouped by reportable segment and in the minimum unit that produces cash flow.

(Method of calculation of a recoverable amount)

The full amount of the unamortized balance of goodwill was written off and recognized as loss on impairment.

(5) Insurance income

The Shimano Group recorded insurance income covering the fire that broke out at the Head Office Factory (Sakai-ku, Sakai City) on March 26,



2018.

(6) Loss on fire

Loss on fire is the amount of loss incurred as a result of the fire that broke out at the Head Office Factory (Sakai-ku, Sakai City) on March 26, 2018. The Shimano Group recognized extinguishment loss for property, plant and equipment including machinery and inventories including work in process, expenses for restoration, as well as other relevant expenses.

The loss includes the provision for loss on fire, which was recognized in the range reasonably estimable at the present time.

#### 4. Notes relating to consolidated statement of shareholders' equity

(1) Total number of issued shares as of the end of the fiscal year ended December 31, 2018 92,720,000 shares

(2) Cash dividends paid during the fiscal year ended December 31, 2018

(a) Payment of cash dividends

At the Ordinary General Meeting of Shareholders held on March 27, 2018, the following resolutions were made.

• Matters concerning dividends for shares of common stock

Total amount of cash dividends	7,184 million yen
Cash dividends per share	77.50 yen
Record date	December 31, 2017
Effective date	March 28, 2018

(b) Payment of interim cash dividend

At the meeting of the Board of Directors held on July 30, 2018, the following resolutions were made.

• Matters concerning dividends for shares of common stock

Total amount of cash dividends	7,184 million yen
Cash dividends per share	77.50 yen
Record date	June 30, 2018
Effective date	September 4, 2018

(3) Cash dividends paid after the end of the fiscal year ended December 31, 2018

At the Ordinary General Meeting of Shareholders to be held on March 26, 2019, the following resolutions are expected to be made.

• Matters concerning dividends for shares of common stock

Total amount of cash dividends	7,184 million yen
Source of dividends	Retained earnings
Cash dividends per share	77.50 yen
Record date	December 31, 2018
Effective date	March 27, 2019

#### 5. Notes relating to financial instruments

(1) Policies on financial instruments

The Shimano Group restricts its fund management to deposits with financial institutions with high credit standing and raises funds mainly by means of bank loans.

The Shimano Group manages customer credit risk from notes and accounts receivable-trade on the basis of internal credit control guidelines.

Investment securities are primarily stocks and the Shimano Group monitors fair value of listed stocks on a quarterly basis.

The Shimano Group uses derivatives for the purpose of hedging risks in accordance with the internal guidelines.

(2) Fair values of financial instruments

Carrying amounts, fair values and the differences between carrying amounts and fair values as of December 31, 2018, are as follows:

	(Millions of yen)		
	Carrying amount	Fair value	Difference
(1) Cash and time deposits	242,903	242,903	-
(2) Notes and accounts receivable-trade	38,989	38,989	-
(3) Investment securities	9,969	9,969	-
Assets	291,862	291,862	-
(1) Accounts payable-trade	13,995	13,995	-
(2) Short-term loans payable	126	126	-
(3) Income taxes payable	7,097	7,097	-
(4) Long-term loans payable	957	949	(7)
Liabilities	22,177	22,169	(7)
Derivatives	-	-	-

Notes:

1. Basis of determining the fair value of financial instruments and matters relating to securities and derivative transactions

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable-trade

The carrying amount of these instruments approximates fair value because of their short-term maturities.

(3) Investment securities

The fair values of stocks are stated using quoted market prices.

Liabilities

- (1) Accounts payable-trade, (2) Short-term loans payable, and (3) Income taxes payable

The carrying amount of these instruments approximates fair value because of their short-term maturities.

- (4) Long-term loans payable

The fair values of long-term loans payable are estimated based on their present values by applying discounted cash flow analysis using rates currently available for similar types of borrowings with similar terms and original maturities.

Derivatives

Not applicable because no derivative transactions existed at the end of fiscal year 2018.

2. Unlisted stocks (2,215 million yen on the consolidated balance sheet) are not included in “(3) Investment securities” as it is deemed extremely difficult to determine their fair value because quoted market prices are unavailable and it is impossible to estimate future cash flows.

**6. Notes relating to per share data**

(1) Net assets per share 4,890.08 yen

(2) Basic earnings per share 581.77 yen

\* The basis for calculation of the basic earnings per share is as follows:

Net income attributable to owners of parent	53,931 million yen
Net income attributable to owners of parent related to common stock	53,931 million yen
Average number of shares of common stock outstanding	92,702 thousand shares

Note: Amounts are rounded down to the nearest million yen.

<For Reference>

**Consolidated Statement of Cash Flows**

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
49,593	(49,008)	(21,709)	176,392

Note: Amounts are rounded down to the nearest million yen.

## Non-consolidated Balance Sheet

(As of December 31, 2018)

(Millions of yen)

Accounts	Amount	Accounts	Amount
(Assets)		(Liabilities)	
Current assets	85,242	Current liabilities	37,920
Cash and time deposits	22,187	Accounts payable-trade	9,128
Notes receivable	828	Accounts payable-other	6,493
Accounts receivable-trade	27,555	Income taxes payable	4,206
Finished goods	12,943	Accrued expenses	227
Work in process	14,631	Deposit payable	14,808
Raw materials	1,280	Accrued employee bonuses	301
Supplies	300	Accrued officer bonuses	182
Accounts receivable-other	2,681	Provision for sales returns	26
Deferred income taxes	974	Provision for loss on fire	1,609
Others	1,863	Others	936
Allowance for doubtful accounts	(3)	Long-term liabilities	3,249
Fixed assets	107,539	Employee retirement benefits	2,605
Property, plant and equipment	65,092	Others	643
Buildings	35,351	Total liabilities	41,170
Structures	1,231		
Plant and machinery	7,671	(Net assets)	
Vehicles	100	Shareholders' equity	148,577
Tools, equipment and furniture	3,024	Common stock	35,613
Land	9,703	Capital surplus	5,823
Leased assets	16	Capital reserve	5,822
Construction in progress	7,992	Other capital surplus	1
Intangible assets	9,344	Retained earnings	107,262
Goodwill	2,677	Legal reserve	3,194
Industrial property	20	Other retained earnings	104,068
Software	5,608	Unappropriated retained earnings	104,068
Software in progress	985	Treasury stock	(121)
Others	52	Valuation and translation adjustments	3,033
Investments and other assets	33,102	Unrealized gain (loss) on other securities	3,033
Investment securities	9,069		
Subsidiaries' and affiliates' stock	13,304	Total net assets	151,611
Investments in capital	21		
Long-term loans to subsidiaries and affiliates	6,826	Total liabilities and net assets	192,781
Long-term prepaid expenses	888		
Deferred income taxes	2,291		
Others	1,468		
Allowance for doubtful accounts	(768)		
Total assets	192,781		

Note: Amounts are rounded down to the nearest million yen.

**Non-consolidated Statement of Income**

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

Accounts	Amount	
Net sales		204,851
Cost of sales		134,292
Gross profit		70,558
Selling, general and administrative expenses		40,849
Operating income		29,708
Non-operating income		
Interest income	196	
Dividend income	9,207	
Others	525	9,928
Non-operating expenses		
Interest expenses	226	
Others	801	1,027
Ordinary income		38,609
Extraordinary income		
Insurance income	25	
Transfer pricing taxation adjustment	2,173	2,199
Extraordinary losses		
Loss on factory reconstruction	82	
Loss on fire	2,605	2,688
Income before income taxes		38,120
Income taxes-current	7,340	
Income taxes-deferred	362	7,702
Net income		30,418

Note: Amounts are rounded down to the nearest million yen.

## Non-consolidated Statement of Shareholders' Equity

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Capital reserve	Other capital surplus	Total capital surplus
Balance at beginning of year	35,613	5,822	1	5,823
Changes of items during the year				
Cash dividends paid				
Net income				
Acquisition of treasury stock				
Net changes of items other than shareholders' equity				
Total changes of items during the year	—	—	—	—
Balance at end of year	35,613	5,822	1	5,823

	Shareholders' equity				
	Retained earnings			Treasury stock	Total shareholders' equity
	Legal reserve	Other retained earnings	Total retained earnings		
		Unappropriated retained earnings			
Balance at beginning of year	3,194	88,018	91,212	(102)	132,547
Changes of items during the year					
Cash dividends paid		(14,368)	(14,368)		(14,368)
Net income		30,418	30,418		30,418
Acquisition of treasury stock				(18)	(18)
Net changes of items other than shareholders' equity					
Total changes of items during the year	—	16,049	16,049	(18)	16,030
Balance at end of year	3,194	104,068	107,262	(121)	148,577

	Valuation and translation adjustments		Total net assets
	Unrealized gain (loss) on other securities	Total valuation and translation adjustments	
Balance at beginning of year	4,686	4,686	137,233
Changes of items during the year			
Cash dividends paid			(14,368)
Net income			30,418
Acquisition of treasury stock			(18)
Net changes of items other than shareholders' equity	(1,652)	(1,652)	(1,652)
Total changes of items during the year	(1,652)	(1,652)	14,377
Balance at end of year	3,033	3,033	151,611

Note: Amounts are rounded down to the nearest million yen.

## Notes relating to Non-consolidated Financial Statements

### 1. Basis of presenting non-consolidated financial statements

#### (1) Valuation basis and method for principal assets

##### Securities

###### Subsidiaries' and affiliates' stocks

Subsidiaries' and affiliates' stocks are stated at moving average cost.

###### Other securities (syn. Available-for-sale securities)

###### Other securities with market prices

Other securities with market prices are stated at closing quoted prices at the balance sheet date.

Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets.

Realized gains and losses on sales of these securities are credited or charged to income, with cost determined on the moving average basis.

###### Other securities with no market prices

Other securities with no market prices are stated at moving average cost.

##### Inventories

Inventories held for sale in the ordinary course of business are stated at cost (the book value devaluation method based on decline in profitability).

Finished goods, merchandise, work in process and raw materials are stated at cost determined by the weighted average method.

Supplies are stated at the most recent purchase method.

#### (2) Depreciation and amortization of principal fixed assets

##### Property, plant and equipment

Property, plant and equipment acquired on or before March 31, 2007 (excluding leased assets)

Property, plant and equipment are depreciated principally by the former declining-balance method.

Molds for die casting and mechanical pressing are depreciated by the straight-line method based on the estimated useful lives of the respective assets.

Buildings (excluding building fixtures) acquired on or after April 1, 1998, are depreciated by the former straight-line method.

Property, plant and equipment acquired on or after April 1, 2007 (excluding leased assets)

Property, plant and equipment are depreciated principally by the declining-balance method.

Molds for die casting and mechanical pressing are depreciated by the straight-line method based on the estimated useful lives of the respective assets.

Buildings (including building fixtures) are depreciated by the straight-line method.

Property, plant and equipment acquired on or after April 1, 2016 (excluding leased assets)

Property, plant and equipment are depreciated principally by the declining-balance method.

Molds for die casting and mechanical pressing are depreciated by the straight-line method based on the estimated useful lives of the respective assets.

Buildings (including building fixtures) and structures are depreciated by the straight-line method.

Depreciation periods of principal items of property, plant and equipment

Buildings are depreciated over a period of 3-50 years.

Plant and machinery are depreciated over a period of 9-10 years.

##### Leased assets

Leased assets related to finance lease transactions without ownership transfer

Depreciation of leased assets related to finance lease transactions without ownership transfer is principally computed by the straight-line method based on the period of the leasing contract as the useful lives with no residual value.

##### Intangible assets

Intangible assets are amortized principally by the straight-line method. Amortization of software for internal use is computed by the straight-line method over an estimated useful life of 5 years.

##### Long-term prepaid expenses

Long-term prepaid expenses are amortized primarily by the straight-line method.

#### (3) Provision for principal allowances and reserves

##### Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses on collection. Such amount is computed by applying bad debt loss ratios based on past experience for general accounts and by individually reviewing collectibility for specific doubtful accounts.

##### Accrued employee bonuses

Accrued employee bonuses are provided in an amount corresponding to the fiscal year based on the projected amount sufficient to meet future payments of bonuses to employees.

##### Accrued officer bonuses

Accrued officer bonuses are provided in an amount corresponding to the fiscal year based on the projected amount sufficient to meet future payments of bonuses to officers.

##### Provision for sales returns

Provision for sales returns is provided in an estimated amount sufficient to cover losses on sales returns. Such amount is computed based on historical results.

##### Employee retirement benefits

The liability, including both the unfunded lump-sum benefit and the funded pension plan, is calculated as the difference between the expected and discounted future retirement and Shimano corporate pension payments, and the assets under the pension plan to meet such future payments. All the past service costs and actuarial gains and losses are expensed in the fiscal year in which they occur.

In calculating retirement benefit obligation, the benefit formula basis is applied to allocate projected retirement benefits to the periods until the end of the current fiscal year.

##### Provision for loss on fire

Provision for loss on fire is provided in an estimated amount sufficient to cover expenditure required for recovery of assets damaged by the fire that broke out at the Head Office Factory (Sakai-ku, Sakai City).

#### (4) Translation of assets and liabilities denominated in foreign currencies into yen

Monetary assets and liabilities of the Company denominated in foreign currencies are translated into Japanese yen at the rates of exchange at the balance sheet date. However, receivables and payables denominated in foreign currencies covered by forward exchange contracts are translated at the contracted rates. Differences arising from translation are charged or credited to income.

#### (5) Accounting for hedges

##### Method of hedge accounting

With respect to receivables and payables denominated in foreign currencies covered by forward exchange contracts, appropriation accounting is applied.

**Hedging instrument and risk hedged**

Foreign exchange forward contracts are used to provide hedges against risk of fluctuation in currency exchange rates concerning foreign currency-denominated assets and liabilities and for scheduled foreign currency-denominated transactions.

**Hedging policy**

Hedging transactions are only adopted in order to appropriately control and reduce risks associated with export and import.

**Assessing the effectiveness of a hedge**

Hedge accounting is applied in accordance with the "Practical Guidelines Concerning Accounting for Financial Instruments" (The Japanese Institute of Certified Public Accountants).

(6) Other significant accounting policies for preparation of non-consolidated financial statements

Accounting for consumption taxes

All amounts stated are exclusive of consumption and local taxes.

**2. Notes relating to non-consolidated balance sheet**

(1) Short-term monetary receivables from subsidiaries and affiliates	10,442 million yen
Short-term monetary payables to subsidiaries and affiliates (excluding the amount separately presented on the balance sheet)	18,916 million yen
(2) Accumulated depreciation of property, plant and equipment	67,374 million yen

**3. Notes relating to non-consolidated statement of income**

(1) Transactions with subsidiaries and affiliates	
Net sales	54,318 million yen
Goods purchased	27,125 million yen
Commissions paid and storage fees	10,314 million yen
Non-operating transactions	10,814 million yen
(2) Write-down of inventories held for ordinary sales purposes due to a decline in profitability	
Cost of sales	167 million yen
(3) Insurance income	
The Company recorded insurance income covering the fire that broke out at the Head Office Factory (Sakai-ku, Sakai City) on March 26, 2018.	
(4) Transfer pricing taxation adjustment	
The amount of adjustment with overseas subsidiaries based on the agreement between Japan and Singapore concerning transfer pricing taxation.	
(5) Loss on fire	
Loss on fire is the amount of loss incurred as a result of the fire that broke out at the Head Office Factory (Sakai-ku, Sakai City) on March 26, 2018. The Company recognized extinguishment loss for property, plant and equipment including machinery and inventories including work in process, expenses for restoration, as well as other relevant expenses.	
The loss includes the provision for loss on fire, which was recognized in the range reasonably estimable at the present time.	

**4. Notes relating to non-consolidated statement of shareholders' equity**

Number of shares of treasury stock at the end of the fiscal year ended December 31, 2018 18,430 shares

**5. Notes relating to deferred tax accounting**

(1) Significant components of deferred tax assets and liabilities	
(Deferred tax assets)	(Millions of yen)
Excess of limit of accrued employee bonuses	93
Enterprise tax payable	284
Officer retirement benefits	161
Excess of limit of employee retirement benefits	807
Loss on revaluation of other securities	387
Loss on revaluation of golf memberships	133
Excess of limit of allowance for doubtful accounts	239
Loss on impairment	147
Book in excess of tax depreciation	220
Devaluation loss on inventories	363
Goodwill	1,129
Others	517
Total deferred tax assets	4,486
(Deferred tax liabilities)	
Unrealized gain on other securities	(1,219)
Total deferred tax liabilities	(1,219)
Net deferred tax assets	3,266

(2) Reconciliation between the effective statutory tax rate and the actual effective tax rate

Effective statutory tax rate	31.0%
(Reconciliation)	
Permanent difference-expenses	0.3%
Permanent difference-income	(7.0%)
Tax credit	(2.8%)

Transfer pricing taxation adjustment	(1.8%)
Others	0.5%
Actual effective tax rate	<u>20.2%</u>



## 6. Notes on related party transactions

### Subsidiaries

Company name	Location	Common stock	Principal business	Rate of voting rights	Relationship with the related party	Description of transactions	Transaction amount (Millions of yen)	Account item	Ending balance (Millions of yen)
Shimano (Singapore) Pte. Ltd.	Singapore	S\$ 65,994 thousand	Manufacture and sale of bicycle components and sale of fishing tackle	100.0%	Manufacture of the Company's products Officers' posts held concurrently	Dividend income	7,418	-	-
Shimano Components (Malaysia) Sdn. Bhd.	Johor, Malaysia	RM 18,000 thousand	Manufacture and sale of bicycle components and manufacture of fishing tackle	100.0% (100.0%)	Manufacture of the Company's products Officers' posts held concurrently	Purchase of bicycle components and fishing tackle (Note 1)	12,217	Accounts payable-trade	3,025
Shimano North America Holding, Inc.	California, U.S.A.	US\$ 14,000 thousand	Sale of bicycle components and fishing tackle and management of sales subsidiaries in North America	95.0%	Sale of the Company's products Officers' posts held concurrently	Sale of bicycle components and fishing tackle (Note 1)	13,454	Accounts receivable-trade	1,913
						Provision of loans	5,677	Loans	7,714
						Collection of loans	884		
						Receipt of interest (Note 2)	60		
Shimano Europe B.V.	Eindhoven, the Netherlands	EUR 5,148 thousand	Sale of bicycle components and fishing tackle and management of subsidiaries in Europe	100.0%	Sale of the Company's products Officers' posts held concurrently	Sale of bicycle components and fishing tackle (Note 1)	10,714	Accounts receivable-trade	2,214
Shimano Sales Co., Ltd.	Sakai-ku, Sakai City, Osaka	JPY 277 million	Sale of bicycle components and fishing tackle; repair and storage	100.0%	Sale of the Company's products Officers' posts held concurrently	Transfer of funds (Note 3)	-	Deposits received	12,948
						Payment of interest (Note 2)	194		

Transaction amounts do not include consumption taxes.

The figure in parentheses for the rate of voting rights refers to the rate of voting rights indirectly held by the Company.

(Note 1) The terms and conditions for purchase and sale of the Company's products are determined, taking into account market prices and the cost of sales.

(Note 2) Interest rates for the loans/deposits are determined on a reasonable basis, taking into account market interest rates. The Company does not have collateral for the loans.

(Note 3) With regard to transfer of funds, since the funds are settled on a time to time basis, only the ending balance for fiscal year 2018 is stated above.

**7. Notes relating to per share data**

(1) Net assets per share 1,635.48 yen

(2) Basic earnings per share 328.13 yen

\* The basis for calculation of the basic earnings per share is as follows:

Net income	30,418 million yen
Net income pertaining to common shareholders	30,418 million yen
Average number of shares of common stock outstanding	92,702 thousand shares

Note: Amounts are rounded down to the nearest million yen.

## Report of the Independent Auditors

February 6, 2019

The Board of Directors,  
Shimano Inc.

Seiry Audit Corporation  
Representative and Engagement Partner  
Certified Public Accountant  
Yoshihito Funakoshi  
Engagement Partner  
Certified Public Accountant  
Daiki Kaji

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements of Shimano Inc. for the fiscal year from January 1, 2018 to December 31, 2018, that is, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of shareholders' equity, and notes relating to the consolidated financial statements.

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

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

### Auditors' Responsibility

Our responsibility is to independently express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 opinion.

### Audit Opinion

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the financial position and the results of operations of the Shimano Group, which consisted of Shimano Inc. and its consolidated subsidiaries, for the fiscal period in question in conformity with accounting principles generally accepted in Japan.

### Conflicts of Interest

Our firm and engagement partners have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

The above is a translation, for convenience only, of the original report issued in the Japanese language.

## Report of the Independent Auditors

February 6, 2019

The Board of Directors,  
Shimano Inc.

Seiry Audit Corporation  
Representative and Engagement Partner  
Certified Public Accountant  
Yoshihito Funakoshi  
Engagement Partner  
Certified Public Accountant  
Daiki Kaji

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements of Shimano Inc. for the 112th fiscal year from January 1, 2018 to December 31, 2018, that is, the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of shareholders' equity, and notes relating to the non-consolidated financial statements, as well as the supplementary schedules.

### Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and the accompanying supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines necessary to enable the preparation and fair presentation of the non-consolidated financial statements and the supplementary schedules that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to independently express an opinion on the non-consolidated financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the non-consolidated financial statements and the supplementary schedules are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the supplementary schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. 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 non-consolidated financial statements and the supplementary schedules.

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

### Audit Opinion

In our opinion, the aforementioned non-consolidated financial statements and the supplementary schedules present fairly, in all material respects, the financial position and the results of operations for the fiscal period in question in conformity with accounting principles generally accepted in Japan.

### Conflicts of Interest

Our firm and engagement partners have no interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## Audit Report

Based on the audit reports prepared by each Audit & Supervisory Board Member and due deliberation of such, the Audit & Supervisory Board has prepared this audit report on the execution of duties by the Directors for the 112th fiscal year from January 1, 2018 to December 31, 2018, and hereby submits it as follows:

### 1. Auditing methods and nature of audit by Audit & Supervisory Board Members and the Audit & Supervisory Board

(1) Besides determining relevant auditing policies and allocation of duties and receiving reports from each Audit & Supervisory Board Member concerning audit execution status and related results, the Audit & Supervisory Board received execution status reports from Directors and the Accounting Auditor relating to their respective duties and requested explanations as necessary.

(2) Pursuant to the Audit & Supervisory Board Regulations determined by the Audit & Supervisory Board and in accordance with the auditing policies and allocation of duties, each Audit & Supervisory Board Member undertook communications with Directors, personnel of an internal audit organization, and other employees; gathered information; and contributed to the development of the auditing environment within the Company. At the same time, the Audit & Supervisory Board Members performed audits in the following methods:

1) Audit & Supervisory Board Members attended meetings of the Board of Directors and other important meetings; received execution status reports from Directors and employees concerning their respective duties; requested explanations as necessary; reviewed documents that record approval of material matters; and conducted investigations regarding the status of the business operations and assets at the Company's head office and other major sites. With regard to majority-owned subsidiaries, the Audit & Supervisory Board Members undertook communications and exchanges of information with the Directors and Audit & Supervisory Board Members of these subsidiaries and received reports on their businesses, as necessary.

2) Regarding the situation of establishment and operation of internal control systems (recorded in the business report as systems necessary for ensuring that the execution of duties by Directors is in full compliance with laws and regulations and the Company's Articles of Incorporation and other systems necessary for ensuring the appropriateness of operations across the Group consisting of the Company as a Japanese joint-stock corporation and its subsidiaries in accordance with Article 100, Paragraph 1 and 3, of the Enforcement Regulations of the Companies Act), including the content of any related resolutions and decisions made by the Board of Directors, the Audit & Supervisory Board Members periodically received reports from Directors, employees, etc., requested explanations as necessary, and expressed opinions.

3) The Audit & Supervisory Board Members examined the content of the basic policy concerning control of a stock company recorded in the Company's business report (Article 118, Item 3 (i) Basic Policy and (ii) Measures of the Enforcement Regulations of the Companies Act) on the basis of the status of deliberations at meetings of the Board of Directors and other meetings.

4) Our audit involved an investigation of the independence of the Accounting Auditor and checks on the appropriateness of the financial audit performed by the Accounting Auditor. We also received execution status reports from the Accounting Auditor and requested explanations as necessary. Furthermore, we received from the Accounting Auditor a notice to the effect that its internal systems for ensuring the appropriate execution of duties (in respect of all those aspects listed in Article 131 of the Corporate Calculation Regulations pertaining to the Companies Act) were in conformity with the "Quality Control Standards for Audits" (FSA Business Accounting Council, October 28, 2005) and requested explanations as necessary.

Through the above methods, we reviewed the business report and supplementary schedules pertaining to the fiscal year in question, the non-consolidated financial statements (the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of shareholders' equity, and notes relating to the non-consolidated financial statements) and the supplementary schedules, as well as the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of shareholders' equity, and notes relating to the consolidated financial statements) of the Company pertaining to the fiscal year in question.

## 2. Results of audit

### (1) Results of audit of the business report, etc.

1) The business report and the supplementary schedules present fairly the financial condition of the Company, in conformity with laws and regulations and the Company's Articles of Incorporation.

2) Regarding the execution of duties by Directors, we found no instances of misconduct or material matters in violation of any laws and regulations or the Company's Articles of Incorporation.

3) We find the content of all resolutions of the Board of Directors relating to the internal control systems of the Company to be fair and reasonable. In our opinion, neither records in the business report nor matters relating to the execution of duties by the Directors vis-à-vis internal control systems require special mention.

4) In our opinion, no matters relating to the basic policy on the nature of persons who control decisions on the Company's financial and business policies recorded in the business report require special mention. We find that the measures described in the business report, set forth in Article 118, Item 3 (ii) of the Enforcement Regulations of the Corporation Law are in line with the basic policy, do not impair the common interests of the Company's shareholders, and are not for the purpose of maintaining the position of the Company's Officers.

### (2) Results of audit of the non-consolidated financial statements and the supplementary schedules

In our opinion, the auditing methods and results of Seiryō Audit Corporation are fair and reasonable.

### (3) Results of audit of the consolidated financial statements

In our opinion, the auditing methods and results of Seiryō Audit Corporation are fair and reasonable.

February 12, 2019

Audit & Supervisory Board, Shimano Inc.

Full-time Audit & Supervisory Board Member: Koichi Shimazu

Full-time Audit & Supervisory Board Member: Hideo Katsuoka

Outside Audit & Supervisory Board Member: Kanako Nozue

Outside Audit & Supervisory Board Member: Toshihiko Hashimoto

The above is a translation, for convenience only, of the original report issued in the Japanese language.